



HUGHES DRILLING LIMITED

ABN 12 124 279 750



ANNUAL REPORT

30 JUNE 2013

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Corporate Directory

Directors	Mr Robert Hackett Mr Robert (Bob) Hughes Mr Andrew Drake Mr Barry O'Connor Mr Andrew Webb	Chairman Executive Director / Managing Director Chief Executive Officer Non-Executive Director Non-Executive Director
Company Secretary	Mr Paul Brenton	
Registered Office	12 Byte Street Yatala, QLD, 4207 Telephone: 1300 336 766 Facsimile: 61 2 4925 3473 Web site: www.hughesdrilling.com.au ABN: 12 124 279 750	
Share Registry	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney, NSW, 2000 Telephone: 1300 131 749 Facsimile: 61 2 8235 8229 Web site: www.computershare.com	
Auditors	PricewaterhouseCoopers 26 Honey Suckle Drive Newcastle NSW, 2300	
Solicitors	HWL Ebsworth Level 23 123 Eagle Street Brisbane, QLD, 4000	
Bankers	Westpac Bank Level 14 260 Queen Street Brisbane, QLD, 4000	
Stock exchange listing	Hughes Drilling Ltd shares are listed on the Australian Securities Exchange (ASX), ASX code HDX	

Chairman's Report

OPERATIONAL AND FINANCIAL REVIEW

On behalf of the Board I am pleased to inform shareholders that Hughes Drilling Limited ("Hughes", "HDX" or the "Company") generated a net profit after tax of \$10.4m for the 12 months to 30 June 2013. This is an increase of 23.2% on FY12. Consistent with prior periods the growth in profitability from operations of Hughes in FY13 relative to FY12 particularly reflects,

- ✓ blast hole rigs purchased progressively during FY12, and hence working for only part of FY12, worked for all of FY13, and
- ✓ new blast hole rigs commencing operations during FY13.

Blast hole drilling operations continued to dominate Company revenue generating 84.8% of sales. Delineation services revenue was 11.2% of sales. Reichdrill contributed 4.1% of sales for the 3 months that it was part of Hughes and after accounting elimination of sales to Hughes.

As previously reported, at the production rig contract and rig operating level Hughes is experiencing a high level of consistency and hence predictability of underlying earnings and cash flow:

- ✓ High level of equipment "availability", that is, the maintenance and rig operator training programs deliver consistently high productivity rates.
- ✓ Stable, high quality client relationships.
- ✓ Low counter party risk – BHP/BMA, Downer Mining, Leighton, Yancoal, Jellinbah.
- ✓ Rates stable in real terms.
- ✓ Generally good matching of contract duration profile with funding term profile.

The revenue mix will change in FY14 with revenue growth from blast hole operations rising as a result of new rigs delivered progressively in FY13 expected to work for all of FY14, and with Reichdrill contributing for the full year from an expected step-up in sales to non-Hughes related entities.

Review of Margins:

Consolidated Results	FY 13 * A\$ '000	FY 12 * A\$ '000	Change
Revenue	49,756	39,187	+ 27.0%
EBITDA	18,057	15,355	+ 17.8%
<i>EBITDA Margin</i>	36.3%	39.1%	-
- Depreciation	5,516	4,890	+12.8%
EBIT	12,541	10,465	+19.8%
<i>EBIT Margin</i>	25.2%	26.7%	-
- Finance Cost	2,147	2,028	+5.9%
Net Profit Before Tax	10,392	8,417	+ 23.5%
Net Profit After Tax	10,367	8,417	+ 23.2%
<i>Net Profit After Tax Margin</i>	20.8%	21.5%	-3.0%
Earnings per Share	7.80¢	8.96¢	-12.9%

* Note

- FY12 comprises full year of Hughes Drilling and 7 months of EDMS.

- FY13 comprises full year of Hughes Drilling and 3 months of Reichdrill Inc.

Review of Margins (continued) :

Underlying margin profiles from the blast hole activities remained stable. The modest fall in consolidated NPAT margin to 20.8% from 21.5%, along with the movement in EBIT and EBITDA margins, in part arose from the reduced contribution from the now complete delineation contract at Wambo and expensed non-recurring costs associated with corporate restructuring and the acquisition of Reichdrill.

Earnings per share is adversely distorted by the increased number of shares issued in March following the capital raising together with earnings from the subsequent acquisition of Reichdrill only contributing to the last 3 months of FY13.

Debt Management, Cash Flow, Asset Growth and Ratio Analysis:

Debt Management	At Balance Date - 30 June 2013 A\$'000	*At Peak Debt- February 2013 A\$'000 (unaudited)	At Reporting Date - 31 Dec 2012 A\$'000	At Reporting Date 30 June 2013 A\$'000
Total Utilised Debt (including overdraft)	27,271	30,634	28,758	25,703
Cash (excluding overdraft)	5,334	282	647	2,516
Debt less Cash	21,937	30,352	28,111	23,187

* Peak debt is defined as the highest level of total borrowings less cash at bank

As advised in the half year announcement of results the finance facility for the purchase of production rigs was intermittently fully utilised in the December quarter 2012. The intermittent profile reflected reductions linked to the Company's monthly principal repayments and redraws for payments to Reichdrill for new rigs. This cycle continued until February after which there was a clear moderation in the rate at which rig purchases were being made. Consequently debt including overdraft facilities peaked in February.

Subsequent to February not only did the rate of expansion moderate, thereby reducing the demand for growth capital, but with the acquisition of Reichdrill the cash cost of new rigs was reduced hence further reducing the amount of growth capital required per new rig. Rig purchases after February were paid for using cash from the capital raising.

In the Debt Management table above the "Debt less Cash" data indicates an impressive \$8.4 million (27.7%) improvement in this measure of the health of the Company's balance sheet over the 4 months from the peak debt position in February to 30 June. This measure combines the benefits of the cash contribution from the capital raising after payment for Reichdrill and rigs and the reduction of overdraft and asset finance facilities.

The reduction in Total Utilised Debt by \$3.4 million from the peak debt to June period is a reasonable indicator of the contribution to debt reduction by cash generated in operating activities. The payments were consistently in the order of \$850,000 per month (the equivalent of approximately \$10 million per annum). With increased revenue from more rigs working, significant cash in-hand, the current more moderate growth rate and a lower new rig cash cost, this debt reduction profile should be maintained. Other factors relevant to this include efforts to increase the Operating Cash Flow/EBITDA ratio and decisions in respect of the commencement of dividends, both discussed below.

The timing and rate at which the production rig asset finance facility could be reduced will particularly depend on the mix of new long term stable production rig contracts, the conversion rate of Express Hydraulics' current agency line sales program and activity from Reichdrill.

Cash Flow	FY 13 A\$ '000	FY 12 A\$ '000	Change
Cash Flow from Operations - before Interest	10,052	1,561	+543.9%
Cash Flow from Operations – after Interest	7,905	(467)	-
Cash Flow from Investing Activities	(21,245)	(8,716)	+143.7%
Cash Flow from Financing Activities	16,381	7,664	+113.7%
Cash at end of Year (including overdraft)	4,736	1,620	+192.3%

The apparent strong growth in Cash Flow from Operating Activities is, in general terms, consistent with the Company's expectations. That said, as with many parts of the mining services sector and notwithstanding the "blue chip" profile of our clients we have experienced a slowing of payments by some clients thereby increasing working capital and reducing operating cash flow in FY13. The latter should largely self correct in FY14. Also, during FY13 Cash Flow from Operations was reduced by approximately \$0.9 million of expensed non-recurring cash costs associated with corporate restructuring and the acquisition of Reichdrill.

The greater part of the increase in Cash Flow from Investing Activities is the acquisition of 11 new blast hole rigs and the acquisition of Reichdrill. Similarly the Cash Flow from Financing Activities is to the greater part the \$19.1 million capital raising.

PPE and Inventory Growth	30 June 2013 A\$'000	31 Dec 2012 A\$'000	Change	31 Dec 2012 A\$'000	30 June 2012 A\$'000	Change
Property, Plant & Equipment (exc. Reichdrill)	41,813	36,058	15.9%	36,058	27,259	32.3%
Inventories (excluding Reichdrill)	17,871	14,814	20.6%	14,814	11,235	31.9%
Inventory/PPE (excluding Reichdrill)	42.7%	41.1%	-	41.1%	41.2%	-

In previous announcement and earlier in this report the moderation in the growth of the blast hole operation has been discussed. The table above indicates that the rate of growth of the Australian drilling service activities has slowed from the December half to the June half. This brings with it a more measured expansion of the balance sheet. It is important to note that the June half "moderated" growth of 12.9% equates to an extraordinary 25.8% per annum.

When analysing the balance sheet of the Company three conservative aspects to the management of the depreciated asset base should be considered,

- ✓ conservative depreciation profile: Rig life of 11 to 14 years in our market segment, rigs 100% depreciated over 10 years (previously 6.7 years, changed following representations by shareholders).
- ✓ 13 rigs at zero book value but aged around 8 years with a residual working life of 3-6 years. The operating efficiency and hence commercial productivity of these rigs is consistent with fleet norms.
- ✓ Average age of blast hole fleet = 3.5 years.

Growth in Australian operations inventory levels is broadly in line with the growth in drilling assets.

- ✓ Inventory growth does lag rig asset growth as inventory deliveries tend to lag rig deliveries. With the slowing of rig purchases this lag should become less significant.
- ✓ Some inventory purchases were accelerated to take advantage of the high Australian dollar.

Ratio Analysis	30 June 2013 A\$'000 (12 months)	31 Dec 2012 A\$'000 (6 months)	30 June 2012 A\$'000 (12 months)
*Debt/(Debt+Equity)	33.4%	48.6%	50.8%
EBIT/Interest	5.8x	5.4x	5.2x
Operating Cash Flow Before Interest/EBITDA	55.7%	66.3%	10.2%
ROFE: EBIT/(Total Assets-Current Liabilities)	17.5%	26.9%	<small>Reported current liabilities include non-current liabilities – refer notes to FY12 accounts.</small>

*Debt is all borrowings including overdraft

The dramatic fall in Debt/(Debt + Equity) to 33.4% from 48.6% in the period 31 December 2012 to 30 June 2013 clearly reflects both the reduction in debt in the period as well as the increase in equity from the capital raising. Similarly the fall in Return on Funds Employed is particularly a consequence of the increase in total assets following the capital raising and the investments in Reichdrill and rigs only contributing to EBITDA for the last 3 months of FY13. It follows that ROFE and OCFBI/EBITDA should rise with full year contributions from the acquired assets in FY14.

