

DDH1 Holdings Pty Ltd

ABN 91 625 946 321

Consolidated Financial Statements

For the year ended 30 June 2019

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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 2019. 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	Date of Appointment
Murray Gordon Pollock	Executive Director	3 May 2018
Matthew George Thurston	Executive Director	3 May 2018
Richard Mark Bennett	Executive Director	30 November 2018
Jarrod Solomons	Non-Executive Director	3 May 2018
Byron Beath	Non-Executive Director	3 May 2018
Alan Broome	Non-Executive Chairman	3 May 2018

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

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 profit of the Group for the financial year after providing for income tax amounted to \$20,761,912 (2018: \$10,950,150).

On 30 November 2018, as part of a corporate restructure, the Company completed a restructure of the Group. Under the terms of the restructure, the Company became the ultimate parent of DDH 1 Drilling Pty Ltd (“DDH1 Drilling”) via its wholly owned subsidiary, DDH1 Finco Pty Ltd, through the issue of equity to the existing shareholders of DDH1 Drilling.

Due to the corporate restructure, the consolidated financial statements of DDH1 Holdings Pty Ltd have been prepared as a continuation of the business and operations of DDH 1 Drilling. As the deemed parent for accounting purposes, DDH 1 Drilling has accounted for the acquisition of the Company from 30 November 2018. The comparative information for the period ended 30 June 2018 is that of DDH 1 Drilling for the financial year ended on that date.

In addition to the above, during the financial year, the Group acquired Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd to further increase its operational drilling capacity. This acquisition was made on 1 April 2019 by DDH1 Finco Pty Ltd.

Directors' Report (continued)

Significant Changes in the State of Affairs

On 1 April 2019, the Group acquired 100% of the shares of Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd. These businesses provide services consistent with the rest of the Group.

Other than the above, there was no significant change in the state of affairs of the Group during the financial year.

Dividends

No dividends have been declared this financial period (2018: nil). No dividends have been paid this financial year (2018: nil).

Subsequent Events

The Group is advanced in its plans to undertake an Initial Public Offering ('IPO') on the Australian Securities Exchange ('ASX'). The IPO is expected to take place in or around December 2019.

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. Additionally, the Group intends to list on the ASX as disclosed above in "Subsequent Events".

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, 10 board meetings were held for the Company.

Directors	Board of Directors	
	Entitled to Attend	Attended
A Broome	10	10
M Pollock	10	10
M Thurston	10	10
B Beath	10	10
J Solomons	10	10
R. Bennett	10	10

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 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') 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 14,192,245 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
C. MacKenzie	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
	14,192,245		14,192,245

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 taken 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.

Directors' Report (continued)

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 34 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 Gordon Pollock

Dated this 7th day of October 2019

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

7 October 2019

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 2019, 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 2019

	Note	30 June 2019 \$	30 June 2018 \$
Revenue	4	184,220,395	124,515,838
Other income	4	2,364,014	839,984
Other gains and losses	4	76,801	382,759
Advertising expenses		(367,119)	(241,166)
Drilling consumables		(19,338,690)	(17,102,523)
Employee and contract labour expenses	5	(82,333,474)	(53,493,191)
Fuel and oil expenses		(5,719,555)	(2,862,417)
Freight and couriers		(2,436,190)	(1,519,357)
Insurance expenses		(1,777,770)	(1,026,807)
Legal and consultant expenses		(340,293)	(349,170)
Hire of plant		(6,467,516)	(6,206,233)
Rent expense		(1,142,303)	(858,151)
Service and repair expense		(12,772,659)	(7,637,637)
Travel expenses		(8,032,276)	(5,253,594)
Other expenses	5	(3,022,714)	(1,812,098)
EBITDA		42,910,651	27,376,237
Depreciation expense	12	(13,097,099)	(8,160,434)
Amortisation expense	11	(1,431,721)	(52,482)
EBIT		28,381,831	19,163,321
Interest income		138,168	43,659
Finance costs	5	(3,485,696)	(2,129,513)
Profit before tax		25,034,303	17,077,467
Income tax expense	17	(4,272,391)	(6,127,317)
Profit for the year		20,761,912	10,950,150
Other comprehensive, net of income tax		-	-
Total comprehensive income for the year		20,761,912	10,950,150
Profit attributable to owners of the parent		20,761,912	10,950,150
Total comprehensive income attributable to owners of the parent		20,761,912	10,950,150
Earnings per share			
Basic (cents per share)	19	7.43	5.00
Diluted (cents per share)	19	7.18	4.99

The accompanying notes form part of these financial statements.

