DDH 1 Drilling Pty Ltd

ABN 73 154 493 008

Consolidated Financial Statements

For the year ended 30 June 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2018

	Note	30 June 2018 $	30 June 2017 $
Revenue	4	124,515,838	84,967,901
Other revenue	4	839,984	1,292,250
Other gains and losses	4	382,759	1,350,693
Advertising expenses		(241,166)	(252,771)
Drilling consumables		(17,102,523)	(9,416,562)
Employee and contract labour expenses	5	(53,493,191)	(35,372,318)
Fuel and oil expenses		(2,862,417)	(1,792,626)
Freight and couriers		(1,519,357)	(799,317)
Insurance expenses		(1,026,807)	(791,727)
Legal and consultant expenses		(349,170)	(261,088)
Hire of plant		(6,206,233)	(2,972,724)
Rent expense		(858,151)	(715,865)
Service and repair expense		(7,637,637)	(5,781,246)
Travel expenses		(5,253,594)	(3,098,106)
Other expenses	5	(1,812,098)	(744,754)
EBITDA		**27,376,237**	**25,611,740**
Depreciation expense	12	(8,160,434)	(13,652,436)
Amortisation expense	10	(52,482)	(35,288)
EBIT		**19,163,321**	**11,924,016**
Finance expenses	5	(2,085,854)	(840,352)
Profit before income tax		**17,077,467**	**11,083,664**
Income tax expense	17	(6,127,317)	(2,717,440)
Profit for the year		**10,950,150**	**8,366,224**
Other comprehensive income, net of income tax		**-**	**-**
Total comprehensive income for the year		**10,950,150**	**8,366,224**
Profit attributable to owners of the parent		**10,950,150**	**8,366,224**
Total comprehensive income attributable to owners of the parent		**10,950,150**	**8,366,224**
Earnings per share			
Basic (cents per share)	19	10.01	10.51
Diluted (cents per share)	19	9.96	10.51

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
As at 30 June 2018

	Note	30 June 2018 $	30 June 2017 $	1 July 2016 $
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	6	8,692,827	8,673,539	6,229,033
Trade and other receivables	7	30,778,368	16,044,738	14,975,624
Inventories	8	19,990,592	14,481,680	9,479,504
Other current assets	9	484,259	1,199,547	634,372
TOTAL CURRENT ASSETS		**59,946,046**	**40,399,504**	**31,318,533**
NON-CURRENT ASSETS				
Financial assets	11	319,500	50,000	2,645,534
Intangible assets	10	27,279,124	182,527	56,446
Property, plant and equipment	12	54,222,188	36,396,849	38,736,222
TOTAL NON-CURRENT ASSETS		**81,820,812**	**36,629,376**	**41,438,202**
TOTAL ASSETS		**141,766,858**	**77,028,880**	**72,756,735**
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	13	11,260,154	8,595,460	5,510,265
Other financial liabilities	14	5,881,388	-	-
Borrowings	15	413,810	324,089	7,546,002
Current tax liabilities		2,079,196	2,839,748	-
Provisions	16	2,476,977	1,384,598	866,646
TOTAL CURRENT LIABILITIES		**22,111,525**	**13,143,895**	**13,922,913**
NON-CURRENT LIABILITIES				
Borrowings	15	26,948,439	23,672,770	30,689,985
Provisions	16	138,137	232,989	369,107
Deferred tax liabilities	18	9,691,856	5,351,045	5,530,903
TOTAL NON-CURRENT LIABILITIES		**36,778,432**	**29,256,804**	**36,589,995**
TOTAL LIABILITIES		**58,889,957**	**42,400,699**	**50,512,908**
NET ASSETS		**82,876,901**	**34,628,181**	**22,243,827**
EQUITY				
Issued capital	20	57,077,982	19,802,808	4,002
Share based payment reserve	21	23,396	-	-
Retained earnings	22	25,775,523	14,825,373	22,239,825
TOTAL EQUITY		**82,876,901**	**34,628,181**	**22,243,827**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2018

	Note	Issued Capital $	Share Based Payment Reserve $	Retained Earnings $	Total Equity $
Balance as at 1 July 2016		4,002	-	22,239,825	22,243,827
Profit for the year		-	-	8,366,224	8,366,224
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**8,366,224**	**8,366,224**
Dividends paid	22 / 23	-	-	(15,780,676)	(15,780,676)
Capital issued in the year	20	19,798,806	-	-	19,798,806
As at 30 June 2017		**19,802,808**	**-**	**14,825,373**	**34,628,181**
Balance as at 1 July 2017		19,802,808	-	14,825,373	34,628,181
Profit for the year		-	-	10,950,150	10,950,150
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**10,950,150**	**10,950,150**
Issue of ordinary shares	20	23,672,766	-	-	23,672,766
Share-based payments expense	29	-	23,396	-	23,396
Issue of ordinary shares for acquisition consideration	20 / 30	13,602,408	-	-	13,602,408
As at 30 June 2018		**57,077,982**	**23,396**	**25,775,523**	**82,876,901**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 30 June 2018

	Note	30 June 2018 $	30 June 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		128,599,210	89,836,489
Payments to suppliers and employees		(112,995,596)	(72,101,536)
Dividends received		-	879,866
Finance costs		(903,407)	(882,012)
Interest received		43,659	76,578
Income tax paid		(4,718,4212)	(57,550)
Net cash generated by operating activities	**6(b)**	**10,025,444**	**17,751,835**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of financial assets		-	1,236,934
Proceeds on sale of non-current assets		443,173	19,167
Payments for property, plant and equipment		(7,884,096)	(11,474,432)
Net cash outflow on the acquisition of business	30	(2,011,733)	-
Payments to acquire financial assets		(28,971)	-
Net cash used in investing activities		**(9,481,627)**	**(10,218,331)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	11,442,504
Repayment of borrowings		(524,529)	(16,531,502)
Net cash flows used in financing activities		**(524,529)**	**(5,088,998)**
Net increase in cash and cash equivalents		19,288	2,444,506
Cash and cash equivalents at beginning of the year		8,673,539	6,229,033
Cash and cash equivalents at the end of the year	**6(a)**	**8,692,827**	**8,673,539**

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

1. General Information

The financial report covers DDH 1 Drilling Pty Ltd (the "Company") and the subsidiary it controlled during the year (the "Group"). DDH 1 Drilling Pty Ltd is a company limited by shares incorporated in Australia. The address of its registered office and principal place of business is 21 Baile Rd Canning Vale, Western Australia. The principal activities of the Company and the Group are the provision of exploration and mine site drilling services to the exploration, mining, and energy industries, primarily in Australia.

1.1 Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board ("AASB"), and comply with other requirements of the law

The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorised for issue by the Directors on 20 September 2019.

1.2 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at re-valued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing asset or liability at the measurement date.

The Group previously prepared special purpose financial reports to meet its reporting obligations and in doing so applied the recognition and measurement requirements of all Australian Accounting Standards. The date of transition to Australian Accounting Standards is 1 July 2016. The Group applied AASB 101 *First-time Adoption of Australian Accounting Standards* in preparing these first consolidated financial statements. The Group has not applied any exemptions. The comparative information in this financial report has been re-presented in order to comply with the relevant presentation and disclosure requirements of all relevant Australian Accounting Standards. As such, an additional statement of financial position as at 1 July 2016 is presented in these consolidated financial statements.

1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affects its returns.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

Notes to the Consolidated Financial Statements (continued)

1.3 Basis of consolidation (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interest's and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at re-valued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

1.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 *Share-based Payments* at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to the Consolidated Financial Statements (continued)

1.4 Business combinations (continued)

When the consideration transferred by the Group in a business combination includes contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

1.5 Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash- generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

1.6 Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Revenue is recognised for the major business activities as follows:

(i) Drilling revenue

The Group provides a range of drilling services to its clients in the mining, exploration oil and gas and broader resources sector. Drilling services contracts can be long or short term and are generally structured as an overarching master agreement, with individual work orders made by the customer. Each work order will specify the services to be performed. The combination of the master agreement and each work order forms a contract with the customers.