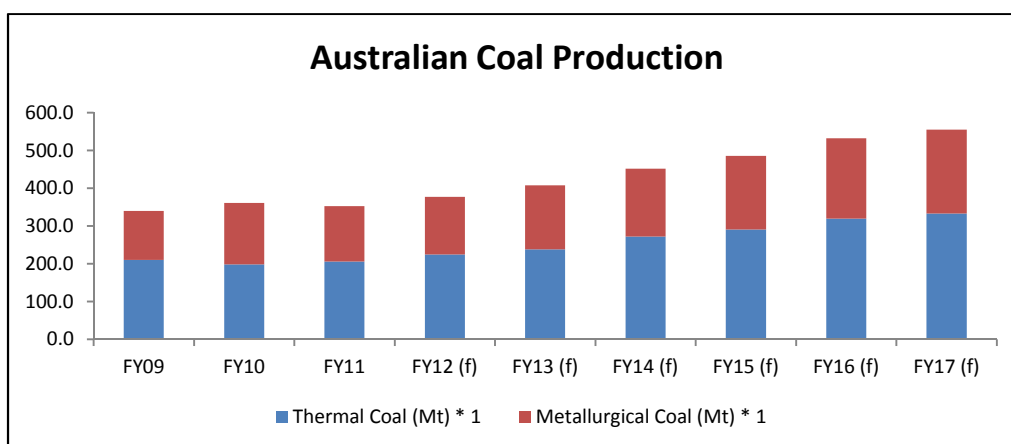
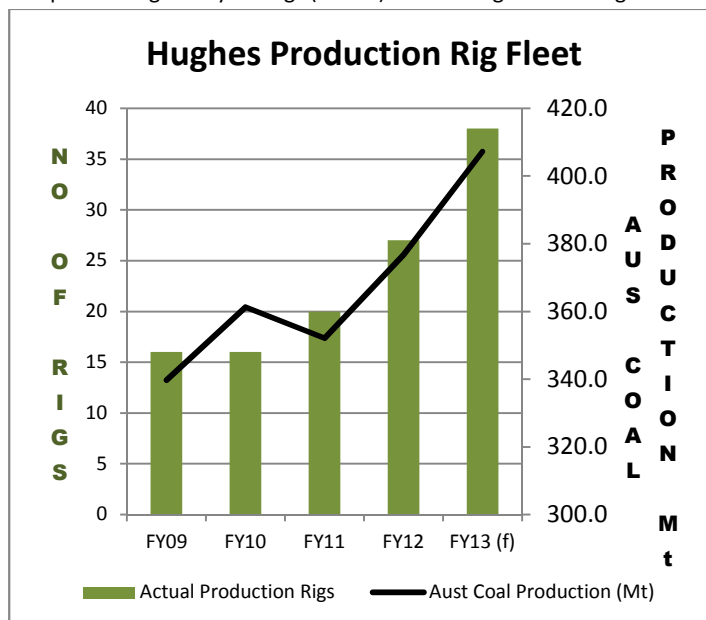
The EBITDA cash conversion ratio (Operating Cash Flow before Interest/EBITDA) is lower than we expect once the business enters a more mature and slower growth phase. In part this reflects the transitory higher working capital of new rigs during the pre-start and initial months of a new rigs operation. The excess working capital per new rig is generally recovered within six to nine months of commencement of operations. For Hughes the very high growth rate during FY13 has meant that the cumulative effect on working capital from numerous new rigs commencing operations has had a greater than expected short term drag on EBITDA cash conversion. Also, as mentioned in the earlier discussion of cash flow FY13 Cash Flow from Operations was reduced by approximately \$0.9 million of expensed non-recurring cash costs associated with corporate restructuring and the acquisition of Reichdrill.

Operating Commentary:

Consistent with the typically long life of Australian open cut coal mines and the stable and “blue-chip” nature of many coal mine owners, Hughes’ client base remained stable during the year. With this Hughes has benefited from a high utilization rate of around 95%. Growth largely came from more rigs in pits in which we already operate and in new pits of existing clients:

Hughes’ production drilling market continues to reflect a sustainable growth environment.

- ✓ Sustainable demand particularly reflects committed/contracted production and expansion of existing operating mines, advanced stage new mines and displacement by Hughes of low productivity competitors, refer table below.
- ✓ A key differentiating factor of Hughes from other types of drilling is that the Company’s activities are a key part of an operating mine’s production process. Hughes’ production drilling services are not exploration drilling services.
- ✓ Equipment generally used in exploration drilling is not suitable for coal sector production services such as those provided by Hughes.
- ✓ FY14: Blast hole rig fleet is expected to grow by 2-4 rigs (5-10%) to 40-42 rigs from 38 rigs.



Note 1: Source - ABARE Australian Commodities and BREE Resources and Energy Quarterly.

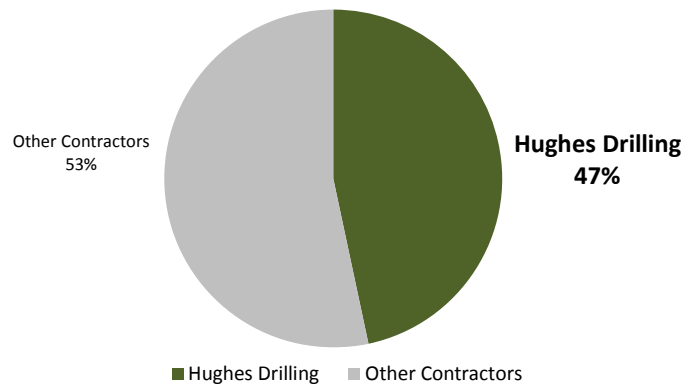
As in previous years ongoing revenue and earnings growth is expected to be primarily driven by;

- ✓ Rigs purchased part way through FY13 working full years in FY14 and beyond;
- ✓ Further expansion of the blast hole rig fleet as contracts are won;
- ✓ Full year contribution from Reichdrill; and
- ✓ Express Hydraulics progressively expanding sales of drilling sector agency lines.

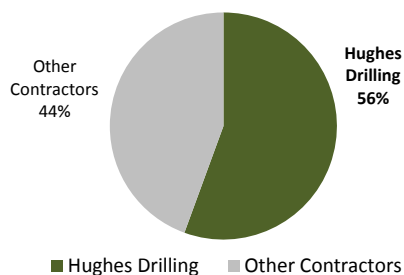
Hughes is maintaining its leading market share:

- ✓ Hughes' contractor market share remains near 50%.
- ✓ Hughes continues to operate and own the largest contract coal sector blast hole rig fleet in Australia.

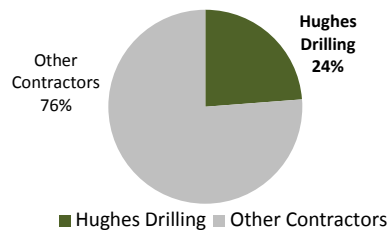
Contracted Production Rig Market Share QLD & NSW



Contracted Production Rig Market Share QLD



Contracted Production Rig Market Share NSW



Reichdrill (4.1% of revenue from 3 months post acquisition sales to non-Hughes clients)

Reichdrill management has continued its successful strategy of recent times to establish or reestablish agency and distribution arrangement in major global coal and iron ore producing regions including the USA, South Africa, Indonesia and South America. Order activity since acquisition indicates that this strategy is leading to an expansion of Reichdrill's international customer base.

Dividends

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

For and on behalf of the Directors

A handwritten signature in black ink, appearing to read 'R. Hackett', with several diagonal strokes above it.

Robert Hackett
Chairman
30 September 2013

Director's Report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Hughes Drilling Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

Director's

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

Robert Hackett	Appointed 4 July 2011
Robert (Bob) Hughes	Appointed 10 February 2012
Andrew Drake	Appointed 10 February 2012
Geoff Bruce	Appointed 29 June 2012, Resigned 18 July 2013
Craig Burton	Appointed 23 September 2009, Resigned 5 November 2012
Barry O'connor	Appointed 5 November 2012
Andrew Webb	Appointed 18 July 2013

Principal Activities

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

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

During the year ended 30 June 2013, the group's nature of activities changed to include supply of drill rigs and spare parts as a result of acquisition of a subsidiary, Reichdrill Inc. located in the United states of America. Reichdrill Inc specialises in the manufacture of Drill rigs and supply of spare parts.

Dividend Paid or Recommended

No dividend from current year operations has been paid or is proposed to be paid in relation to the year ended 30 June 2013.

Review of Operations

Information on the operations and financial position of the Group are set out in the Chairman's' Report on pages 3 to 8.

Significant Changes in State of Affairs

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

Contributed equity increased by \$21,191,000 (from \$9,744,000 to \$30,935,000) as the result of share placement of 59,119,000 shares at \$0.32 per share and 89,607,000 shares issued valued at \$2,273,000 to settle contingent consideration from prior year. Details of the changes in contributed equity are disclosed in note 20 to the financial statements.

The net cash received from the capital raised was used principally to purchase, Reichdrill Inc, a company specialising in manufacturing Drill rigs and and new production Drill Rigs in response to increasing production drilling demand.

Hughes Drilling Limited (Hughes), through its majority owned (96% owned) Australian registered subsidiary Reichdrill Australia Pty Ltd, purchased 100% of the issued share capital in Reichdrill Inc. Full details of the transaction are disclosed in note 33.

The company has accounted for the business combination using provisional fair values as the initial accounting for the business combination including the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities and the cost of the combination can be determined only provisionally. The company shall recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Events after the reporting date

Since reporting date, Hughes has entered into a Heads of Agreement to acquire JSW Australia Pty Ltd.

JSW has three business divisions servicing clients in the Western Australian resources, government instrumentalities and private sector markets. These business divisions comprise, grade control and resource definition, water drilling, production bores, dewatering bores, monitoring bores, geothermal bores, servicing and specialist (including BOP well control, paste & service holes and ROBIT casing advance) services inside the mine fence line. For further details of the transaction see note 31.

Future Developments

Additional comments on expected results of certain operations of the group are included in this annual report under the operating and financial review section on pages 3 to 7.

Environmental Regulations

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

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

Information on Directors

The following persons were directors of the Group during the year ending 30 June 2013 and up to the date of this report:

Mr Robert Hackett BE (Civil), MBA (IMEDE), MAICD (appointed 4 July 2011)
Chairman, Director, Aged 58

Mr Hackett is a former chief executive of both an Asia Pacific onshore drilling contractor (minerals, geothermal, oil and gas) and a Middle East based geothermal, oil and gas drilling, work-over, and other well site services contractor with significant operations in 12 countries, turnover in excess of US\$400m and approximately 5,000 employees. He has a Bachelor of Engineering (Civil) degree from the University of Adelaide, Masters of Business Administration from IMEDE, Lausanne, Switzerland and is a member of the Australian Institute of Company Directors.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Chairman of the Board, Member of the Audit Committee, Member of the Remuneration and Risk Committee

Interests in shares and options

2,073,754 ordinary shares in Hughes Drilling Limited

200,000 options over ordinary shares in Hughes Drilling Limited

Directors Report (continued)

Mr Robert (Bob) Hughes (appointed 10 February 2012)
Executive Director / Managing Director, Aged 57

Mr Hughes is the founder of the Hughes Drilling business and major shareholders of Hughes Drilling Ltd.
 Mr Hughes has over 37 years of providing drilling and blasting services for quarries and mining operations.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Executive Director

Interests in shares and options

71,388,074 ordinary shares in Hughes Drilling

Nil options over ordinary shares in Hughes Drilling Limited

Mr Andrew Drake (appointed 10 February 2012)
Chief Executive Officer, Aged 57

Mr Drake was the General Manager of the pre merged Hughes Drilling Business, and then the Chief Executive Officer of the merged business. Mr Drake joined Hughes Drilling in 2006.

Prior to joining Hughes Drilling, Mr Drake for the previous 16 years held managerial and business development roles with Dyno Nobel, the world's second largest explosives supplier.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Chief Executive Officer

Interests in shares and options

90,269 ordinary shares in Hughes Drilling

500,000 options over ordinary shares in Hughes Drilling

Mr Barry O'Connor (appointed 5 November 2012)
Non-executive Director, Aged 73

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

Other current directorship: Nil

Former directorships in last three years: Nil

Special responsibilities: Member of the Remuneration and Risk Committee

Interests in shares and options

1,046,875 ordinary shares in Hughes Drilling

Nil options over ordinary shares in Hughes Drilling Limited

Directors Report (continued)

Mr Andrew Webb (Appointed 18 July 2013)
Non executive Director, Aged 44

Mr Webb has 24 years of banking and structuring financial solutions experience. He was formerly Vice President –TSS- Treasury Services with JPMorgan Australia, Head of Industry, Policy and Credit Support - SCF with National Australia Bank, and Regional Head of Trade & Commodity Finance - Americas with Australia & New Zealand Banking Group.

Mr Webb has worked with a diverse range of clients, across mining, oil and gas and industrial/manufacturing industries both locally and within the Americas, across treasury services, financing structures and risk management.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Chairman of the Audit Committee

Interests in shares and options

1,225,000 ordinary shares in Hughes Drilling Limited

Nil options over ordinary shares in Hughes Drilling Limited

Mr Paul Brenton B.Comm, CPA, MAICD (appointed 9 August 2010)
Company Secretary, Aged 36

Mr Brenton has over 17 years' experience in accounting, corporate finance and commerce. Mr Brenton was the former CFO of Buildev Group, a large diversified property developer and construction business, prior to joining the Group in August 2010. Throughout that period he was responsible for Buildev's internal and external reporting, management of finance, insurance, and IT whilst ensuring control and reporting systems were timely and accurate. Mr Brenton has a Bachelor of Commerce from The University of Newcastle and is a Certified Practising Accountant, with over 10 years spent in public practice with PricewaterhouseCoopers (both in Australia and United Kingdom), working for a diverse range of clients, particularly in the mining, manufacturing, and construction industries, in the audit, business recovery and transaction services divisions.