**Consolidated Statement of Financial Position
 As at 30 June 2019**

	Note	30 June 2019 \$	30 June 2018 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	16,911,961	8,692,827
Trade and other receivables	7	47,803,793	30,778,368
Inventories	8	22,540,268	19,990,592
Other current assets	9	783,583	484,259
TOTAL CURRENT ASSETS		88,039,605	59,946,046
NON-CURRENT ASSETS			
Financial assets	10	515,667	319,500
Intangible assets	11	35,450,928	27,279,124
Property, plant and equipment	12	98,343,252	54,222,188
TOTAL NON-CURRENT ASSETS		134,309,847	81,820,812
TOTAL ASSETS		222,349,452	141,766,858
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	21,861,260	11,260,154
Other financial liabilities	14	-	5,881,388
Borrowings	15	5,161,619	413,810
Current tax liabilities		2,762,670	2,079,196
Provisions	16	4,458,193	2,476,977
TOTAL CURRENT LIABILITIES		34,243,742	22,111,525
NON-CURRENT LIABILITIES			
Borrowings	15	62,844,318	26,948,439
Provisions	16	373,210	138,137
Deferred tax liabilities	18	7,539,899	9,691,856
TOTAL NON-CURRENT LIABILITIES		70,757,427	36,778,432
TOTAL LIABILITIES		105,001,169	58,889,957
NET ASSETS		117,348,283	82,876,901
EQUITY			
Issued capital	20	209,665,283	57,077,982
Group reorganisation reserve	21	(140,812,242)	-
Share based payment reserve	22	1,957,807	23,396
Retained earnings	23	46,537,435	25,775,523
TOTAL EQUITY		117,348,283	82,876,901

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Issued Capital \$	Group Reorganisation Reserve \$	Share Based Payment Reserve \$	Retained Earnings \$	Total Equity \$
Balance as at 1 July 2017		19,802,808	-	-	14,825,373	34,628,181
Profit for the year		-	-	-	10,950,150	10,950,150
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	10,950,150	10,950,150
Issue of ordinary shares	20	23,672,766	-	-	-	23,672,766
Share based payments expense	30	-	-	23,396	-	23,396
Issue of ordinary shares for acquisition consideration	20	13,602,408	-	-	-	13,602,408
As at 30 June 2018		57,077,982	-	23,396	25,775,523	82,876,901
Balance as at 1 July 2018		57,077,982	-	23,396	25,775,523	82,876,901
Profit for the year		-	-	-	20,761,912	20,761,912
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	20,761,912	20,761,912
Issue of N Class shares	20	300,000	-	-	-	300,000
Share re-capitalisation	20 / 21	140,812,242	(140,812,242)	-	-	-
Share based payments expense	30	-	-	1,934,411	-	1,934,411
Issue of ordinary shares for acquisition consideration	20	11,475,059	-	-	-	11,475,059
As at 30 June 2019		209,665,283	(140,812,242)	1,957,807	46,537,435	117,348,283

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Note	30 June 2019 \$	30 June 2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		192,619,045	128,599,210
Payments to suppliers and employees		(147,459,003)	(112,995,596)
Finance costs		(2,675,697)	(903,407)
Interest received		138,168	43,659
Income tax paid		(7,379,284)	(4,718,422)
Net cash generated by operating activities	6(b)	35,243,229	10,025,444
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of property, plant and equipment		1,362,625	443,173
Payments for property, plant and equipment		(24,327,303)	(7,884,096)
Payments for intangibles		(57,415)	-
Net cash inflow / (outflow) on the acquisition of business	31	(4,335,675)	(2,011,733)
Proceeds from sale of / (payments for) financial assets		583,085	(28,971)
Net cash used in investing activities		(26,774,683)	(9,481,627)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		300,000	-
Repayment of borrowings		(549,412)	(524,529)
Net cash flows used in financing activities		(249,412)	(524,529)
Net increase in cash and cash equivalents		8,219,134	19,288
Cash and cash equivalents at beginning of the year		8,692,827	8,673,539
Cash and cash equivalents at the end of the year	6(a)	16,911,961	8,692,827

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”).

The financial statements were authorised for issue by the Directors on 7 October 2019.