Notes to the Consolidated Financial Statements (continued)

1.6 Revenue recognition (continued)

(i) Drilling revenue (continued)

The revenue derived from these services is recognised when the work has been completed as per the clients' directions and in the accounting period in which the services were rendered. Revenue is determined either on a per-day or per-meter rate, depending on the specific contract.

Contracts entered into can cover services which involve different processes and continuous drilling services activities in a sequential set of mobilisation, drilling, and demobilisation activities which are invoiced to the customer as those activities progress.

These processes and activities are highly inter-related and the Group provides a significant service of integration of such activities. Where this is the case, these activities and processes are accounted for as one performance obligation.

Revenue from services rendered is recognised in the statement of profit and loss and other comprehensive income over time. The Group has a contractual right to consideration from a customer for an amount that corresponds directly with the value to the customer of the performance completed to date (for example, number of meters drilled). As a result, the Group applies the practical expedient to recognise revenue at the amount which it has the right to invoice.

Customers are invoiced on a monthly basis and revenue is recognised in the accounting period in which the right to invoice is obtained. Payment is received following invoicing. Invoicing is according to standard payment terms, which are generally between 30 to 60 days. Most drilling services contracts do not include variable payment terms.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. There are no significant financing components.

All revenue is stated net of the amount of goods and services tax (GST).

1.7 Leases

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements (continued)

1.8 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

1.9 Borrowing Costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.10 Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

1.11 Income taxes

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group in Australia. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group at the reporting date is DDH 1 Drilling Pty Ltd, who is also the ultimate head of the Group. As disclosed in Note 31, the tax consolidation was formed upon acquisition of the subsidiary. Prior to this time, the Company was a sole tax-payer.

Tax expense, income tax benefits, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘separate taxpayer within group’ approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities of the members of the tax-consolidation group are recognised by the Company (as the head entity in the tax consolidation group).

The Company and each member of the tax-consolidation group have entered into a tax funding arrangement, in terms of which the Company and its subsidiary in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Notes to the Consolidated Financial Statements (continued)

1.11 Income taxes (continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

1.12 Property, plant and equipment

Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

Notes to the Consolidated Financial Statements (continued)

1.12 Property, plant and equipment (continued)

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of property, plant and equipment using both the diminishing value basis or straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used for the current and comparative years of significant items of property, plant and equipment are as follows:

Classes of Fixed Asset

Plant & Equipment	6.67% - 40%
Motor Vehicles	12.50% - 50%
Drilling Rigs	6.67% - 12.50%
Office Equipment, Furniture & Fittings	10% - 67.67%

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

1.13 Intangibles

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimate useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are recognised initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Customer contracts

Customer contracts acquired are initially recognised at fair value and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over the contract period or estimated useful life, whichever is shorter.

Notes to the Consolidated Financial Statements (continued)

1.14 Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventories are determined after deducting debates and discounts received or receivable. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on a weighted average basis.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchases and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1.16 Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (continued)

1.16 Financial instruments (continued)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "interest income" line item (note 4).

Notes to the Consolidated Financial Statements (continued)

1.16 Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost (see (i) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as a financial asset at FVTPL; and Debt instruments that do not meet the amortised cost criteria are classified as a financial asset at FVTPL. In addition, debt instruments that meet the amortised cost criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the ‘other revenue’ line item (note 4). Fair value is determined in the manner described in note 25(a).

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet the following criteria are generally not recoverable when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Notes to the Consolidated Financial Statements (continued)

1.16 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Notes to the Consolidated Financial Statements (continued)

1.16 Financial instruments (continued)

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. The Group does not have any financial liabilities held for trading or that has been designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in profit or loss.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including fees all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

De-recognition of financial liabilities

The Group de-recognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability de-recognised and the consideration paid and payable is recognised in profit or loss.

1.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements (continued)

1.18 Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

1.19 Goods and service tax

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

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

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables.

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

Notes to the Consolidated Financial Statements (continued)

1.20 Application of new and revised accounting standards

Adoption of new and revised standards and interpretations

The Group has adopted all new and revised standards and interpretations issued by the AASB that are effective for the reporting period ended 30 June 2018. The Group has also early adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* for the periods ended 30 June 2018 and 30 June 2017.

Detailed below are the impacts of adoption of these standards and interpretations:

Standard	Impact
AASB 1048 Interpretation of Standards	The Group has applied these amendments which clarified Australian Interpretations having the same authoritative status for compliance with IFRS reporting.
AASB 2016 – 1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.
AASB 2016 – 2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and noncash changes. The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. The application of these amendments has had no impact on the Group's consolidated financial statements.
AASB 2017 – 2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014 – 2016 Cycle*	The Group has applied these amendments which clarified the disclosure requirements applying to the Group's interests in other entities. The application of these amendments has had no impact on the Group's consolidated financial statements.

The adoption of these standards and interpretations did not have a material impact on the Group. The impact of AASB 9 and AASB 15 are described on the following pages.

Notes to the Consolidated Financial Statements (continued)

1.20 Application of new and revised accounting standards (continued)

Adoption of new and revised standards and interpretations (continued)

Impact of the application of AASB 9 *Financial Instruments (AASB 9) and relevant amending standards*

The Group early adopted AASB 9 for the years ended 30 June 2018 and 30 June 2017, with adoption being applied from 1 July 2016. AASB 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Classification and measurement

On adoption of AASB 9, the Group classified financial assets and liabilities measured at either amortised cost or fair value, depending on the business model for those assets and on the asset's contractual cash flow characteristics. There were no changes in the measurement of the Group's financial instruments.

There was no impact on the statement of profit or loss or other comprehensive income or the statement of changes in equity on adoption of AASB 9 in relation to classification and measurement of financial assets and liabilities. The Group's accounting policies have been updated to reflect the changes with adoption of AASB 9.

The following table summarises the impact on the classification and measurement of the Company's financial instruments at 1 July 2016:

Presented in statement of financial position	Financial Instrument	AASB 139	AASB 9	Reported $	Restated $
Cash and cash equivalents	Bank deposits	Held to term maturity	Amortised cost	6,229,033	6,229,033
Trade and other receivables	Trade and other receivables	Loans and receivables	Amortised cost	14,975,624	14,975,624
Other financial assets	Equity Instrument	FVTPL	FVTPL	2,645,534	2,645,534
Trade and other payables	Trade and other payables	Amortised cost	Amortised cost	5,510,265	5,510,265
Trade and other payables	Contingent consideration	FVTPL	FVTPL	-	-
Borrowings	Borrowings	Amortised cost	Amortised cost	38,235,987	38,235,987

Hedging

The Group does not currently engage in any hedging activities and accordingly any changes to hedge accounting rules under AASB 9 do not have any impact on the Group.

Impairment

AASB 9 introduces a new expected credit loss ("ECL") impairment model that requires the Group to adopt an ECL position across the Group's financial assets from 1 July 2016. The loss allowances for financial assets are based on the assumptions about risk of default and expected loss rates as opposed to the previously applied incurred loss model. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. The Group has determine that the impact is not material and therefore no amounts have been recognised.

Notes to the Consolidated Financial Statements (continued)

1.20 Application of new and revised accounting standards (continued)

Adoption of new and revised standards and interpretations (continued)

Impact of the application of AASB 15 *Revenue from Contracts with Customers* (AASB 15) and relevant amending standards

The Group has early adopted AASB 15 for the period ended 30 June 2018 and 30 June 2017, with adoption being applied from 1 July 2016. The Group has adopted the modified transition approach, therefore, the cumulative effect of adopting AASB 15 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2016, with no restatement of comparative information.

AASB 15 establishes a comprehensive five-step framework for determining the timing and quantum of revenue recognised. It has replaced the existing guidance, including AASB 118 *Revenue* and AASB 111 *Construction* Contracts. The core principle of AASB 15 is that an entity shall recognise revenue as control of a good or service transfers to a customer.

The Group's revenue stream has been determined to be Drilling Services.

It is the Group's policy that all future significant contracts will be assessed individually under AASB 15 to ensure the appropriate application of the standard and recognition of revenue.

Drilling Services

Drilling services contracts comprise the provision of drilling services to the customer base. These arrangements can be long or short term and are generally structured as an overarching master agreement, with individual work orders made by the customer. Each work order will specify the services to be performed. The combination of the master agreement and each work order forms the contract.

