



safer better dependable

Delta SBD Limited
ABN 18 127 894 893
Annual report
30th June 2010



Delta SBD Limited

Directors' report

For the year ended 30 June 2010

The directors present their report together with the financial report of the Delta SBD Group. The Group consists of Delta SBD Limited (the Company) and its subsidiaries for the financial period ended 30 June 2010 and the auditor's report thereon.

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

| | | |
|----------------------|--|--|
| Gordon Thomas Galt | Chairman Independent Non Executive Director BEng Mining (Hons), BComm, Grad Dip Applied Finance, MAusIMM, MAICD | Extensive Mining and Financial Experience Director and Chairman since October 2007 |
| Stephen John Bizzaca | Managing Director and CEO BAppSc | Extensive coal mining experience Director since October 2007 |
| Glyn Dawkins | Non Executive Director Mechanical Engineering Certificate (AMEME Hons), Mine Mechanical Engineers Certificate of Competency in UK and NSW | Extensive coal mining experience Director since October 2007 Resigned from Executive role 31 October 2009 |
| Antonio De Santis | Executive Director NSW First Class Certificate of Competency MBA | Extensive coal mining experience Director since 2009 Appointed as an Executive director 14 August 2009 |
| Andrew Amer | Independent Non Executive Director BA, MSc, MBA, FAICD | Resigned 7 July 2009 |
| Geoffrey Garside | Independent Non Executive Director FCPA, FCIS, FAICD | Resigned 7 July 2009 |

2. Company Secretary

| | | |
|------------------|----------------------------|-----------------------|
| Anthony McFadden | BComm, CPA, FTIA, FCIS, JP | Appointed 28 May 2010 |
| Charles King | CPA | Resigned 28 May 2010 |

3. Officers who were previously partners of the audit firm

There were no officers of the Company during the financial years who were previously partners of the current audit firm, KPMG.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

4. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

| Director | Board Meetings | | Audit & Compliance Committee Meetings | | Remuneration Committee Meetings | | Risk Committee Meetings | |
|-----------------------|----------------|---|---------------------------------------|---|---------------------------------|---|-------------------------|---|
| | A | B | A | B | A | B | A | B |
| Mr Gordon Galt | 4 | 4 | 2 | 2 | 2 | 2 | 2 | 2 |
| Mr Stephen Bizzaca | 4 | 4 | - | - | 2 | 2 | - | - |
| Mr Glyn Dawkins | 4 | 4 | - | - | 2 | 2 | - | - |
| Mr Tony De Santis | 4 | 3 | - | - | - | - | - | - |
| Mr Andrew Amer * | 1 | 1 | - | - | - | - | - | - |
| Mr Geoffrey Garside * | 1 | 1 | - | - | - | - | - | - |

A Number of meetings held during the time the director held office during the year

B Number of meetings attended.

* Mr Andrew Amer and Mr Geoffrey Garside resigned as directors on the 7th July 2009. They both remain as advisors to the Audit and Compliance committee and Risk committee. During the financial year they both attended two Audit and compliance committee meetings and two Risk committee meetings.

5. Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations unless otherwise stated.

5.1 Board of Directors

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing and removing the Chief Executive Officer and ensuring policies are prepared for senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

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

Board processes

To assist in meeting its responsibilities, the board has established a number of board committees including a Remuneration Committee, an Audit & Compliance Committee and a Risk Committee. These committees have approved Charters and procedures, which are reviewed on a regular basis.

The board holds 4 scheduled meetings, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairperson, Chief Executive Officer and Company Secretary. Standing items include the Chief Executive Officer's report (including health and safety), financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

5.1 Board of Directors (continued)

Director induction and executive education

The Group has a formal induction process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the ongoing opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Group also has a formal process to educate new senior executives upon taking such positions. The induction program includes reviewing the Group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with the respective rights, duties, responsibilities and roles of the individual and the Board.

During the financial year two directors completed the Company Director Course with the Australian Institute of Company Directors.

Independent professional advice and access to company information

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

Composition of the board

The names of the directors of the Company in office at the date of this report, specifying which are independent, are set out in the Directors' report on page 3 of this report. The composition of the board is determined using the following principles:

- a minimum of 3 directors.
- a majority of directors having extensive knowledge of the Group's industry.
- a non-executive director as Chairperson (Independent)
- sufficient directors (given the size of the business) to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- a maximum period of 3 years service, subject to re-election every 3 years (except for the Executive Directors).

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment
- within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another Group member
- is not a material* supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer
- has no material* contractual relationship with the Company or another Group member other than as a director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the director's ability to act in the best interests of the Company.

* the board considers, 'material', in this context, to be where any director-related business relationship has represented, or is likely in future to represent the lesser of at least 10% per cent of the relevant segment's or the director-related business's revenue. The board considered the nature of the relevant industries' competition and the size and nature of each director-related business relationship, in arriving at this threshold.

Delta SBD Limited
Directors' report
For the year ended 30 June 2010

5.2 Nomination committee

A nomination committee is not currently required as clauses in the Delta SBD Limited Shareholders agreement have precedence.

5.3 Remuneration committee

The Remuneration committee has a written charter, approved by the board.

The Remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors themselves of the Company and of other Group executives for the Group. It is also responsible for recommending share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements.

The members of the remuneration committee during the year were:

Glyn Dawkins – Non-executive director (Chairperson)

Gordon Thomas Galt – Independent Non-executive director

Stephen John Bizzaca – Executive director

Geoffrey Garside – Independent Advisor - resigned 7th July 2009 as a non executive director. He was appointed to the Remuneration committee in June 2010 in his capacity as an advisor.

The committee has met two times during the year.

Standard invitees to include:

- Company Secretary, who shall be the Secretary of the Committee.
- Chief executive officer

The board policy is that the remuneration committee will comprise of a minimum of one non executive director. The remuneration committee is not currently required to meet. The remuneration committee's charter is available as a part of the corporate governance charter.

Quality and Integrity of personnel

Formal appraisals are conducted annually for all employees. Training and development and appropriate remuneration with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements and resignations occur.

5.4 Audit and Compliance committee

The Audit and Compliance Committee has a written charter, approved by the board.

The objective of the Committee is to assist the Board of Delta SBD Limited to discharge its responsibility to exercise due diligence and skill in relation to:

- reviewing the annual, financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether the financial information is consistent with committee members' information and adequate for shareholder needs

5.4 Audit and Compliance committee (continued)

- assessing management processes supporting external reporting
- assessing corporate risk assessment processes
- establishing procedures for selecting, appointing, and if necessary, removing the external auditor
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001
- assessing the adequacy of the internal control framework
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, and financial institutions.

The audit committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- review the preliminary final report prior to lodgement with ASIC, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results
- review the draft annual financial report, and recommend board approval of the financial report
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

The Committee meets these objectives by providing a forum for communication between the board, management and the external auditor. The Audit and Compliance Committee is currently required to meet twice annually. The Audit and Compliance Committee's charter is available as a part of the corporate governance charter.

Committee Membership

All members must be a director or an independent advisor with a majority being independent. The Chairperson may not be the Chairperson of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

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

Geoffrey Garside (Chairperson) – Independent Advisor – resigned 7th July 2009 as a Non Executive director but remains Chairperson in his capacity as an advisor.

Andrew Amer – Independent Advisor - resigned 7th July 2009 as a non executive director but remains on the committee in his capacity as an advisor.

Gordon Galt – Independent Non Executive Director

The board policy is that the Audit and Compliance Committee will comprise a minimum of one non executive director and two advisors.

Delta SBD Limited
Directors' report
For the year ended 30 June 2010

5.4 Audit and Compliance committee (continued)

Standard invitees to include:

- Company Secretary, who shall be the Secretary of the Committee.
- Chief Executive Officer
- The external auditors of the Group

The committee has met two times during the year.

The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the financial records of the Group for the financial year have been properly maintained, the Group's financial reports for the financial year ended 30 June 2010 comply with accounting standards and present a true and fair view of the Group's financial condition and operational results.

The two advisors appointed by the board are entitled to vote on matters before the Committee. Invitees are not entitled to vote at the meeting but are requested to attend meetings of the Committee. The Chair of the Committee is appointed by the board.

Financial reporting

The Chief Executive Officer and the Chief Financial Officer have provided assurance in writing to the board that the Group's financial reports are founded on a sound system of risk management and internal compliance and control which implement the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

5.5 Risk Committee

The Risk Committee has a written charter, approved by the board.

The role of the Committee is to support and advise the board in order for it to meet its responsibilities and objectives in relation to Occupational Health Safety and Environmental matters arising out of the activities and operations of the Company.

The Committee is to provide advice and make recommendations to the Board to enable it to discharge its responsibilities by:

- Recommending to the board an HSEC policy, clearly setting out the commitments of the Group to manage HSE-related matters effectively.
- Monitoring the performance of the Group with respect to the implementation of a HSE management system designed to ensure the commitments made in the policy are being met and that HSE-related risks are being assessed, eliminated, avoided or controlled.
- Reviewing and recommending targets for HSE performance and assessing progress by the Group towards those targets.
- Reviewing investigations of HSE incidents within the Group and considering appropriate actions and measures to minimize the risk of recurrence.

Environment regulation

The Groups operations are subject to significant environmental regulation under both Commonwealth and State legislation in relation to its coal mining operations.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

5.5 Risk Committee (continued)

The Group is committed to achieving a high standard of environmental performance and has an HSEC General Manager. The General Manager is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

- setting and communicating environmental objectives and quantified targets
- monitoring progress against these objectives and targets
- implementing environmental management plans in operating areas which may have a significant environmental impact
- identifying where remedial actions are required and implementing action plans
- regular monitoring of license requirements, with performance against licence conditions reported to the various State regulators on a regular basis.