1.2 Basis of preparation

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

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

Group Restructure

On 30 November 2018, as part of a corporate restructure, the Company completed a restructure of the Group. Under the terms of the restructure, the Company became the ultimate parent of DDH 1 Drilling Pty Ltd (“DDH1 Drilling”) via its wholly owned subsidiary, DDH1 Finco Pty Ltd, through the issue of equity to the existing shareholders of DDH1 Drilling. This has been considered a group reorganisation (refer to Notes 20 and 21).

Due to the corporate restructure, the consolidated financial statements of DDH1 Holdings Pty Ltd have been prepared as a continuation of the business and operations of DDH 1 Drilling except that from 30 November 2018 the share capital presented is that of the Company. The comparative information for the period ended 30 June 2018 is that of DDH 1 Drilling for the financial year ended on that date.

For subsequent reporting periods, DDH1 Holdings Pty Ltd will constitute the parent entity of the Group and will present consolidated financial statements, however for accounting purposes the consolidated financial statements will be a continuation of those of DDH1 Drilling except that the share capital is that of the Company.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.2 Basis of preparation (continued)

The implications of the corporate restructure on the consolidated financial statements are as follows:

- a) Statement of Profit or Loss and Other Comprehensive Income**
The current year results are that of the combined Group. The comparative information is that of DDH1 Drilling and its controlled entities as at 30 June 2018 (referred to as "DDH1 Drilling Group").
- b) Statement of Financial Position**
The statement of financial position as at 30 June 2019 represents the combined Group. The statement of financial position for the comparative period is that of the DDH1 Drilling Group.
- c) Statement of Changes in Equity**
The statement of changes in equity as at the beginning of the financial year are for DDH1 Drilling Group. The equity balances as at 30 June 2019 are that of the combined Group. A Group Reorganisation Reserve has been created as a result of the corporate restructure (refer to Note 21). The Group Reorganisation Reserve represents the excess of the fair value of the shares issued by the Company on 30 November 2018 over the carrying value of the net assets of DDH1 Drilling Group.
- d) Statement of Cash Flows**
The cash balance at the beginning of the period and the comparative period information is that of DDH1 Drilling Group. The current year cash flows are those of the combined Group.
- e) Equity Structure**
With effect from the Group Restructure on 30 November 2018, the number of shares on issue is that of the legal parent, DDH1 Holding Pty Ltd. Prior to 30 November 2018, the share capital is that of DDH1 Drilling. On the Group Restructure the Company issued shares on the basis of 2 shares in the Company for every share held in DDH1 Drilling to the shareholders of DDH1 Drilling for a value equal to the fair value of DDH1 Drilling as at that date (refer to Note 20).

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 affect 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 the in the accounting period in which the services were rendered. Revenue is determined either on a per-da 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

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

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

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

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.7 Leases (continued)

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

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

1.8 Foreign currencies

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

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

1.9 Borrowing Costs

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

1.10 Employee benefits

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

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

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

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

1.11 Income taxes

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated group in Australia. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is DDH1 Holdings Pty Ltd, who is also the ultimate head of the Group. During the 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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.11 Taxation (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

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.

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

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

Depreciation

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

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

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

Classes of Fixed Asset

Plant & equipment	6.67% - 40%
Motor vehicles	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.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.13 Intangibles (continued)

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

Customer 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 instruments.

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

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 26(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 or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iii) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As 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 30.

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

Adoption of new and revised standards and interpretations in the current year

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 2018.

AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* were early adopted in previous years. New and revised standards and amendments thereof and interpretations effective for the current year that are relevant to the Group include:

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

None of the above new standards had an impact on the Group upon initial application.

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.20 Application of new and revised accounting standards (continued)

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 16 <i>Leases</i>	1-Jan-19	30-Jun-20
AASB 2017-6 <i>Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation</i>	1-Jan-19	30-Jun-20
AASB 2018-1 <i>Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle and Other Amendments</i>	1-Jan-19	30-Jun-20
Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> and AASB 2017-4 <i>Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments</i>	1-Jan-19	30-Jun-20
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

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, except for AASB 16. The anticipated impact of this new standard is discussed below:

AASB 16 *Leases*

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

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

1.20 Application of new and revised accounting standards (continued)

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

AASB Leases (continued)

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

As at 30 June 2019, the Group has non-cancellable operating lease commitments of \$3,159,364 as per Note 25. Included in these commitments is approximately \$36,000 relating to short term, or low value assets and the Group will elect to continue these on a straight line basis as an expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise a right-of-use asset and a corresponding liability. The new requirements to recognise a right-of-use asset and related liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors anticipate that the adoption of AASB 16 at 1 July 2019 would result in the recognition of a right of use asset of \$5,752,458 and an associated lease liability of \$5,752,458. The Group has leases which have option extensions available. The Group has used its judgement in this impact assessment, in that it is reasonably certain that it will extend the option period of these leases for a period of 5 years each, as available under the lease.