Under *AASB 118 Revenue*, Drilling services revenue were recognised as the services were rendered on a billing basis. Under AASB 15, each work order is deemed to be a contract and each work order is generally considered to be one performance obligation. These contracts do not have fixed fee and the customer is charged based on the number of meters drilled multiplied by agreed rates contained in the master agreement.

Revenue for contracts is recognised over time as the customer simultaneously receives and consumes the benefits of the services being provided as they are performed. As disclosed in the previous paragraph, the Group will bill the customer on a monthly basis based on metres drilled multiplied by the agreed rates. This will also include any recoverable expenditure incurred. Therefore, the Group has a right to consideration from its customers in an amount that corresponds directly with the value to the customer of the Group's performance completed to date and hence the Group has decided to adopt the practical expedient of recognising revenue on a billing basis. Payment is received following invoice according to standard payment terms, which are generally between 30 to 60 days. There are no significant financing components.

There were no material quantitative impact on Drilling Services contracts on initial adoption.

Tender costs

Tender costs are expensed as they are not incremental costs to obtaining the contract.

The Group's accounting policies for its revenue streams are disclosed in detail in note 1.6 above to reflect the adoption of AASB 15.

Notes to the Consolidated Financial Statements (continued)

1.21 Standards and Interpretations in issue but not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 Leases	1-Jan-19	30-Jun-20
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share Based Payment Transactions	1-Jan-18	30-Jun-19
AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle and Other Amendments	1-Jan-19	30-Jun-20
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1-Jan-18	30-Jun-19
Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017 – 4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments	1-Jan-19	30-Jun-20
AASB 2018–6 Amendments to Australian Accounting Standards – Definition of a Business	1-Jan-20	30-Jun-21
AASB 2018–7 Amendments to Australian Accounting Standards – Definition of Material	1-Jan-20	30-Jun-21
AASB 2019–1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	1-Jan-20	30-Jun-21

The following standard will have a material impact on the Group. It is available for early adoption but has not been applied by the Group in this financial report:

AASB 16 *Leases* ("AASB 16")

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value and short-term leases. The Group will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. There will also be additional disclosure requirements under the new standard.

The Group intends to initially apply AASB 16 on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of $3,879,768, as disclosed in Note 24. The Group will recognise a right-of-use asset and a corresponding liability in respect of all of these leases, except for those that meet the exemption criteria. The new requirements to recognise a right-of-use asset and related liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements when first applied.

Notes to the Consolidated Financial Statements (continued)

1.21 Standards and Interpretations in issue but not yet adopted (continued)

Based on management and the directors initial assessment, the Group anticipates that the adoption of AASB 16 at 1 July 2019 would likely result in the recognition of a right of use asset of $4,025,258 and an associated lease liability of the same amount. This assessment has only taken into consideration those leases that are longer than 12 months. The Group contains two leases which have option extensions available. The Group has used its judgement in the preliminary assessment that it is reasonably certain that it will extend the option period on these two leases for a period of 5 years each.

In respect to the other standards and interpretations listed on the previous page, management and the directors are yet to undertake a formal assessment of the impact of the these other accounting standards that are issued but not yet effective, but the impact on the Group is anticipated to be immaterial as the majority do not impact its current operations.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may 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.

Impairment testing

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The Directors consider that due to the absence of recent defaults, that ECL will not have a material impact.

Useful life of customer contracts

The useful life of customer contracts acquired is assessed at the time of acquisition, and on an ongoing basis throughout the life of the contract. In the event of an impairment, the change in carrying value will be recognised immediately through profit or loss for the period.

Notes to the Consolidated Financial Statements (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Useful life of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Where this is a significant change in the recoverable value of the property, plant and equipment due to a change in judgment of its useful life, the recoverable value will be adjusted to reflect this change and the depreciation charge recognised adjusted as required.

During the current reporting year, the Group changed the useful life of its drill rigs and major support vehicles. These assets were previously depreciated over 6 years. Moving forward the drill rigs and major support vehicle assets will be depreciated on a straight line basis over 15 years. The change in depreciation rates for these particular assets was made to better align the depreciation rate to their useful lives, which based on management's experience is estimated to be approximately 15 years.

3. Segment information

Management has determined the operating segments based on the internal reports reviewed by the Board that are used to make strategic decisions. The Board assesses the performance of the operating segments based on revenue, EBIT, EBITDA and profit or loss before tax. The Group operates primarily within Australia, providing services wholly to a discrete industry segment (provision of drilling services to the mining industry). These geographic and operating segments are considered based on internal management reporting and the allocation of resources by the Group's chief decision makers (Board of Directors). On this basis, the financial results of the reportable operating and geographic segments are equivalent to the financial statements of the Group as a whole and no separate segment reporting is disclosed in these financial statements.

The Group generates revenue from external customers. Those who individually account for greater than 5% of the Groups total revenue in either the current or comparable period are presented below:

	30 June 2018 %	30 June 2017 %
Revenue by major customer		
External Customer 1	18.3%	11.2%
External Customer 2	14.5%	12.6%
External Customer 3	6.3%	11.7%
External Customer 4	5.5%	5.4%
External Customer 5	5.1%	13.0%

Notes to the Consolidated Financial Statements (continued)

4. Revenue

The following is an analysis of the Group's revenue for the year from continuing operations (excluding investment income).

	Note	30 June 2018 $	30 June 2017 $
Revenue			
Revenue from drilling services recognised over time		124,515,838	84,967,901
Other revenue			
Dividend revenue		-	879,866
Interest revenue		43,659	76,578
Other revenue		839,984	412,384
		883,643	1,368,828
Total revenue from continuing operations		**125,399,481**	**86,336,729**
Other gains and losses			
Net foreign exchange gains / (losses)		(12,706)	(76,167)
Gain on disposal of property, plant and equipment		395,465	19,167
Gain on equity investments		-	1,407,695
Other gains and losses from continuing operations		**382,759**	**1,350,695**

5. Expenses

Profit before income tax includes the following specific expenses:

	Note	30 June 2018 $	30 June 2017 $
Other expenses			
Net fair value losses on equity investments		(34,500)	-
Other expenses		(1,777,598)	(744,754)
		(1,812,098)	**(744,754)**
Finance costs consists of:			
Interest on syndicated loan		(149,778)	-
Interest on convertible loan notes		(877,376)	(882,012)
Interest on obligations under finance leases		(25,112)	-
Syndicated loan establishment fees		(1,021,421)	-
Interest received		43,659	76,578
Other finance costs		(55,826)	(34,918)
Total net finance costs		**(2,085,854)**	**(840,352)**
Employee benefits expense consists of:			
Salary and wages including sick, annual and long service leave		(43,140,616)	(28,215,742)
Superannuation expense		(3,683,480)	(2,454,434)
Share based payment expense	29	(23,396)	-
Other	(a)	(6,645,699)	(4,702,142)
		(53,493,191)	**(35,372,318)**

(a) Other includes subcontractor, agency labour, recruitment, staff amenities, staff training, entertainment and other items.

Notes to the Consolidated Financial Statements (continued)

6. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the year shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows.

	Note	30 June 2018 $	30 June 2017 $
6(a) Cash at bank and on hand			
Petty cash		216	5
Cash at bank		8,692,611	8,673,534
Net cash at bank		**8,692,827**	**8,673,539**

The carrying amount of these assets is approximately equal to their fair value. Cash at bank represents amounts held in the Group's trading accounts. Interest is payable on closing balances at 0.0% - 1.27% (FY17: 0.0% - 1.44%).