There are established and regular internal reporting processes. Environmental performance is reported from each site up through management to the board on a regular basis. Compliance with the requirements of environmental regulations was achieved across all operations with no instances of non-compliance in relation to licence requirements noted.

The Committee's role in meeting these objectives is to provide a forum for communication between the Board, management and employees.

Committee Membership

The members of the Risk committee during the year were:

Andrew Amer (Chairperson) – Independent advisor - resigned 7th July 2009 as a Non Executive director but remains Chairperson in his capacity as an advisor.

Geoff Garside – Independent advisor - resigned 7th July 2009 as a Non Executive director but remains in his capacity as an advisor.

Gordon Galt – Independent Non Executive director

Given the size of the board / company it is not possible to have 3 non executive directors serving on this committee. The Company has two external advisors whom provide the function of Independence.

Standard invitees to include:

- Company Secretary, who shall be the Secretary of the Committee.
- Chief Executive Officer
- Chief Operating Officer
- General Manager HSEC

The committee members and the Chief Executive Officer appointed by the board are entitled to vote on matters before the Committee. Invitees are not entitled to vote at the meeting but are requested to attend meetings of the Committee. The Chair of the Committee is appointed by the board.

On the appointment of a board member or invitee to the Committee, the Chairman and Chief Executive Officer will require that an induction program is undertaken, prior to new appointee attending meetings of the Committee.

5.6 Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

5.7 Communication with shareholders

The board provides shareholders with information using a Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities.

In summary, the Continuous Disclosure Policy operates as follows:

- the chief executive officer, the chief financial officer and company secretary are responsible for interpreting the company's policy and where necessary informing the board.
- the full annual report is provided to all shareholders.
- the external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

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

5.8 Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The board has developed procedures to assist directors to disclose potential conflicts of interest. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned will not be present at the meeting while the item is considered.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

6. Principal Activities

The principal activities of the Group during the course of the financial year were the provision of contract mine services for the underground coal industry within Australia embodying the following activities:

- Total mine operation
- Roadway development
- Longwall relocations
- Equipment Rental
- Mine services including:
 - Secondary support
 - Conveyor extensions
 - Underground civil works
 - Dyke excavation
 - Longwall and Development support
 - Supplementary labour

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

Objectives:

The Group's objectives are to forge profitable long term partnerships with clients by providing each project or mine with competent work teams, fit for purpose equipment and excellent site management backed by a supportive corporate management group.

This will involve providing safe and efficient methods of work that enable on time completion of all works and services to the clients' requirements with demonstrated added value to the client.

7. Operating and financial review

Overview of the Group

A summary of operating results is as follows:

| Summary of Consolidated Financial Results | 2010 | 2009 | Pct increase |
|--|------------|------------|--------------|
| Revenue | 75,943,271 | 75,551,909 | 1% |
| EBITDA | 7,964,227 | 7,183,082 | 11% |
| Profit attributable to owners of the company | 4,584,202 | 3,161,928 | 45% |
| Basic EPS | 4.58c | 3.16c | 45% |

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

7. Operating and financial review (continued)

Commentary on operating results

In reviewing the year's operating results the following matters are noted:

The consolidated Delta SBD Group maintained strong revenue of \$76 million whilst achieving an improvement in net profit after tax of 45%. The Group's commitment to safety, quality and customer satisfaction has continued to be our focus during the financial year.

Delta SBD is one of the largest contract companies servicing the Australian underground coal mining industry.

The Group provides the most extensive range of services and skills available to our clients, which include most of the major coal mining companies.

The Group has the financial strength, skills base, experience and equipment to provide outstanding service to the underground coal mining sector.

Delta SBD provides clients with a large pool of resources (both labour and equipment); cross fertilisation of ideas, systems and techniques; and the ability to attract and retain experienced and qualified management personnel and employees.

The Group is responsive to our clients' needs and assist them to achieve their targets, by working with them to provide a tailored solution for their specific situation.

Delta SBD continued to focus on quality and customer satisfaction. Being a service provider, customers are an important part of our business. The Group continually strives for new business opportunities with both our existing customers as well as potential new customers.

The geographic diversification of the Group with offices in Campbelltown NSW, Rutherford NSW and Mackay QLD, gives the company flexibility and capacity to provide prompt service to our customers. A further 3 new client relationships were established during the year.

Delta SBD continued to expand and improve performance of its longwall move machinery fleet (originally consisting of 1 Bucyrus FBL55, 2 Bucyrus MH40, 4 Bucyrus FLB15, 2 Bucyrus FBL10, 3 Bucyrus 50t 1.75m Chock Trailers and 2 Driftrunner personnel carriers, with the addition of 2 Bucyrus FBL10, and 4 Driftrunner personnel carriers). Delta SBD also invested in the conversion of the dry scrubber system supplied with the diesel fleet to a more reliable wet scrubber system as well as placing orders for 2 Bucyrus 55t 2m chock trailers, with power assist wheels and 1 Bucyrus 50t 1.75m chock trailer, with power assist wheels.

During financial year 2010 the Group was again selected for a whole of mine operations. In September 2009 the Group commenced whole of mine operations at the Berrima coal mine in Medway NSW. Berrima mine produces coal by the pillar extraction method and supplies the Boral cement works in Berrima. To support the operation at Berrima, Delta SBD has also invested significant funds for this project to purchase a Continuous miner, additional diesel fleet and ancillary equipment. The Wongawilli whole of mine contract was completed during the 2009 financial year.

With improving demand and prices, the coal industry forecast looks positive. Structural changes in global coal markets and the cyclical rebound in global growth is driving demand for thermal and metallurgical coal. For Australia this bodes well for increasing production rates and expansion projects. This should see new business opportunities for the Delta SBD Group.

The directors advise that the process of listing Delta SBD Limited on the Australian Stock Exchange (ASX) is under review.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

7. Operating and financial review (continued)

Significant Changes in the State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

8. Environmental regulation

The Groups coal mining operation is located at Berrima south of Sydney and is subject to environmental regulation under Australian Commonwealth and State legislation. Licence requirements relating to waste disposal, water and air pollution exist in relation to mining activities.

The Group is committed to achieving a high standard of environmental performance. Management and staff are responsible for regular monitoring of environmental exposures and compliance with environmental regulations.

All other operations are undertaken as part of contracts of works with clients.

There were no material breaches of any licence conditions during the year.

9. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were Declared and paid during the 2010 year.

| | Cents per share | Total Amount | Franked/Unfranked | Date of payment |
|---------------------|-----------------|--------------|-------------------|-----------------|
| Final 2009 ordinary | 0.70 | \$700,000.00 | Franked | 31 March 2010 |

Franked dividends declared as paid during the year were franked at the rate of 30%

10. Remuneration report

In relation to remuneration issues, the board has policies that are established to review the remuneration arrangements and practices of the consolidated Group to ensure that it remunerates fairly and responsibly. The remuneration policy of the board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain desirable directors and employees.

The remuneration structures reward the achievement of objectives that result in the outcome of creation of value for shareholders. The Remuneration Committee reviews and recommends to the board matters of remuneration policy, specific recommendations in relation to senior management and matters concerning equity plans and awards.

Non-Executive director remuneration

Fees

Non-Executive director fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders in a general meeting (the current limit is \$120,000). During the year ended 30 June 2010, \$80,000 of the fee pool was used.

It is important that directors are paid comparable with market practice, so as to be able to attract and retain directors who have appropriate skills, experience and expertise necessary for a Delta SBD board membership.

- Directors were paid in the following manner: \$80,000 per annum for Delta SBD Chairman, with no further payments to be made in respect of Committee positions held;

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

10. Remuneration report (continued)

- The Board has resolved that there will be no increase in Non-Executive directors' fees for the year ended 30 June 2010.

Retirement Benefits

Non-Executive directors do not receive retirement benefits.

Executive Remuneration

There are two general components of remuneration used to reward employees, including Executive directors, depending on their role and responsibility within the Group:

1. Total fixed remuneration;
2. Short term incentives, (payable as cash).

Total fixed remuneration

Total fixed remuneration comprises base salary, any relevant allowances and the statutory superannuation guarantee contribution. Total fixed remuneration is set with reference to market data, reflecting the scope of the role and the performance of the person in the role. Total fixed remuneration also reflects any market premium required for roles that are in short supply or with a unique skill set. Remuneration is reviewed annually using market surveys, external remuneration consultants, and internal feedback as to market conditions, to provide analysis and advice to ensure competitive remuneration is set to reflect the market for comparable roles, wherever comparisons to similar roles within relevant market sectors can be made.

Short term incentive plan (STI)

The Group has established a Short term incentive plan (STI) to achieve the following objectives:

- Focus executives on the achievement of key Group and divisional targets as well as individual contribution that the board believes will lead to sustained and improved business performance; establish a variable remuneration arrangement that links performance with reward; and reward and recognise superior performance, if achieved.
- Clear and focused performance targets are important to both the Group and its employees. The incentive offered under the STI will vary depending upon relative performance against board approved targets which measure the Group's, divisional and Individual performance.

The STI design is based on financial and health and safety metrics with the financial metrics acting as a performance gate so that incentives are not paid in circumstances where the financial performance of the business is not sufficient to support such payments. Conversely, the available incentive increases in line with the performance of the business and the commensurate increase in shareholder value.