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment testing

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

Notes to the Consolidated Financial Statements (continued)

Summary of significant accounting policies (continued)

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

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. Customer contracts are assessed on an ongoing basis throughout the life of the 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.

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 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 2019	30 June 2018
	%	%
Revenue by major customer		
External Customer 1	8.1	18.3
External Customer 2	7.3	14.5
External Customer 3	5.9	5.1
External Customer 4	5.6	5.5
External Customer 5	1.7	6.3

4. Revenue

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

	Note	30 June 2019	30 June 2018
		\$	\$
Revenue			
Revenue from the rendering of drilling services over time		184,220,395	124,515,838
Total revenue from continuing operations		184,220,395	124,515,838
Other income			
Diesel fuel rebate		1,267,983	489,327
Other income		1,096,031	350,657
		2,364,014	839,984
Other gain and losses			
Net foreign exchange gains / (losses)		(38,103)	(12,706)
Gain on disposal of property, plant and equipment		114,904	395,465
Other gain and losses from continuing operations		76,801	382,759

Notes to the Consolidated Financial Statements (continued)

5. Expenses

Profit before income tax includes the following specific expenses:

	Note	30 June 2019 \$	30 June 2018 \$
Other expenses			
Net fair value (gains) / losses on equity investments		(53,833)	(34,500)
Other expenses		<u>(2,968,881)</u>	<u>(1,777,598)</u>
		<u>(3,022,714)</u>	<u>(1,812,098)</u>
Finance costs consists of:			
Interest on syndicated loan		(2,353,852)	(149,778)
Interest on convertible loan notes		-	(877,376)
Interest on obligations under finance leases		(53,457)	(25,112)
Syndicated loan establishment fees		(994,631)	(1,021,421)
Other finance costs		<u>(83,756)</u>	<u>(55,826)</u>
Total finance costs		<u>(3,485,696)</u>	<u>(2,129,513)</u>
Employee and contract labour expense consists of:			
Salary and wages including bonuses as well as sick, annual and long service leave		(65,023,485)	(43,164,012)
Superannuation expense		(5,043,657)	(3,683,480)
Share based payment	30	(1,934,411)	(23,396)
Other	(a)	<u>(10,331,921)</u>	<u>(6,622,303)</u>
Total		<u>(82,333,474)</u>	<u>(53,493,191)</u>

(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 2019 \$	30 June 2018 \$
6(a) Cash at bank and on hand			
Petty cash		1,343	216
Cash at bank		16,910,618	8,692,611
Net cash at bank		16,911,961	8,692,827

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% - 0.66% (FY18: 0.0% - 1.27%).

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

	Note	30 June 2019 \$	30 June 2018 \$
Profit for the period after income tax		20,761,912	10,950,150
Non-cash items in profit:			
Shares received as compensation		(250,000)	(115,500)
Depreciation and amortisation of non-current assets		13,097,098	8,212,916
Amortisation of non-current assets		1,431,722	
Net gains on disposal of plant and equipment		(114,904)	(395,463)
Share-based payment expense		1,934,411	23,396
Finance costs		810,000	1,228,456
Acquisition cost funded by debt		1,722,255	1,169,221
Non-cash gain on financial asset		53,833	-
Change in assets and liabilities:			
(Increase) / decrease in inventories		(2,205,675)	(5,182,519)
(Increase) / decrease in current receivables		(9,748,389)	(9,279,489)
(Increase) / decrease in other assets		43,884	(3,134)
Increase / (decrease) in trade and other payables		8,839,613	1,010,989
Increase / (decrease) in current tax liabilities		683,474	(1,279,723)
Increase / (decrease) in deferred tax liabilities		(4,032,294)	2,688,616
Increase / (decrease) in provisions		2,216,289	997,528
Net cash from operating activities		35,243,229	10,025,444

Notes to the Consolidated Financial Statements (continued)

6. Cash and cash equivalents (continued)

Non-cash transactions:

During the current 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 20 and Note 31.
- 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 22 and 30.
- Debt was drawn down and paid directly to the vendors as part of the settlement of contingent consideration from the Strike acquisition, as detailed in Note 14.