Other current directorships: Nil

Former directorships in last three years: Nil

Special responsibilities: Chief Financial Officer, Company Secretary

Interests in shares and options

Nil ordinary shares in Hughes Drilling Limited

400,000 options over ordinary shares in Hughes Drilling Limited

Mr Geoff Bruce BA, ACA (Appointed 29 June 2012, resigned 18 July 2013)
Non executive Director, Aged 54

Mr Craig Burton BJuris, LLB, MAICD(Appointed 23 September 2009, resigned 5 November 2012)
Non executive Director, Aged 49

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

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

Directors Report (continued)

Meetings of directors

Name	Date of appointment / (resignation)	Full meetings of Directors		Audit and Risk		Remuneration	
		A	B	A	B	A	B
Robert Hackett	4 July 2011	10	10	2	2	2	2
Bob Hughes	10 February 2012	10	10	-	-	-	-
Andrew Drake	10 February 2012	10	10				
Geoff Bruce	29 June 2012 (18 July 2013)	10	10	2	2	2	2
Craig Burton	23 Sept 2009 (5 Nov 2012)	3	3	-	-	-	-
Barry O'Connor	5 November 2013	7	7	-	-	2	2
Andrew Webb	18 July 2013	-	-	-	-	-	-

A= Number of meetings attended

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

Indemnification of officers and auditors

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

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

Auditor's independence declaration

The auditor's independence declaration is included on page 74 of the annual report.

Rounding off of amounts

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

Remuneration Report (Audited)

Remuneration of Directors and Officers

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

Directors

Robert Hackett	Chairman (Non-executive Director) (Appointed 4 July 2011)
Robert (Bob) Hughes	Executive Director / Managing Director (Appointed 10 February 2012)
Andrew Drake	Chief Executive Officer (Appointed 10 February 2012)
Geoff Bruce	Non-executive Director (Resigned 18 July 2013)
Craig Burton	Non-executive Director (Resigned 5 November 2012)
Barry O'Connor	Non Executive Director (Appointed 5 November 2012)
Andrew Webb	Non Executive Director (Appointed 18 July 2013)

Key management

Paul Brenton	Chief Financial Officer (Appointed 9 August 2010)
Patrick Garrity	Vice President Reichdril Inc (Appointed 1 May 2007)

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

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

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

The board policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market price, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group. Each member of the executive team has signed a formal contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract sets out the specific formal job description.

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

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

Details of remuneration for the period ended 30 June 2013

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

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

Directors Report (continued)

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

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

Service agreements

Name:	Bob Hughes
Title:	Executive Director / Managing Director
Agreement Commenced	1 January 2013
Term of agreement:	3 years
Details:	Base salary for the year ending 30 June 2013 of \$400,000 plus superannuation (effective 04 March 2013), to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 6 month resignation notice. The 2013 KPI's are yet to be determined by the board. Bonus for FY12 was \$105,000. FY13 bonus is yet to be determined by the board.

Employment Agreements

Name:	Andrew Drake
Title:	Chief Executive Officer
Agreement Commenced	1 January 2013
Term of agreement:	Ongoing
Details:	Base salary for the year ending 30 June 2013 of \$230,000 plus superannuation (effective 1 July 2012) to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice. Key performance indicator (KPI) cash bonus and share issue bonus at the completion of each financial year if certain KPI's are met. The 2013 KPI's are yet to be determined by the board. Bonus for FY12 was \$50,000. FY13 bonus is yet to be determined by the board.
Name:	Patrick Garrity
Title:	Vice President - Reichdril Inc
Agreement Commenced	3 May 2013 Appointed as Vice President (employed by Reichdrill since 1 May 2007)
Term of agreement:	Ongoing
Details:	Base salary for the year ending 30 June 2013 of \$160,000 plus superannuation, to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice. The 2013 KPI's are yet to be determined by the board. FY13 bonus is yet to be determined by the board.

Directors Report (continued)

Name: Paul Brenton

Title: Chief Financial Officer & Company Secretary

Agreement Commenced: 9 August 2010

Term of agreement: Ongoing

Details: Base salary for the year ending 30 June 2013 of \$300,000 plus superannuation (effective 01 December 2012) and annual car allowance of \$15,000, to be reviewed annually by the Remuneration Committee. 6 month termination notice from the company or 3 month resignation notice. Key performance indicator (KPI) cash bonus and share issue bonus at the completion of each financial year if certain KPI's are met. The 2013 KPI's are yet to be determined by the board. Bonus for FY12 was \$100,000. FY13 bonus is yet to be determined by the board.

JUNE 2013		Position	Tenure (If full year not served)	Salary, Fees & Commissions (\$)	Post employment (\$)	Other (\$)	Options (\$)	Total (\$)
DIRECTORS								
Hackett	Robert	Chairman	Appointed Chairman 8 July 2011	80,000	7,200	-	27,708 ⁽¹⁾	114,908
Hughes	Bob	Executive Director / Managing Director	Appointed 10 February 2012	256,507	23,086	105,000 ⁽²⁾	-	384,593
Drake	Andrew	Chief Executive Officer	Appointed 10 February 2012	230,000	20,700	50,000 ⁽²⁾	69,270 ⁽¹⁾	369,970
Bruce	Geoff	Non-Executive Director	Appointed 29 June 2012 / Resigned 18 July 2013	45,000	4,050	-	-	49,050
Burton	Craig	Non-Executive Director	Appointed 23 Sept 2009 / Resigned 5 Nov 2012	13,889	-	-	-	13,889
O'Connor	Barry	Non-Executive Director	Appointed 05 November 2012	31,667	2,850	-	-	34,517
Webb	Andrew	Non-Executive Director	Appointed 18 July 2013	-	-	-	-	-
TOTAL				657,063	57,886	155,000	96,978	966,927
KEY MANAGEMENT								
Brenton	Paul	Chief Financial Officer / Company Secretary	Appointed 9 August 2010	264,615	23,815	108,365 ⁽³⁾	55,416 ⁽¹⁾	452,211
Garrity	Patrick	Vice President – Reichdrill Inc	Appointed 26 March 2013	43,307	-	-	-	43,307
TOTAL				307,922	23,815	108,365	55,416	495,518

Notes

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

Directors Report (continued)

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

JUNE 2013		Position	Salary, Fees & Commissions % (Fixed)	Super % (fixed)	Other % (Variable)	Options % (Fixed)	Total %
DIRECTORS							
Hackett	Robert	Chairman	70	6	-	24	100
Hughes	Bob	Executive Director / Managing Director	67	6	27	-	100
Drake	Andrew	Chief Executive Officer	62	6	14	18	100
Bruce	Geoff	Non-Executive Director	92	8	-	-	100
Burton	Craig	Non-Executive Director	100	-	-	-	-
O'Connor	Barry	Non-Executive Director	92	8	-	-	100
Webb	Andrew	Non-Executive Director	-	-	-	-	-
KEY MANAGEMENT							
Brenton	Paul	Chief Financial Officer / Company Secretary	59	5	24	12	100
Garrity	Patrick	Vice President – Reichdrl Inc	100	-	-	-	100

JUNE 2012		Position	Tenure (If full year not served)	Salary, Fees & Commissions (\$)	Super (\$)	Other (\$)	Options (\$)	Total (\$)
DIRECTORS								
Hackett	Robert	Chairman	Appointed Non-Executive Director 4 July 2011 Appointed Chairman 8 July 2011 Acting CEO, Appointed 1 September 2011, Resigned 29 February 2012	210,000	13,500	-	10,476 ⁽²⁾	233,976
Hughes	Bob	Executive Director / Managing Director	Appointed 10 February 2012	180,000	16,200	13,788 ⁽¹⁾	-	209,988
Drake	Andrew	Chief Executive Officer	Appointed 10 February 2012	100,000	9,000	-	26,190 ⁽²⁾	135,190
Burton	Craig	Non-Executive Director	Resigned as Chairman 8 July 2011	40,000	-	-	-	40,000
Henderson	Tom	Non- Executive Director	Resigned 29 June 2012	40,000	-	-	-	40,000
Bruce	Geoff	Non-Executive Director	Appointed 29 June 2012	-	-	-	-	-
McCoy	Stephen	Managing Director	Resigned 31 August 2011	83,350	5,234	-	-	88,584
TOTAL				653,350	43,934	13,788	36,666	747,738
KEY MANAGEMENT								
Brenton	Paul	Chief Financial Officer / Company Secretary	Appointed 9 August 2010	220,000	19,800	50,000 ⁽³⁾	20,953 ⁽²⁾	310,753
TOTAL				220,000	19,800	50,000	20,953	310,753

Notes

- (1) Life insurance and home office expenses paid during the financial year ending 30 June 2012
- (2) Options granted as per the Merger Implementation Plan 29 November 2011
- (3) Bonus for FY11. 0% of share bonus was issued, and 75% of the cash bonus was paid during the financial year ending 30 June 2012

Directors Report (continued)

The earnings of the consolidated entity for the five years to 30 June 2013 are summarised below:

	30/06/2009	30/06/2010 \$'000 (un-audited)	30/06/2011 \$'000 (un-audited)	30/06/2012 \$'000	30/06/2013 \$'000
Sales Revenue	N/A	22,800	19,820	39,187	49,756
EBITDA	N/A	3,500	5,664	15,336	18,032
EBIT	N/A	800	1,849	13,307	12,539
Profit after income tax	N/A	400	478	8,417	10,367
The factors that are considered to affect total shareholders return ("TSR") are summarized below;					
Share price at financial year end (\$A)	N/A	N/A	N/A	\$0.40	\$0.26
Total dividends declared (cents per share)	N/A	N/A	Nil	Nil	Nil
Basic earnings per share (cents per share)	N/A	N/A	\$0.00	\$0.009	\$0.078

The financial years ending 30 June 2008, 30 June 2009 have not been included due to the structural change of the merger, and is unreflective of the current position of the Group, and how the Group plans to ensure a positive correlation in future years.

This concludes the remuneration report which has been audited.

Executive Share Option Plan

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

	Balance 1 July 11	Options Acquired	Options Cancelled	Balance 30 June 12	Balance 1 July 12	Options Acquired	Options Cancelled	Balance 30 June 13
Ashley Pattison	300,000	-	-	300,000	300,000	-	-	300,000
Craig Burton	600,000	-	-	600,000	600,000	-	-	600,000
Declan Franzmann	50,000	-	-	50,000	50,000	-	-	50,000
Jamie Rainbow	10,000	-	(10,000)	-	-	-	-	-
Joshua Rogers	50,000	-	-	50,000	50,000	-	-	50,000
Peter Bradfield	65,000	-	-	65,000	65,000	-	-	65,000
Roger Jackson	50,000	-	-	50,000	50,000	-	-	50,000
Tom Henderson	300,000	-	-	300,000	300,000	-	-	300,000
Staff & Directors	-	3,400,000	-	3,400,000	3,400,000	-	(200,000)	3,200,000
	1,425,000	3,400,000	(10,000)	4,815,000	4,815,000	-	(200,000)	4,615,000

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

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

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

Directors Report (continued)

Shareholding of key management personnel

	Balance 1 July 11	Shares acquired	Shares disposed	Balance 30 June 12	Balance 1 July 12	Shares acquired	Shares disposed	Balance 30 June 13
DIRECTORS								
Robert Hackett	-	480,004	-	480,004	480,004	1,593,750	-	2,073,754
Bob Hughes	-	65,668,889	-	65,668,889	65,668,889	5,719,185	-	71,388,074
Andrew Drake	-	66,399	-	66,399	66,399	23,870	-	90,269
Geoff Bruce	-	-	-	-	-	234,375	-	234,375
Craig Burton	5,652,245	-	-	5,652,245	5,652,245	2,500,000	-	8,152,245
Barry O'Connor	-	100,000	-	100,000	100,000	946,875	-	1,046,875
Andrew Webb	-	365,000	-	365,000	365,000	1,027,486	(167,486)	1,225,000
TOTAL	5,652,245	66,680,292	-	72,332,537	72,332,537	12,045,541	(167,486)	84,210,592
KEY MANAGEMENT								
Paul Brenton	-	-	-	-	-	-	-	-
Patrick Garrity	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	-	-

Option holding of key management personnel

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

There were no options issued in the 2012/13 financial year. No options vested during current year or were forfeited.

