

DDH1 Holdings Pty Ltd

ABN 91 625 946 321

Consolidated Financial Statements

For the year ended 30 June 2020

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Directors' Report

The Directors of DDH1 Holdings Pty Ltd submit herewith the financial report of DDH1 Holdings Pty Ltd (the “**Company**”) and its subsidiaries (the “**Group**”) for the financial year ended 30 June 2020.

In order to comply with the provisions of the *Corporations Act 2001*, the Directors of the Company, report as follows:

Directors

The names of Directors of the Company at any time during, or since the end of the year are:

Name	Position
Murray Pollock	Executive Director
Matthew Thurston	Executive Director
Richard Bennett	Executive Director
Jarrold Solomons	Non-Executive Director
Byron Beath	Non-Executive Director
Alan Broome	Non-Executive Chairman

Directors of the Company have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

Ben MacKinnon

Principal Activities

The principal activities of the Group during the financial year were providing exploration and mine site drilling services to the exploration, mining, and energy industries, primarily in Australia. The Group is headquartered in Canning Vale, Western Australia.

No significant change in the nature of these activities occurred during the year.

Review of Operations

The Group had a strong financial year, despite the impacts of Covid-19. Covid-19 first impacted the Group from March 2020, but by June 2020 the Group had returned to pre-Covid-19 levels. Demand for Group’s drilling services remained strong, with rig utilisation and productivity remaining at high levels. The growth in the Group’s revenue and profit after tax is largely attributable to the acquisition of Ranger Exploration Drilling Pty Ltd (“**Ranger**”), which occurred on 1 April 2019 in the previous financial year.

The profit of the Group after providing for income tax amounted to \$24,640,373 (2019: \$16,694,784) for the financial year on revenue of \$249,791,573 (2019: \$184,220,395). The EBITDA of the Group for the year was \$63,278,362 (2019: \$42,910,651). Additionally, during the financial year, the Group generated cashflows from operating activities totalled \$56,647,576 (2019: \$35,243,229).

At year end, the Group had cash totalling \$37,580,769 (30 June 2019: \$16,911,961) and total borrowings of \$61,449,179 (30 June 2019: \$63,345,187).

Significant Changes in the State of Affairs

There has been no significant change in the state of affairs of the Group during the financial year.

Directors' Report (continued)

Dividends

During the current financial year, a fully franked dividend of \$3,000,000 was declared (2019: nil) and paid to ordinary, N Class and M Class shareholders. An amount of \$2,897,715 was paid on 29 January 2020, with the difference \$102,285 applied against the off balance sheet loan for the M Class shares. No other dividends have been declared or paid during the financial year.

Subsequent Events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has 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.

Future Developments

The Group intends to continue pursuing its principal activities during the course of the next financial year. In particular, the Group intends to continue to add additional drill rigs to the Group's fleet to meet the strong demand for the Group's drilling services. To support this, at year end, the Group has made plans to introduce up to 11 drill rigs into the fleet in the 2021 financial year, subject to the rigs being made available to the Group on the current build timeframes from the supplier.

Environmental Regulation

The Group's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. However, the Group does provide services to entities that are licensed or otherwise subject to conditions for the purposes of environmental legislation or regulation. In these instances, the Group undertakes its compliance duties in accordance with the contractor regime implemented by the licensed or regulated entity.

Directors Meetings

The following table sets out the number of Directors' meetings held during the financial year and the number of meetings attended by each Director. During the financial year, 11 board meetings were held for the Company.

Directors	Board of Directors	
	Entitled to Attend	Attended
A Broome	11	11
M Pollock	11	11
M Thurston	11	11
B Beath	11	11
J Solomons	11	11
R. Bennett	11	11

Indemnification of Officers and Auditors

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

Directors' Report (continued)

Shares Under Option

No options over unissued ordinary shares or interests in the Company were granted during or since the end of the financial year. There are no unissued shares or interests under option at the date of this report. However, whilst not strictly options, during the previous financial period, non-recourse loans were granted to employees to acquire Class 'M' Shares in the Company that may convert into ordinary shares in the future, which in-substance is considered a share option. Refer to the Management Equity Plan section below for information.

Management Equity Plan

The Group has two additional classes of shares (Class 'M' and Class 'N') which were created as part of a Management Equity Plan, referred to as "**Plan Shares**". These Plan Shares are non-voting shares, but otherwise have similar rights to ordinary shares to receive dividends and other distributions. 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 the Company upon the satisfaction of vesting conditions at an exit event, being an initial public offering or a sale of the business. They carry 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.

Class N Shares do not have any vesting conditions and carry the right to be converted to ordinary shares of the Company at the time of an exit event, being an initial public offering or a sale of the business.

Under the terms of the Management Equity Plan, there are currently 13,807,630 Plan Shares on issue to eligible participants as detailed below:

Directors and senior management	Number of Plan Shares granted	Issuing entity	Number of ordinary shares under Plan
Class M Shares			
A. Venn	1,911,342	DDH1 Holdings Pty Ltd	1,911,342
R. Chard	1,104,896	DDH1 Holdings Pty Ltd	1,104,896
B. MacKinnon	1,104,896	DDH1 Holdings Pty Ltd	1,104,896
C. Chitty	883,916	DDH1 Holdings Pty Ltd	883,916
C. Schmidt	883,916	DDH1 Holdings Pty Ltd	883,916
M. Scarlett	1,104,896	DDH1 Holdings Pty Ltd	1,104,896
S. Van Dyk	4,625,000	DDH1 Holdings Pty Ltd	4,625,000
J. Howey	384,615	DDH1 Holdings Pty Ltd	384,615
I. Foulsham	384,615	DDH1 Holdings Pty Ltd	384,615
S. Baird	961,538	DDH1 Holdings Pty Ltd	961,538
Class N Shares			
S. Van Dyk	458,000	DDH1 Holdings Pty Ltd	458,000
	13,807,630		13,807,630

Directors' Report (continued)

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceeding during the year.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 35 to the financial statements.

The Directors are satisfied that the provision of these non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act.

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

Signed on behalf of the Board of Directors made pursuant to section 298(2) of the *Corporations Act 2001*.



Director
Murray Pollock

Dated this 1st day of September 2020

The Board of Directors
DDH1 Holdings Pty Ltd
21 Baile Road
CANNING VALE WA 6155

1 September 2020

Dear Board Members

Auditor's Independence Declaration to DDH1 Holdings Pty Ltd

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of DDH1 Holdings Pty Ltd.

As lead audit partner for the audit of the financial statements of DDH1 Holdings Pty Ltd for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Nicole Menezes
Partner
Chartered Accountants

**Consolidated Statement of Profit or Loss and Other Comprehensive Income
 For the year ended 30 June 2020**

	Note	30 June 2020 \$	30 June 2019 \$
Revenue	4	249,791,573	184,220,395
Other income	4	2,284,615	2,364,014
Other gains and losses	4	610,122	22,968
Advertising expenses		(336,638)	(367,119)
Drilling consumables		(26,978,076)	(19,338,690)
Employee and contract labour expenses	5	(107,521,921)	(82,333,474)
Fuel and oil expenses		(7,228,054)	(5,719,555)
Freight and couriers		(2,875,705)	(2,436,190)
Insurance expenses		(1,990,314)	(1,777,770)
Legal and consultant expenses		(3,359,738)	(340,293)
Hire of plant		(7,777,147)	(6,467,516)
Rent expense		(835,027)	(1,142,303)
Service and repair expense		(18,301,961)	(12,772,659)
Travel expenses		(9,759,123)	(8,032,276)
Other expenses		(2,444,244)	(2,968,881)
EBITDA		63,278,362	42,910,651
Depreciation expense	5	(21,271,129)	(13,097,099)
Amortisation expense	5	(2,618,346)	(1,431,721)
EBIT		39,388,887	28,381,831
Interest income		37,696	138,168
Finance costs	5	(4,048,599)	(3,485,696)
Profit before tax		35,377,984	25,034,303
Income tax expense	18	(10,737,611)	(8,339,519)
Profit for the year		24,640,373	16,694,784
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		24,640,373	16,694,784
Profit attributable to owners of the parent		24,640,373	16,694,784
Total comprehensive income attributable to owners of the parent		24,640,373	16,694,784
Earnings per share			
Basic (cents per share)	20	8.46	5.97
Diluted (cents per share)	20	8.08	5.77

The accompanying notes form part of these financial statements.