In the prior financial year, the following non-cash investing and financing transactions occurred:

- The DDH1 Drilling Group completed a debt conversion and equity roll over as part of a capital restructure. Refer to Note 20.
- DDH1 Drilling Pty Ltd issued ordinary shares as part of the acquisition of Strike Drilling Pty Ltd. Refer to Notes 20 and 31.
- M Class shares were issued under the management equity plan as detailed in Note 22 and 30.
- The Group obtained new hire purchase arrangements for its drill rig assets. The value is shown in the table below.

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

	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	
Interest bearing loans	26,294,078	-	6,410,843	28,857,011	2,083,255	-	63,645,187
Hire-purchase 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

Notes to the Consolidated Financial Statements (continued)

7. Trade and other receivables

	Note	30 June 2019 \$	30 June 2018 \$
Current			
Trade receivables		47,663,057	30,751,935
Loss allowance		-	-
		<u>47,663,057</u>	<u>30,751,935</u>
Other debtors		140,736	26,433
		<u>47,803,793</u>	<u>30,778,368</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 debtors

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

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

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

Current	29,247,674	19,153,163
One to three months	17,137,733	11,085,999
Three to six months	1,277,650	512,773
	<u>47,663,057</u>	<u>30,751,935</u>

Notes to the Consolidated Financial Statements (continued)

8. Inventories

	Note	30 June 2019 \$	30 June 2018 \$
Current			
Consumable stores & spare parts		22,540,268	19,990,592
		22,540,268	19,990,592

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 2019 (30 June 2018: Nil).

The cost of inventories recognised as a consumable expense during the year in respect of continuing operations was \$15,346,201 at 30 June 2019 (30 June 2018: \$15,121,160).

9. Other assets

Current			
Prepayments		776,983	455,289
Rental bond		6,600	28,970
		783,583	484,259

10. Financial assets

Financial assets mandatorily measured at FVTPL

Equity investments		515,667	319,500
		515,667	319,500

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, a company involved in mineral exploration in Australia and listed on the ASX. The directors of the Group do not consider that the Group is able to exercise significant influence over St George Mining Ltd due to the minor nature of the shareholding.

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

Notes to the Consolidated Financial Statements (continued)

11. Intangibles

	Note	30 June 2019 \$	30 June 2018 \$
Customer relationships			
Opening balance		5,507,316	-
Recognised on acquisition of a subsidiary	31	5,788,398	5,507,316
Amortisation expense		(1,420,654)	-
		<u>9,875,060</u>	<u>5,507,316</u>
Goodwill			
Opening balance		21,623,591	-
Recognised on acquisition of a subsidiary		3,757,713	21,623,591
		<u>25,381,304</u>	<u>21,623,591</u>
Software development			
Opening balance		148,217	182,527
Recognised on acquisition of a subsidiary		-	15,213
Additions		57,414	2,959
Amortisation expense		(11,067)	(52,482)
		<u>194,564</u>	<u>148,217</u>
Total intangibles		<u>35,450,928</u>	<u>27,279,124</u>

The customer relationships in the prior year were recognised as a result of the acquisition of Strike Drilling Pty Ltd ("Strike") on 31 May 2018. These customer relationships are amortised on a straight-line basis over a period of 6 years. This has resulted in amortisation of \$917,886 (2018: Nil) this reporting period.

The customer relationships acquired in the current 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 31. 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 \$502,768 (2018: Nil) this reporting period.

Software development is amortised on a straight-line basis over a period of 4 – 5 years (FY18: 4 – 5 years).

The goodwill in the prior year was recognised as a result of the acquisition of Strike in on 31 May 2018. Accordingly, this goodwill is allocated to the Strike CGU. The goodwill recognised in the current year is due to the acquisition of Ranger. This resulted in \$3,757,713 being recognised as goodwill and allocated to the Ranger 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. The acquisition of Ranger was finalised on 1 April 2019, 3 months prior to the reporting date of this financial report. Under the terms of the acquisition, the former directors of Ranger were entitled to a contingent payment (as per Note 31) upon the meeting or exceeding of certain requirements as outlined in the acquisition agreement. These requirements were met in full post year end, and the contingent payment has been paid.