Options

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

	Issue Date	Exercise Date	Exercise Price	Bal 1 Jul 11 '000	Options Granted '000	Options Cancelled '000	Bal 30 Jun 12 '000	Bal 1 Jul 12 '000	Options Granted '000	Options Cancelled '000	Bal 30 Jun 13 '000
Employee Share Option Plan	20 Jul 08	29 Jun 12	\$4.10	10	-	(10)	-	-	-	-	-
Directors and Key Management	7 Jul 09	6 Jul 14	\$0.531	515	-	-	515	515	-	-	515
Directors and Key Management	30 Oct 09	30 Jun 14	\$0.531	900	-	-	900	900	-	-	900
Directors and Key Management	13 Feb 12	13 Feb 16	\$0.40	-	3,400	-	3,400	3,400	-	(200)	3,200
				1,425	3,400	(10)	4,815	4,815	-	(200)	4,615

Directors Report (continued)

Non Audit Services

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

Audit services	Consolidated 30 June 2013	Consolidated 30 June 2012
	\$	\$
Audit and review of financial report - PwC	220,546	-
Audit and review of financial report - BDO	-	117,000
Other services – due diligence, tax and accounting	198,402	106,571
	418,948	223,571

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

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

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

On behalf of the Directors,



Robert Hackett
Director
Brisbane, 30 September 2013

Corporate Governance Statement

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

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

Principle 1: Lay solid foundations for management and oversight

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

The responsibilities of the board include:

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

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

A performance assessment for senior executives last took place in January 2013.

Principle 2: Structure the board to add value

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

Board composition

The constitution states:

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

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

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

The board seeks to ensure that:

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

Directors' independence

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

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

Board members

Details of the members of the board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading 'Information on directors'.⁸ At the date of signing the directors' report, there are two executive directors and three non-executive directors, all of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above:

Non-executive directors

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

Term of office

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

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

Chair and Managing Director

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

The Managing Director is responsible for implementing group strategies and policies. The constitution specifies that these are separate roles to be undertaken by separate people.

Induction

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

Commitment

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

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2013, and the number of meetings attended by each director is disclosed on page 13.

It is the company's practice to allow its executive directors to accept appointments outside the company with prior written approval of the board. No appointments of this nature were accepted during the year ended 30 June 2013.

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

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

Conflict of interests

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

Independent professional advice

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

Performance assessment

The board undertakes an annual self-assessment of its collective performance, the performance of the Chair and of its committees. The assessment also considers the adequacy of induction and continuing education, access to information and the support provided by the company secretary. Management are invited to contribute to this appraisal process which is facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. An assessment carried out in accordance with this process was undertaken during January 2013. The Chair undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

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

Board committees

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

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

Audit committee

The company also has an audit committee, see page 25 for details.

Principle 3: Promote ethical and responsible decision making

Code of conduct

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

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies. The company has a trading policy which outlines the restrictions, closed periods and processes required when directors, CEO and key management personnel trade company securities. Broadly, it states that the purchase and sale of company securities by directors and employees is only permitted during the thirty day period following the release of the half-yearly and annual financial results to the market. Any transactions undertaken must be notified to the company secretary in advance. The Code and the company's trading policy is discussed with each new employee as part of their induction training.

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

Diversity policy

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

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

	2013	2012
Number of women employees in the whole organisation	5%	5%
Number of women in senior executive positions	0%	0%
Number of women on the board	0%	0%

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

Principle 4: Safeguard integrity in financial reporting

Audit committee

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

Andrew Webb (Chair) (appointed 18 July 2013)

Robert Hackett (appointed 04 July 2011)

Geoff Bruce (resigned 18 July 2013)

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 10-13

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

The main responsibilities of the committee are to:

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

In fulfilling its responsibilities, the audit committee:

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

External auditors

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

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

Principles 5 and 6: Make timely and balanced disclosures and respect the rights of Shareholders Continuous disclosure and shareholder communication

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

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

Principle 7: Recognise and manage risk

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

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

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

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

Risk management group

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

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

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

Principle 7: Recognise and manage risk (continued)

Corporate reporting

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

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

Principle 8: Remunerate fairly and responsibly Remuneration committee

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

Barry O'connor (Chair)
Andrew Webb
Robert Hackett
Geoff Bruce (Resigned 18 July 2013)

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

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

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Continuing Operations			
Revenue	5	49,756	39,187
Cost of Goods Sold	7	(32,766)	(24,678)
		<u>16,990</u>	<u>14,509</u>
Other income	6	123	263
General and Administrative Administration Expenses	7	(4,528)	(4,327)
Selling and Marketing Expense	7	(46)	-
Operating profit		<u>12,539</u>	<u>10,445</u>
Finance costs	7	(2,147)	(2,028)
Profit for the year before Income tax		<u>10,392</u>	<u>8,417</u>
Income tax (expense)/benefit	8	(25)	-
Profit for the year		<u><u>10,367</u></u>	<u><u>8,417</u></u>
Profit for the year attributable to:			
-Owners of Hughes Drilling Ltd		10,370	8,417
- Non controlling Interest		(3)	-
		<u><u>10,367</u></u>	<u><u>8,417</u></u>
Earning per share for the profit attributable to ordinary equity holders of the company – cents/share			
-Basic profit per share*	29	7.80c	8.96c
-Diluted profit per share*	29	7.80c	8.96c
Profit for the year		10,367	8,417
Other comprehensive income			
Items that may need to be reclassified to profit and Loss			
- Exchange differences on translation of foreign operations		605	-
Total comprehensive income for the year		<u><u>10,972</u></u>	<u><u>8,417</u></u>
Total comprehensive income for the year attributable to:			
-Owners of Hughes Drilling Ltd		10,975	8,417
- Non controlling Interest		(3)	-
		<u><u>10,972</u></u>	<u><u>8,417</u></u>

* as per AASB133, prior year EPS figures have been restated to reflect consolidation of ordinary shares on a 10 to 1 basis. See note 29

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Current assets			
Cash and cash equivalents	9	5,334	2,516
Trade and other receivables	10	9,073	9,500
Inventories	11	24,694	11,235
Available-for-sale financial assets	12	2	12
Assets held for sale	13	1,083	1,083
TOTAL CURRENT ASSETS		40,186	24,346
Non-current assets			
Deferred tax asset	8	1,304	1,304
Property, plant and equipment	14	41,637	29,254
Intangible assets	15	7,578	4,008
TOTAL NON-CURRENT ASSETS		50,519	34,566
TOTAL ASSETS		90,705	58,912
Current liabilities			
Bank overdraft	9	598	896
Trade and other payables	17	8,098	7,452
Contingent Consideration		-	2,273
Provisions	18	608	532
Tax payable		25	-
Borrowings	19	11,186	24,654
TOTAL CURRENT LIABILITIES		20,515	35,807
Non-current liabilities			
Provisions	18	346	369
Borrowings	19	15,487	153
TOTAL NON-CURRENT LIABILITIES		15,833	522
TOTAL LIABILITIES		36,348	36,329
NET ASSETS		54,357	22,583
EQUITY			
Contributed equity	20	29,783	9,579
Other reserves	21	1,241	240
Retained earnings		23,134	12,764
Capital and reserves attributable to Owners of Hughes Drilling Ltd		54,158	22,583
Non-Controlling interest	34	199	-
		54,357	22,583

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	Contributed equity	Reserves	Retained earnings	Total	Non controlling Interest	Total
	\$ '000	\$ '000	\$ '000	\$'000		\$ '000
CONSOLIDATED						
Balance 1 July 2011	-	-	6,711	6,711	-	6,711
Total Comprehensive income for the year	-	-	8,417	8,417	-	8,417
Transactions with owners in their capacity as owners:						
Employee share schemes – Value of employee services	-	240	-	240	-	240
Shares issued during the year	7,579	-	-	7,579	-	7,579
Net proceeds from capital raising	2,000	-	-	2,000	-	2,000
Dividends paid (cash and non-cash)	-	-	(2,364)	(2,364)	-	(2,364)
Balance at 30 June 2012	9,579	240	12,764	22,583	-	22,583
Balance 1 July 2012	9,579	240	12,764	22,583	-	22,583
Profit for the year	-	-	10,370	10,370	(3)	10,367
Other Comprehensive Income	-	605	-	605	-	605
Total comprehensive income for the year	9,579	605	10,370	10,975	(3)	10,972
Transactions with owners in their capacity as owners:						
Performance Share Issue	2,273	-	-	2,273	-	2,273
Employee share schemes – Value of employee services	-	396	-	396	-	396
Net proceeds from capital raising	17,931	-	-	17,931	-	17,931
Transactions –Non controlling interest	-	-	-	-	202	202
Balance at 30 June 2013	29,783	1,241	23,134	54,158	199	54,357

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		50,914	33,267
Payments to suppliers and employees		(40,862)	(31,706)
		<u>10,052</u>	<u>1,561</u>
Interest received		-	-
Interest paid		(2,147)	(2,028)
Net cash (used in)/generated by operating activities	23	<u>7,905</u>	<u>(467)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for acquisition of subsidiary		(5,052)	-
Net movement of investments		9	5
Net cash acquired from subsidiary		961	330
Proceeds from sale of plant and equipment		21	2,360
Purchase of plant and equipment		(17,184)	(11,411)
Net cash used in investing activities		<u>(21,245)</u>	<u>(8,716)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		18,918	2,165
Transaction with non-controlling interest		202	-
Payment for capital raising costs		(987)	(165)
Dividends paid		-	(1,300)
Proceeds from borrowings		11,626	10,585
Repayment of borrowings		(13,378)	(3,621)
Net cash generated by financing activities		<u>16,381</u>	<u>7,664</u>
Net (decrease)/increase in cash and cash equivalents		3,041	(1,519)
CASH AT THE BEGINNING OF THE YEAR			
Effects of exchange rate changes on cash and cash equivalents		75	-
CASH AT THE END OF THE YEAR	9	<u><u>4,736</u></u>	<u><u>1,620</u></u>

The accompanying notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

Hughes Drilling Ltd is the holding company of the Group. The Group comprises the head entity Hughes Drilling Limited, eleven wholly owned subsidiaries and one 96% owned subsidiary the other 4% is held by Patrick Garrity vice president of Reichdrill all of which provide contracting services and mining equipment to the mining industry. For detailed listing of investments in controlled entities see note 16.

The financial statements are presented in English and Australian dollars.

The financial report was authorised for issue by the directors on 30 September 2013.

2. BASIS OF PREPARATION

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

a) Compliance with IFRS

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

b) New and amended standard adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met

c) Historical cost convention

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

d) Critical accounting estimates

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

e) Revision of estimates

The Hughes Drilling group changed the useful life estimate for the depreciation of the Drill and Blast Rigs from 1 July 2012. Previously these assets were depreciated at a rate of 15%. As of 1 July 2012 the new depreciation rate for the Drill and Blast Rigs is 10%. Management has assessed that aligning the depreciation rate of the Drill and Blast Rigs, to that of the Delineation Rigs, provides more comparable financial reporting.