**Consolidated Statement of Financial Position
 As at 30 June 2020**

	Note	30 June 2020 \$	30 June 2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	37,580,769	16,911,961
Trade and other receivables	7	41,887,803	47,803,793
Inventories	8	23,621,065	22,540,268
Other current assets	9	728,734	783,583
TOTAL CURRENT ASSETS		103,818,371	88,039,605
NON-CURRENT ASSETS			
Financial assets	10	569,432	515,667
Intangible assets	11	32,898,889	35,450,928
Property, plant and equipment	12	107,220,400	98,343,252
Right of use asset	13	5,071,920	-
TOTAL NON-CURRENT ASSETS		145,760,641	134,309,847
TOTAL ASSETS		249,579,012	222,349,452
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	21,827,852	21,861,260
Lease liabilities	15	2,277,532	1,670,564
Borrowings	16	3,344,427	3,491,055
Current tax liabilities		5,739,697	2,762,670
Provisions	17	5,277,042	4,458,193
TOTAL CURRENT LIABILITIES		38,466,550	34,243,742
NON-CURRENT LIABILITIES			
Lease liabilities	15	6,189,289	2,690,186
Borrowings	16	58,104,752	60,154,132
Provisions	17	585,089	373,210
Deferred tax liabilities	19	10,972,943	11,607,027
TOTAL NON-CURRENT LIABILITIES		75,852,073	74,824,555
TOTAL LIABILITIES		114,318,623	109,068,297
NET ASSETS		135,260,389	113,281,155
EQUITY			
Issued capital	21	209,665,283	209,665,283
Group reorganisation reserve	22	(140,812,242)	(140,812,242)
Share based payment reserve	23	2,194,383	1,957,807
Retained earnings	24	64,212,965	42,470,307
TOTAL EQUITY		135,260,389	113,281,155

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

	Note	Issued Capital \$	Group Reorganisation Reserve \$	Share Based Payment Reserve \$	Retained Earnings \$	Total Equity \$
Balance as at 1 July 2018		57,077,982	-	23,396	25,775,523	82,876,901
Profit for the year		-	-	-	16,694,784	16,694,784
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	16,694,784	16,694,784
Issue of N Class shares	21	300,000		-	-	300,000
Share re-capitalisation	21 / 22	140,812,242	(140,812,242)	-	-	-
Share based payments expense	31	-	-	1,934,411	-	1,934,411
Issue of ordinary shares for acquisition consideration	21	11,475,059	-	-	-	11,475,059
As at 30 June 2019		209,665,283	(140,812,242)	1,957,807	42,470,307	113,281,155
Balance as at 1 July 2019		209,665,283	(140,812,242)	1,957,807	42,470,307	113,281,155
Profit for the year		-	-	-	24,640,373	24,640,373
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	24,640,373	24,640,373
Share based payments expense	31	-	-	236,576	-	236,576
Dividends paid	25	-	-	-	(2,897,715)	(2,897,715)
As at 30 June 2020		209,665,283	(140,812,242)	2,194,383	64,212,965	135,260,389

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 30 June 2020

	Note	30 June 2020 \$	30 June 2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		280,662,250	192,619,045
Payments to suppliers and employees		(211,508,792)	(147,459,003)
Finance costs		(4,148,909)	(2,675,697)
Interest received		37,696	138,168
Income tax paid		(8,394,669)	(7,379,284)
Net cash generated by operating activities	6(b)	56,647,576	35,243,229
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		1,142,050	1,362,625
Payments for property, plant and equipment		(28,110,774)	(24,327,303)
Payments for intangibles		(66,307)	(57,415)
Net cash outflow on the acquisition of business	32	-	(4,335,675)
Proceeds from sale of financial assets		-	583,085
Net cash used in investing activities		(27,035,031)	(26,774,683)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	300,000
Repayment of lease liabilities		(3,850,015)	(549,412)
Net repayment of borrowings		(2,196,007)	-
Dividends paid	25	(2,897,715)	-
Net cash flows used in financing activities		(8,943,737)	(249,412)
Net increase in cash and cash equivalents		20,668,808	8,219,134
Cash and cash equivalents at beginning of the year		16,911,961	8,692,827
Cash and cash equivalents at the end of the year	6(a)	37,580,769	16,911,961

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

1. General Information

The financial report covers DDH1 Holdings Pty Ltd (the “**Company**”) and the subsidiaries it controlled during the year (the “**Group**”).

DDH1 Holdings 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.

Summary of significant accounting policies

1.1 Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, 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”).

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 principal accounting policies adopted by the Group are set out below.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

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

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.3 Basis of consolidation (continued)

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 Groups interests 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)

Summary of significant accounting policies (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:

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.6 Revenue recognition (continued)

(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 service 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 customer.

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-metre 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 invoice 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

Accounting policy from 1 July 2019

The Group assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognised as a right of use asset and a corresponding liability at the date on which the leased asset is available for use by the Group, except for short term leases or low value assets. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.7 Leases (continued)

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If the rate can not be determined, the lessee's incremental borrowing rate is used being the rate the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease liabilities include the value of the following lease payments, where applicable:

- Fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lease under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right of use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances;
- The lease payments change due to changes in an index or rate or a change in expected payments under a guaranteed residual value;
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right of use assets comprise the initial measurement of the corresponding lease liability, less any lease incentives received and any initial direct costs. They are subsequently measured as cost less accumulated depreciation and any impairment losses.

The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. The lease term is the current contracted lease term and the term of any lease extension option where there is a likelihood that the option to extend the lease will be exercised. The right of use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 *Impairment of Assets* to determine whether a right of use asset is impaired and accounts for any identified impairment loss as described in Note 1.14.

The Group applies the short-term lease recognition exemption (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered low value (i.e. below \$5,000). Lease payments on short-term leases and leases of low-value assets recognised as an expense in profit or loss on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.7 Leases (continued)

Accounting policy until 30 June 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of 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 a 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 leases 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 the 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.

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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

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 is DDH1 Holdings Pty Ltd, who is also the ultimate head of the Group. During the 2019 financial year the Group completed a corporate restructure and as part of this restructure all entities in the Group were brought into the tax consolidation group.

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.

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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.11 Taxation (continued)

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)

Summary of significant accounting policies (continued)

1.12 Property, plant and equipment (continued)

Recognition and measurement (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. Assets under hire purchase arrangements 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. If we are reasonably certain the depreciation will be on the useful lives. 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% - 50%
Motor vehicles	6.67% - 25%
Drilling rigs	6.67% - 12.50%
Office equipment, furniture & fittings	10% - 50%

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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.13 Intangibles (continued)

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 relationships

Customer relationships acquired are initially recognised at fair value and are subsequently carried at amortised cost. Customer relationships are amortised to profit or loss using the straight-line method over the contract period or estimated useful life of the relationship, whichever is shorter.

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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of purchased inventories are determined after deducting rebates 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 instrument.

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.

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").

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.16 Financial instruments (continued)

Financial assets (continued)

(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 (see below). 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 "interest income" on the statement of profit or loss and other comprehensive income.

(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 at FVTPL; and
- Debt instruments that do not meet the amortised cost criteria are classified as 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 income' line item (Note 4). Fair value is determined in the manner described in Note 27(a).

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.16 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) 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 a customer going into administration as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet this 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).

(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, it has entered into bankruptcy proceedings or when the financial asset is over two years past due). 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 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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.16 Financial instruments (continued)

Financial assets (continued)

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.

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. The Group does not have any hedging activities in the years presented. 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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.16 Financial instruments (continued)

Financial liabilities (continued)

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.

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 31.

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.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified awards, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

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.