6(b) Reconciliation of profit for the year to net cash flows from operating activities

	30 June 2018	30 June 2017
Profit for the period after income tax	**10,950,150**	**8,366,224**
Shares received as compensation	(115,500)	-
Depreciation and amortisation of non-current assets	8,212,916	13,687,724
Net gains on disposal of equity investments	-	(19,167)
Net gains on disposal of property plant and equipment	(395,463)	(1,236,937)
Acquisition cost	1,169,221	-
Share-based payment expense	23,396	-
Finance costs	1,228,456	-
Change in assets and liabilities:		
(Increase) / decrease in inventories	(5,182,519)	(5,002,176)
(Increase) / decrease in current receivables	(9,279,489)	(3,605,580)
Increase / (decrease) in accrued income	-	(495,721)
Increase / (decrease) in prepayments	(3,134)	(69,454)
Increase / (decrease) in trade and other payables	1,010,989	3,085,196
Increase / (decrease) in provision for income tax	(1,279,723)	2,839,748
Increase / (decrease) in deferred tax liabilities	2,688,616	(179,858)
Increase / (decrease) in provisions	997,528	381,836
Net cash from operating activities	**10,025,444**	**17,751,835**

Non-cash transactions:

During the current year, the Group entered into the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

- Completed a debt conversion and equity roll over as part of the Company's capital restructure, as detailed in Note 20.
- The Company issued ordinary shares as part of the acquisition of Strike Drilling Pty Ltd as detailed in Note 20.
- The Company issued M Class shares as a part of the management equity plan as detailed in Note 29.
- The Group obtained new hire purchase arrangements for its drill rig assets. Refer to the table on the next page.

Notes to the Consolidated Financial Statements (continued)

6. Cash and cash equivalents (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-Cash				
	Balance at 30 June 2017	**Financing cash flows**	**Debt to equity conversion**	**Acquisition of subsidiary**	**Expenses**	**Additions to HP Liabilities**	**Balance at 30 June 2018**
Registration Funding	324,089	(324,089)	-	-	-	-	-
Loan from related parties	23,672,770	-	(23,672,770)	-	-	-	-
Interest bearing loans	-	-	-	23,896,401	2,397,677	-	26,294,078
Hire-purchase liabilities	-	(200,440)	-	-	-	1,268,611	1,068,171
	23,996,859	**(524,529)**	**(23,672,770)**	**23,896,401**	**2,397,677**	**1,268,611**	**27,362,249**

7. Trade and other receivables

	Note	30 June 2018 $	30 June 2017 $
Current			
Trade receivables		30,751,935	15,958,283
Loss allowance		-	-
		30,751,935	**15,958,283**
Deposits on contracts		-	50,488
Other debtors		26,433	35,967
		30,778,368	**16,044,738**

The average credit period on sales is 60 days. No interest is charged on outstanding trade receivables.

The Group always measure the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The assessed ECL is not material.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

At the date of signing, no debtors were considered uncollectable by the Group.

Notes to the Consolidated Financial Statements (continued)

7. Trade and other receivables (continued)

Credit risk and ageing of trade debtors

The class of assets described as "trade debtors" is considered to be the main source of credit risk related to the Group. The Group does not hold any collateral over these balances.

Due to the short term nature of these receivables their carrying value is assumed to approximate their fair values.

As at 30 June, the ageing analysis of trade receivables is as follows:

	Note	30 June 2018 $	30 June 2017 $
Current		19,153,163	11,057,127
One to three months		11,085,999	4,665,109
Three to six months		512,773	236,047
		30,751,935	**15,958,283**

8. Inventories

Current		
Consumable stores & spare parts	19,990,592	14,481,680
	19,990,592	**14,481,680**

The Group maintains an inventory of drilling parts, spares and consumables for use in the rendering of drilling services. Inventory is measured at the lower of cost and net realisable value. An ongoing review is conducted in order to ascertain whether items are obsolete or damaged, and if so determined, the carrying amount of the item is written down to its net realisable value. There were no such write-downs for the year ended 30 June 2018 (FY17: Nil).

The cost of inventories recognised as a consumable expense during the year in respect of continuing operations was $15,121,160 at 30 June 2018 (30 June 2017: $8,336,838).

9. Other assets

	Note	30 June 2018 $	30 June 2017 $
Current			
Prepayments		455,289	383,482
Accrued income		-	816,065
Rental bond		28,970	-
		484,259	**1,199,547**

Notes to the Consolidated Financial Statements (continued)

10. Intangibles

	Note	30 June 2018 $	30 June 2017 $
Customer relationships			
Opening balance		-	-
Recognised on acquisition of a subsidiary	30	5,507,316	-
Amortisation		-	-
		5,507,316	**-**
Goodwill			
Opening balance		-	-
Recognised on acquisition of a subsidiary	30	21,623,591	-
		21,623,591	**-**
Software development			
At cost		329,554	326,595
Recognised on acquisition of a subsidiary		15,213	-
Accumulated depreciation		(196,550)	(144,068)
		148,217	**182,527**
Total intangibles		**27,279,124**	**182,527**

Customer relationships are recognised as a result of the acquisition of Strike Drilling Pty Ltd ("Strike"). Refer to Note 30 for information on the acquisition. These customer relationships are amortised on a straight line basis over a period of six years.

Software development is amortised on a straight-line basis over a period of 4 – 5 years (FY17: 4 – 5 years).

Goodwill has been recognised as a result of the acquisition of Strike. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired in accordance with its accounting policies.

For impairment purposes, the goodwill and all other intangible assets are allocated to the cash generating unit ("CGU") for which they were originally identified on acquisition. The goodwill and customer contracts are assigned to Strike. The acquisition of Strike was finalised on 31 May 2018, one month prior to the reporting date of this financial report. Under the terms of the acquisition, the former Directors of Strike were entitled to contingent consideration of up to $5,881,388 (as per Notes 14 and 30) upon meeting or exceeding certain earnings requirements as outlined in the acquisition agreement. These requirements were met in full post year end, and the contingent consideration has been paid in December 2018.

Based on this outcome and the earnings achieved in Strike since the date of acquisition, the Directors are satisfied there has been no impairment to the values reported since the date of acquisition and no impairment has been recognised in relation to intangibles recognised on the acquisition of Strike.

Notes to the Consolidated Financial Statements (continued)

11. Financial assets

	Note	30 June 2018 $	30 June 2017 $
Financial assets mandatorily measured at FVTPL			
Equity investments		319,500	50,000
		319,500	**50,000**

The Group holds investments in listed and non-listed companies. The investment in equity instruments is not held for trading. Instead it is held for medium to long term strategic purposes. The investment in equity instruments are mandatorily measured at FVTPL.

The Group holds less than 1% of the ordinary shares of St George Mining Ltd ("St George"), a company involved in mineral exploration in Australia. The Directors of the Group do not consider that the Group is able to exercise significant influence over St George due to the minor nature of the shareholding.

The Group holds less than 1% of the ordinary shares of Serena Minerals Limited ("Serena"), a company involved in mineral exploration in Australia. At the reporting date, Serena is a non-listed entity. The Directors of the Group do not consider that the Group is able to exercise significant influence over Serena Minerals Limited due to the minor nature of the shareholding.

Notes to the Consolidated Financial Statements (continued)

12. Property, plant and equipment

	Plant and Equipment $	Motor Vehicles $	Drilling Rigs $	Capital WIP $	Total $
At 1 July 2017					
Cost or fair value	12,968,418	30,049,341	71,362,799	-	114,380,558
Accumulated depreciation	(9,537,032)	(20,560,518)	(47,886,159)	-	(77,983,709)
Net book amount	**3,431,386**	**9,488,823**	**23,476,640**	-	**36,396,849**
Year ended 30 June 2018					
Opening net book amount	**3,431,386**	**9,488,823**	**23,476,640**	-	**36,396,849**
Additions	1,595,568	4,262,694	3,263,144	-	9,121,405
Acquisition of subsidiary	112,074	6,304,280	10,500,000	-	16,916,354
Disposals	(4,585)	(47,402)	-	-	(51,986)
Depreciation	(1,805,150)	(2,391,889)	(3,963,395)	-	(8,160,434)
	3,329,293	**17,616,506**	**33,276,389**	**-**	**54,222,188**
At 30 June 2018					
Cost or fair value	14,771,565	42,812,507	89,351,098	-	146,935,170
Accumulated depreciation	(11,442,273)	(25,196,001)	(56,074,709)	-	(92,712,982)
Net book amount	**3,329,293**	**17,616,506**	**33,276,389**	-	**54,222,188**