In the 1 year period to 30 June 2013 under the previous depreciation rate of 15%, the depreciation expense would have been \$7.3m compared to the new rate of 10%, resulting in a depreciation expense of \$5.5m. The net impact to the Consolidated Statement of Comprehensive Income would be a decrease to net profit of \$1.8m.

f) Changes to presentation- classification of expenses

Hughes Drilling Ltd decided in the current financial year to change the classification of its expenses in the income statement from a classification by nature to a functional classification. This will provide more relevant information to our stakeholders as it is more in line with common practice in the industry Hughes Drilling Ltd operates in. The comparative information has been reclassified accordingly.

NOTES TO THE FINANCIAL STATEMENTS2. BASIS OF PREPARATION (continued)

g) Prior period error

When finalising the business combination during the 12 months following the reverse acquisition, it was noted that due to a variable number of performance shares being available on the achievement of performance milestones during the period through 30 June 2012, the contingent consideration associated with the reverse acquisition should have been recorded as a liability and subsequently remeasured each reporting period as opposed to being treated as equity. As such, the 30 June 2012 balance sheet has been restated to reclassify the contingent consideration recorded. The impact was an decrease to contributed equity and an increase in contingent consideration of \$2,273,454. There was no impact to the profit and loss statement. Further, no third balance sheet has been presented as there was no impact to the balance sheet as of 1 July 2011.

h) Correction in classification

Hughes drilling Ltd determined in the current year that its capital work in progress for uncommissioned drill rigs, had been inappropriately classified as Inventory. As the rigs are held for use in the supply of services for customers, they meet the definition of Property, Plant and Equipment and should be classified as such. Hughes Drilling Ltd has accordingly reclassified these uncommissioned drill rigs from Inventory to Property, Plant and Equipment. The comparative information has been reclassified accordingly. The impact to the 30 June 2012 accounts is an increase in Property, Plant and Equipment and a decrease in inventory of \$1.9M. There was no impact to the prior year opening balance thus no additional disclosure required.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 30 June 2013.

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

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

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hughes Drilling Limited ('company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Hughes Drilling Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

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

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

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

b) Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES(continued)

c) Foreign currency transactions

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

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

d) Revenue recognition

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

- (i) Drilling Services- Revenue from drilling services is recognised in the accounting period in which the services are rendered;
- (ii) Sale of goods- Revenue from the sale of goods is recognised when the significant risks and rewards have been passed to the buyer;

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Income Tax

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

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that the related tax benefit will be realised.

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

f) Leases

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Business combinations

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

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

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

h) Impairment of assets

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

i) Cash and cash equivalents

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

j) Trade receivables

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Inventories

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

l) Assets held for sale

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

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

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

m) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investment

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

(iv) Available-for-sale financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – reclassification

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

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

Recognition and derecognition

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

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

Measurement

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

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

Impairment

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

(i) Assets carried at amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in note (3h).

(ii) Assets classified as available-for-sale

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

n) Property, plant and equipment

i) Initial recognition

Land

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

Drilling Plant and equipment

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

Motor vehicles

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

Buildings

Buildings are stated at cost less accumulated depreciation and impairment.

Office equipment

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

Depreciation

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

ii) Depreciation

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

Plant and equipment	10 years
Motor vehicles	7 years
Buildings	40 years
Office equipment	3 years

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

iii) Disposal and derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Intangible assets

i) Goodwill

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

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segments. See note 30 for further details.

ii) Trademarks

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

iii) Intellectual property

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

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

p) Trade and other payables

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

q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

r) Borrowing costs

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

s) Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Employee benefits

i) Short term benefits

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

ii) Long-term benefits

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

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

iii) Share-based payments

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

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

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

u) Contributed equity

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

v) Earnings per share

i) Basic earnings per share

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

ii) Diluted earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Goods and Services Tax (GST)

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

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

x) Level of Rounding used

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

y) New standards and interpretations not yet adopted

Certain amended accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's and the parent entity's assessment of the impact of these amended standards and interpretations is set out below.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective for annual periods beginning on or after 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The group does not expect the new standard to have a significant impact on its composition.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, or the type of information disclosed in relation to the group's investments. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group anticipates no impact of these amendments. The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective for annual periods beginning on or after 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014. There is no material impact on the financial report anticipated by the application of the standard.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective for annual periods beginning on or after 1 January 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply to the Group from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 119 - Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (effective for annual periods beginning on or after 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will be implemented retrospectively. The Group will adopt the new standard from 1 July 2013 and does not expect the new standard to have a significant impact on the group.

Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)

The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the group recognises an impairment loss or the reversal of an impairment loss during the period. They will not affect any of the amounts recognised in the financial statements. The group intends to apply the amendment from 1 July 2014.

AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013)

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

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

Main features of newly issued or amended Australian Accounting Standards

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2013. The directors do not consider these will have a significant impact on the Group's financial statements.

z) Parent entity financial information

The financial information for the parent entity, Hughes Drilling Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out

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

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

(ii) Tax consolidation legislation

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

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

(iii) Financial guarantees

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

(iv) Share-based payments

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

(i) Impairment of property plant and equipment

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

(ii) Property, plant and equipment

The Group's management will periodically determine the useful life expectancy and related depreciation for its property, plant & equipment. The basis of this estimate uses historical assessments of the useful life of like assets. Depreciation rates will be increased by management where remaining useful life of asset is less than previously estimated, or where useful life of the asset has expired management will write down or write off asset. It is to be noted that impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans and long term investment decisions.

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

The Group's management reassessed the useful life of the Drill and Blast rigs and made a change to their depreciation rate as at 1 July 2012. See Note 2(e) for further details.

The future effect of this change in accounting estimate is impracticable to disclose as the additions to the Drill and Blast rigs in the 2013 financial year are not certain.

(iii) Estimated impairment of goodwill

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

(iv) Share based payment transactions

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

(v) Income tax

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

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent they are sufficient taxable future profits anticipated. Utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. If the entity fails to satisfy the test, carried forward deferred tax assets of \$1,670,000 would have to be written off to income tax expense.

5. REVENUE

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Revenue from sale of goods and services	49,756	39,187
	<u>49,756</u>	<u>39,187</u>

6. OTHER INCOME

Sundry income	123	263
	<u>123</u>	<u>263</u>

NOTES TO THE FINANCIAL STATEMENTS

7. EXPENSES

Profit before income tax includes the following specific expense:

	Consolidated 2013	Consolidated 2012
Depreciation		
Land and buildings	15	7
Motor vehicles	526	348
Office Equipment	34	20
Plant and equipment	4,944	4,515
	<u>5,519</u>	<u>4,890</u>
Finance costs		
Interest expense – bank and other loans	107	209
Other finance charges - lease liability	2,041	1,819
	<u>2,147</u>	<u>2,028</u>
Employee benefits expense		
Non-executive Directors' remuneration	197	82
Salaries and wages	22,860	15,171
Superannuation costs	1,966	1,214
	<u>25,023</u>	<u>16,467</u>
Rental – operating leases		
Motor Vehicles	290	190
	<u>290</u>	<u>190</u>
Share based payment		
Share based payment expense	396	240
	<u>396</u>	<u>240</u>

NOTES TO THE FINANCIAL STATEMENTS

8. TAX

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Income tax expense:		
a) The major components of income tax expense/(benefit):		
Current tax	4,395	362
Adjustment recognised from prior year	(1,157)	241
Deferred tax	(3,213)	(603)
Agregate income tax expense	25	-
b) Reconciliation between aggregate income tax expense to prima facie tax payable		
Accounting profit before tax from continuing operations	10,392	7,536
Tax at the Group's statutory income tax rate of 30%	3,117	2,261
Non deductible expenses	195	(609)
Tax benefit of estimated tax losses from operating activities	(3,287)	(145)
Movement attributable to timing differences	-	(1,272)
Adjustment recognised from prior year	-	(235)
Aggregate income tax expense	25	-
c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	4,500	11,500
Potential tax benefit at 30%	1,350	3,450

Deferred income tax assets and liabilities

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

Deferred tax assets

	Balance at 1 July 2012	Movement during the year	Balance at 30 June 2013
Leave entitlements	275	11	286
Other	78	(22)	56
Tax losses	2,326	(1,082)	1,244
Share issue costs	136	(52)	84
Gross deferred tax assets	2,815	(1,145)	1,670
Deferred tax asset expected to be recovered within 12 months	2,705	(1,138)	1,567
Deferred tax asset expected to be recovered after 12 months	110	(7)	103
	2,815	(1,145)	1,670

Deferred tax liabilities

Consumables	1,298	(1,098)	200
Property, plant & equipment	197	(48)	149
Other	16	1	17
Gross deferred tax liabilities	1,511	(1,145)	366
Deferred tax asset expected to be recovered within 12 months	1,511	(1,145)	366
Deferred tax asset expected to be recovered after 12 months	-	-	-
	1,511	(1,145)	366
Net deferred tax asset	1,304	-	1,304

NOTES TO THE FINANCIAL STATEMENTS

8. TAX (continued)

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

Deferred tax assets

	Balance at 1 July 2011	Movement during the year	Balance at 30 June 2012
Leave entitlements	25	250	275
Other	-	78	78
Tax losses	-	2,326	2,326
Share issue costs	-	136	136
Gross deferred tax assets	25	2,790	2,815

Deferred tax liabilities

Consumables	1,245	53	1,298
Prepaid insurance	-	197	197
Property, plant and equipment	-	-	-
Other	-	16	16
Gross deferred tax liabilities	1,245	266	1,511

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Income tax liability		
Opening balance	-	245
Charge for the period	25	-
Refunds received/(payments made)	-	148
Adjustment recognised from prior year	-	(393)
Balance at 30 June	25	-

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

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

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

9. CASH AND CASH EQUIVALENTS

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Bank overdraft	(598)	(896)
Cash at bank and on hand	5,334	2,516
Balances as per the statement of cash-flows	4,736	1,620

Risk exposure

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

Fair Value of Bank overdraft

The carrying amount of the bank overdraft approximates its fair value.

NOTES TO THE FINANCIAL STATEMENTS

10. TRADE AND OTHER RECEIVABLES

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Trade receivables	7,587	6,925
Prepayments	84	122
Accrued Income	825	2,081
Sundry debtors	577	372
	9,073	9,500
Trade receivable reconciliation		
At 30 June 2013	7,587	6,925
Provision for impairment recognised during year	-	-
Receivables written off during the year	-	-
	7,587	6,925
Trade receivable ageing analysis		
0 – 30 days	6,897	6,261
30 – 60 days	247	281
60 – 90 days	7	54
> 90 days	436	329
	7,587	6,925

i) Fair value and credit risk

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

ii) Past due but not impaired

As at 30 June 2013, trade receivables of \$690,000 (2012 - \$664,000) were past due but not impaired. These relate to 26 customers for whom there is no recent history of default therefore the amounts have not been impaired.

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

iii) Sundry Debtors

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

11. INVENTORIES

Consumables and spares parts- at net realisable value	23,016	11,235
Reichdrill Rig WIP - at cost	1,678	-
	24,694	11,235

Reichdrill Inc Rig Work in progress is classified as inventory as the rig is still being manufactured.

Hughes Drilling 1 Pty Ltd Rig Work in progress of \$1.9m for FY12 has been re-classified to Property, Plant & Equipment as it relates to delivered rigs from Reichdrill being commissioned by Hughes Drilling 1 Pty Ltd and used in providing services.

Inventories for FY13 include Reichdrill inventories of \$6.8m, nil for FY12.

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to Nil, (2012 – Nil).