Employees are assessed against a range of performance measures, including health and safety, corporate governance, risk management, business development and leadership, to determine how much of the available incentive they will receive. The metrics, weightings and performance measures are regularly reviewed to ensure business needs are met and the overall STI is consistent with general market practices. Such plans are a key tool to allow the Group to attract and retain talented directors and employees and ensure the interests of directors and employees are aligned with those of Shareholders in creating long-term Shareholder value.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

11. Directors' interests and share options

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, at the date of this report is as follows:

| | Delta SBD Limited – Ordinary Shares |
|---|-------------------------------------|
| Stephen John Bizzaca (through SBD Nominees as trustee for SBD Trading Trust) | 38,287,619 (38.29%) |
| Stephen John Bizzaca (through Titanwood Holdings Pty Ltd) | 3,251,267 (3.25%) |
| Glyn Dawkins (through Dawkins Enterprises Pty Ltd) | 31,742,532 (31.74%) |
| Tony De Santis (through De Santis Public Relations Pty Ltd as trustee for the De Santis Family Trust) | 2,699,784 (2.7%) |

Options granted to directors and executives of the Group

The options for New Holland Capital Pty Ltd (for which the Chairman, Gordon Galt, acts as a Principal) are part of the consideration for acting as an advisor to the Company and will only vest one year from an IPO. All rights to options were granted during the 2007-2008 financial year. No other options have been granted to directors or other officers since the end of the financial year.

| | Number of call options granted | Exercise Period | Exercise price |
|-----------------------------|--|--|-------------------------------|
| New Holland Capital Pty Ltd | 2,000,000 (based on assumed \$1.00 per share IPO price) | Within 5 years from after Vesting date | 25% above the IPO issue price |

12. Events subsequent to reporting date

During the period an Employee Share Plan was established with up to 10% of Delta SBD capital offered to chosen employees. The offer period closed on 27th July 2010 with 7,036,393 shares accepted at a value of \$1,716,880 (24.40 cents per share).

Except for the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

13. Likely developments

The Group will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year. This will require further investment in areas such as underground mining equipment and information management systems.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

14. Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the following current directors, advisors and officers of the Company,

- Gordon Galt – Chairman and Non Executive director
- Stephen Bizzaca – Executive director and Chief Executive Officer
- Glyn Dawkins – Non executive director
- Andrew Amer – Non executive director - resigned 7 July, 2009 (remains indemnified as an advisor)
- Geoff Garside – Non executive director – resigned 7 July, 2009 (remains indemnified as an advisor)
- Charles King – Company Secretary and Chief Financial Officer - resigned 28 May 2010
- Antonio De Santis – Executive director and Chief Operating Officer
- Anthony McFadden – Company Secretary and Chief Financial Officer – appointed 28 May, 2010.

against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors or officers of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith or pecuniary penalty order under *Corporations Act 2001* section 1317G or a compensation order under *Corporations Act 2001* section 1317H or 1317HA. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith or pecuniary penalty order under *Corporations Act 2001* section 1317G or a compensation order under *Corporations Act 2001* section 1317H or 1317HA. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to also indemnify certain senior executives for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith or pecuniary penalty order under *Corporations Act 2001* section 1317G or a compensation order under *Corporations Act 2001* section 1317H or 1317HA.

Insurance premiums

During the financial year the ultimate parent entity has paid premiums of \$8,560 (2009 \$9,295) (exclusive of stamp duty and GST) on behalf of the parent and its subsidiaries in respect of directors' and officers' liability for the year ended 30 June 2010. Such insurance contracts insure against certain liability (subject to specific exclusions) for persons who are or have been directors or executive officers of the parent and its subsidiaries.

15. Proceedings on behalf of the Company

On the 3rd of July 2008 a Group subsidiary Delta Mining Pty Ltd has been charged that being an employer, on 7 July 2006 at the Douglas Mine, Appin Colliery at Douglas Park Road, Douglas Park, failed to ensure that employees were not exposed to risks to their health, safety and welfare, contrary to Section 8(1) of the Occupational Health and Safety Act 2000 (NSW). The Group has appointed Middletons' to represent its interests and in conjunction with relevant Delta Mining Pty Ltd Staff are currently assessing the brief of evidence supplied by the prosecutor. At the date of signing of this report no plea had been entered. Delta Mining Pty Ltd was one of a number of parties that have been charged over the incident.

Delta SBD Limited

Directors' report

For the year ended 30 June 2010

16. Non - Audit Services

During the year KPMG, the Group's auditor, has performed other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Compliance Committee, is satisfied that the provision of those non audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons.

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provide do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* as they did not involve reviewing or auditing the auditor's own work, acting as an advocate for the company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed.

| | 2010 \$ | 2009 \$ |
|--|----------------|---------------|
| Audit services | | |
| Auditors of the Company | | |
| <i>KPMG Australia:</i> | | |
| Audit of financial reports | 80,063 | 68,880 |
| Other Services | | |
| <i>KPMG Australia:</i> | | |
| Tax Compliance and Advisory | 6,750 | 6,850 |
| AUSCOAL Superannuation Guarantee Contribution | 1,900 | 1,900 |
| Contributions Coal Mines long service leave Board | 1,900 | 1,900 |
| Tax advisory in relation to Research and Development | 39,585 | - |
| | <u>50,135</u> | <u>10,650</u> |
| | <u>130,198</u> | <u>79,530</u> |

Delta SBD Limited

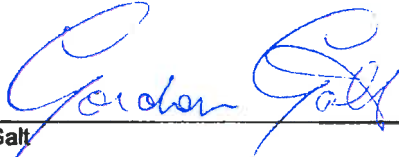
Directors' report

For the year ended 30 June 2010

17. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 59 and forms part of the directors' report for the financial year ended 30 June 2010.

This report is made with a resolution of the directors:



Gordon Galt

Chairman

Place: Campbelltown

Date: 26th August 2010



Stephen Bizzaca

Director

Place: Campbelltown

Date: 26th August 2010

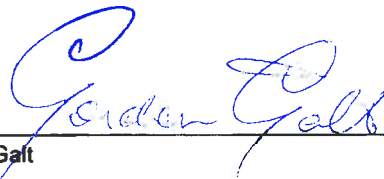
Directors' declaration

In the opinion of the directors of Delta SBD Limited ("the Company"):

- (a) the financial statements and notes set out on pages 19 to 58, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

Signed in accordance with a resolution of the directors:

Dated at Campbelltown 26th day of August 2010.



Gordon Galt
Director

Delta SBD Limited
Statements of financial position

As at 30 June 2010

| | | Consolidated | |
|---|------|-------------------|-------------------|
| | Note | 2010 | 2009 |
| Assets | | | |
| Cash and cash equivalents | 9a | 6,254,602 | 2,451,272 |
| Trade and other receivables | 10 | 10,419,861 | 12,372,068 |
| Inventories | 11 | 163,183 | 107,457 |
| Other current assets | 12 | 213,248 | 565,567 |
| Current tax assets | 17 | 289,829 | - |
| Total current assets | | 17,340,723 | 15,496,364 |
| Deferred tax assets | 17 | 1,048,571 | 960,664 |
| Trade and other receivables | 10 | 1,621,111 | 1,352,316 |
| Other non current assets | 12 | 352,972 | 176,503 |
| Property, plant and equipment | 13 | 17,257,685 | 10,769,633 |
| Intangible assets | 14 | 29,398,451 | 29,275,174 |
| Total non-current assets | | 49,678,790 | 42,534,290 |
| Total Assets | | 67,019,513 | 58,030,654 |
| Liabilities | | | |
| Trade and other payables | 15 | 4,081,388 | 3,391,311 |
| Loans and borrowings | 16 | 3,208,608 | 2,547,501 |
| Employee benefits | 18 | 3,273,537 | 2,765,074 |
| Current tax payable | 17 | - | 871,833 |
| Total current liabilities | | 10,563,533 | 9,575,719 |
| Loans and borrowings | 16 | 17,960,396 | 14,418,048 |
| Employee benefits | 18 | 136,711 | 79,747 |
| Deferred tax liabilities | 17 | 933,604 | 564,997 |
| Total non-current liabilities | | 19,030,711 | 15,062,792 |
| Total liabilities | | 29,594,244 | 24,638,511 |
| Net assets | | 37,425,269 | 33,392,143 |
| Equity | | | |
| Share capital | | 29,160,000 | 29,160,000 |
| Reserves | 21 | 375,949 | 227,025 |
| Retained earnings | | 7,889,320 | 4,005,118 |
| Total equity attributable to equity holders of the Company | | 37,425,269 | 33,392,143 |
| Total equity | | 37,425,269 | 33,392,143 |

The notes on pages 23 to 58 are an integral part of these financial statements.

Delta SBD Limited

Statement of comprehensive income

For the year ended 30 June 2010

| | | Consolidated | |
|--|------|--------------------|--------------------|
| | Note | 2010 | 2009 |
| Continuing operations | | | |
| Revenue | 6 | 75,943,271 | 75,551,909 |
| Employee benefits expense | | 52,443,621 | 52,281,841 |
| Materials and consumables | | 11,284,879 | 12,891,499 |
| Other expenses | | 4,250,544 | 3,195,487 |
| Depreciation | | 1,462,847 | 1,268,710 |
| Intangibles amortisation | | 28,473 | 18,149 |
| Results from operating activities | | <u>6,472,907</u> | <u>5,896,223</u> |
| Finance income | 7 | 68,454 | 161,197 |
| Finance costs | 7 | (1,516,055) | (1,630,837) |
| Net finance costs | | <u>(1,447,601)</u> | <u>(1,469,640)</u> |
| Profit before income tax | | 5,025,306 | 4,426,583 |
| Income tax expense | 8 | 441,104 | 1,264,655 |
| Profit from continuing operations | | <u>4,584,202</u> | <u>3,161,928</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income for the period | | <u>4,584,202</u> | <u>3,161,928</u> |
| Basic Earnings per share (cents) | 20 | 4 58c | 3 16c |
| Diluted Earnings per share (cents) | 20 | 4 47c | 3 08c |

The notes on pages 23 to 58 are an integral part of these financial statements.