1.20 Application of new and revised accounting standards

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2019. The only new standard adopted which has had a material impact on the Group's result has been that of AASB 16 *Leases* ("AASB 16"). It is discussed in further detail below:

Adoption of AASB 16 Leases

The Group has adopted AASB 16 with effect from 1 July 2019 (the "adoption date"), using the cumulative catch-up approach, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions of the standard. The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying AASB 117:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application;
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

Any reclassifications and adjustments arising from the adoption of the standard have been recognised in the opening balances on 1 July 2019, as disclosed in Notes 13 and 15. There were no adjustments made to the opening balance of retained earnings.

All relevant contracts, other than short term contracts or those relating to low-value assets, have been assessed to determine whether they are, or contain, leases. For initial adoption purposes, short term contracts include contracts that expire within 12 months or less of the adoption date.

On the adoption date, the Group has recognised lease liabilities in relation to the leases which had previously been classified as "operating leases" under the principles of the previous standard AASB 117 *Leases*. These leases are for office premises located in Western Australia which are used by the Group. The Group already had existing finance leases (hire purchase leases), relating to drill rigs and motor vehicles which were in previous periods, disclosed within borrowings. They are now all classified as lease liabilities within Note 15.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.20 Application of new and revised accounting standards (continued)

Lease liabilities

The lease liabilities in respect to the office premises have been measured at the present value of the remaining lease payments over the estimated remaining lease term, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average interest rate used for discounting was 5.76%.

The discount rate used in calculating the carrying amount of the lease liabilities takes into account the particular circumstances applicable to the underlying leased assets (including the amount, lease term, economic environment and other relevant factors). Leases with similar characteristics have been grouped together, predominately on the basis of geography and lease length.

The Group has estimated remaining lease terms including the effects of renewal options or termination options expected to be exercised. For two of the leases, the Group has exercised its judgement that it is reasonably certain to extend the initial lease term by 5 years.

The following is a reconciliation of the total operating lease commitments in the annual financial report at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

	Total \$
Operating lease commitments disclosed at 30 June 2019	3,159,364
Add: New lease during the period	223,200
Add: Options extensions on leases considered more likely than not	4,126,832
Discounted using the Group's weighted average incremental borrowing rate	(1,590,407)
Lease liabilities recognised on 1 July 2019	5,918,989

The following is a reconciliation of the total lease liabilities which were disclosed in borrowings (Note 16) in the annual financial report at 30 June 2019, and which are now disclosed appropriately in lease liabilities recognised at 30 June 2020:

Hire purchase liabilities disclosed at 30 June 2019 in borrowings (Note 16)	4,360,750
Amount transferred and disclosed as lease liabilities from 1 July 2019 (Note 15)	(4,360,750)
Amount in borrowings at 30 June 2020	-

Right of use assets

Right of use assets were measured at amounts equal to the carrying amount of the respective lease liabilities on the adoption date. A total of \$5,918,989 was recognised as right of use assets on the adoption date. There were no onerous lease contracts that would have required an adjustment to the right of use assets on the adoption date. Depreciation is on a straight line basis over the remaining lease term.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.21 Standards and interpretations issued but not yet adopted

New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the following relevant new and revised Australian Accounting Standards, Interpretations and amendments have been issued but are 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 2018 – 6 <i>Amendments to Australian Accounting Standards – Definition of a Business</i>	1-Jan-20	30-Jun-21
AASB 2018 – 7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	1-Jan-20	30-Jun-21
AASB 2019 – 1 <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i>	1-Jan-20	30-Jun-21
AASB 2019 – 3 <i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform</i>	1-Jan-20	30-Jun-21
AASB 2019 – 5 <i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i>	1-Jan-20	30-Jun-21
AASB 2020 – 1 <i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current</i>	1-Jan-22	30-Jun-23
AASB 2020 – 3 <i>Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i>	1-Jan-22	30-Jun-23
AASB 2020 – 3 <i>Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions</i>	1-Jan-20	30-Jun-21

Management and the Directors have reviewed the above and consider that none of them are likely to have a material impact on the Group when initially adopted in future accounting periods.

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. The key judgements, estimates and assumptions 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.

Right of use asset and lease liabilities

In forming the assessment of the initial adoption of AASB 16, the Group has exercised its judgement in its assessment. This judgement is in reference to managements view that it is reasonably certain that it will extend their leases at two of their office premises for a further 5 years from the original lease term. This judgement results in a higher initial recognition of a lease liability and a corresponding right of use asset.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

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

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 such as growth rates, discount rates and EBITDA margins. The results of impairment tests are disclosed in Note 11.

Calculation of loss allowance

As disclosed in the accounting policies, an estimate of ECL is made. Bad debts are written off when identified. The allowance for ECL assessment requires significant estimation. The Directors and management utilise the most recent information available to them such as the aging of the receivable, historical experience, historical collection rates and specific knowledge of the individual debtor situations to make their estimation of the recovery of the trade receivables. When the assessment is made that there is an expected credit loss to be incurred, an allowance will be raised against the trade receivables to account for this expected loss. Where the estimation is different to actual results, carrying amounts are adjusted in the next financial period.

Useful life of customer relationships

The useful life of customer relationships acquired in business combinations are assessed at the time of acquisition. This requires estimation and judgement. Amortisation of customer contacts is based on the useful life assigned at that time to that contract. Customer relationships are amortised based on a straight line basis of the estimated useful life as assigned on acquisition.

In the event of an impairment, the change in carrying value will be recognised immediately through profit or loss for the period.

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 year, Ranger Exploration Pty Ltd and Izett Holdings Pty Ltd changed the useful lives of their drill rigs from 5 years to 15 years and the useful life of its major support vehicles from 5 years to 10 years to align with the Group.

Income tax

As disclosed in Note 1.11, the Company is part of a tax consolidation group which is subject to income tax in Australia. Significant judgement and estimation is required in determining the provisions for income tax. In some instances the financial statements of the Group are finalised prior to the final lodgement of income tax returns of the consolidated tax group for that particular financial year or previous lodged tax returns may be amended from time to time. When the final tax position on lodgement of these returns differs from the financial statement position, or when an amended tax return is performed and lodged, an adjustment will be completed in the following's years financial report to reflect the impact of the tax position. This may result in differences to the amounts initially recorded, and such differences will impact the tax position of the Company and / or the Group.

Notes to the Consolidated Financial Statements (continued)

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. Accordingly, there is only one segment.

The Group generates revenue from external customers. Those who individually account for greater than 5% of the Group's total revenue in either current or comparative period are detailed below. This table sets out the applicable revenue percentage generated from each of these customers over the Groups' revenue.

	30 June 2020	30 June 2019
	%	%
Revenue by major customer		
External Customer 1	10.1	0.8
External Customer 2	7.0	8.1
External Customer 3	6.8	7.3
External Customer 4	6.4	3.0
External Customer 5	6.3	2.4
External Customer 6	6.1	3.3
External Customer 7	5.3	0.0
External Customer 8	5.3	9.7
External Customer 9	1.7	5.9
External Customer 10	0.3	5.6

4. Revenue

The following is an analysis of the Group's revenue for the year from continuing operations:

	Note	30 June 2020	30 June 2019
		\$	\$
Revenue			
Revenue from the rendering of drilling services over time		249,791,573	184,220,395
Total revenue from continuing operations		249,791,573	184,220,395
Other income			
Diesel fuel rebate		1,884,543	1,267,983
Other income		400,072	1,096,031
		2,284,615	2,364,014
Other gains and losses			
Net fair value gains / (losses) on equity investments		31,519	(53,833)
Net foreign exchange gains / (losses)		(29,539)	(38,103)
Gain on disposal of property, plant and equipment		608,142	114,904
Other gains and losses from continuing operations		610,122	22,968

Notes to the Consolidated Financial Statements (continued)

5. Expenses

Profit before income tax includes the following specific expenses:

	Note	30 June 2020 \$	30 June 2019 \$
Finance costs consists of:			
Interest on syndicated loan		(3,505,257)	(2,353,852)
Interest on lease liabilities		(502,265)	-
Interest on obligations under finance lease		-	(53,457)
Syndicated loan establishment fees		-	(994,631)
Other finance costs		(41,077)	(83,756)
Total finance costs		(4,048,599)	(3,485,696)
Depreciation expense consists of:			
Depreciation on property plant and equipment	12	(20,473,826)	(13,097,099)
Depreciation on right of use asset	13	(797,303)	-
Total depreciation expense		(21,271,129)	(13,097,099)
Amortisation expense consists of:			
Amortisation of customer relationships	11	(2,603,673)	(1,420,654)
Amortisation of software development	11	(14,673)	(11,067)
Total depreciation expense		(2,618,346)	(1,431,721)
Employee and contract labour expense consists of:			
Salary and wages including bonuses as well as sick, annual and long service leave		(87,549,878)	(65,023,485)
Superannuation expense		(6,767,728)	(5,043,657)
Share based payment	31	(236,576)	(1,934,411)
Other	(a)	(12,967,739)	(10,331,921)
Total		(107,521,921)	(82,333,474)

(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 2020 \$	30 June 2019 \$
6(a) Cash at bank and on hand			
Petty cash		1,174	1,343
Cash at bank		37,579,595	16,910,618
Net cash at bank		37,580,769	16,911,961

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% (FY19: 0.0% - 0.66%).

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

	Note	30 June 2020 \$	30 June 2019 \$
Profit for the period after income tax		24,640,373	16,694,784
Non-cash items in profit:			
Shares received as compensation		(22,246)	(250,000)
Depreciation of non-current assets		21,271,129	13,097,099
Amortisation of non-current assets		2,618,346	1,431,721
Net gains on disposal of plant and equipment		(608,142)	(114,904)
Share-based payment expense		236,576	1,934,411
Finance costs		312,755	810,000
Acquisition cost funded by debt		-	1,272,255
Non-cash gain / (loss) on financial asset		(31,519)	53,833
Change in assets and liabilities:			
(Increase) / decrease in inventories		(1,080,797)	(2,205,675)
(Increase) / decrease in current receivables		5,915,990	(9,748,389)
(Increase) / decrease in other assets		54,849	43,885
Increase / (decrease) in trade and other payables		(33,408)	9,047,686
Increase / (decrease) in current tax liabilities		2,977,027	781,583
Increase / (decrease) in deferred tax liabilities		(634,084)	178,651
Increase / (decrease) in provisions		1,030,727	2,216,289
Net cash from operating activities		56,647,576	35,243,229

Notes to the Consolidated Financial Statements (continued)

6. Cash and cash equivalents (continued)

Non-cash transactions:

In the current financial year, the Group entered into the following:

- The Group obtained new hire purchase arrangements for its drill rig assets. The value is shown in the table below.

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

- The Company issued ordinary shares as part of the acquisition of Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd as detailed in Note 21 and Note 32.
- The Group obtained new hire purchase arrangements for its drill rig assets. The value is shown in the table below.
- M Class shares were issued under the management equity plan as detailed in Notes 23 and 31.
- Debt was drawn down and paid directly to the vendors as part of the settlement of contingent consideration from the Strike acquisition which occurred on 31 May 2018.

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.

	Balance at 30 June 2018	Financing cash flows	Non-Cash				Balance at 30 June 2019
			Settle of contingent consideration	Acquisition of subsidiary	Expenses	Additions to HP liabilities	
Borrowings	26,294,078	-	6,410,843	28,857,011	2,083,255	-	63,645,187
Lease liabilities	1,068,171	(549,412)	-	-	-	3,841,991	4,360,750
	27,362,249	(549,412)	6,410,843	28,857,011	2,083,255	3,841,991	68,005,937

	Balance at 30 June 2019	Financing cash flows	Non-Cash				Balance at 30 June 2020
			Recognition of lease liabilities	Acquisition of subsidiary	Expenses	Additions to lease liabilities	
Borrowings	63,645,187	(2,196,008)	-	-	-	-	61,449,179
Lease liabilities	4,360,750	(3,850,015)	5,918,989	-	-	2,037,097	8,466,821
	68,005,937	(6,046,023)	5,918,989	-	-	2,037,097	69,916,000

Notes to the Consolidated Financial Statements (continued)

7. Trade and other receivables

	Note	30 June 2020 \$	30 June 2019 \$
Current			
Trade receivables		41,715,668	47,663,057
Loss allowance		-	-
		<u>41,715,668</u>	<u>47,663,057</u>
Other debtors		172,135	140,736
		<u>41,887,803</u>	<u>47,803,793</u>

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.

Credit risk and ageing of trade receivables

The class of assets described as "trade receivables" 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:

Current	30,411,801	29,247,674
One to three months	7,986,338	17,137,733
Three to six months	3,317,529	1,277,650
	<u>41,715,668</u>	<u>47,663,057</u>

Notes to the Consolidated Financial Statements (continued)

8. Inventories

	Note	30 June 2020 \$	30 June 2019 \$
Current			
Consumable stores & spare parts		23,621,065	22,540,268
		23,621,065	22,540,268

The Group maintains an inventory of drilling parts and spares 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 2020 (30 June 2019: Nil).

The cost of inventories recognised as a consumable expense during the year in respect of continuing operations was \$23,106,827 at 30 June 2020 (30 June 2019: \$15,346,201).

9. Other assets

Current			
Prepayments		722,134	776,983
Rental bond		6,600	6,600
		728,734	783,583

10. Financial assets

Financial assets mandatorily measured at FVTPL

Equity investments		569,432	515,667
		569,432	515,667

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 investments in equity instruments are measured at FVTPL.

The Group holds less than 1% of the ordinary shares of St George Mining Ltd, Vimy Resources Limited and Alt Resources Limited. All of these companies are involved in mineral exploration in Australia and are listed on the ASX. The directors of the Group do not consider that the Group is able to exercise significant influence over any of these entities due to the minor nature of the Group's shareholding.

In addition, the Group holds ordinary shares and performance rights in Serena Minerals Limited ("Serena"), a company involved in mineral exploration in Australia. The ordinary shares are less than 1% of the ordinary shares of Serena, and the performance rights do not give rise to a significant stake in Serena. Serena is a non-listed and private entity. The Directors of the Group do not consider that the Group is able to exercise significant influence over Serena due to the minor nature of its shareholding.

Notes to the Consolidated Financial Statements (continued)

11. Intangibles

	Note	30 June 2020 \$	30 June 2019 \$
Customer relationships			
Opening balance		9,875,060	5,507,316
Recognised on acquisition of a subsidiary	32	-	5,788,398
Amortisation expense		(2,603,673)	(1,420,654)
		7,271,387	9,875,060
Goodwill			
Opening balance		25,381,304	21,623,591
Recognised on acquisition of a subsidiary		-	3,757,713
		25,381,304	25,381,304
Software development			
Opening balance		194,564	148,217
Additions		66,307	57,414
Amortisation expense		(14,673)	(11,067)
		246,198	194,564
Total intangibles		32,898,889	35,450,928

The customer relationships of \$5,788,398 acquired in the prior year were recognised as a result of the acquisition of Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd (both referred to as "Ranger") as per Note 32. These customer relationships are amortised on a straight-line basis over a period of each contract. The contracts range from 1 – 4.5 years. This has resulted in amortisation of \$1,685,787 (2019: \$502,768) this reporting period. The remaining \$5,507,316 relate to customer relations which were recognised in previous reporting periods from the acquisition of Strike Drilling Pty Ltd ("Strike"). These are amortised on a straight line basis over 6 years, and resulted in amortisation of \$917,886 (2019: \$917,886) this financial year.

Software development is amortised on a straight-line basis over a period of 4 – 5 years (2019: 4 – 5 years).

The goodwill recognised in the prior year is due to the acquisition of Ranger. This resulted in \$3,757,713 being recognised as goodwill and allocated to the Ranger CGU. The remaining \$21,623,591 is allocated to the Strike CGU. There is no other goodwill in the Group allocated to any other CGU's.

For impairment purposes, intangible assets are allocated to the cash generating unit ("CGU") for which they were originally identified on acquisition.