	Plant and Equipment $	Motor Vehicles $	Drilling Rigs $	Capital WIP $	Total $
At 1 July 2016					
Cost or fair value	12,222,106	27,978,247	62,119,363	884,120	103,203,836
Accumulated depreciation	(7,738,139)	(17,220,546)	(39,508,929)	-	(64,467,614)
Net book amount	**4,483,966**	**10,757,702**	**22,610,434**	**884,120**	**38,736,222**
Year ended 30 June 2017					
Opening net book amount	4,483,966	10,757,702	22,610,434	884,120	38,736,222
Additions	746,312	2,208,269	8,548,600	-	11,503,181
Acquisition of subsidiary	-	(147,187)	(42,931)	-	(190,118)
Disposals	-	144,284	739,836	(884,120)	-
Depreciation	(1,798,892)	(3,474,245)	(8,379,299)	-	(13,652,436)
	3,431,386	**9,488,823**	**23,476,640**	**-**	**36,396,849**
At 30 June 2017					
Cost or fair value	12,968,418	30,049,341	71,362,799	-	114,380,558
Accumulated depreciation	(9,537,032)	(20,560,518)	(47,886,159)	-	(77,983,709)
Net book amount	**3,431,386**	**9,488,823**	**23,476,640**	-	**36,396,849**

Notes to the Consolidated Financial Statements (continued)

12. Property, plant and equipment (continued)

Drilling rigs and motor vehicles comprise mainly of drilling rigs and associated vehicles and equipment. Directors and management continually monitor both domestic and overseas markets on new and used drill rig pricing and availability and as a result are of the opinion that the net written down book value of the Group's property, plant and equipment is less than its recoverable amount.

(a) Assets pledged as security

The following has been pledged as security in relation to the Group's financial liabilities.

Equipment finance leases

The Group has entered into a number of equipment finance lease arrangements with a range of lenders. Under the terms of these facilities, security is limited to the assets to which the facility relates. The directors are of the opinion that the fair value of the assets pledged as security exceeds the carrying value of the finance lease liabilities to which they are related. Refer to Note 15.

13. Trade and other payables

	Note	30 June 2018 $	30 June 2017 $
Current			
Trade creditors		7,377,747	6,497,398
Sundry creditors		214,700	(54,497)
Superannuation payable		370,440	246,008
Business credit cards		-	13,448
Goods and services tax payable		1,013,409	421,763
Payroll tax (receivable) / payable		(79,336)	142,581
Accrued charges		2,114,149	1,268,543
Amounts withheld from salary, wages and other payments		249,045	60,216
		11,260,154	**8,595,460**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

14. Other financial liabilities

Contingent consideration		5,881,388	-

Contingent consideration represents amounts payable to the former owners of Strike Drilling Pty Ltd as part of an earn-out arrangement, and subject to the achievement of certain conditions. Amounts owing under the agreement were payable in full within six months and not subject to interest. Refer to Note 30.

Notes to the Consolidated Financial Statements (continued)

15. Borrowings

	Note	30 June 2018 $	30 June 2017 $
Unsecured borrowings at amortised cost			
- Registration funding		-	324,089
Secured borrowings at amortised cost			
- Loans from shareholders (i)	20	-	23,672,770
- Hire purchase liabilities (ii)		1,068,171	-
- Syndicated loans (iii)		26,294,078	-
Total borrowings		**27,362,249**	**23,996,859**
Amount due for settlement within 12 months		413,810	324,089
Amount due for settlement after 12 months		26,948,439	23,672,770
		27,362,249	**23,996,859**

The other principal features of the Group's borrowings are as follows:

(i) Loans from shareholders of the Group carry interest of 5.5% (FY17: 5.5%) per annum charged on the outstanding loan balances and were secured against all other assets of the business;

(ii) The hire purchase liabilities are secured by a registered charge over the asset. Each has a term of 3 years, with 36 monthly payments and no balloon payment with applicable interest rate of 4.23% (FY17 – n/a);

(iii) The syndicated loans are interest-bearing debts and are secured against all other assets of the business. Each facility has a term of 4 years and is repayable at the end of that term. The applicable interest rate is variable. At reporting date, the facility attracted a weighted average interest rate of 6.78% (2017: N/A); and

(iv) The weighted average interest on all borrowings outstanding at 30 June 2018 was 6.68% (2017: 5.46%).

Available borrowing facilities

	Note	30 June 2018 $	30 June 2017 $
Syndicated loan			
Available facilities		34,000,000	-
Used at balance date		(26,294,078)	-
Unused at balance date		**7,705,922**	**-**

Banking covenants

The Company complied with and continues to comply with all banking covenants specified in the finance agreement with its financier.

Fair values

The directors consider that the carrying value of borrowings approximates to their fair values.

Notes to the Consolidated Financial Statements (continued)

16. Provisions

	Note	30 June 2018 $	30 June 2017 $
Provision for short-term incentive bonus		150,000	-
Provision for annual leave		1,769,697	1,189,924
Provision for long service leave		695,417	427,663
Total provisions		**2,615,114**	**1,617,587**
Analysis of total provisions			
Current		2,476,977	1,384,598
Non-current		138,137	232,989
Total provisions		**2,615,114**	**1,617,587**

The Group recognises employee entitlements as current where an unconditional entitlement exists. This includes accrued annual leave, and long service leave where employees have completed the required period of service or are otherwise entitled to pro-rata payments in certain circumstances. Based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

17. Income tax expense

	Note	30 June 2018 $	30 June 2017 $
Income tax expense recognised in profit			
Income tax expense comprises			
Current tax		3,438,701	3,005,075
Deferred tax		2,688,616	48,703
		6,127,317	**3,053,778**

The income tax expense for the year can be reconciled to the accounting profit as follows:

	30 June 2018 $	30 June 2017 $
Profit before tax from continuing operations	17,077,467	11,083,664
Prima facie tax expense on profit from ordinary activities before income tax at 30%	5,123,240	3,325,099
- Non-assessable income	(325,994)	(348,087)
- Non-deductible expenses	1,169,457	28,063
- Other	160,614	48,703
	6,127,317	**3,053,778**

Notes to the Consolidated Financial Statements (continued)

18. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	Note	30 June 2018 $	30 June 2017 $
The balance comprises temporary differences attributable to:			
Employee benefits		784,534	485,276
Accruals		111,132	515,205
Deferred tax assets		**895,666**	**1,000,481**
Inventories		5,997,178	4,344,504
Depreciation		2,903,531	2,007,022
Intangibles		1,652,195	-
Other		34,618	-
Deferred tax liabilities		**10,587,522**	**6,351,526**
Net deferred tax liabilities		**9,691,856**	**5,351,045**
Movements in the period:			
Opening balance at 1 July		5,351,045	5,302,342
Recognition of deferred tax on acquisition	30	1,652,195	-
Charged to income statement		2,688,616	48,703
Closing balance at 30 June		**9,691,856**	**5,351,045**

Notes to the Consolidated Financial Statements (continued)

19. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	**30 June 2018**	**30 June 2017**
	$	**$**
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	10,950,150	8,366,224
Earnings for the purposes of dilutive earnings per share	**10,950,150**	**8,366,224**

Number of shares	**No. Shares**	**No. Shares**
Weighted average number of ordinary shares for the purposes of basic earnings per share	109,442,153	79,618,617
Effect of dilutive potential ordinary shares:		
M Class shares	250,079	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**109,692,232**	**79,618,617**

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

From continuing operations

Basic – cents per share	10.01	10.51
Diluted – cents per share	9.96	10.51

The Directors have assessed the impact of the adoption of AASB 9 and AASB 15 on the calculation of earnings per share and consider the impact is immaterial and therefore does not require re-statement.

Notes to the Consolidated Financial Statements (continued)

20. Issued capital

Movement in issued capital	Note	Number of shares No.	Share capital $
Ordinary Shares			
Balance at 30 June 2016		**4,002**	**4,002**
Issue of shares (a)		1,028	19,798,806
Share split (b)		99,994,970	-
Balance at 30 June 2017		**100,000,000**	**19,802,808**
Issue of shares (c)	30	10,328,570	13,602,408
Conversion of loans (d)		27,422,808	23,672,766
Balance at 30 June 2018		**137,751,378**	**57,077,982**

In relation to the restructure of the capital of the Company on 30 June 2017, the Company:

(a) issued 1,028 ordinary shares to existing shareholders as conversion of promissory notes outstanding of $19,798,806 held on 30 June 2017.
(b) completed a share split to increase its issued capital to 100,000,000 ordinary shares on 30 June 2017.