Delta SBD Limited
Statement of changes in equity

For the year ended 30 June 2010

| | Share capital | Reserves | Retained earnings | Total |
|--|-------------------|----------------|-------------------|-------------------|
| Balance at 1 July 2008 | 29,160,000 | 274,016 | 1,374,145 | 30,808,161 |
| Total comprehensive income for the period | | | | |
| Profit or (loss) for the year | - | - | 3,161,928 | 3,161,928 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the period | - | - | 3,161,928 | 3,161,928 |
| Transactions with owners, recorded directly in equity | | | | |
| Share based payment transactions | - | (46,991) | - | (46,991) |
| Dividends paid | - | - | (530,955) | (530,955) |
| Balance at 30 June 2009 | 29,160,000 | 227,025 | 4,005,118 | 33,392,143 |

| | Share capital | Reserves | Retained earnings | Total |
|--|-------------------|----------------|-------------------|-------------------|
| Balance at 1 July 2009 | 29,160,000 | 227,025 | 4,005,118 | 33,392,143 |
| Total comprehensive income for the period | | | | |
| Profit or (loss) | - | - | 4,584,202 | 4,584,202 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the period | - | - | 4,584,202 | 4,584,202 |
| Transactions with owners, recorded directly in equity | | | | |
| Share based payment transactions | - | 148,924 | - | 148,924 |
| Dividends paid | - | - | (700,000) | (700,000) |
| Balance at 30 June 2010 | 29,160,000 | 375,949 | 7,889,320 | 37,425,269 |

The notes on pages 23 to 58 are an integral part of these financial statements.

Delta SBD Limited
Statements of cash flows

For the year ended 30 June 2010

| | Note | Consolidated | |
|---|-----------|---------------------------|---------------------------|
| | | 2010 | 2009 |
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 78,134,930 | 78,424,572 |
| Cash paid to suppliers and employees | | (66,966,234) | (70,809,035) |
| Cash generated from operations | | <u>11,168,696</u> | <u>7,615,537</u> |
| Interest paid | | (1,516,055) | (1,630,837) |
| Income taxes paid | | (1,322,060) | (335,505) |
| Net cash from operating activities | 9b | <u>8,330,581</u> | <u>5,649,195</u> |
| Cash flows from investing activities | | | |
| Interest received | | 68,454 | 161,197 |
| Proceeds from sale of assets | | 12,724 | - |
| Acquisition of property, plant and equipment | | (2,069,195) | (902,217) |
| Acquisition of intangibles | | (151,750) | (204,891) |
| Net cash (used in) investing activities | | <u>(2,139,767)</u> | <u>(945,911)</u> |
| Cash flows from financing activities | | | |
| Payment of hire purchase loan liabilities | | (874,560) | (2,002,358) |
| Repayment of loans from shareholders | | (796,216) | (1,549,175) |
| Payment of finance lease liabilities | | (16,708) | (5,657) |
| Net proceeds/(payments) on invoicing facility | | - | (1,671,269) |
| Cash payment of dividends to ordinary shareholders | | (700,000) | (445,881) |
| Cash payment of pre acquisition dividends of subsidiary | | - | (85,074) |
| Net cash (used in) financing activities | | <u>(2,387,484)</u> | <u>(5,759,414)</u> |
| Net increase (decrease) in cash and cash equivalents | | 3,803,330 | (1,056,130) |
| Cash and cash equivalents at 1 July | | 2,451,272 | 3,507,402 |
| Cash and cash equivalents at 30 June | 9a | <u>6,254,602</u> | <u>2,451,272</u> |

The notes on pages 23 to 58 are an integral part of these financial statements.

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

1. Reporting Entity

Delta SBD Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Suite 220, 4 Hyde Parade Campbelltown NSW, 2560. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the provision of a full range of services to the underground coal mining industries along the Australian eastern seaboard. The services include whole of mine management, longwall relocations, underground roadway development, general labour and equipment hire in support of customer requirements.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on the 26th August, 2010.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Non derivative financial liabilities are measured at fair value
- Share based payment transactions are measured at fair value

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the functional currency of the Group.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASB's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 14 – Measurement of the fair value of cash generating units containing goodwill
- Note 26 – Measurement of share based payments

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

2. Basis of preparation (continued)

(e) Changes in accounting policies

Starting as of 1 July 2009, the group has changed its accounting policies in the following areas:

- Business combinations
- Capitalisation of borrowing costs

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of Delta SBD Limited as at 30 June 2010 and the results of its subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the Group entity.

i) Business Combinations

Change in accounting policy

The Group has adopted revised AASB 3 Business Combinations (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008). Any future business combinations occurring on or after 1 July 2009 will be accounted for by applying the acquisition method. The change in accounting policy was applied prospectively and had no impact on earnings per share.

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial accounts from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(b) Financial instruments

I) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents.

Loans and receivables

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

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

II) Non-derivative financial liabilities

The Group initially recognises non-derivative financial liabilities on the date they are originated. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial liabilities and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liability: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised costs using the effective interest rate method.

iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

(c) Property, plant and equipment

i) Recognition and measurement

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

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Change in accounting policy

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 July 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the costs of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of AASB 123 *Borrowing Costs (2007)* in accordance with the transitional provisions of that standard, comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line or units of production (UOP) basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

| Class | Life | Basis |
|--------------------------------|------------|-------------------|
| Plant and equipment - Owned | 2-10 years | Straight Line/UOP |
| Plant and equipment – Financed | 2-10 years | Straight Line/UOP |
| Fixtures and Fittings | 5 years | Straight Line |

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

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(d) Intangible assets

(i) Goodwill

Change in accounting policy

As from 1 July 2009, the Group has adopted the revised AASB 3 Business Combinations (2008) and the amended AASB 127 Consolidated and Separate Financial Statements (2008). Revised AASB 3 and amended AASB 127 will be applied prospectively to business combinations with an acquisition date on or after 1 July 2009.

The change in accounting policy had no impact on earnings per share.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or an other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Business systems 3 years (2009: 5 years)

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Leased assets

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

Assets held under finance leases are initially recognised at the lower of their fair value or at amounts equal to present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Subject to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(f) Work in progress

Work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Work in progress is presented as part of trade and other receivables in the statement of financial position. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the statement of financial position.

(g) Impairment of assets

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a material negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at both specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether the current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss.

(ii) Non financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(g) Impairment of assets (continued)

continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Employee benefits

(i) Short Term Benefits - Wages and salaries, annual leave sick leave and annual bonus

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in the employee benefits provision in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long Term Benefits - Long service leave

The liability for long service leave 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 reporting date. 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. The Group participates in a compulsory coal mine long service scheme. A payroll levy is contributed to an industry fund that is liable for the payment of long service leave benefits.

(iii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due.

(iv) Share based payments

Share based compensation benefits are provided as detailed in Note 26.

The fair value of options granted 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.

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(h) Employee benefits (continued)

(iv) Share based payments (continued)

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

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets and performance and service criteria). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity 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.

(v) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Services

Revenue from services rendered is recognised in profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(ii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

An expected loss on a contract is recognised immediately in profit or loss.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

3. Significant accounting policies (continued)

(k) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(l) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(m) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or to items recognised directly in equity or in other comprehensive income.

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 balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.
- for taxable temporary differences arising on the initial recognition of goodwill.

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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

3. Significant accounting policies (continued)

(m) Income tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of cash dividends are recognised at the same time as the liability to pay the related dividend is recognised. The Group does not distribute non-cash assets as dividends to its shareholders.

(n) Goods and services tax

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

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

The net amounts of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for shares held by the Company's sponsored employee share plan trust, for the effects of all dilutive potential ordinary shares and all share options.

(p) Segment reporting

Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and head office expenses.

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(p) Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, intangible assets other than goodwill.

(q) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as of 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(r) New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 - Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issue [AASB 1321 (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

Delta SBD Limited

Notes to the financial statements

For the year ended 30 June 2010

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(b) Share-based payment transactions

The fair value of employee stock options is measured using a binomial model. Measurement inputs include share price on measurement date, strike price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. Controlled Entities

Delta SBD Limited is the ultimate Parent Entity of the Group. The country of incorporation is Australia.

| Name of Entity | Country of incorporation | Principal Activity | 2010 Percentage Owned (%) | 2009 Percentage Owned (%) |
|--------------------------|--------------------------|--------------------|---------------------------|---------------------------|
| Delta Mining Pty Ltd | Australia | Mining Services | 100% | 100% |
| SBD Services Pty Limited | Australia | Mining Services | 100% | 100% |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

6 Revenue

| | 2010 | 2009 |
|----------------------|-------------------|-------------------|
| Contracting services | 72,833,390 | 72,432,923 |
| Equipment hire | 3,109,881 | 3,118,986 |
| Total Revenue | 75,943,271 | 75,551,909 |

7 Finance income and finance costs

Recognised in profit or loss

| | 2010 | 2009 |
|---|--------------------|--------------------|
| Interest income | 68,454 | 161,197 |
| Finance income | 68,454 | 161,197 |
| Interest expense on financial liabilities measured at amortised cost | (1,516,055) | (1,630,837) |
| Finance costs | (1,516,055) | (1,630,837) |
| Net finance costs recognised in profit or loss | (1,447,601) | (1,469,640) |

The above finance income and finance costs include the following in respect of assets (liabilities)
(not at fair value through profit or loss):

| | | |
|---|-------------|-------------|
| Total interest income on financial assets | 68,454 | 161,197 |
| Total interest expense on financial liabilities | (1,516,055) | (1,630,837) |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