NOTES TO THE FINANCIAL STATEMENTS

12. AVAILABLE FOR SALE FINANCIAL ASSETS

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Shares in Australian listed entity	2	12

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

Risk exposure

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

13. ASSETS HELD FOR SALE

Property, plant and equipment	1,083	1,083
	1,083	1,083

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

14. PROPERTY, PLANT AND EQUIPMENT

Freehold Land and Buildings

At cost	924	869
Accumulated depreciation	(67)	(52)
Net book amount	857	817

Motor Vehicles

At cost	4,223	3,896
Accumulated depreciation	(1,777)	(1,252)
Net book amount	2,446	2,644

Office equipment

At cost	844	451
Accumulated depreciation	(303)	(268)
Net book amount	541	183

Plant and equipment

At cost	68,323	52,576
Accumulated depreciation	(30,457)	(25,851)
Accumulated impairment losses	(3,110)	(3,110)
Net book amount	34,757	23,615

Capital work in progress

At cost	3,036	1,995
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Total Property, plant and equipment

Cost	77,351	59,787
Accumulated depreciation	(32,604)	(27,423)
Accumulated Impairment losses	(3,110)	(3,110)
Total Net book amount	41,637	29,254

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Leased assets

Property plant and equipment includes the following amounts were the group is a lease under a finance lease:

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Property plant and Equipment		
Cost	32,226	25,544
Accumulated depreciation	(5,921)	(2,866)
Total net book amount	26,305	22,678

Reconciliation

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

Freehold Land and Buildings

Opening carrying value	817	946
Acquired through net investment in subsidiary	51	824
Additions	4	-
Disposals	-	(946)
Depreciation expense	(15)	(7)
Written down value at 30 June	857	817

Motor Vehicles

Opening carrying value	2,644	926
Acquired through net investment in subsidiary	53	66
Additions	274	2,000
Disposals	1	-
Depreciation expense	(526)	(348)
Impairment write down	-	-
Written down value at 30 June	2,446	2,644

Office Equipment

Opening carrying value	183	-
Acquired through net investment in subsidiary	27	189
Additions	365	14
Disposals	-	-
Depreciation expense	(34)	(20)
Written down value at 30 June	541	183

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
<i>Plant and Equipment</i>		
Opening carrying value	23,615	10,790
Acquired through net investment in subsidiary	636	7,929
Transfer from Capital Work in Progress	15,539	9,414
Transfer from non-current asset available for sale	-	1,698
Disposals	(89)	(1,701)
Depreciation expense	(4,944)	(4,515)
Written down value at 30 June	34,757	23,615
<i>Capital Work in Progress</i>		
Opening carrying value	1,995	-
Acquired through net investment in subsidiary	-	-
Additions	16,551	11,409
Transfer to Property Plant and Equipment	(15,510)	(9,414)
Written down value at 30 June	3,036	1,995
Total Property, Plant and Equipment	41,637	29,254

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

Impairment

In accordance with AASB 136 property plant and equipment should be assessed for impairment only when impairment indicators exist. The Group has calculated the recoverable amount of property plant and equipment associated with the surface drilling division. and where the recoverable amount of the cash generating unit is lower than its carrying value the cash generating unit has been written down to its recoverable amount.

The recoverable amount of the cash generating unit has been based on value in use calculations using discounted cashflow forecast based on a three year projection period approved by management and extrapolated for a further two years using a steady rate together with a terminal value value. A pre-tax discount rate of 21.7% has been used to determine the present value of the future cashflows.

Sensitivity Analysis

If the discount rate was increased to pre- tax 31.1% the recoverable amounts of the cash generating units would still be in excess of their carrying values.

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS AND GOODWILL	Consolidated	Consolidated
	2013	2012
	\$'000	\$'000
Intellectual Property		
At cost	197	197
Accumulated impairment	(197)	(197)
Total net book amount	-	-
Trademarks		
At cost	3	3
Accumulated impairment	-	-
Total net book amount	3	3
Goodwill		
At cost	7,575	4,005
Accumulated impairment	-	-
Total net book amount	7,575	4,005
Total Intangibles and Goodwill		
At cost	7,775	4,008
Accumulated impairment	(197)	-
Total net book amount	7,578	4,008
Reconciliation		
Reconciliation of the carrying amount of intangible assets for the current financial year is set out below		
Intellectual property		
Opening carrying value	-	-
Additions	-	-
Amortisation	-	-
Closing net book amount	-	-

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS AND GOODWILL

Reconciliation (continued)

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

	Consolidated 2013 \$'000	Consolidated 2012 \$'000
Trade marks		
Opening carrying value	3	3
Additions	-	-
Amortisation	-	-
Closing net book value	<u>3</u>	<u>3</u>

Goodwill

Opening net book amount	4,005	-
Additions	3,570	4,005
Amortisation	-	-
Closing net book value	<u>7,575</u>	<u>4,005</u>

Total intangible assets and Goodwill

Opening net book amount	4,005	-
Additions (refer to note 33)	3,570	4,005
Amortisation	-	-
Closing net book value	<u>7,575</u>	<u>4,005</u>

Total intangible assets and Goodwill

	<u>7,578</u>	<u>4,008</u>
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Impairment test for intellectual property

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

Impairment test for goodwill

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

Surface Drilling Division	4,005	4,005
Supply of Dill rigs and spare parts – Reichdrill Inc	3,570	-
	<u>7,575</u>	<u>4,005</u>

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 3 year projection period approved by management and extrapolated for a further 2 years using a steady rate, together with a terminal value.

NOTES TO THE FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS AND GOODWILL (continued)

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

- a. 21.7% (2012: 19.5%) pre-tax discount rate;
- b. 5.0% (2012: 2.5%) per annum projected revenue growth rate;
- c. 5.0% (2012: 2.5%) per annum increase in operating costs and overheads.

The pre-tax discount rate of 21.7% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the Surface Drilling division, the risk free rate and the volatility of the share price relative to market movements.

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

There were no other key assumptions for the surface drilling division.

Based on the above, a NIL impairment has been applied as the carrying amount of goodwill does not exceed its recoverable amount for the surface drilling division.

Sensitivity

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

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

- a. Revenue would need to decrease by more than 16.7% for the Surface Drilling division before goodwill would need to be impaired, with all other assumptions remaining constant.
- b. The discount rate would be required to increase by 9.4% for the Surface Drilling division before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of the Surface Drilling Division goodwill is based, would not cause the cash generating units carrying amount to exceed its recoverable amount.

Goodwill has also been generated on the acquisition of Reichdrill. As the acquisition took place on 25 March 2013 and there are no impairment indicators at 30 June 2013, no impairment test has been performed. Management believe that the goodwill is fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN CONTROLLED ENTITIES

	Country of incorporation	Percentage of equity interest held by the parent 2013	Percentage of equity interest held by the parent 2012
Hughes Drilling 1Pty Ltd	Australia	100%	100%
Express Hydraulics (Aust) Pty Ltd	Australia	100%	100%
Every Day Mine Services Operations Pty Ltd	Australia	100%	100%
G.O.S. Drilling Pty Ltd	Australia	100%	100%
Australian Gas Drilling Pty Ltd	Australia	100%	100%
EDMS Human Capital Pty Ltd	Australia	100%	100%
Resource 1 Pty Ltd	Australia	100%	100%
EDMS Assets & Logistics Pty Ltd	Australia	100%	100%
EDMS Energy Pty Ltd	Australia	100%	100%
EDMS Metals Pty Ltd	Australia	100%	100%
Reichdrill Inc	USA	100%	-
Reichdrill Australia	Australia	96%	-

17. TRADE AND OTHER PAYABLES

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Trade payables	4,723	5,481
Other payables	3,375	1,971
	8,098	7,452

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

18. PROVISIONS

Employee benefits

Current Employee entitlements	608	532
Non Current Employee entitlements	346	369
	955	901

Amounts not expected to be settled within the next 12 months

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

Current leave obligation expected to be settled after 12 months	36	34
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Movement in employee provisions

Balance 1 July 2012	901	543
Acquired through net investment in subsidiary	-	196
Payments during the year	(228)	-
Charge to statement of comprehensive income	282	162
Balance 30 June 2013	955	901

NOTES TO THE FINANCIAL STATEMENTS

19. BORROWINGS

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Current		
Secured		
- Trade finance	-	1,940
- Hire purchase	10,728	21,712
- Cash advance facility	458	1,008
- Other	-	(6)
	11,186	24,654
Non-Current		
Secured		
- Hire purchase	15,487	153
	15,487	153

i) Fair Values

The carrying amount of the Group's current and non-current borrowings approximates their fair value. Where appropriate, fair values have been calculated by discounting the expected future cash flows at prevailing market interest rates.

ii) Terms and conditions

Hire purchase liabilities are repayable in monthly instalments (including finance charges) ranging from \$1,867 to \$86,280 over periods ranging from 24 to 60 months. Applicable interest rates range from 6.73% to 10.80%. Hire purchase liabilities are secured by a fixed and floating charge over all the unencumbered assets of the Group as discussed in note 14.

iii) Risk exposures

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

iv) Classification

As at 30 June 2012, \$14.5M of liabilities has been classified as current as the accounting standards require a borrower who has breached a provision of a long term loan agreement to classify the loan as a current liability. The assessment of whether or not an entity has breached a provision of a long term loan agreement is based on facts and circumstances at the reporting date. Subsequent to the reporting date Management requested and obtained a waiver on the breach from the Group's bankers and as such do not consider there to be a further impact on the financial position or performance of the Group than otherwise disclosed

20. CONTRIBUTED EQUITY

	Number of shares 000's	Value \$'000s	Attributable Costs \$'000s	Net \$'000s
Balance 1 July 2011	360,866	-	-	-
Fair value of EDMS shares (Issued 01/06/2012 at \$0.04 per share)	721,731	7,579	-	7,579
Share placement (Issued 07/05/2012 at \$0.04 per share)	54,129	2,165	(165)	2,000
On issue at 30 June 2012	1,136,726	9,744	(165)	9,579
Balance 1 July 2012	1,136,726	9,744	(165)	9,579
Share consolidation	(1,103,700)	-	-	-
Shares issued to settle contingent consideration from prior year reverse acquisition	89,607	(2,273)	-	(2,273)
Share placement (Issued 20/03/13 to 09/05/13 at \$0.32 per share)	59,119	18,918	(987)	17,931
On issue at 30 June 2013	181,752	30,935	(1,152)	29,783

NOTES TO THE FINANCIAL STATEMENTS

20. CONTRIBUTED EQUITY (continued)

Share consolidation

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

Ordinary shares

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

Options

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

	Issue Date	Exercise Date	Exercise Price	Bal 1 Jul 11 '000	Options Granted '000	Options Cancelled '000	Bal 30 Jun 12 '000	Bal 1 Jul 12 '000	Options Granted '000	Options Cancelled '000	Bal 30 Jun 13 '000
Employee Share Option Plan	20 Jul 08	29 Jun 12	\$4.10	10	-	(10)	-	-	-	-	-
Directors and Key Management	7 Jul 09	6 Jul 14	\$0.531	515	-	-	515	515	-	-	515
Directors and Key Management	30 Oct 09	30 Jun 14	\$0.531	900	-	-	900	900	-	-	900
Directors and Key Management	13 Feb 12	13 Feb 16	\$0.40	-	3,400	-	3,400	3,400	-	(200)	3,200
				1,425	3,400	(10)	4,815	4,815	-	(200)	4,615

Capital risk management

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. OTHER RESERVES

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Options reserve (see note 22)	636	240
Foreign currency gain on translation of foreign operations	605	-
	1,241	240

22. RESERVES – OPTION RESERVE

	Number of options 000's	Value \$'000s	Attributable Costs \$'000s	Net \$'000s
Balance 1 July 2011	1,425	-	-	-
Cancelled during year – directors and key management	(10)	-	-	-
Issued during the year – directors and key management	3,400	240	-	240
On issue at 30 June 2012	4,815	240	-	240
Balance 1 July 2012	4,815	240	-	240
Cancelled during year – directors and key management	(200)	-	-	-
Value of employee services for the year	-	396	-	396
On issue at 30 June 2013	4,615	636	-	636

The option reserve is used to recognise:

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

Fair value of options granted

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

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

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

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

The weighted average share price during the financial year was \$0.34 (2012: \$0.3).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.15 years (2012: 3.15).