Notes to the Consolidated Financial Statements (continued)

11. Intangibles

The Group performed the annual impairment test of the Strike and Ranger goodwill in June 2020. In considering the carrying value of the Strike and Ranger goodwill, the Directors have adopted a value in use methodology to determine the recoverable amounts of the respective Strike and Ranger CGU's. No indicators of impairment were noted and no impairment charge is necessary for either CGU.

The recoverable amount of each CGU has been determined based on a value in use calculation that uses the cash flow budget over a one year period, followed by an extrapolation of expected cash flows for the CGU over a four year period using the growth rates determined by management and the assumptions outlined below. The present value of the expected cash flows and a terminal value for the CGU is determined by applying a suitable discount rate.

Key assumptions used in the value in use calculation and sensitivity to changes in assumptions

The calculation of the value in use for the Strike and Ranger CGU's is most sensitive to the following assumptions:

- **Revenue Growth Rate**
The growth rate has been set at the budget level for the 2021 financial year plus assumed growth rates of 0% for the following years for both Strike and Ranger CGU's. A reasonable possible change is not likely to cause a material impairment.
- **Discount Rate**
The discount rate represent the current market risks, taking into consideration the time value of money and specific risks not incorporated in the cash flow forecasts. The discount rate is based upon the weighted average cost of capital ("**WACC**"). WACC is assessed by taking into account the expected return on investment by investors, the cost of debt servicing plus beta factors for industry risks. Management and the Directors have adopted a WACC of 10.66% for both the Strike and Ranger CGU's. An increase of 1% on the discount rate would have the impact of reducing headroom by approximately \$9m in Strike and \$13m in Ranger, which would not cause impairment to either CGU's. A reasonable possible change in the discount rate is not likely to cause a material impairment.
- **EBITDA Margin**
The EBITDA margin for Strike has been assigned at 34.2% which is the budget for the 2021 financial year. This margin has previously been achieved and exceeded in the 2018 and 2019 financial years and it has been assumed that it will remain consistent for the period of cash flows. The EBITDA margin for Ranger has been set at 33.5% which is the budgeted margin for the 2021 financial year, and it has been assumed that it will remain consistent for the period of the cash flows. A reasonable possible change is not likely to cause a material impairment.

Notes to the Consolidated Financial Statements (continued)

12. Property, plant and equipment

	Plant and Equipment \$	Motor Vehicles \$	Drill Rigs \$	Capital WIP \$	Total \$
At 1 July 2019					
Cost or fair value	20,857,041	58,143,008	138,002,706	185,895	217,188,650
Accumulated depreciation	(13,788,144)	(31,792,263)	(73,264,991)	-	(118,845,398)
Net book amount	7,068,897	26,350,745	64,737,715	185,895	98,343,252
Year ended 30 June 2020					
Opening net book amount	7,068,897	26,350,745	64,737,715	185,895	98,343,252
Additions	4,347,525	6,304,815	16,897,850	2,408,927	29,959,117
Transfer between class	-	-	185,895	(185,895)	-
Disposals	-	(101,815)	(506,328)	-	(608,143)
Depreciation	(2,630,945)	(5,672,430)	(12,170,451)	-	(20,473,826)
	8,785,477	26,881,315	69,144,681	2,408,927	107,220,400
At 30 June 2020					
Cost or fair value	25,204,566	64,346,008	154,394,228	2,594,822	246,539,624
Accumulated depreciation	(16,419,089)	(37,464,693)	(85,435,442)	0	(139,319,224)
Net book amount	8,785,477	26,881,315	68,958,786	2,594,822	107,220,400
At 1 July 2018					
Cost or fair value	14,771,565	42,812,507	89,351,098	-	146,935,170
Accumulated depreciation	(11,442,272)	(25,196,001)	(56,074,709)	-	(92,712,982)
Net book amount	3,329,293	17,616,506	33,276,389	-	54,222,188
Year ended 30 June 2019					
Opening net book amount	3,329,293	17,616,506	33,276,389	-	54,222,188
Additions	5,752,120	8,843,664	12,840,413	185,895	27,622,092
Acquisition of subsidiary	196,090	3,865,500	26,235,000	-	30,296,590
Transfer between class	107,078	145,554	(252,632)	-	-
Disposals	(48,770)	(181,684)	(470,065)	-	(700,519)
Depreciation	(2,266,914)	(3,938,795)	(6,891,390)	-	(13,097,099)
	7,068,897	26,350,745	64,737,715	185,895	98,343,252
At 30 June 2019					
Cost or fair value	20,857,041	58,143,008	138,002,706	185,895	217,188,650
Accumulated depreciation	(13,788,144)	(31,792,263)	(73,264,991)	-	(118,845,398)
Net book amount	7,068,897	26,350,745	64,737,715	185,895	98,343,252

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.

Included in "Capital WIP" is deposits paid for drill rigs and other supporting equipment. Once fully acquired, the amount will be transferred appropriately to its class and depreciation will commence.

(a) Assets pledged as security

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

Lease liabilities

The Group has entered into a number of equipment lease liability 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 lease liabilities to which they are related. Refer to Note 15.

13. Right of use assets

	Note	30 June 2020 \$	30 June 2019 \$
Balance recognised at 1 July 2019 (on adoption)		5,918,989	-
Less: Adjustments to cashflows from rent relief		(49,766)	
Depreciation expense		(797,303)	-
Closing balance		5,071,920	-

The Group has three leases in place for office leases in Perth and another lease in place for a storage yard in Newman. The lease term ranges on these leases between 2-5 years.

Additionally, the Group has options to extend the lease term on some of its premises. It has exercised its judgement and determined that it is reasonably certain that they will extend the lease at two of their offices in Perth, Western Australia. During the reporting period, some of the office leases received some rent relief from April to June 2020. This resulted in a reduction of the initial right of use asset of \$49,766.

The Group does not have an option to purchase any of the properties at the end of the lease term.

In addition to the right of use assets, the Group has a number of short term leases. The amount expensed on short term leases or low value assets during the financial year amounted to \$3,126,714.

Interest expense recognised within finance costs on the above right of use assets totalled \$312,755 for the financial year.

Notes to the Consolidated Financial Statements (continued)

14. Trade and other payables

	Note	30 June 2020 \$	30 June 2019 \$
Current			
Trade creditors		12,850,382	13,495,947
Sundry creditors		300,849	855,291
Superannuation payable		407,262	421,727
Goods and services tax payable		2,265,166	1,888,579
Payroll tax payable		125,362	343,548
Accrued charges		3,563,968	3,033,061
Income in advance		1,986,403	154,000
Amounts withheld from salary, wages and other payments		111,397	1,170,017
Other payables		217,063	499,090
		21,827,852	21,861,260

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.

Notes to the Consolidated Financial Statements (continued)

15. Lease liabilities

		Note	30 June 2020	30 June 2019
			\$	\$
Leases on office premises	(i)		5,336,110	-
Hire purchase liabilities	(ii)	27	3,130,711	4,360,750
Closing balance			8,466,821	4,360,750
Split as follows:				
Current			2,277,532	1,670,564
Non-Current			6,189,289	2,690,186
Closing balance			8,466,821	4,360,750

- (i) These liabilities recognised relate to the recognition of the right of use assets as disclosed in Note 13 to the financials.
- (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. The applicable interest rate of the hire purchase liabilities is fixed and ranges between 2.60% - 4.23% (2019: 3.58% - 4.23%)

The Group does not face a significant liquidity risk with regard to its lease liabilities and the fair value of the lease liabilities is approximately equal to the carrying amount.