8 Income tax expense

| | 2010 | 2009 |
|--|----------------|------------------|
| Current tax expense | | |
| Current year | 231,562 | 1,226,526 |
| Adjustment for prior periods | (71,158) | - |
| | <u>160,404</u> | <u>1,226,526</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 280,700 | 38,129 |
| Income tax expense from continuing operations | 441,104 | 1,264,655 |
| Income tax expense from discontinuing operations | - | - |
| Total income tax expense | <u>441,104</u> | <u>1,264,655</u> |
| Income tax recognised in other comprehensive income | | |
| Before tax | | |
| Nil | - | - |
| Tax (expense) benefit | | |
| Nil | - | - |
| | <u>-</u> | <u>-</u> |

Numerical reconciliation between tax expense and pre-tax accounting profit

| | 2010 | 2009 |
|---|------------------|------------------|
| Profit for the year | 4,584,202 | 3,161,928 |
| Total income tax expense | 441,104 | 1,264,655 |
| Profit excluding income tax | <u>5,025,306</u> | <u>4,426,583</u> |
| Income tax using the Company's domestic tax rate of 30% | 1,507,592 | 1,327,975 |
| Increase in income tax due to: | | |
| Imputation credits | - | 735 |
| Non-deductible expenses | 51,870 | 41,628 |
| Decrease in income tax due to: | | |
| Non-Assessable income | - | (14,097) |
| Tax incentives including research & development, investment allowance | (1,050,310) | (80,412) |
| Other deductible expenses | - | - |
| | <u>509,152</u> | <u>1,275,829</u> |
| Under/(over) provided in prior years | (68,048) | (11,174) |
| Total Income tax expense | <u>441,104</u> | <u>1,264,655</u> |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

9a. Cash and cash equivalents

| | 2010 | 2009 |
|--|-----------|-----------|
| Current | | |
| Bank balances | 6,129,040 | 2,331,976 |
| Other deposits | 125,562 | 119,296 |
| Cash and cash equivalents in the statement of cash flows | 6,254,602 | 2,451,272 |

9b. Reconciliation of cash flows from operating activities

| | Note | 2010 | 2009 |
|--|------|-------------|-------------|
| Cash flows from operating activities | | | |
| Profit /(loss) for the year | | 4,584,202 | 3,161,928 |
| Adjustments for: | | | |
| Depreciation | | 1,462,847 | 1,268,710 |
| Amortisation of intangible assets | | 28,473 | 18,149 |
| Net finance costs | 7 | 1,447,601 | 1,469,640 |
| Options granted/(forfeited) | 21 | 148,924 | (46,991) |
| Gain on sale of property plant and equipment | | (3,495) | - |
| Income tax expense | 8 | 441,104 | 1,264,655 |
| Operating profit before changes in working capital and provisions | | 8,109,656 | 7,136,091 |
| Change in trade and other receivables | | 1,683,412 | 3,148,032 |
| Change in inventories | | (55,726) | 4,880 |
| Change in trade and other payables | | 690,077 | (3,340,399) |
| Change in other assets | | 175,850 | (280,249) |
| Change in employee benefits | | 565,427 | 947,182 |
| Interest paid | | (1,516,055) | (1,630,837) |
| Income taxes paid | | (1,322,060) | (335,505) |
| Net cash from operating activities | | 8,330,581 | 5,649,195 |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

10 Trade and other receivables

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Current | | |
| Trade receivables | 8,591,344 | 11,174,365 |
| Provision for doubtful debts | (81,567) | (29,503) |
| Loans to related parties | 34,750 | 7,307 |
| Unexpired hire purchase charges | 936,168 | 575,006 |
| Other receivables | 13,885 | 276,582 |
| Amounts due from customers for contracts (Work in progress) | 925,281 | 368,311 |
| | <u>10,419,861</u> | <u>12,372,068</u> |

| | 2010 | 2009 |
|---------------------------------|------------------|------------------|
| Non current assets | | |
| Loans to related parties | 141,659 | 195,307 |
| Unexpired hire purchase charges | 1,479,452 | 1,157,009 |
| | <u>1,621,111</u> | <u>1,352,316</u> |

Trade receivables are non-interest bearing and settlement terms are generally within 30 days.

A provision for impairment is recognised when there is objective evidence that an individual or trade receivable is impaired.

Receivables from controlled entities are for loans made in the ordinary course of business. These amounts are non interest bearing.

There are \$925,281 (2009 \$368,311) construction contracts for assets which are not completed at 30 June 2010 for which an invoice has not been raised. This amount is disclosed net of GST.

11 Inventories

| | 2010 | 2009 |
|---|----------------|----------------|
| Raw materials and consumables - at cost | 163,183 | 107,457 |
| | <u>163,183</u> | <u>107,457</u> |

12 Other current assets

| | 2010 | 2009 |
|--------------------|----------------|----------------|
| Current | | |
| Prepaid insurance | 76,487 | 168,619 |
| Equipment deposits | - | 252,717 |
| Other | 136,761 | 144,231 |
| | <u>213,248</u> | <u>565,567</u> |

| | 2010 | 2009 |
|-----------------------|----------------|----------------|
| Non-current | | |
| Capitalised IPO costs | 352,972 | 176,503 |
| | <u>352,972</u> | <u>176,503</u> |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

13 Property, plant and equipment

| | 2010 | 2009 |
|--|-------------|-------------|
| Plant and equipment | | |
| Cost | | |
| Balance at start of year | 4,848,824 | 4,826,924 |
| Additions | 1,764,693 | 21,900 |
| Balance at end of year | 6,613,517 | 4,848,824 |
| Depreciation and impairment losses | | |
| Balance at start of year | (1,788,857) | (1,227,119) |
| Depreciation for the year | (623,920) | (561,738) |
| Balance at end of year | (2,412,777) | (1,788,857) |
| Carrying value at end of year | 4,200,740 | 3,059,967 |
| Plant and equipment - under finance | | |
| Cost | | |
| Balance at start of year | 8,472,078 | 7,691,227 |
| Additions | 6,031,815 | 780,851 |
| Balance at end of year | 14,503,893 | 8,472,078 |
| Depreciation and impairment losses | | |
| Balance at start of year | (1,180,568) | (672,476) |
| Depreciation for the year | (618,108) | (508,092) |
| Balance at end of year | (1,798,676) | (1,180,568) |
| Carrying value at end of year | 12,705,217 | 7,291,510 |
| Motor vehicles | | |
| Cost | | |
| Balance at start of year | 522,663 | 502,490 |
| Additions | 84,967 | 20,173 |
| Disposals | (68,260) | - |
| Balance at end of year | 539,370 | 522,663 |
| Depreciation and impairment losses | | |
| Balance at start of year | (275,571) | (157,725) |
| Depreciation for the year | (133,083) | (117,846) |
| Disposals | 59,027 | - |
| Balance at end of year | (349,627) | (275,571) |
| Carrying value at end of year | 189,743 | 247,092 |
| Fixtures & Fittings | | |
| Cost | | |
| Balance at start of year | 316,951 | 237,658 |
| Additions | 78,659 | 79,293 |
| Disposals | - | - |
| Balance at end of year | 395,610 | 316,951 |
| Depreciation and impairment losses | | |
| Balance at start of year | (145,887) | (64,853) |
| Depreciation for the year | (87,738) | (81,034) |
| Disposals | - | - |
| Balance at end of year | (233,625) | (145,887) |
| Carrying value at end of year | 161,985 | 171,064 |
| Total cost | 22,052,390 | 14,160,516 |
| Total accumulated depreciation and impairment losses | (4,794,705) | (3,390,883) |
| At year end | 17,257,685 | 10,769,633 |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

14 Intangible assets

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Goodwill | | |
| Cost | | |
| Balance at start of year | 29,246,980 | 29,246,980 |
| Additions | - | - |
| Balance at end of year | 29,246,980 | 29,246,980 |
| Amortisation and impairment losses | | |
| Balance at start of year | - | - |
| Amortisation for the year | - | - |
| Impairment Loss | - | - |
| Balance at end of year | - | - |
| Carrying value at end of year | <u>29,246,980</u> | <u>29,246,980</u> |
| Business systems | | |
| Cost | | |
| Balance at start of year | 90,158 | 61,770 |
| Additions | 151,750 | 28,388 |
| Balance at end of year | 241,908 | 90,158 |
| Amortisation and impairment losses | | |
| Balance at start of year | (61,964) | (43,815) |
| Amortisation for the year | (28,473) | (18,149) |
| Balance at end of year | (90,437) | (61,964) |
| Carrying value at end of year | <u>151,471</u> | <u>28,194</u> |
| Carrying amounts | | |
| At year End | <u>29,398,451</u> | <u>29,275,174</u> |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

14 Intangible assets (continued)

Impairment testing for cash-generating units containing goodwill.

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | 2010 | 2009 |
|--|------------|------------|
| SBD Services Queensland & NSW North Operations | 12,086,980 | 12,086,980 |
| Delta Mining | 17,160,000 | 17,160,000 |
| | 29,246,980 | 29,246,980 |

The impairment test of SBD Services Ltd and Delta Mining Pty Ltd was based upon value in use, determined by discounting the future cash flows generated from continuing use of the unit, unless indicated otherwise, value in use during the year ended 30 June 2010 was determined similarly as during the year ended 30 June 2009. The calculation of the value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on actual operating results and the five-year business plan. The Business Plan is based on contractual obligations where appropriate and then expectations of growth based on historical data. Cash flows for a further 7 year period were extrapolated based upon maintaining assets existing at the time and revenue projections increasing at 3.5%, which does not exceed the long term average growth for the industry. Management believes that this forecast was justified due to the long-term nature of the mining business.

A pre-tax discount rate of 20.9 percent (2009:18.8 percent) was applied in determining the recoverable amount of the units. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 36% at a market interest rate of 9%.