NOTES TO THE FINANCIAL STATEMENTS

23. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Operating profit after taxation	10,367	8,417
Share based payment	397	240
Depreciation	5,519	4,890
(Profit)/loss on disposal of assets	70	(667)
Movement in assets / liabilities:		
(Increase)/decrease in trade and other receivables	1,034	(6,182)
(Increase)/decrease in stock	(6,696)	(7,627)
(Increase)/decrease in deferred tax assets	-	1,051
Increase /(decrease) in trade and other payables	(2,840)	(1,025)
Increase/(decrease) in provisions	54	162
Increase/(decrease) in deferred tax liabilities	-	274
Net cash (used in)/provided by operating activities	7,905	(467)

24. AUDITORS REMUNERATION

Audit Services

Audit and review of financial report	220,546	117,000
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Other Services

Accounting and tax services	198,402	-
EDMS due diligence	-	106,571
	418,858	223,571

25. RELATED PARTIES

a) Subsidiaries

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

b) Ultimate parent

Hughes Drilling Limited is the ultimate parent of the Group.

c) Key management personnel

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

d) Transactions with related parties

Patrick Garrity Vice president Reichdril purchased a 4% non controlling interest in Reichdrill Australia. See note 34 for further details

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

There were no balances arising from sale/purchases of goods and services.

NOTES TO THE FINANCIAL STATEMENTS

25. RELATED PARTIES (continued)

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

The were no loan balances to or (from) outstanding as at 30 June 2013

g) Guarantees

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

26. KEY MANAGEMENT PERSONNEL

a) Details of key management personnel

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

Directors

Surname	First Name	Position	Tenure (If not full year served)
Hackett	Robert	Non-executive Director - Chairman	Appointed Non-Executive Director 4 July 2011 Appointed Chairman 8 July 2011 Acting CEO, appointed 1 September 2011, resigned 29 February 2012
Hughes	Robert (Bob)	Executive Director – Managing Director	Appointed 10 February 2012
Drake	Andrew	Chief Executive Officer	Appointed 10 February 2012
Bruce	Geoff	Non-Executive Director	Appointed 29 June 2012
Burton	Craig	Non-Executive Director	Resigned 05 November 2012
Barry	O'Connor	Non-Executive Director	Appointed 5 November 2012
Webb	Andrew	Non-Executive Director	Appointed 18 July 2013

Key Executives

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

b) Compensation of key management personnel

Full details of key management personnel compensation is disclosed in the remuneration report on page 14 of the Directors Report.

	2013 \$'000s	2012 \$'000s
Short-term employee benefits	1,228	937
Post-employment benefits	82	64
Share-based payments	152	58
	1,462	1,059

NOTES TO THE FINANCIAL STATEMENTS

26. KEY MANAGEMENT PERSONNEL (continued)

c) Option holdings of key management personnel

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

	Balance 1 July 11	Options Acquired	Options Cancelled	Balance 30 June 12	Balance 1 July 12	Options Acquired	Options Cancelled	Balance 30 June 13
Ashley Pattison	300,000	-	-	300,000	300,000	-	-	300,000
Craig Burton	600,000	-	-	600,000	600,000	-	-	600,000
Declan Franz	50,000	-	-	50,000	50,000	-	-	50,000
Jamie Rainbow	10,000	-	(10,000)	-	-	-	-	-
Joshua Rogers	50,000	-	-	50,000	50,000	-	-	50,000
Peter Bradfield	65,000	-	-	65,000	65,000	-	-	65,000
Roger Jackson	50,000	-	-	50,000	50,000	-	-	50,000
Tom Henderson	300,000	-	-	300,000	300,000	-	-	300,000
Key Management	-	3,400,000	-	3,400,000	3,400,000	-	(200,000)	3,200,000
	1,425,000	3,400,000	(10,000)	4,815,000	4,815,000	-	(200,000)	4,615,000

d) Shareholding of key management personnel

	Balance 1 July 11	Shares acquired	Shares dispose	Balance 30 June 12	Balance 1 July 12	Shares acquired	Shares disposed	Balance 30 June 13
DIRECTORS								
Robert Hackett	-	480,004	-	480,004	480,004	1,593,750	-	2,073,754
Bob Hughes	-	65,668,889	-	65,668,889	65,668,889	5,719,185	-	71,388,074
Andrew Drake	-	66,399	-	66,399	66,399	23,870	-	90,269
Geoff Bruce	-	-	-	-	-	234,375	-	234,375
Craig Burton	5,652,245	-	-	5,652,245	5,652,245	2,500,000	-	8,152,245
Barry O'Connor	-	100,000	-	100,000	100,000	946,875	-	1,046,875
Andrew Webb	-	365,000	-	365,000	365,000	1,027,486	(167,486)	1,225,000
TOTAL	5,652,245	66,680,292	-	72,332,537	72,332,537	12,045,541	(167,486)	84,210,592
KEY MANAGEMENT								
Paul Brenton	-	-	-	-	-	-	-	-
Patrick Garrity	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	-	-

27. FINANCIAL RISK MANAGEMENT

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

	Note	Carrying amount		Fair value	
		Consolidated	Consolidated	Consolidated	Consolidated
		2013 \$'000s	2012 \$'000s	2013 \$'000s	2012 \$'000s
Financial assets					
Cash	9	5,334	2,516	5,334	2,516
Receivables	10	9,073	7,297	9,073	7,297
Shares in listed companies	12	2	12	2	12
		14,409	9,825	14,409	9,825
Financial liabilities					
Bank overdraft	9	598	896	598	896
Payables	17	8,098	7,452	8,098	7,452
Borrowings	19	26,673	24,807	26,673	24,807
		35,369	33,155	35,369	33,155

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

a) Market risk

(i) Foreign exchange risk

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

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

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

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

	Consolidated 2013 USD\$'000s	Consolidated 2012 USD'000s
Trade payables	416	748
	416	748

Sensitivity

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the group's post-tax profit for the period would have been \$50,000 lower/\$41,000 higher (2012 – \$82,000 lower/\$67,000 higher).

(ii) Price risk

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

Sensitivity

Based on the financial instruments held at 30 June 2013 (\$2,000) and 30 June 2012 (\$12,000), had the quoted share market price for the equity securities held weakened/strengthened by 10%, the effect on the Group's post tax profit would be immaterial.

(iii) Cash flow and fair value interest rate risk

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

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

	Weighted average interest rate	Consolidated 2013 \$'000s	Weighted average interest rate	Consolidated 2012 \$'000s
Bank overdraft	6.2%	598	7.4%	896
		598		896

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

a) Market risk (continued)

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

Sensitivity

Based on the financial instruments held at 30 June 2013, had the interest rate weakened/strengthened by 100 basis points all other variables held constant, the group's post-tax profit for the period would have been \$6,000 lower/\$6,000 higher (2012 – \$9,000 lower/\$9,000 higher).

b) Credit risk

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

Consolidated	Total Gross amount \$'000	Total carrying value \$'000s	Neither past due or impaired \$'000s	<30 days \$'000s	30 – 60 days \$' 000s	60 – 90 days \$'000s	>90 days \$'000s	Individually Impaired \$'000s
2013								
Cash and cash equivalents	5,334	5,334	5,334	-	-	-	-	-
Receivables	7,587	7,587	7,151	6,897	247	7	436	-
Total	12,921	12,921	12,485	6,897	247	7	436	-
2012								
Cash and cash equivalents	2,516	2,516	2,516	-	-	-	-	-
Receivables	7,297	7,297	6,968	6,633	281	54	329	-
Total	9,813	9,813	9,484	6,633	281	54	329	-

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

c) Liquidity risk

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

The following table summarises the maturity profile of the Group's financial liabilities at 30 June 2013 and 30 June 2012 based on contractual undiscounted payments.

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	Notes	Non Interest Bearing	1 Year or Less	Over 1 to 5 Years	More than 5 Years	Floating Interest Rate	Total contractual cashflows	Weighted Average Interest rate
CONSOLIDATED								
AS AT 30 JUNE 2013		\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	
Financial Liabilities								
Bank overdraft	9	-	598	-	-	-	598	6.2%
Payables	17	8,098	8,098	-	-	-	8,098	-
HP obligations	19	-	10,728	15,487	-	-	26,215	7.6%
Cash advance facility	19	-	458	-	-	-	458	6.7%
Other	19	-	-	-	-	-	-	-
		8,098	19,882	15,487	-	-	35,369	
AS AT 30 JUNE 2012								
Financial Liabilities								
Bank overdraft	9	-	896	-	-	896	896	7.4%
Payables	17	7,452	7,452	-	-	-	7,452	-
HP obligations	19	-	24,357	163	-	-	24,520	8.0%
Cash advance facility	19	-	1,008	-	-	1,008	1,008	6.7%
Trade finance	19	-	1,940	-	-	-	1,940	6.5%
Other	19	(6)	(6)	-	-	-	(6)	-
		7,446	35,647	163	-	1,904	35,810	

Financing arrangements

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

	Consolidated 2013 \$'000s	Consolidated 2012 \$'000s
Expiring within 1 year	-	-
Expiring beyond 1 year (Bank overdraft and HP facilities)	4,088	2,360
	4,088	2,360

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

d) Fair value measurements

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

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

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

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012:

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (continued)

d) Fair value measurements (continued)

CONSOLIDATED	Level 1	Level 2	Level 3	Total
AS AT 30 JUNE 2013	\$'000s	\$'000s	\$'000s	
Financial assets				
Available for sale financial assets	2	-	-	2
- Equity securities				
Total assets	2	-	-	2
AS AT 30 JUNE 2012				
Financial assets				
Available for sale financial assets	12	-	-	12
- Equity securities				
Total Assets	12	-	-	12

The fair value of financial assets traded in active markets (available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1

28. COMMITMENT AND CONTINGENCIES

a) Finance lease and hire purchase commitments

	Consolidated	
	Minimum lease payments \$ '000	Present value of lease \$ '000
AS AT 30 JUNE 2013		
Within one year	12,739	10,728
>1 year < 5 years	16,553	15,487
Total minimum lease payments	29,292	24,215
Lease amounts representing finance charges	(2,619)	-
Present value of minimum lease payments	26,673	24,215
AS AT 30 JUNE 2012		
Within one year	24,357	21,712
>1 year < 5 years	163	153
Total minimum lease payments	24,520	21,865
Lease amounts representing finance charges	(2,655)	-
Present value of minimum lease payments	21,865	21,865

b) Operating lease commitments

	Minimum lease payments \$ '000	Present value of lease \$ '000
AS AT 30 JUNE 2013		
Within one year	199	199
>1 year < 5 years	172	172
Total minimum lease payments	371	371

NOTES TO THE FINANCIAL STATEMENTS

28. COMMITMENT AND CONTINGENCIES (continued)

b) Operating lease commitments (continued)

	Minimum lease payments \$ '000	Present value of lease \$ '000
AS AT 30 JUNE 2012		
Within one year	282	282
>1 year < 5 years	382	382
Total minimum lease payments	664	664

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

c) Capital commitments

The following represents the capital commitments of the Group:

	Approved and contracted for \$ '000	Approved but not yet contracted for \$ '000
AS AT 30 JUNE 2013		
Acquisition of plant and equipment	-	-
AS AT 30 JUNE 2012		
Acquisition of plant and equipment	-	-

The Group has given bank guarantees as at 30 June 2013 of \$8,800 (2012: \$8,800) to a landlord. There are no commitments and contingencies over 5 years.