Notes to the Consolidated Financial Statements (continued)

11. Intangibles

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

The Group performed the annual impairment test of the Strike goodwill in June 2019. In considering the carrying value of the Strike goodwill, the Directors have adopted a value in use methodology to determine the recoverable amounts of the Strike CGU. No indicators of impairment were noted and no impairment charge is necessary.

The recoverable amount of the 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 CGU is most sensitive to the following assumptions:

- **Revenue Growth Rate**
The growth rate has been set at the budget level for the 2020 financial year plus assumed growth rates of 2% for the following years in line with inflation. A reasonable possible change is not likely to cause a material impairment.
- **Discount Rate**
These 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. The Directors have adopted a WACC of 11%. An increase of 1% on the discount rate would have the impact of reducing headroom by approximately \$7m, which would not cause impairment. A reasonable possible change in the discount rate is not likely to cause a material impairment.
- **EBITDA Margin**
The EBITDA margin has been assigned at 35%. This margin was achieved in the 2019 financial year and it has been assumed that it will remain consistent for the period of 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 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	-	30,295,590
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
At 1 July 2017					
Cost or fair value	12,968,418	30,049,341	71,362,799	-	114,380,558
Accumulated depreciation	(9,537,032)	(20,560,518)	(47,886,159)	-	(77,983,709)
Net book amount	3,431,386	9,488,823	23,476,640	-	36,396,849
Year ended 30 June 2018					
Opening net book amount	3,431,386	9,488,823	23,476,640	-	36,396,849
Additions	1,595,568	4,262,694	3,263,144	-	9,121,405
Acquisition of subsidiary	112,074	6,304,280	10,500,000	-	16,916,354
Disposals	(4,585)	(47,402)	-	-	(51,986)
Depreciation	(1,805,150)	(2,391,889)	(3,963,395)	-	(8,160,434)
	3,329,293	17,616,506	33,276,389	-	54,222,188
At 30 June 2018					
Cost or fair value	14,771,565	42,812,507	89,351,098	-	146,935,170
Accumulated depreciation	(11,442,272)	(25,196,001)	(56,074,709)	-	(92,712,982)
Net book amount	3,329,293	17,616,506	33,276,389	-	54,222,188

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. 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.

Equipment finance leases

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

13. Trade and other payables

	Note	30 June 2019 \$	30 June 2018 \$
Current			
Trade creditors		13,495,947	7,377,747
Sundry creditors		855,291	214,700
Superannuation payable		421,727	370,440
Goods and services tax payable		1,888,579	1,013,409
Payroll tax payable / (receivable)		343,548	(79,336)
Accrued charges		3,033,061	2,114,149
Amounts withheld from salary, wages and other payments		1,170,017	249,045
Other payables		653,090	-
		21,861,260	11,260,154

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

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

14. Other financial liabilities

	Note	30 June 2019 \$	30 June 2018 \$
Contingent consideration		-	5,881,388

Contingent consideration represents amounts payable to the former owners of Strike Drilling Pty Ltd as part of an earn-out arrangement, and subject to the achievement of certain conditions. Amounts owing under the agreement were paid in full within six months in December 2018 and were not subject to interest. No amounts remain outstanding at the balance date.

Notes to the Consolidated Financial Statements (continued)

15. Borrowings

	Note	30 June 2019 \$	30 June 2018 \$
<i>Secured borrowings at amortised cost</i>			
- Hire purchase liabilities (i)	19	4,360,750	1,068,171
- Syndicated loans (ii)		63,645,187	26,294,078
Total borrowings		68,005,937	27,362,249
Amount due for settlement within 12 months			
- Hire purchase liabilities		1,670,564	413,810
- Syndicated loans		3,491,055	-
		5,161,619	413,810
Amount due for settlement after 12 months			
		62,844,318	26,948,439
		68,005,937	27,362,249

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

- (i) 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 3.58% - 4.23% (2018: all were 4.23%);
- (ii) 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 facility attracted an average interest rate of 5.76% (2018: 6.78%); and
- (iii) The weighted average interest on borrowings at 30 June 2019 was 5.67% (2018: 6.68%).