The values assigned to the key assumptions represent management's assessment of future trends in the mining industry and are based on both external sources and internal sources (historical data). There is an expectation that the coal mining industry in NSW and Queensland will continue to increase productivity based on increased export demand and growing demand for energy and steel production predominantly from China and India.

The impairment tests show no write down of goodwill for either entity is required.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

15 Trade and other payables

| | 2010 | 2009 |
|---|------------------|------------------|
| Trade payables | 2,524,838 | 624,913 |
| Non-trade payables and accrued expenses | 1,556,550 | 2,766,398 |
| | <u>4,081,388</u> | <u>3,391,311</u> |

16 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost.

| Current | 2010 | 2009 |
|---------------------------|------------------|------------------|
| Hire purchase loans | 3,199,520 | 1,729,723 |
| Finance lease liabilities | 9,088 | 9,087 |
| Loans from shareholders | - | 808,691 |
| | <u>3,208,608</u> | <u>2,547,501</u> |

| Non-current | 2010 | 2009 |
|---------------------------|-------------------|-------------------|
| Hire Purchase loans | 10,252,980 | 6,706,398 |
| Finance lease liabilities | 12,542 | 29,251 |
| Loans from shareholders | 7,694,874 | 7,682,399 |
| | <u>17,960,396</u> | <u>14,418,048</u> |

Finance lease liabilities
Finance lease liabilities of the group are payable as follows:

| | Future value of minimum lease payments | Interest | Present value of minimum lease payments |
|----------------------------|--|--------------|---|
| | 2010 | 2010 | 2010 |
| Less than year | 9,088 | 1,416 | 7,672 |
| Between one and five years | 12,542 | 96 | 12,446 |
| More than five years | - | - | - |
| | <u>21,630</u> | <u>1,512</u> | <u>20,118</u> |

All leases are based on a fixed interest rate determined at commencement of the lease period.

| | Future value of minimum lease payments | Interest | Present value of minimum lease payments |
|----------------------------|--|--------------|---|
| | 2009 | 2009 | 2009 |
| Less than year | 9,087 | 2,038 | 7,049 |
| Between one and five years | 29,251 | 1,512 | 27,739 |
| More than five years | - | - | - |
| | <u>38,338</u> | <u>3,550</u> | <u>34,788</u> |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

17 Tax assets and liabilities

Current tax assets and liabilities

The consolidated entity's current tax asset of \$289,829 (2009: \$871,833 liability) represents the amount of income tax receivable in respect of current and prior periods that arise from the payment of tax in excess of the amounts due to the relevant tax authorities.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | 2010 | 2009 |
|--|------------------|----------------|
| Deferred tax asset | | |
| The balance comprises temporary differences attributable to: | | |
| Property plant and equipment | 3,425 | 3,110 |
| Provision for doubtful debts | 24,470 | 8,851 |
| Merger capital Costs | 25,992 | 37,122 |
| Finance Lease | (5,092) | 1,983 |
| Employee provisions | 758,395 | 909,598 |
| Tax loss carry-forwards | 241,381 | - |
| Total Tax assets | 1,048,571 | 960,664 |
| Current tax assets | | |
| Income tax receivable | 289,829 | - |
| Total current tax receivable | 289,829 | - |
| Current tax liabilities | | |
| Income tax payable | - | 871,833 |
| Total current tax liability | - | 871,833 |
| Deferred tax liability | | |
| The balance comprises temporary differences attributable to: | | |
| Public listing cost | 21,178 | - |
| Property, plant and equipment | 912,426 | 564,997 |
| Net tax assets/(liabilities) | 933,604 | 564,997 |
| Movements | | |
| Deferred Tax Asset | | |
| Opening Balance at 1 July | 960,664 | 691,066 |
| (Charge)/credit to the income statement | 97,391 | 269,598 |
| Disposals of property plant & equipment | (9,484) | - |
| Closing balance at 30 June | 1,048,571 | 960,664 |
| Deferred Tax Liabilities | | |
| Opening Balance at 1 July | 564,997 | 257,272 |
| (Charge)/credit to the income statement | 368,607 | 307,725 |
| Closing balance at 30 June | 933,604 | 564,997 |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

18 Employee benefits

| | 2010 | 2009 |
|---------------------------------------|------------------|------------------|
| Current | | |
| Liability for employee entitlements | 3,273,537 | 2,765,074 |
| Total employee benefits - current | <u>3,273,537</u> | <u>2,765,074</u> |
| Non-Current | | |
| Liability for employee entitlements | 136,711 | 79,747 |
| Total employee benefits – non-current | <u>136,711</u> | <u>79,747</u> |

19 Capital

Share capital

| | Ordinary Shares | |
|---|--------------------|--------------------|
| | 2010 | 2009 |
| On issue at 1 July (Number of shares) | 100,000,000 | 100,000,000 |
| Issued for equity | - | - |
| On issue at 30 June (Number of shares) | <u>100,000,000</u> | <u>100,000,000</u> |

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

The following dividends were declared and paid by the Group:

| | | Cents per share | Total Amount | Franked/ Unfranked | Date of Payment |
|-------------------------|--|-----------------|--------------|-----------------------|------------------|
| 2010 | | | | | |
| Final 2009 Ordinary | | 0.700000 | 700,000 | Franked | 1 April 2010 |
| 2009 | | | | | |
| Final 2008 Ordinary | | 0.445881 | 445,881 | Franked | 31 December 2008 |
| 2009 | | | | | |
| Redeemable Class Shares | | 1.000000 | 85,074 | Unfranked | 18 February 2009 |

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

| | 2010 | 2009 |
|---|----------------|----------------|
| Dividend franking account | | |
| 30% franking credits available for subsequent financial years - Group | 1,617,096 | 1,910,664 |
| 30% franking credits available for subsequent financial years - Company | <u>119,114</u> | <u>120,823</u> |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

The above amounts represent the balance of the franking account adjusted for franking credits that will arise from the payment of any current tax liability. The Group is not consolidated for tax purposes.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

20 Earnings per share
Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of \$4,584,202 (2009:\$3,161,928) and a weighted average number of ordinary shares outstanding of 100 million (2009: 100 million), calculated as follows

| | 2010 | 2009 |
|--|--------------------|--------------------|
| Profit/(loss) for the period | 4,584,202 | 3,161,928 |
| | No. | No. |
| Issued ordinary shares at 1 July | 100,000,000 | 100,000,000 |
| Weighted average number of ordinary shares (basic). | <u>100,000,000</u> | <u>100,000,000</u> |
| | Cents per share | Cents per share |
| Basic earnings per share based on profit after income tax expenses, attributable to members of the parent entity | <u>4.58c</u> | <u>3.16c</u> |

Diluted Earnings per share

The calculation of diluted earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of \$4,584,202 (2009 \$3,161,928) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 102.5 million (2009:102.5 million), calculated as follows

| | 2010 | 2009 |
|---|--------------------|--------------------|
| Profit attributable to ordinary shareholders | 4,584,202 | 3,161,928 |
| | No. | No. |
| Weighted average number of ordinary shares at 30 June | 100,000,000 | 100,000,000 |
| Effect of rights to share options | 2,500,000 | 2,500,000 |
| Weighted average number of ordinary shares (diluted) at 30 June | <u>102,500,000</u> | <u>102,500,000</u> |
| | Cents per share | Cents per share |
| Basic earnings per share based on profit after income tax expenses, attributable to members | <u>4.47c</u> | <u>3.08c</u> |

The Group is not listed on the ASX and an independent share price does not exist. To approximate the market value of the company's shares for the purposes of calculating the dilutive effect of share options a calculation using the black scholes option model was performed to calculate the value of the options outstanding.

21 Share options reserve

| | 2010 | 2009 |
|------------------------------|----------------|----------------|
| Balance as at 1 July 2009 | 227,025 | 274,016 |
| Revaluation of share options | 148,924 | (46,991) |
| Balance as at 30 June 2010 | <u>375,949</u> | <u>227,025</u> |

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against shares when the underlying shares vest to the employee.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

22 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade & other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 42% percent (2009: 37% percent) of the Group's revenue is attributable to sales transactions with a single customer. The customer is rated A1 by Moodys' and A+ by S&P. Geographically there is no concentration of credit risk.

Risk associated with customer revenue concentration are managed through the maintenance of regular customer contact and the monitoring of the delivery of service quality and customer satisfaction as well as the provision of a diverse range of specialised services to this customer plus other customer sites.

A review of new customer is analysed individually for creditworthiness before the Group's standard payment and conditions are offered.

More than 90% percent (2009: 90% percent) of the Group's customers have been transacting with the Group for over 5 years. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including parent company, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. The Group's trade and other receivables relate to the Group's wholesale customers. Customers that are graded as "high risk" are closely monitored by the senior management team.

The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

22 Financial risk management (continued)

b) Credit risk (continued)

The carrying amount of the Group's financial assets represents the maximum credit exposure.
The Group's maximum exposure to credit risk at the reporting date was:

| | Note | Carrying Amount | |
|--|------|-------------------|-------------------|
| | | 2010 | 2009 |
| Cash & cash equivalents | 9a | 6,254,602 | 2,451,272 |
| Trade Receivables | 10 | 8,591,344 | 11,174,365 |
| Loans to related parties | 10 | 176,409 | 202,614 |
| Other receivables | 10 | 13,885 | 276,582 |
| Amounts due from customers for contracts | 10 | 925,281 | 368,311 |
| | | <u>9,706,919</u> | <u>12,021,872</u> |
| | | <u>15,961,521</u> | <u>14,473,144</u> |

The ageing of trade and other receivables at the reporting date was as follows:

| | Gross 2010 | Impairment 2010 | Gross 2009 | Impairment 2009 |
|-------------------------|------------------|--------------------|-------------------|--------------------|
| Not past due | 7,374,210 | - | 7,378,416 | - |
| Past due 0 to 30 days | 1,503,554 | - | 1,797,513 | - |
| Past due 31 to 90 days | 501,563 | - | 1,750,932 | - |
| Past due 91 to 180 days | 176,886 | - | 695,741 | 29,503 |
| More than 181 days | 150,706 | 81,567 | 399,270 | - |
| | <u>9,706,919</u> | <u>81,567</u> | <u>12,021,872</u> | <u>29,503</u> |

Trade receivables are non interest bearing and settlement terms are generally within 30 days.