Maturity Analysis:

		Note	30 June 2020	30 June 2019
			\$	\$
Lease liability commitments				
<i>Amounts payable under lease liabilities:</i>				
Within one year			2,713,965	1,806,246
In the second to fifth years inclusive			4,696,528	2,783,966
After five years			2,437,021	-
			9,847,514	4,950,212
Less: future finance charges			(1,380,693)	(229,462)
Present value of lease obligations			8,466,821	4,360,750

Notes to the Consolidated Financial Statements (continued)

16. Borrowings

	Note	30 June 2020 \$	30 June 2019 \$
<i>Secured borrowings at amortised cost</i>			
- Syndicated loans (i)		61,449,179	63,645,187
Total borrowings		61,449,179	63,645,187
Amount due for settlement within 12 months			
- Syndicated loans		3,344,427	3,491,055
		3,344,427	3,491,055
Amount due for settlement after 12 months			
		58,104,752	60,154,132
		58,104,752	60,154,132

In the prior reporting period, the hire purchase liabilities were classified as borrowings. Due to the introduction of AASB 16, they are now classified as lease liabilities in Note 15.

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

- (i) 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. At year end an amount is repayable under the facility within the next 12 months from the reporting date. The applicable interest payable is variable. At the reporting date, the facilities attracted an interest rate of 4.40% (2019: 5.76%); and
- (ii) The weighted average interest on borrowings at 30 June 2020 was 4.40% (2019: 5.76%).

Available borrowing facilities

	Note	30 June 2020 \$	30 June 2019 \$
Syndicated loan			
Available facilities		61,449,179	66,000,000
Used at balance date		(61,449,179)	(63,645,187)
Unused at balance date		-	2,354,813

Banking covenants

The Company complied with and continues to comply with all banking covenants specified in its agreements 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)

17. Provisions

	Note	30 June 2020 \$	30 June 2019 \$
Provision for short-term incentive bonus		999,999	991,000
Provision for annual leave		3,195,145	2,591,682
Provision for long service leave		1,666,987	1,248,721
Total provisions		5,862,131	4,831,403
<i>Analysis of total provisions:</i>			
Current		5,277,042	4,458,193
Non-current		585,089	373,210
Total provisions		5,862,131	4,831,403

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.

18. Income tax expense

	Note	30 June 2020 \$	30 June 2019 \$
Income tax expense recognised in profit			
Income tax expense comprises			
Current tax		11,375,158	7,990,553
Deferred tax		(637,547)	348,966
		10,737,611	8,339,519

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

Profit / (loss) before tax from continuing operations	35,377,984	25,034,303
Prima facie tax expense on profit from ordinary activities before income tax at 30%	10,613,395	7,510,291
- Non-assessable income		-
- Non-deductible expenses	123,470	669,744
- Prior year over/under	-	(304,218)
- Other	746	463,702
	10,737,611	8,339,519

Notes to the Consolidated Financial Statements (continued)

19. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax asset 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 2020 \$	30 June 2019 \$
The balance comprises temporary differences attributable to:			
Employee benefit provisions		1,769,937	1,516,619
Borrowing costs		357,015	489,508
Business-related expenses		677,125	122,962
Right of use asset		1,621,363	-
Other		174,830	83,641
Deferred tax assets		4,600,270	2,212,730
Intangibles		2,181,416	2,962,518
Inventories		7,086,319	6,762,081
Property, plant and equipment		4,642,026	3,922,893
Lease liabilities		1,600,833	-
Other		62,619	172,265
Deferred tax liabilities		15,573,213	13,819,757
Net deferred tax liabilities		10,972,943	11,607,027
	Note	30 June 2020 \$	30 June 2019 \$
Movements in the period:			
Opening balance at 1 July		11,607,027	9,691,856
Recognition of deferred tax on acquisition		-	1,736,519
Debit to the income statement		(637,547)	348,986
Prior year adjustment		3,463	-
Recognition of DTA on acquisition		-	(170,334)
Closing balance at 30 June		10,972,943	11,607,027

Notes to the Consolidated Financial Statements (continued)

20. Earnings per share

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

Earnings	30 June 2020 \$	30 June 2019 \$
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	24,640,373	16,694,784
Earnings for the purposes of dilutive earnings per share	24,640,373	16,694,784
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	291,149,494	279,446,591
Effect of dilutive potential ordinary shares:		
Share options (Class M and N Shares)	13,935,133	9,753,088
Weighted average number of ordinary shares for the purposes of diluted earnings per share	305,084,627	289,199,679

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	8.46	5.97
Diluted – cents per share	8.08	5.77

Notes to the Consolidated Financial Statements (continued)

21. Issued capital

Movement in issued capital	Note	Number of shares No.	Share capital \$
<i>Ordinary Shares</i>			
Balance at 30 June 2018		137,751,378	57,077,982
Group reorganisation	(a)	275,502,756	197,890,224
Issue of shares	(b)	15,646,738	11,475,059
Balance at 30 June 2019		291,149,494	209,365,283
Transactions in current year		-	-
Balance at 30 June 2020		291,149,494	209,365,283
<i>N Class Shares</i>			
Balance at 2018		-	-
Issue of N Class Shares	(c)	458,000	300,000
Balance at 30 June 2019		458,000	300,000
Transactions in current year		-	-
Balance at 30 June 2020		458,000	300,000

No transactions occurred in share capital in the current reporting period. In the prior reporting period the following transactions occurred which impact issued capital:

- (a) On reorganisation of the Group on 30 November 2018, shareholders in DDH 1 Drilling Pty Ltd were granted two shares in DDH1 Holdings Pty Ltd for each share held in DDH 1 Drilling Pty Ltd at that date resulting in the issue of 275,502,756 shares in DDH 1 Holdings Pty Ltd with a fair value of \$197,890,224. DDH1 Holdings became the parent entity of the Group as at that date. As a result of this reorganisation a Group Reorganisation Reserve was created, refer to Note 22;
- (b) 15,646,738 shares were issued as consideration for the acquisition of Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd. Refer to Note 32 for information on this transaction; and
- (c) Mr Sy Van Dyk (Chief Executive Officer) paid the Company consideration of \$300,000 in respect to the issue of N Class shares. Refer to Note 23 and Note 31 for more information on 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.

N Class Shares

N Class shares are non-voting shares, but have similar rights to ordinary shares. They are able to participate in dividends and may participate in the proceeds on winding up of the Group in proportion if determined by the Board at that time. N Class shares are paid in full. They do not have any vesting conditions and carry the right to be converted to ordinary shares of the Company at the time of an exit event, being an initial public offering or a sale of the business.

Notes to the Consolidated Financial Statements (continued)

22. Group reorganisation reserve

	Note	30 June 2019 \$	30 June 2019 \$
Balance at 1 July		140,812,242	-
Arising on the Group Restructure		-	140,812,242
Balance at 30 June		140,812,242	140,812,242

During the prior reporting year, the Group undertook a corporate restructure which was treated as a reorganization for accounting purposes. As a result of this transaction, a group reorganisation reserve was recognised. The Group reorganisation reserve represents the excess of the fair value of the shares issued by the Company over the carrying value of the net assets of DDH 1 Drilling as at the date of the Group reorganisation on 30 November 2018.

23. Share based payment reserve

Balance at 1 July		1,957,807	23,396
Credit to equity for equity-settled share-based payments		236,576	1,934,411
Balance at 30 June		2,194,383	1,957,807

Management Equity Plan

The Group operates a Management Equity Plan (“the **Plan**”). This has two additional classes of shares, being Class “M” and Class “N” (referred to as “**Plan Shares**”). Class N shares are detailed in Note 21.

Under the terms of the Plan, certain key senior employees were awarded Class M shares which may be purchased at a future date at a value as determined by the Board. These Class M shares may later be converted to ordinary shares, subject to meeting certain performance criteria and vesting conditions applicable at the time of an ‘Exit Event’. The Plan Shares carry the right to receive dividends and participate in any return of capital as approved by the Board, but do not have the right to attend general meetings or voting rights.

Class M shares are accounted for as a share-based payment. A credit to equity, related to the grant of these Class M shares, totalling \$236,576 (2019: \$1,934,411) was recognised in the period.

Refer to share based payments information at Note 31 for further details.