The Directors are of the opinion that the requirements of Australian Accounting Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 9 *Financial Instruments* do not apply to the conversion of promissory notes to equity as the liability holders were also equity holders at the time of conversion. Accordingly, no gain or loss is recognised in profit or loss related to this transaction.

In relation to other share issues by the Company during the year, the Company issued:

(c) 10,328,570 shares as consideration for the acquisition of Strike Drilling Pty Ltd. Refer to Note 30.
(d) 27,422,808 shares as a part of a debt to equity swap for shareholder loans which were disclosed in Note 15. Shares were issued to settle the outstanding amount owing by the Company at the time of settlement of the liability.

The Directors are of the opinion that the requirements of Australian Accounting Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 9 *Financial Instruments* do not apply to the conversion of shareholders loan to equity as the liability holders were also equity holders at the time of conversion. Accordingly, no gain or loss is recognised in profit or loss related to this transaction.

Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held.

There are no externally imposed capital requirements. At the shareholder's meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

21. Share-based payments reserve

	Note	30 June 2018 $	30 June 2017 $
Balance at 1 July		**-**	**-**
Credit to equity for equity-settled share-based payments	29	23,396	-
Balance at 30 June		**23,396**	**-**

Notes to the Consolidated Financial Statements (continued)

21. Share-based payments reserve (continued)

Management equity plan

During the reporting period two new classes of shares (Class “M” and Class “N”) were created as part of a management equity plan (Plan) referred to as **Plan Shares**.

During the reporting period, 2,944,483 Class M shares were granted to eligible key management personnel under the Plan scheme. A credit to equity, related to the grant of Plan shares, totalling $23,396 was recognised in the period (2017: Nil).

Date of grant of Plan share	Number of Plan shares granted	Date of expiry of grant of shares
31 May 2018	2,944,483	31 May 2028

Refer to share based payments at Note 29 for further details.

22. Retained earnings

	Note	30 June 2018 $	30 June 2017 $
Balance at 1 July		**14,825,373**	**22,239,825**
Dividends paid	23	-	(15,780,676)
Net profit for the year		10,950,150	8,366,224
Other comprehensive income		-	-
Balance at 30 June		**25,775,523**	**14,825,373**

23. Dividend

	30 June 2018 $	30 June 2017 $
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid (at $3,943.20 per share)	**-**	**15,780,676**

Franked dividends

	30 June 2018 $	30 June 2017 $
Franking credits available for subsequent reporting periods based on a tax rate of 30.0%	4,730,194	16,372

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year.

Notes to the Consolidated Financial Statements (continued)

24. Leasing and other commitments

Operating lease commitments

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Note	30 June 2018 $	30 June 2017 $
Within one year		938,903	763,900
In the second to fifth years inclusive		2,744,996	2,047,497
After five years		195,869	1,153,797
		3,879,768	**3,965,194**

Finance lease commitments

Amounts payable under finance leases:

	Note	30 June 2018 $	30 June 2017 $
Within one year		451,094	-
In the second to fifth years inclusive		676,531	-
After five years		-	-
		1,127,625	**-**
Less: future finance charges		(59,454)	-
Present value of lease obligations		**1,068,171**	**-**

It is the Group's policy to lease certain items of equipment under finance leases. The average lease term is 3 years (2017: n/a). For the year ended 30 June 2018, the average effective interest rate payable was 4.23% (2017: n/a). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Operating lease payments represent rentals payable by the Group for certain of its office properties. The Group does not have an option to purchase the leased premises at the expiry of the lease period.

The fair value of the finance lease liabilities is approximately equal to the carrying amount.

The Group's obligations under finance leases are secured by lessor's title to goods under finance lease.

The directors are satisfied that the fair value of all items subject to finance lease exceeds the carrying value of the lease liabilities.

25. Financial instruments

(a) Classes and categories of financial instruments and their fair values

The following table discloses information about:

- classes of financial instruments including their nature and characteristics;
- the carrying amounts of financial instruments; and
- fair values of financial instruments (except financial instruments when carrying amount approximates their fair value).

Notes to the Consolidated Financial Statements (continued)

25. Financial instruments (continued)

(a) Classes and categories of financial instruments and their fair values (continued)

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Financial assets		**Financial liabilities**		
	FVTPL	**Amortised cost**	**FVTPL**	**Amortised cost**	**Total**
2018	**$**	**$**	**$**	**$**	**$**
Cash and bank balances	-	8,692,827	-	-	8,692,827
Trade and other receivables	-	30,778,368	-	-	30,778,368
Other financial assets (i)	319,500	-	-	-	319,500
Borrowings	-	-	-	26,294,078	26,294,078
Obligations under finance leases	-	-	-	1,068,171	1,068,171
Trade and other payables	-	-	-	11,260,154	11,260,154
Other financial liabilities (ii)	-	-	5,881,388	-	5,881,388

	Financial assets		**Financial liabilities**		
	FVTPL	**Amortised cost**	**FVTPL**	**Amortised cost**	**Total**
2017	**$**	**$**	**$**	**$**	**$**
Cash and bank balances	-	8,673,539	-	-	8,673,539
Trade and other receivables	-	16,044,738	-	-	16,044,738
Other financial assets (i)	50,000	-	-	-	50,000
Borrowings	-	-	-	23,672,770	23,672,770
Obligations under finance leases	-	-	-	-	-
Trade and other payables	-	-	-	8,595,460	8,595,460
Other financial liabilities	-	-	-	-	-

The Directors are of the opinion that the fair value for all categories of financial assets and financial liabilities approximates the carrying value.

(i) Financial assets carried at fair value through the profit and loss relates to listed and non-listed investments. For financial assets that are listed, these are reviewed annually with regards to observable data based on the quoted prices of the instruments held. These are measured at Level 1 fair value hierarchy, and there were no transfers between levels. At 30 June 2018 financial assets with a carrying value of $165,500 has been measured Level 1 (2017: $50,000).

Notes to the Consolidated Financial Statements (continued)

25. Financial instruments (continued)

(a) Classes and categories of financial instruments and their fair values (continued)

For financial assets that are non-listed investments, these are measured according to inputs other than quoted prices included within Level 1 that are observable for the assets indirectly. The methodology employed in this valuation related to prices the instrument has traded for in a private sale. These are measured at Level 3. At 30 June 2018 financial assets with a carrying value of $154,000 has been measured Level 3 (2017: nil).

(ii) Other financial liabilities carried at fair value through the profit and loss are measured according to inputs other than quoted prices included within Level 1 that are observable for the liability indirectly. The methodology employed in this valuation related to the achievement of earnings by the business in excess of an agreed earnings benchmark of $8.3million. The valuation was subject to an earnings multiple that was set out in the purchase agreement. Accordingly, it is treated as Level 2 in the fair value hierarchy. Refer to Note 30 for details on the contingent consideration.

(b) Financial risk management objectives

The Group monitors and manages the financial risks relating to its operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk.

Compliance with policies and exposure limits is reviewed by Management on a continuous basis. The Group does not enter into or trade financial instruments for speculative purposes.

(c) Market risk

The Group's activities expose it to the financial risks of changes in interest rates, and there has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Interest rate risk management

The Group is exposed to interest rate risk because the Group has a syndicated loan facility at floating interest rates. Additionally, the cash and cash equivalents have a variable interest rate. A one percentage point increase / decrease in interest rates would result in a net profit after tax decrease / increase of approximately $176,012 (2017: $149,992).

Borrowings under the hire purchase agreements in Note 15 are fixed, and therefore there is no associated market risk with these instruments.

Other price risks

The Group is exposed to equity price risks arising from equity investments.

Equity investments in entities (see note 11) are held for strategic rather than trading purposes. The Group does not actively trade these investments. A five percentage point increase / decrease in the underlying value of the equity instruments would result in a net profit after tax increase / decrease of approximately $16,000 (2017: $2,500).

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimize credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that have a good trading and credit history or where there is sufficient other publicly available information to assess its credit worthiness. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

Notes to the Consolidated Financial Statements (continued)

25. Financial instruments (continued)

(d) Credit risk management (continued)

Furthermore, the Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. The Group does not have significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. At the date of reporting, the Directors were of the opinion that the credit related risk of loss was not material, and therefore no amount has been recorded for credit loss.