The movement in the allowance for impairment in respect of loan and receivables during the year was as follows:

| | 2010 | 2009 |
|----------------------------|---------------|---------------|
| Balance at 1 July | 29,503 | 29,503 |
| Impairment loss recognised | 52,064 | - |
| Balance at 30 June | <u>81,567</u> | <u>29,503</u> |

An impairment loss of \$52,064 was recognised during the current year representing an allowance for a receivable that's more than 12 months old. The allowance is for 50% of the receivable amount and the Group believes this amount is collectable.

(ii) Investments

The Group limits its exposure to credit risk by only investing in major Australian Banks which have a credit rating of at least A-1 from Standard & Poor's and A from Moody's. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

22 Financial risk management (continued)

c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- \$ 4,000,000 borrowing facility with Westpac Banking Corporation at a rate of BBSW plus 190 basis points. The facility is subject to quarterly reviews and a 30% equity ratio covenant. For the purpose of calculating the ratio, shareholder loans are subordinated and grouped with shareholder funds.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| 30 June 2010 | Carrying amount 2010 | Contractual cash flows | Less than one year | 1 - 5 years |
|-----------------------------|-------------------------|---------------------------|-----------------------|-------------------|
| Trade and other payables | 4,081,388 | 4,081,388 | 4,081,388 | - |
| Hire purchase obligations | 11,038,392 | 13,452,500 | 3,199,520 | 10,252,980 |
| Finance lease liabilities | 20,118 | 21,630 | 9,088 | 12,542 |
| Shareholder loan repayments | 7,694,874 | 8,348,938 | 654,064 | 7,694,874 |
| | 22,834,772 | 25,904,456 | 7,944,060 | 17,960,396 |

| 30 June 2009 | Carrying amount 2009 | Contractual cash flows | Less than one year | 1 - 5 years |
|-----------------------------|-------------------------|---------------------------|-----------------------|-------------------|
| Trade and other payables | 3,391,311 | 3,391,311 | 3,391,311 | - |
| Hire purchase obligations | 6,707,657 | 8,436,121 | 1,729,723 | 6,706,398 |
| Finance lease liabilities | 34,787 | 38,338 | 9,087 | 29,251 |
| Shareholder loan repayments | 8,491,090 | 9,212,833 | 1,530,434 | 7,682,399 |
| | 18,624,845 | 21,078,603 | 6,660,555 | 14,418,048 |

It is not expected that the cashflows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Shareholder loan repayments are shown net of interest. The interest rate is based on market rates at draw down dates.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

22 Financial risk management (continued)

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Interest Rate risk

The Group adopts a policy of ensuring that between 25% and 100% percent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into fixed interest hire purchase agreements for financing major asset purchases.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|----------------------------------|-------------------|-------------------|
| | 2010 | 2009 |
| Fixed rate instruments | | |
| Financial assets | - | - |
| Financial liabilities | 12,817,914 | 15,955,277 |
| | <u>12,817,914</u> | <u>15,955,277</u> |
| Variable rate instruments | | |
| Financial assets | 6,254,602 | 2,451,272 |
| Financial liabilities | - | - |
| | <u>6,254,602</u> | <u>2,451,272</u> |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased the Group's equity by \$89,725 (2009: \$111,687).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

| | Profit or loss | | Equity | |
|---------------------------|----------------|-----------------|----------------|----------------|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| 30 June 2010 | | | | |
| Variable rate instruments | 43,782 | (43,782) | - | - |
| | <u>43,782</u> | <u>(43,782)</u> | <u>-</u> | <u>-</u> |
| 30 June 2009 | | | | |
| Variable rate Instruments | 17,157 | (17,157) | - | - |
| | <u>17,157</u> | <u>(17,157)</u> | <u>-</u> | <u>-</u> |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

22 Financial risk management (continued)

e) Fair values

Fair values verses carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | Note | 30 June 2010 | | 30 June 2009 | |
|--|-------|-------------------|-------------------|-------------------|-------------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| Assets carried at fair value | | | | | |
| Nil | | - | - | - | - |
| Assets carried at amortised cost | | | | | |
| Loans and receivables | 10 | 9,625,352 | 9,625,352 | 11,992,369 | 11,992,369 |
| Cash and cash equivalents | 9a | 6,254,602 | 6,254,602 | 2,451,272 | 2,451,272 |
| | | 15,879,954 | 15,879,954 | 14,443,641 | 14,443,641 |
| Liabilities carried at fair value | | | | | |
| Nil | | - | - | - | - |
| Liabilities carried at amortised cost | | | | | |
| Trade and other payables | 15 | 4,081,388 | 4,081,388 | 3,391,311 | 3,391,311 |
| Hire purchase obligations | 10,16 | 11,038,392 | 8,487,455 | 6,707,657 | 4,947,506 |
| Finance lease liabilities | 10,16 | 20,118 | 17,260 | 34,787 | 29,723 |
| Shareholder loan repayments | 16 | 7,694,874 | 7,694,874 | 8,491,090 | 8,491,090 |
| | | 22,834,772 | 20,280,977 | 18,624,845 | 16,859,631 |

The basis for determining fair values is disclosed at note 4.

Interest rates used for determining fair values

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

| | 2010 | 2009 |
|----------------------------------|-----------|-----------|
| Loans and borrowings | 8.5%-8.6% | 8.5%-8.6% |
| Hire purchase finance and Leases | 10.0% | 10.0% |

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

23 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| | 2010 | 2009 |
|----------------------------|----------------|----------------|
| Less than one year | 293,976 | 293,976 |
| Between one and five years | 265,118 | 559,094 |
| More than five years | - | - |
| | <u>559,094</u> | <u>853,070</u> |

The Group leases a number of office facilities under operating leases. The leases typically run for a period of 5 years with an option to renew the lease after that date.

During the year ended 30 June 2010 \$293,976 was recognised as an expense in profit or loss in respect of operating leases (2009: \$293,976).

The leases were entered into as combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord of the building is increased by the consumer price index at annual intervals, and the Group does not participate in the residual value of the building. It was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Group determined that the leases are operating leases.

24 Capital Commitments

| | 2010 | 2009 |
|--|----------------|------------------|
| Plant and equipment | | |
| <i>Contracted but not provided for and payable</i> | | |
| Within one year | 163,700 | 1,359,612 |
| One year or later and no later than 5 years. | - | - |
| Later than five years | - | - |
| | <u>163,700</u> | <u>1,359,612</u> |

25 Contingent Liabilities

| | 2010 | 2009 |
|------------|----------|----------|
| Guarantees | - | - |
| Litigation | - | - |
| | <u>-</u> | <u>-</u> |

The consolidated Group has provided guarantees to third parties in relation to the performance and obligations controlled entities in respect to banking facilities, approved deeds and property lease rentals.

The guarantees are for the terms of the facilities, deeds and leases. The periods covered by the guarantees range from one year or until facility discharge.

On the 3rd of July 2008 a Group subsidiary Delta Mining Pty Ltd has been charged that being an employer, on 7 July 2006 at the Douglas Mine, Appin Colliery at Douglas Park Road, Douglas Park, failed to ensure that employees were not exposed to risks to their health, safety and welfare, contrary to Section 8(1) of the Occupational Health and Safety Act 2000 (NSW). The Group has appointed Middletons to represent its interests and in conjunction with relevant Delta Mining Pty Ltd Staff are currently assessing the brief of evidence supplied by the prosecutor. At the date of signing of this report no plea had been entered. Delta Mining Pty Ltd was one of a number of parties that have been charged over the incident.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

26 Share-based payments

Share based payments have been granted to Advisor - New Holland Capital, Advisors Andrew Amer and Geoffrey Garside. They have been extended as a part of their remuneration for services to the Group.

| Party and Grant date | | Number of instruments | Vesting conditions | Contractual life of options |
|-------------------------------------|--|-----------------------|---|-----------------------------|
| New Holland Capital - November 2007 | | 2,000,000 | New Holland or its nominees will be issued with 2,000,000 call options provided that the company proceeds to IPO. | 5 Years after IPO date |
| Andrew Amer - July 2009 | | 250,000 | Andrew Amer will be issued with 250,000 call options provided that the company proceeds to IPO. | 4 Years after IPO date |
| Geoffrey Garside - July 2009 | | 250,000 | Geoffrey Garside will be issued with 250,000 call options provided that the company proceeds to IPO. | 4 Years after IPO date |

The value of options granted reserve for the year ended 30 June 2010 is \$375,949 (2009: \$227,025)

| Options Relinquished Date: July 2009 | | Reason for relinquishment |
|--------------------------------------|---------|---------------------------|
| Andrew Amer | 250,000 | Resignation as Director |
| Geoff Garside | 250,000 | Resignation as Director. |

The fair value of employee stock options is measured using a binomial model. Measurement inputs include share price on measurement date, strike price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

All options will vest one year after the listing date and will be exercisable at a strike price which is 25% above the IPO issue price provided that the Company's share price on or after that date exceeds the share price that the company's shares would have attained if they had appreciated at a rate which was at or above the small ordinaries accumulation index over the period since the Award date.