24. Retained earnings

Balance at 1 July		42,470,307	25,775,523
Dividends paid	25	(2,897,715)	-
Net profit for the year		24,640,373	16,694,784
Balance at 30 June		64,212,965	42,470,307

Notes to the Consolidated Financial Statements (continued)

25. Dividend

	Note	30 June 2020 \$	30 June 2019 \$
Amounts recognised as distributions to equity holders in the year:			
Dividend declared at \$0.01 per share	(a)	3,000,000	-
Franked dividends			
Franking credits available for subsequent reporting periods based on a tax rate of 30.0%		21,101,707	13,740,373

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.

- (a) During the financial year, a fully franked dividend of \$3,000,00 was declared (2019: nil) to ordinary, N Class and M Class shareholders. An amount of \$2,897,715 was paid, with the difference of \$102,285 applied against the off-balance sheet loan for the M Class shares. No other dividends have been declared or paid during the year.

26. Leasing commitments

Operating lease commitments

The Group has recognised right of use assets on a modified retrospective basis at 1 July 2019. The table below, for comparative purposes, reflects the non-cancellable operating leases:

	30 June 2019 \$
Within one year	812,462
In the second to fifth years inclusive	2,346,902
After five years	-
	<u>3,159,364</u>

Notes to the Consolidated Financial Statements (continued)

27. 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).

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		Total
	FVTPL	Amortised cost	FVTPL	Amortised cost	
	\$	\$	\$	\$	\$
2020					
Cash and bank balances	-	37,580,769	-	-	37,580,769
Trade and other receivables	-	41,887,803	-	-	41,887,803
Other financial assets	569,432	-	-	-	569,432
Borrowings	-	-	-	61,449,179	61,449,179
Trade and other payables	-	-	-	21,827,852	21,827,852
	FVTPL	Amortised cost	FVTPL	Amortised cost	Total
	\$	\$	\$	\$	\$
2019					
Cash and bank balances	-	16,911,961	-	-	16,911,961
Trade and other receivables	-	47,803,793	-	-	47,803,793
Other financial assets	515,667	-	-	-	515,667
Borrowings	-	-	-	63,645,187	63,645,187
Trade and other payables	-	-	-	21,861,260	21,861,260

Notes to the Consolidated Financial Statements (continued)

27. Financial instruments (continued)

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

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

Financial assets carried at fair value through the profit and loss related to listed and non-listed investments are reviewed annually with regards to observable data based on the quoted prices of the instruments held. These are typically measured at Level 1 fair value hierarchy, and there are no transfers between levels during the period. At 30 June 2020, listed investments with a carrying value of \$415,432 (2019: \$361,667) have been measured at Level 1. For financial assets that are non-listed investments, there are measured accordingly to inputs other than quoted prices 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 2020, financial assets with a carrying value of \$154,000 (2019: \$154,000) have been measured at Level 3.

There were no other financial assets or financial liabilities held at FVTPL during the period that were valued according to a Level 3 hierarchy assessment, or in the opinion of the Directors held at fair value that did not approximate its carrying value.

(b) Financial risk management objectives

The Group provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the 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 and the cash and cash equivalents have variable interest rates. A one percentage point increase / decrease in interest rates would result in a net profit after tax decrease / increase of approximately \$269,991 (2019: \$467,330).

Lease liabilities 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 10) 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 \$28,472 (2019: \$25,783).

Notes to the Consolidated Financial Statements (continued)

27. Financial instruments (continued)

(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.

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 2020, 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.

Notes to the Consolidated Financial Statements (continued)

27. Financial instruments (continued)

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 2020				
Trade and other payables	Nil	21,827,852	-	21,827,852
Lease liabilities	4.97%	2,277,532	6,189,289	8,466,821
Syndicate loan facilities	4.40%	3,344,427	58,104,752	61,449,179
30 June 2019				
Trade and other payables	Nil	21,861,260	-	21,861,260
Lease liabilities	3.78%	1,670,564	2,690,186	4,360,750
Syndicated loan facilities	5.76%	3,491,055	59,854,132	63,345,187

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 as disclosed in Note 16 and lease liabilities in Note 15 less the cash and bank balances in Note 6) and equity of the Group (comprising issued capital, reserves and retained earnings).

	Note	30 June 2020 \$	30 June 2019 \$
Total borrowings	16	61,449,179	63,345,187
Lease liabilities	15	8,466,821	4,360,750
Less cash	6	(37,580,769)	(16,911,961)
Net debt		32,335,231	50,793,976
Total equity		135,260,389	113,281,155
Total capital		167,595,620	164,075,131
Gross gearing ratio (gross debt / equity)		51.7%	41.3%
Net gearing ratio (net debt / equity)		19.3%	31.0%

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

Notes to the Consolidated Financial Statements (continued)

28. Related party transactions

(a) Related parties

The Group's main related parties are as follows:

(i) Entities exercising control over the Group

The 100% owned subsidiary companies in the Group are:

Entity Name	ACN
DDH1 Midco Pty Ltd	625 959 908
DDH1 Finco Pty Ltd	625 961 980
DDH 1 Drilling Pty Ltd	154 493 008
Strike Drilling Pty Ltd	164 225 656
Ranger Exploration Drilling Pty Ltd	617 982 680
Izett Holdings Pty Ltd	120 340 678

Refer to Note 33 for further information on the above entities. 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.

(ii) Key management personnel

Key management personnel ("KMP") 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 KMP's are as set out in Note 29 and 30 below.

(b) 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. Transactions with related parties are described below:

	Note	30 June 2020 \$	30 June 2019 \$
<i>Sales and purchases of goods and services</i>			
Transactions with M Thurston		90,123	91,950

- DDH 1 Drilling Pty Ltd utilises a corporate box which is leased by Mr M Thurston (Director) for the purposes of entertaining business clients at selected sporting events. Additionally, a water cart owned by Mr Thurston is charged to the business from time to time as required. The total expenditure related to the corporate box and water cart expensed by the Group during the financial year is disclosed above.

Notes to the Consolidated Financial Statements (continued)

28. Related party transactions (continued)

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

At 30 June 2020, the Group owed \$28,952 (2019: \$8,052) to Sportsking Pty Ltd for the use of a water cart. This business is related to Mr Thurston. In addition to this, the Company owes Mr Thurston at 30 June 2020 \$1,663 (2019: nil) for funds that he has paid in advance on his Company Credit Card.

(d) Loans to / from related parties

There are no loans to or from related parties.

(e) Terms and conditions of related party transactions

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

29. 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)
Mr Jarrod Solomons	
Mr Byron Beath	
Mr Richard Bennett	
Mr Alan Broome	
Mr Sy Van Dyk	(Chief Executive Officer)
Mr Ben MacKinnon	(Chief Financial Officer)

Notes to the Consolidated Financial Statements (continued)

30. Key management personnel compensation

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

	Note	30 June 2020 \$	30 June 2019 \$
Short term employee benefits		1,690,035	1,613,178
Post-employment benefits		28,111	99,983
Non-monetary benefits ¹		38,491	39,076
Long-term benefits ²		106,036	13,486
Share based payments		96,613	846,757
Total		1,959,286	2,612,480

¹ – Non-monetary benefits includes reportable FBT amounts.

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

31. Share based payments

Management Equity Plan

The Company has in place 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 M Shares carry the right to be converted to ordinary shares of DDH1 Holdings 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.

These Class M shares are non-voting shares, but otherwise have similar rights to ordinary shares to receive dividends and other distributions. They do not carry voting rights or a right to attend general meetings. They may participate in return of capital if determined the Board at that time.

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.

As the Class M shares are a right to an ordinary share, they are treated as a share-based payment.

On 30 November 2018, a corporate restructure of the Group was undertaken, whereby a new parent entity, the Company (DDH 1 Holdings Pty Ltd) was interposed as the parent of DDH 1 Drilling Pty Ltd. On the date of reorganisation, all Class M and Class N shares issued previously 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)

31. Share based payments (continued)

Vesting conditions applicable to Class M shares 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 Class M shares granted under the plan:

	2020		2019	
	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
As at 1 July		13,734,245		2,944,483
Modified during the year	-	-	0.45	2,944,483
Granted during the year	-	-	0.47	7,845,279
Forfeited during the year *	0.52	(384,615)	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year		13,349,630		13,734,245
Exercisable at 30 June	0.46	-	0.46	-

* In the current year, a member of the Management Equity Plan left the Group. Upon leaving the Group, the M Class shares were purchased back at nil value by the Company.