(i) Overview of the Group's exposure to credit risk

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings.

As at 30 June 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised trade and other receivables (note 7) and cash and cash equivalents (note 6) as stated in the consolidated statement of financial position.

(e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table sets out the maturity analysis for financial liabilities based on contractual cash flows:

	Weighted average effective interest rate	**Due in less than one year**	**Due within one to five years**	**Total**
30 June 2018	**%**	**$**	**$**	**$**
Trade and other payables	Nil	11,260,154		11,260,154
Finance lease liability	4.23%	413,810	654,364	1,068,174
Syndicate loan facilities	6.78%	-	26,294,078	26,294,078
30 June 2017	**%**	**$**	**$**	**$**
Trade and other payables	Nil	8,595,460	-	8,595,460
Finance lease liability	N/A	-	-	-
Loans from shareholders	5.5%	-	23,672,770	23,672,770

Notes to the Consolidated Financial Statements (continued)

25. Financial instruments (continued)

(f) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing returns to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the prior reporting period.

The capital structure of the Group consists of net debt (borrowings disclosed in note 15 after deducting cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings).

	Note	30 June 2018 $	30 June 2017 $
Total borrowings	15	27,362,249	23,672,770
Less cash	6	(8,692,827)	(8,673,539)
Net debt		**18,669,422**	**14,999,231**
Total equity		82,876,901	34,628,181
Total capital		**101,546,323**	**49,627,412**
Gross gearing ratio (gross debt/equity)		33.0%	68.4%
Net gearing ratio (net debt/equity)		22.5%	43.3%

The Group is not subject to any externally imposed capital requirements.

26. Related party transactions

(a) Related parties

The Group's main related parties are as follows:

Entities exercising control over the Group

The ultimate parent entity that exercises control over the Group is DDH 1 Drilling Pty Ltd (ACN 154 493 008). The subsidiary companies in the Group are:

Entity Name	ACN
Strike Drilling Pty Ltd	164 225 656

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

(b) Key management personnel

Key management personnel are any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

Disclosures relating to key management personnel are as set out in notes 27 and 28 below.

Notes to the Consolidated Financial Statements (continued)

26. Related party transactions (continued)

(c) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties.

	Note	30 June 2018 $	30 June 2017 $
Sales and purchases of goods and services			
Leasing of assets or equipment from related parties		-	73,191
Other transactions			
Dividends paid to shareholders who are key management personnel			
M Pollock		-	7,890,338
M Thurston		-	7,890,338
		-	**15,780,676**

Transactions occurring between related parties during the reporting period are primarily related to:

- DDH 1 Drilling Pty Ltd rented office space from Mr M Pollock until January 2017. The rental agreement was based on arm's length commercial terms;
- DDH 1 Drilling Pty Ltd has utilised a water cart owned by Mr M Thurston. No recovery charge was recognised during the reporting period; and
- DDH 1 Drilling Pty Ltd utilises a corporate box leased by Mr M Thurston for the purpose of entertaining business clients at selected sporting events. No charge was recognised during the reporting period, and all additional expenditure related to its use are paid by DDH 1 Drilling Pty Ltd to the operator of the venue.

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

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

	Note	30 June 2018 $	30 June 2017 $
Current payables (purchases of goods and services)			
Entities controlled by key management personnel		-	-
Other related parties		-	-
Current receivables (sale of goods and services)			
Entities controlled by key management personnel		-	-
Other related parties		-	-

Notes to the Consolidated Financial Statements (continued)

26. Related party transactions (continued)

(e) Loans from related parties

	Note	30 June 2018 $	30 June 2017 $
Loans from KMP			
M Pollock			
Balance at the beginning of the reporting period		**5,918,191**	**11,153,212**
Loans advanced		-	1,250,000
Loan repayments received		-	(1,253,810)
Loans converted to equity		(5,918,191)	(5,231,211)
Balance at the end of the reporting period		**-**	**5,918,191**
M Thurston			
Balance at the beginning of the reporting period		**5,918,192**	**10,239,338**
Loans advanced		-	1,250,000
Loan repayments received		-	(738,479)
Loans converted to equity		(5,918,192)	(4,832,667)
Balance at the end of the reporting period		**-**	**5,918,192**

(f) Terms and conditions of related party transactions

Loans provided by KMP to DDH 1 Drilling Pty Ltd attracted interest rates of 5.5% pa.

All other transactions were conducted on commercial terms with no discounts or interest applicable to outstanding balances.

27. Key management personnel

The Directors and other key management personnel of the Group during or since the end of the financial year were:

Mr Murray Pollock	(Managing Director)	
Mr Matthew Thurston	(Operations Director)	Ceased as Director on 30 Nov 2018
Mr Jarrod Solomons		Ceased as Director on 30 Nov 2018
Mr Byron Beath		Ceased as Director on 30 Nov 2018
Mr Richard Bennett	Appointed 31 May 2018	Ceased as Director on 30 Nov 2018
Mr Alan Broome	Appointed 31 May 2018	Ceased as Director on 30 Nov 2018
Mr Ben MacKinnon	(Director / Chief Financial Officer)*	

* Mr Mackinnon was appointed 4 April 2018 as CFO. Additionally, he was appointed as a Director of the Company on 30 November 2018 and remains in this position.

Notes to the Consolidated Financial Statements (continued)

28. Key management personnel compensation

The compensation for the key management personnel of the Group is set out in aggregate below:

	Note	30 June 2018 $	30 June 2017 $
Short term employee benefits		665,268	400,000
Post-employment benefits		53,664	38,000
Short-term incentives		-	-
Long-term benefits [2]		38,782	22,487
Non-monetary benefits [1]		14,888	-
Share based payments		4,389	-
Total		**776,991**	**460,487**

[1] Non-monetary benefits includes reportable FBT amounts.

[2] Long-term benefits represents the accrual for long service leave.

29. Share based payments

Management equity plan

The Company has a management equity plan ("Plan") for key senior management of the Group. Under the terms of the plan, certain key senior employees can be granted Class "M" or Class "N" shares at a future date at a value determined by the Board.

Class N shares do not have any vesting conditions, and carry the right to be converted to ordinary shares of DDH1 Holdings Pty Ltd at the time of an Exit Event, being an initial public offering or a sale of the business. Class N shares does not have an expiry date. At 30 June 2018, no Class N shares had been issued.

The Class M shares are non-voting shares, but otherwise have similar rights to ordinary shares to receive dividends and other distributions. They carry no voting rights or right to attend general meetings. They may participate in a return of capital if determined by the Board at that time.

Class M Shares carry the right to be converted to ordinary shares of DDH1 Drillings Pty Ltd upon the satisfaction of vesting conditions (shown below) at an 'Exit Event', being an initial public offering or a sale of the business, with an expiry date of 10 years from issue. A non-recourse loan has been provided to participants to fund the purchase of the Class M shares.

If the vesting conditions are not met at the time of the Exit Event, then all of the applicable M Class Shares will be bought back, purchased or otherwise cancelled by the Company for $1 in aggregate. Further, if vesting conditions are not met within 10 years from commencement of the Plan, then all M Class Shares will be bought back, purchased or otherwise cancelled for $1 in aggregate. Plan participants so effected are not entitled to any further benefits under the Plan.

Post year end on 30 November 2018, an internal reorganisation was undertaken, whereby a new parent entity, DDH1 Holdings Pty Ltd was established, with DDH 1 Drilling Pty Ltd became a wholly owned subsidiary of DDH 1 Holdings Pty Ltd. On the date of reorganisation, all Class M and Class N shares that had been issued by DDH 1 Drilling Pty Ltd were replaced with Class M and Class N shares issued by DDH 1 Holdings Pty Ltd.