27 Related party transactions

Transactions with key management personnel

In addition to their salaries, the Group also provides non-cash benefits to executive directors and executive officers, and contributes to a post-employment superannuation fund on their behalf.

The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

27 Related party transactions (continued)

Key management personnel compensation

Key management personnel compensation comprised:

| | 2010 | 2009 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 1,070,574 | 1,119,604 |
| | <u>1,070,574</u> | <u>1,119,604</u> |

Loans to key management personnel and their related parties

Details regarding loans outstanding at the reporting date to key management personnel and their related parties at any time in the reporting period, are as follows:

| | Balance 1 July 2009 | Balance 30 June 2010 | Interest Not charged | Highest balance in period |
|----------------|------------------------|-------------------------|-------------------------|------------------------------|
| Tony De Santis | 202,614 | 176,409 | 11,621 | 202,614 |
| | Balance 1 July 2008 | Balance 30 June 2009 | Interest Not charged | Highest balance in period |
| Tony De Santis | 217,661 | 202,614 | 23,033 | 217,661 |

There were no unsecured loans to directors issued during the year ended 30 June 2010 (2009: nil).

The loan to Tony De Santis is repayable in full by 28 February 2014.

Repayment will be made by way of withholding payment of dividends from Delta SBD Limited and retention of 25% of performance bonus. During the year \$26,205 was repaid (2009 \$15,047).

Key management personnel and director transactions

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

| | Transactions value year ended 30 June | | Balance outstanding as at 30 June | |
|--------------------------------|--|----------------|--------------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Titanwood Holdings Pty Ltd (1) | 60,000 | 60,000 | - | - |
| Titanwood Holdings Pty Ltd (2) | 6,950 | 99,680 | - | - |
| Total | <u>66,950</u> | <u>159,680</u> | <u>-</u> | <u>-</u> |

(1) On 2nd April, 2007 the group entered into a 5 year contract with Titanwood Holdings P/L a company controlled by Mr Stephen Bizzaca for the hire of a motor vehicle. The contract value is \$300,000. Contract terms are based on market rates for the type of vehicle and amounts are payable on a monthly basis.

(2) The group has entered into a professional services agreement with Titanwood Holdings P/L for the provision of administrative services. Contract terms are based on market rates for the type of services provided and amounts are payable on a monthly basis.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

27 Related party transactions (continued)

Other related party transactions

Details regarding loans outstanding at the reporting date from key management personnel and their related parties at year end, are as follows:

| | 2010 | 2009 |
|---------------------------------|------------------|------------------|
| Dawkins Enterprises Pty Ltd (1) | 3,651,474 | 3,651,474 |
| Titanwood Holdings Pty Ltd (2) | 4,001,006 | - |
| Stephen Bizzaca (3) | 42,394 | 4,030,926 |
| | <u>7,694,874</u> | <u>7,682,400</u> |

(1) Interest bearing loan from Dawkins Enterprises Pty Ltd is to provide working capital to the Group. Dawkins Enterprises Pty Ltd is an entity controlled by Glyn Dawkins, the loan is repayable on 1 July 2011.

(2) Interest bearing loan from Titanwood Holdings Pty Ltd is to provide working capital to the Group. Titanwood Holdings Pty Ltd is an entity controlled by Stephen Bizzaca, the loan is repayable on 1 July 2011.

(3) Accrued interest amount owing to Stephen Bizzaca on a working capital loan, this loan was replaced by a loan from Titanwood Holdings Pty Ltd on 29th June 2010.

Details regarding interest payments on loans from key management personnel and their related parties at any time in the reporting period, are as follows:

| | 2010 | 2009 |
|---------------------------------|----------------|----------------|
| Dawkins Enterprises Pty Ltd (1) | 310,384 | 310,375 |
| Stephen Bizzaca | 344,918 | 342,445 |
| | <u>655,302</u> | <u>652,820</u> |

(1) Interest paid to Dawkins Enterprises on working capital loan disclosed above. The interest rate is 8.5% fixed which is at normal market rates, interest is paid monthly

(2) Interest paid to Stephen Bizzaca on working capital loan disclosed above, this loan was repaid and replaced by a loan from Titanwood Holdings Pty Ltd on 29 June 2010. The interest rate is 8.6% fixed which is at normal market rates, interest is paid monthly

Movements in shares and options

No shares or options were granted to key management personnel during the reporting period as compensation in 2010 or 2009.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

28 Segment reporting

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

There are varying levels of integration between Mining Contracting and Equipment segment. This integration includes the usage of Equipment assets in the Mining Contracting business to support their contracted commitments.

Mining contracting

The Group specialises in the provision of services for the underground coal mine industry within Australia embodying the following activities:

- Whole of mine operations
- Labour supply
- Longwall relocations
- Panel development
- Outbye Services
- Construction and relocation of mechanical structures

Equipment

The Group has an extensive range of specialised underground machinery to support colliery activities. The equipment is used to support contracted mining services eg longwall relocations as well as being commercially available for general hire.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The Company operates its mining contracting and equipment rental segments in the one geographical segment being Australia.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments*

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

28 Segment reporting (continued)

Primary Reporting 2010

| | Contracting | Equipment | Unallocated/ Eliminations | Consolidated |
|---|-------------|------------|------------------------------|--------------|
| Revenue | | | | |
| External sales revenue | 72,833,390 | 3,109,881 | - | 75,943,271 |
| Inter segment revenue | - | 918,014 | (918,014) | - |
| Interest revenue | - | - | 68,454 | 68,454 |
| Interest expense | (75,317) | (576,624) | (864,114) | (1,516,055) |
| Depreciation and amortisation | (887,651) | (566,203) | (37,466) | (1,491,320) |
| Reportable segment profit before income tax | 4,554,021 | 471,285 | | 5,025,306 |
| Reportable segment assets | 15,607,494 | 11,095,978 | 40,316,041 | 67,019,513 |
| Acquisitions of fixed assets | 5,491,218 | 2,468,916 | 151,750 | 8,111,884 |

Primary Reporting 2009

| | Contracting | Equipment | Unallocated Eliminations | Consolidated |
|---|-------------|-----------|-----------------------------|--------------|
| Revenue | | | | |
| External sales revenue | 72,432,923 | 3,118,986 | - | 75,551,909 |
| Inter segment revenue | - | 206,178 | (206,178) | - |
| Interest revenue | - | - | 161,197 | 161,197 |
| Interest expense | - | (641,594) | (989,243) | (1,630,837) |
| Depreciation and amortisation | (381,341) | (887,532) | (17,986) | (1,286,859) |
| Reportable segment profit before income tax | 4,538,502 | (111,919) | | 4,426,583 |
| Reportable segment assets | 13,528,720 | 8,862,852 | 35,639,082 | 58,030,654 |
| Acquisitions of fixed assets | 760,047 | 242,937 | 104,124 | 1,107,108 |

Consolidated Group's operations are located in one segment which is Australia. Accordingly, no secondary reporting on geographical segments has been applied.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

29 Group entities

Parent and ultimate controlling party

| | Country of incorporation | Ownership interest | |
|---------------------------------|--------------------------|--------------------|------|
| | | 2010 | 2009 |
| Parent Entity | | | |
| Delta SBD Limited | | | |
| Significant subsidiaries | | | |
| Delta Mining Pty Ltd | Australia | 100% | 100% |
| SBD Services Pty Ltd | Australia | 100% | 100% |

30 Auditors' Remuneration

Auditor's remuneration

| | 2010 | 2009 |
|--|--------|--------|
| Audit services | | |
| Auditors of the Group | | |
| <i>KPMG Australia:</i> | | |
| Audit of financial reports | 80,063 | 68,880 |
| Other Services | | |
| <i>KPMG Australia:</i> | | |
| Tax Compliance and Advisory | 6,750 | 6,850 |
| AUSCOAL Superannuation Guarantee Contribution | 1,900 | 1,900 |
| Contributions Coal Mines long service leave Board | 1,900 | 1,900 |
| Tax advisory in relation to Research & Development | 39,585 | - |
| | 50,135 | 10,650 |

31 Subsequent Events

During the period an Employee Share Plan was established with up to 10% of Delta SBD capital offered to chosen employees. The offer period closed on 27 July 2010 with 7,036,393 shares accepted at a value of \$1,716,880 (\$0.2440 cents per share)

Other than the matter referred to above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

Delta SBD Limited
Notes to the financial statements
For the year ended 30 June 2010

32 Parent Entity Disclosure

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was Delta SBD Limited.

| | Company | |
|--|------------|------------|
| | 2010 | 2009 |
| Result in parent entity | | |
| Profit for the period | 868,296 | 557,330 |
| Other comprehensive Income | - | - |
| Total comprehensive Income for the period | 868,296 | 557,330 |
| Financial position of parent entity at year end | | |
| Current assets | 719,511 | 644,422 |
| Total assets | 30,736,762 | 30,184,200 |
| Current liabilities | 1,220,754 | 1,041,091 |
| Total liabilities | 1,276,433 | 1,041,091 |
| Net Assets | 29,460,329 | 29,143,109 |
| Total equity of the parent entity comprising of | | |
| Share capital | 29,160,000 | 29,160,000 |
| Options reserve | 375,949 | 227,025 |
| Retained losses | (75,620) | (243,916) |
| Total Equity | 29,460,329 | 29,143,109 |



Independent auditor's report to the members of Delta SBD Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Delta SBD Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and 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 and other explanatory notes 1 to 32 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. These Auditing 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 controls relevant to the 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 controls. 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

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*.

Auditor's opinion

In our opinion, the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 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.

KPMG

David Willcocks
Partner

Wollongong

26 August 2010



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Delta SBD Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contravention of any applicable code of professional conduct in relation to the audit.

KPMG

David Willcocks
Partner

Wollongong

26 August 2010