29. EARNINGS PER SHARE

	Consolidated 2013 \$ '000	Consolidated 2012 \$ '000
Basic earnings per share		
a) Net profit from continuing operations	10,367	8,417
b) Net profit attributable to members of Hughes Drilling Limited	10,370	8,417
	No's: '000	No's: '000
c) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	132,693	93,978
Diluted earnings per share		
c) Net profit from continuing operations	10,367	8,417
d) Net profit attributable to members of Hughes Drilling Limited	10,370	8,417
	No's: '000	No's: '000
e) Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	132,916	93,978

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. EARNINGS PER SHARE (continued)

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

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

30. SEGMENT REPORTING

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

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

AS AT JUNE 2013 - in \$'000	Drilling	Non Drilling	Total
Sales to external customers	46,115	10,695	56,810
Other income	95	28	123
Inter-segment revenue	-	(7,054)	(7,054)
Total revenue	46,210	3,669	49,879
Cost of sales	(23,715)	(3,407)	(27,122)
Depreciation	(5,419)	(100)	(5,519)
Interest expense	(2,141)	(6)	(2,147)
Overhead	(4,127)	(502)	(4,629)
Loss/(profit) on asset sales	(70)	-	(70)
Total expense	(35,472)	(4,015)	(39,487)
Segment profit/(loss) before tax	10,738	(346)	10,392
Assets			
Total assets	83,708	7,818	91,526
Liabilities			
Total liabilities	31,488	5,681	37,169

NOTES TO THE FINANCIAL STATEMENTS

30. SEGMENT REPORTING (continued)

AS AT JUNE 2012 - in \$'000	Drilling	Non Drilling	Total
Sales to external customers	36,837	4,217	41,054
Other income	254	9	263
Inter-segment revenue	-	(1,867)	(1,867)
Total revenue	37,090	2,360	39,450
Cost of sales	(18,886)	(2,429)	(21,315)
Depreciation	(4,890)	-	(4,890)
Interest expense	(2,022)	(6)	(2,028)
Overhead	(3,293)	(174)	(3,467)
Loss/(profit) on asset sales	667	-	667
Total expense	(28,424)	(2,609)	(31,033)
Segment profit/(loss) before tax	8,666	(249)	8,417
Assets			
Total assets	54,682	5,741	60,423
Liabilities			
Total liabilities	29,953	5,614	35,567

31. EVENTS AFTER THE REPORTING DATE

Since reporting date, Hughes has entered into a Heads of Agreement to acquire JSW Australia Pty Ltd.

JSW has three business divisions servicing clients in the Western Australian resources, government instrumentalities and private sector markets. These business divisions comprise grade control and resource definition, water drilling, production bores, dewatering bores, monitoring bores, geothermal bores, servicing and specialist (including BOP well control, paste & service holes and ROBIT casing advance) services inside the mine fence line.

Key details of the Acquisition:

- The total purchase price comprises:
 - Approximately \$7.0m worth of fully paid ordinary shares at \$0.26 per share to be issued to JSW shareholders (**Consideration Shares**); and
 - Retention of existing external debt of \$17.4m.
 - HDX will acquire 100% of the ordinary shares, which is 96% of the issued shares in JSW. The balance of issued shares are retained by a JSW executive and do not have voting rights.
- Consideration Shares will be issued within Hughes' 15% capacity under ASX Listing Rule 7.1.
- The issue price of the Consideration Shares is based on a premium to the trading price of Hughes' quoted ordinary shares at 16 August 2013.
- Completion of the Share Sale Agreement (**SSA**) is expected to occur on or around Wednesday, 2nd October 2013 (**Completion**).
- The Acquisition is expected to be revenue accretive on a forward normalised 12 month basis.

Conditions of the Acquisition:

Material conditions of the SSA include:

- Hughes' primary financier, Westpac Banking Corporation Ltd providing acquisition approval, this was received on 20 September 2013;

NOTES TO THE FINANCIAL STATEMENTS

31. EVENTS AFTER THE REPORTING DATE (continued)

- Completion of a Hughes due diligence review of JSW including its facilities, operations and business to the satisfaction of Hughes;
- Completion of a JSW due diligence review of Hughes including its facilities, operations and business to the satisfaction of JSW; and
- Key employees of JSW entering into new terms of employment with Hughes.

Acquisition rationale:

The Acquisition provides service, sector, geographic and commodity expansion to Hughes and JSW.

- Leads to the creation of a national drilling contractor focused on production, with significant synergies available and additional benefits through cross selling, cost reduction and advanced systems and reporting.
- Diversifies earnings streams across production related sectors and commodities inside the mine fence line to reduce variability of earnings.
- Is expected to be EPS accretive in FY15 pre synergies with significant synergies available in FY14 and beyond.
- Forms a complementary addition to existing Hughes board and management with significant drilling experience and management experience leading Australian drilling companies.
- In pit and within mine fence line focus, providing a logical expansion of Hughes' production drilling contracting business.
- Provides established Western Australian specific RTO, HSE and Indigenous participation operating framework for Hughes to expand its blast hole operations, particularly in the iron ore sector.
- Will expand Hughes' technical capabilities and service offering to clients in the Australian resources industry.
- Expands the range of drills Reichdrill can manufacture to cater for JSW's Australian leading edge specialist drilling markets.

32. PARENT ENTITY INFORMATION

	2013	2012
Information relating to Hughes Drilling Ltd:	\$ '000	\$ '000
Current Assets	3,668	196
Total Assets	62,336	33,220
Current Liabilities	578	2,132
Total Liabilities	15,275	1,893
Issued Capital	55,722	37,791
Retained earnings	(9,476)	(8,688)
Reserves	2,621	2,224
Total Shareholder's Equity	48,867	31,327
(Loss)/profit of the parent entity	(1,806)	(611)
Total comprehensive income of the parent entity	(1,806)	(611)

Hughes Drilling Ltd has a cross guarantee framework to and from each of the following subsidiaries' – Hughes Drilling Pty Ltd, Express Hydraulics (Aust) Pty Ltd, EDMS Human Capital Pty Ltd, EDMS Assets & Logistics Pty Ltd, EDMS Energy Pty Ltd, EDMS Metals Pty Ltd, Resource 1 Pty Ltd, Every Day Mine Services Operations Pty Ltd, GOS Drilling Pty Ltd, and Australian Gas Drilling Pty Ltd to support the Group's financing facilities, the same guarantee structure was in place as at 30 June 2012. The parent entity had no contingent liabilities or capital commitments at 30 June 2013 and 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS

33. BUSINESS COMBINATIONS

On 25 March 2013, Hughes Drilling Limited (Hughes), through its majority owned (96% owned) Australian registered subsidiary Reichdrill Australia Pty Ltd, purchased 100% of the issued share capital in Reichdrill Inc.

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

	Carrying amount \$ '000	Fair value \$ '000
Cash	961	961
Receivables	516	516
Inventories	6,062	6,062
Property, plant & equipment	716	716
Payables	(6,773)	(6,773)
Net assets	1,482	1,482
Goodwill		3,570
Acquisition date fair value of total consideration transferred		5,052
Representing:		
Cash paid to vendor		5,052
Acquisition costs expensed to profit or loss		352

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

	Reichdrill Inc \$
(a) Purchase consideration:	
Cash paid to the vendor	5,051,706
Total Purchase consideration	5,051,706
Less: carrying value of net identifiable assets acquired	(1,482,149)
Goodwill	3,569,557

(b) Assets and liabilities acquired

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

Current assets	7,538,499
Non current assets	716,086
Total assets	8,254,586
Current liabilities	6,772,436
Non current liabilities	-
Total liabilities	6,772,437
Carrying value of net identifiable assets acquired	1,482,149

NOTES TO THE FINANCIAL STATEMENTS

33. BUSINESS COMBINATIONS (continued)

At the reporting date at 30 June 2013, the fair value of Reichdrill Inc assets and liabilities are still being determined and therefore the business combination was accounted for on a provisional basis and may be adjusted in the next 12 months.

i. Contingent consideration

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

ii. Revenue and profit contribution

The acquired business contributed revenues of \$2,016,553 and net profit of \$57,524 to the group for the period from 26 March 2013 to 30 June 2013.

If the acquisition had occurred on 1 July 2012, the consolidated revenue and profit for the year ended 30 June 2013 would have been \$7,779,700 and \$264,313 respectively. These amounts have been calculated using the groups accounting policies.

34. Non-controlling interest

	2013	2012
	\$ '000	\$ '000
Interest in :		
Share capital	202	-
Retained earnings	(3)	-
Total Liabilities	<u>199</u>	<u>-</u>

35. DIVIDENDS

No dividend was paid or proposed to be paid for the year ended 30 June 2013.

Directors' Declaration

The directors of Hughes Drilling Limited declare that:

- (a) in the directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on page 9, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2013 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the chief executive officer and chief financial officer for the financial year ended 30 June 2013.

Signed in accordance with a resolution of the directors.



Robert Hackett
Chairman
Brisbane, 30 September 2013



Auditor's Independence Declaration

As lead auditor for the audit of Hughes Drilling Limited for the year ended 30 June 2013 I declare that to the best of my knowledge and belief, there have been:

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

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

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

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
30 September 2013



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

Report on the financial report

We have audited the accompanying financial report of Hughes Drilling Limited (the company), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Hughes Drilling Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

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

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Liability limited by a scheme approved under Professional Standards Legislation.



Basis for Qualified Opinion

The previous auditor was unable to observe the counting of the inventory held at remote locations and unable to satisfy themselves concerning the existence of remote inventory quantities held at 30 June 2012 by an alternative means. A modified audit opinion was consequently issued on the financial report for the period ended 30 June 2012. We were appointed as auditors of the consolidated entity on 17 December 2012 and thus were unable to satisfy ourselves as to the existence of the remote inventory recorded as of 30 June 2012. Since opening remote inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the income for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the year ending 30 June 2013.

Qualified opinion

- (a) In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph the financial report of Hughes Drilling Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).

Other Matter

The financial report of Hughes Drilling Limited for year ended 30 June 2012 was audited by another auditor who expressed a qualified opinion on that financial report on 3 October 2012, as described in the Basis for Qualified Conclusion above.

Report on the Remuneration Report

We have audited the remuneration report included in pages 10 to 16 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Hughes Drilling Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

D A Turner

Darren Turner
Partner

Newcastle
30 September 2013

Shareholder Information

The shareholder information set out below was applicable as at 26 September 2013

Distribution of equitable securities

Analysis of numbers of equity security holders by size of holding

Size of Shareholding	%	Number of Shares	Number of Shareholders
1 - 1,000	0.03	62,080	165
1,001 – 5,000	0.30	551,688	199
5,001 – 10,000	0.50	891,645	110
10,001 – 100,000	7.64	13,882,200	353
100,001 and over	91.53	166,364,556	104
Total	100.00	181,752,169	931

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

Name	Holding	%
1 Learob Pty Ltd <R & L Hughes Family A/C>	71,388,074	39.28
2 HSBC Custody Nominees (Australia) Limited	19,048,172	10.48
3 National Nominees Limited	10,416,522	5.73
4 SKYE ALBA Pty Ltd< The Skye Alba Fund A/C>	5,700,000	3.14
5 Citicorp Norminees Pty Limited	4,713,500	2.59
6 UBS Wealth Management Australia Nominees Pty Ltd	3,393,105	1.87
7 HSBC Custody Nominees (Australia) Limited	3,274,593	1.80
8 Tisia Nominees Pty Ltd < Henderson Family A/C >	2,600,000	1.43
9 SAABM Pty Ltd < A&M Jacklin Family A/C >	2,434,017	1.34
10 Mellett Super Pty Ltd < Mellet A Fund A/C >	2,417,000	1.33
11 Mr Roger Alan Jackson	2,407,139	1.32
12 Mr Craig Ian Burton < CI Burton Family A/C >	1,923,174	1.06
13 Dixon Trust Pty Ltd	1,592,153	0.88
14 RPM Super Pty Ltd < RPM Superfund A/C >	1,394,941	0.77
15 Merrill Lynch (Australia) Norminees Pty Limited	1,391,917	0.77
16 FW Holst & Co Pty Ltd <FH A/C>	1,343,750	0.74
17 Mr Bernard Owen Stephens + Mrs Erin Josephine Stephens	1,300,020	0.72
18 Learob Pty Ltd < Jessie Hughes Family A/C >	1,217,008	0.67
19 Learob Pty Ltd < Kellie Hughes Family A/C >	1,217,008	0.67
20 Malandore Holdings Pty Ltd < JG Auto Electrical Serv A/C >	1,133,418	0.62
Total of top 20 shareholders	140,305,853	77.20
Other Shareholders	41,446,316	22.80
Total shares on issue	181,752,169	100.00

Substantial shareholders

	Holding	%
Learob Pty Ltd	71,388,074	39.28
K2 Asset Management (Part of HSBC Custodian norminees)	17,271,649	9.50
Invesco Australia Limited	10,156,250	5.59

End of Report