Notes to the Consolidated Financial Statements (continued)

29. Share based payments (continued)

Vesting conditions applicable to M Class share conversions to ordinary shares

Internal rate of return threshold	Money Multiples – (monetary outputs to monetary inputs)	% of Class M shares that may be converted to Ordinary shares	Cumulative % of Class M shares that may be converted to Ordinary shares
12.5%	1.50	40%	40%
15.0%	1.75	20%	60%
17.5%	2.00	20%	80%
20.0%	2.25	20%	100%

Set out below are summaries of M Class shares granted under the plan:

	2018		2017	
	Weighted average exercise price	Number of plan shares	Weighted average exercise price	Number of plan shares
As at 1 July	-	-	-	-
Granted during the year	0.91	2,944,483	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	**-**	**2,944,483**	**-**	**-**
Exercisable at 30 June	0.91	-	-	-

The M Class shares outstanding at 30 June 2018 had a weighted average exercise price of 45 cents, and a weighted average remaining contractual life of 9 years and 11 months. In 2018, M Class shares were granted on 31 May 2018 and no N Class shares were granted. The aggregate of the estimated fair values of the M Class shares granted on 31 May 2018 is $1,506,576. In 2017, no M Class shares were granted.

The inputs into the Monte Carlo model used in the valuation of M Class Shares were as follows:

	31 May 2018
Weighted average share price (cents) (i)	140
Weighted average exercise price (cents)	91
Expected volatility (ii)	20%
Expected life – years (iii)	3
Risk-free rate (iv)	2.10%
Expected dividend yields (v)	Nil
Fair value per Class M share	$0.53

(i) The weighted average share price was determined based on the most recent issue of shares to a third party.

(ii) As DDH 1 Drilling Pty Ltd is a privately held company, there is no observable share price history from which to calculate a historical volatility estimate. The expected volatility is therefore based on an assessment of the share price volatility of other similar businesses.

Notes to the Consolidated Financial Statements (continued)

29. Share based payments (continued)

(iii) The M Class shares convert to ordinary shares on an exit event, subject to the achievement of the performance conditions. Accordingly, the expected exit date is equivalent to the effective life of the M Class shares. This has been assumed to be 3 years from the date of grant of the Plan shares.

(iv) The risk-free rate assumed in the model is assumed to best fit with the yield on three year Australian Government bonds, to broadly match the effective life of the plan.

(v) Potential dividends are not expected to be significant over the plan period and have therefore been assumed to be nil for the purpose of the valuation.

The Group recognised a total share based payment expense of $23,396 (FY17: Nil) related to equity-settled share-based payment transactions.

30. Acquisition of subsidiaries

On 31 May 2018, the Company acquired a 100% equity interest in Strike Drilling Pty Ltd ("Strike"), an exploration and water well drilling company based in Kewdale, Western Australia. The Company acquired Strike to increase its operational drilling capacity through the addition of its drilling rig fleet, operational expertise and customer base. Strike was acquired through a combination of issue of shares in the Company, and debt funding. Upon completion of the acquisition, the Company obtained control of Strike from that date. Details of the acquisitions are below. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	Total
	$
Bank overdraft	(2,011,733)
Trade and other receivables	4,706,748
Inventory	326,393
Financial assets	154,000
Plant and equipment	16,916,354
Intangibles acquired in business combination	5,522,529
Trade and other payables	(2,205,490)
Deferred tax liabilities	(1,652,195)
Total identifiable assets	**21,756,606**
Goodwill	21,623,591
Total consideration	**43,380,197**
Satisfied by:	
Cash	-
Debt funded	23,896,401
Equity instruments (10,328,570 ordinary shares of parent company)	13,602,408
Contingent consideration	5,881,388
Total consideration transferred	**43,480,197**

Notes to the Consolidated Financial Statements (continued)

30. Acquisition of subsidiaries (continued)

Net cash outflow on acquisition of business	**Year end 30 June 2018 $**
Cash consideration	-
Add: bank overdraft assumed	(2,011,733)
	(2,011,733)

The fair value of trade and other receivables amounts to $4,706,748. The gross amount of trade receivables is $4,706,748 and it is expected that the full contractual amounts can be collected.

The goodwill of $21,623,591 comprises of the synergies arising from the acquisition from combining operations with the Group and is the difference between the total consideration paid and fair value of the assets acquired. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the 10,328,570 ordinary shares issued as part of the consideration paid for Strike was determined on the basis of the acquirers Enterprise Value at the date of acquisition.

The contingent consideration arrangement required the achievement of EBITDA above $8,300,000. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration arrangement is $5,881,388.

The fair value of contingent consideration arrangement of $5,881,388 was calculated by taking the difference between the final EBITDA and $8,300,000 and applying a predetermined multiple.

Acquisition related costs of $1,374,710 have been excluded from consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Strike Drilling Pty Ltd contributed $2,067,894 revenue and $903,704 to the Group’s profit before tax for the period between the date of acquisition and the reporting date.

If the acquisition of Strike Drilling Pty Ltd had been completed on the first day of the financial year, Group revenues for the year would have been $145,212,623 and Group profit would have been $24,052,315.

Notes to the Consolidated Financial Statements (continued)

31. Subsidiaries

Information about the composition of the Group at the end of the reporting period is as follows.

Name of Subsidiary	Principal Activity	Place of Incorporation & Operation	Proportion of ownership interest and voting power held by the Consolidated Entity 30 June 2018	30 June 2017
Strike Drilling Pty Ltd	Provision of Drilling Services	Australia	100%	nil

Strike was added as a member of the tax consolidated group following its acquisition.

32. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements except as set out below. See Note 1 for a summary of the significant accounting policies relating to the Group. The contingent liabilities and commitments of the parent entity are the same as those of the Group, as set out in Note 24.

Financial position	**30 June 2018 $**	**30 June 2017 $**
Assets		
Current assets	68,822,627	40,399,504
Non-current assets	69,645,463	36,629,376
Total assets	**138,468,090**	**77,028,880**
Liabilities		
Current liabilities	21,639,949	13,143,895
Non-current liabilities	34,653,850	29,256,804
Total liabilities	**56,293,799**	**42,400,699**
Equity		
Issued capital	57,077,982	19,802,808
Retained earnings	25,096,309	14,825,373
Total equity	**82,174,291**	**34,628,181**

Financial performance		
Profit for the year	10,270,620	8,366,224
Total comprehensive income	10,270,620	8,366,224

Notes to the Consolidated Financial Statements (continued)

33. Post-reporting date events

On 30 November 2018, as part of a corporate restructure, DDH1 Holdings Pty Ltd completed a restructure of the Group. Under the terms of the restructure, DDH1 Holdings Pty Ltd became the parent entity of DDH 1 Drilling Pty Ltd through issuing equity for 100% of the issued capital of DDH 1 Drilling Pty Ltd via a subsidiary. For subsequent reporting periods, DDH1 Holdings Pty Ltd will constitute the Parent entity of the Group and will present consolidated financial statements. However, for accounting purposes these consolidated financial statements will be a continuation of those of DDH 1 Drilling Pty Ltd.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

34. Auditor's remuneration

During the year the following fees were paid for services provided by the auditor, and its network firms:

	Note	30 June 2018 $	30 June 2017 $
Fees for the audit of the financial report		35,500	34,000
Non-audit services:			
- Vendor due diligence		55,000	-
- Preparation of financial report		-	3,300
		90,500	**37,300**

The auditor of the Group is Deloitte Touche Tohmatsu.

35. Company details

DDH 1 Drilling Pty Ltd is a company limited by shares, incorporated and domiciled in Australia.

Registered office and principal place of business of the Company:

21 Baile Road
CANNING VALE WA 6155

Directors’ Declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors’ opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1.1 to the financial statements; and

(c) in the directors' opinion, the attached financial statements and notes thereto are in compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Signed on behalf of the Board of Directors pursuant to s.295(5) of the *Corporations Act 2001*.

Director
Mr Ben MacKinnon

Dated this 20th day of September 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Tower 2
Brookfield Place
123 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

Tel: +61 8 9365 7000
Fax: +61 8 9365 7001
www.deloitte.com.au

Independent Auditor's Report to the Members of DDH1 Drilling Pty Ltd

Opinion

We have audited the financial report of DDH1 Drilling Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Group's financial position as at 30 June 2018 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibilities of Management and directors for the Financial Report

Management of the Company is responsible for the preparation of the financial report in accordance with Australian Accounting Standards and for such internal control as management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

Deloitte.

We communicate with management and the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU

Nicole Menezes
Partner
Chartered Accountants
Perth, 20 September 2019