The Class M shares outstanding at 30 June 2020 had a weighted average exercise price of 46 cents (2019: 46 cents), and a weighted average remaining contractual life of 8.3 years (2019: 9.3 years). In the current financial year, no Class M shares were granted.

The aggregate of the estimated fair values of the Plan Shares granted during 2020 is nil (2019: \$2,004,961).

Notes to the Consolidated Financial Statements (continued)

31. Share based payments (continued)

The fair value of the Class M shares previously granted were determined using the Monte Carlo model for valuation purposes. The valuation was undertaken by a professional accounting firm and the information contained below is from their report.

The inputs into the Monte Carlo model were as follows:

	31 May 2018	30 Nov 2018	17 Dec 2018	13 May 2019
Weighted average share price (cents) (i)	150	75	75	80
Weighted average exercise price (cents)	91	45	45	52
Expected volatility (ii)	20%	20%	20%	20%
Expected life – years (iii)	3	3	3	1.75
Risk-free rate (iv)	2.10%	2.10%	2.10%	1.49%
Expected dividend yields (v)	Nil	Nil	Nil	Nil
Fair value per Class M share	\$0.53	\$0.27	\$0.27	\$0.23

- (i) The weighted average share price was determined based on the most recent issue of shares to a third party. Given the Company is private, this was considered an appropriate valuation.
- (ii) As DDH1 Holdings Pty Ltd is a privately held company, there was no observable share price history from which to calculate a historical volatility estimate. The expected volatility was therefore based on an assessment of the share price volatility of other similar businesses.
- (iii) The Class M 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 Class M shares. This has been initially assumed to be 31 December 2019. It has since been amended to 30 June 2021, and accordingly the remaining share-based payments expense will be expensed over the vesting period to June 2021.
- (iv) The risk-free rate assumed in the model was 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 were 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 expense of \$236,576 (2019: \$1,934,411) in relation to the above equity-settled share-based payment transactions.

Notes to the Consolidated Financial Statements (continued)

32. Acquisition of subsidiaries

Acquisition of Ranger

In the prior reporting period on 1 April 2019, the Group acquired a 100% equity interest in both Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd. Control was achieved on this date. These companies are collectively referred here within as “**Ranger Drilling**”. Ranger Drilling specialises in providing drilling solutions to its customers, which include Air Core Drilling, Grade Control Drilling, Reverse Circulation Drilling and Diamond Drilling. Ranger Drilling is based in Wangara, WA. The Group acquired Ranger Drilling to increase its operation drilling capacity through the addition of Ranger Drilling’s drill rig fleet, operational expertise and its customer base.

Ranger Drilling was acquired through a combination of the issue of shares in the Company, cash and funded by debt. Details of the acquisitions are below. The amounts recognised below are the fair value of the identifiable assets acquired and liabilities assumed:

	Total \$
Cash and cash equivalents	3,121
Trade and other receivables	7,620,646
Inventory	344,001
Plant and equipment	30,296,590
Intangibles acquired in business combination	5,788,397
Trade and other payables	(1,402,074)
Deferred tax liabilities	(1,736,519)
Total identifiable assets	40,914,162
Goodwill recognised on acquisition	3,757,713
Total consideration	44,671,875
Satisfied by:	
Cash	4,338,796
Funded by debt	28,858,020
Equity instruments at fair value (15,646,738 ordinary shares of parent company)	11,475,059
Total fair value consideration transferred	44,671,875
Net cash outflow on acquisition of business	Year end 30 June 2019
Cash consideration	(4,338,796)
Add: cash and cash equivalent balances acquired	3,121
	(4,335,675)

The fair value of trade and other receivables amounts to \$7,620,646. The gross amount of trade receivables is \$7,620,748 and it is expected that the full contractual amounts can be collected.

Notes to the Consolidated Financial Statements (continued)

32. Acquisition of subsidiaries (continued)

The fair value of the 15,646,738 ordinary shares issued as part of the consideration paid for Ranger Drilling was determined on the basis of DDH1 Holdings Pty Ltd's Enterprise Value at the date of acquisition divided by the shares on issue.

Acquisition related costs of \$1,272,255 were excluded from consideration transferred and were recognised as an expense in other expenses in the consolidated statement of profit or loss and other comprehensive income at the time of acquisition.

33. 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 Group	
			30 June 2020	30 June 2019
DDH1 Midco Pty Ltd	Holding company	Australia	100%	100%
DDH1 Finco Pty Ltd	Holding Company	Australia	100%	100%
DDH 1 Drilling Pty Ltd	Provision of Drilling Services	Australia	100%	100%
Strike Drilling Pty Ltd	Provision of Drilling Services	Australia	100%	100%
Ranger Exploration Drilling Pty Ltd	Provision of Drilling Services	Australia	100%	100%
Izett Holdings Pty Ltd	Provision of Drilling Services	Australia	100%	100%

All of the wholly-owned subsidiaries and parent entity, incorporate in Australia, form the Tax Consolidation Group.

Deed of Cross Guarantees

Pursuant to ASIC Class Order 98/1418 (as amended) dated 26 June 2020, the wholly-owned subsidiaries listed above in Note 33, are parties to the Deed of Cross Guarantee and are relieved from the Corporations Act 2001, requirements for preparation, audit and lodgement of Financial Reports and Director Reports.

All of the subsidiaries of the Group are party to the Deed of Cross Guarantee. Accordingly, the statement of profit or loss and other comprehensive income and the statement of financial position for the entities party to the Deed of Cross Guarantee is the same as the primary statements that form this financial report.

Notes to the Consolidated Financial Statements (continued)

34. 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.

Refer to Note 33 which discloses the Deed of Cross Guarantees which are in place between the parent entity and all of its subsidiaries. Under the deed, each company guarantees to support the liabilities and obligations of the others.

Summaries financial information for the parent entity is as follows:

Financial position	30 June 2020	30 June 2019
	\$	\$
Assets		
Current assets	688	3
Non-current assets	74,793,786	68,853,038
Total assets	74,794,474	68,853,041
Liabilities		
Current liabilities	-	-
Non-current liabilities	(2,897,715)	-
Total liabilities	(2,897,715)	-
Equity		
Issued capital	209,665,283	209,665,283
Restructure reserve	(140,812,242)	(140,812,242)
Share based payment reserve	1,953,071	1,716,495
Retained earnings / (accumulated losses)	1,090,647	(1,716,495)
Total equity	71,896,759	68,853,041
Financial performance		
Profit / (loss) for the year	5,704,857	(1,716,495)
Total comprehensive income / (loss)	5,704,857	(1,716,495)

Notes to the Consolidated Financial Statements (continued)

35. Auditor's remuneration

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

	Note	30 June 2020 \$	30 June 2019 \$
Audit Services:			
Fees for audit services		315,550	382,274
		315,550	382,274
Non-Audit Services:			
IPO preparation services		1,265,900	165,000
		1,265,900	165,000
Total remuneration		1,581,450	547,274

The auditor of the Group is Deloitte Touche Tohmatsu.

36. Capital commitments

The Group has capital commitments for purchases of drill rigs assets and support gear totalling \$10,749,322 (2019: 11,063,237).

37. Bank guarantees

The Group has bank guarantees in the amount of \$628,970 (2019: \$628,970) in relation to lease liabilities. The total facility is \$2,000,000, which leaves \$1,371,030 undrawn at balance date.

38. Post-reporting date events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has 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.

39. Company details

DDH1 Holdings 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 accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each entity which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

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



Director
Murray Pollock

Dated this 1st day of September 2020

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

Opinion

We have audited the financial report of DDH1 Holdings Pty Ltd (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or 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 of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are 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 the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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 the directors.
- Conclude on the appropriateness of the directors' 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.

We communicate with 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

DELOITTE TOUCHE TOHMATSU



Nicole Menezes

Partner

Chartered Accountants

Perth, 1 September 2020