Available borrowing facilities

	Note	30 June 2019 \$	30 June 2018 \$
Syndicated loan			
Available facilities		66,000,000	34,000,000
Used at balance date		(63,645,187)	(26,294,078)
Unused at balance date		2,354,813	7,705,922

Banking covenants

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

Fair values

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

Notes to the Consolidated Financial Statements (continued)

16. Provisions

	Note	30 June 2019 \$	30 June 2018 \$
Provision for short-term incentive bonus		991,000	150,000
Provision for annual leave		2,591,682	1,769,697
Provision for long service leave		1,248,721	695,417
Total provisions		4,831,403	2,615,114
Analysis of total provisions			
Current		4,458,193	2,476,977
Non-current		373,210	138,137
Total provisions		4,831,403	2,615,114

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

17. Income tax expense

	Note	30 June 2019 \$	30 June 2018 \$
Income tax expense recognised in profit/(loss)			
Income tax expense comprises			
Current tax		7,990,553	3,438,701
Deferred tax		(3,718,162)	2,688,616
		4,272,391	6,127,317

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

Profit / (loss) before tax from continuing operations	25,034,303	17,077,467
Prima facie tax expense on profit from ordinary activities before income tax at 30%	7,510,291	5,123,240
- Non-assessable income	-	(325,994)
- Non-deductible expenses	669,744	1,169,457
- Net step up in value of assets on acquisitions for tax purposes	(2,857,091)	-
- Prior year over/under	(304,218)	-
- Other	(746,335)	160,614
	4,272,391	6,127,317

Notes to the Consolidated Financial Statements (continued)

18. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax 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 2019 \$	30 June 2018 \$
The balance comprises temporary differences attributable to:			
Employee benefits		1,516,619	784,534
Borrowing costs		489,508	-
Business-related expenses		122,962	-
Property, plant and equipment		144,235	-
Other		83,641	-
Accruals		-	111,132
Deferred tax assets		2,356,965	895,666
Intangibles		2,962,518	1,652,195
Inventories		6,762,081	5,997,178
Property, plant and equipment		-	2,903,531
Other		172,265	34,618
Deferred tax liabilities		9,896,864	10,587,522
Net deferred tax liabilities		7,539,899	9,691,856
	Note	30 June 2019 \$	30 June 2018 \$
Movements in the period:			
Opening balance at 1 July		9,691,856	5,351,045
Recognition of deferred tax on acquisition		1,736,519	1,652,195
(Credit) / debit to income statement		(3,718,142)	2,688,616
Recognition of DTA on acquisition		(170,334)	-
Closing balance at 30 June		7,539,899	9,691,856

Notes to the Consolidated Financial Statements (continued)

19. Earnings per share

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

Earnings	30 June 2019 \$	30 June 2018 \$
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	20,761,912	10,950,150
Earnings for the purposes of dilutive earnings per share	20,761,912	10,950,150
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	279,446,591	218,884,306
Effect of dilutive potential ordinary shares:		
Share options (Class M and N Shares)	9,753,088	500,159
Weighted average number of ordinary shares for the purposes of diluted earnings per share	289,199,679	219,384,465

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	7.43	5.00
Diluted – cents per share	7.18	4.99

The 2018 comparative information has been updated to reflect the impact of the Company reorganisation (as per Note 20), as if it happened at the start of the reporting period.

20. Issued capital

Movement in issued capital	Note	Number of shares No.	Share capital \$
DDH1 Drilling			
<i>Ordinary Shares</i>			
Balance at 30 June 2017		100,000,000	19,802,808
Issue of shares	(a)	10,328,570	13,602,408
Conversion of loans	(b)	27,422,808	23,672,766
Balance at 30 June 2018		137,751,378	57,077,982

Notes to the Consolidated Financial Statements (continued)

20. Issued capital (continued)

Movement in issued capital	Note	Number of shares No.	Share capital \$
Group reorganisation	(c)	275,502,756	197,890,224
Issue of shares	(d)	15,646,738	11,475,059
Balance at 30 June 2019		291,149,494	209,365,283
<i>N Class Shares</i>			
Balance at 30 June 2017 and 2018		-	-
Issue of N Class Shares	(e)	458,000	300,000
Balance at 30 June 2019		458,000	300,000

In relation to share issues by the Group during the previous reporting year, DDH1 Drilling issued:

- (a) 10,328,570 shares as consideration for the acquisition of Strike Drilling Pty Ltd. Refer to Note 31 for information on this transaction.
- (b) 27,422,808 shares as a part of a debt to equity swap for shareholder loans.

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

In the current reporting period the following transactions have occurred which impact issued capital:

- (c) On reorganisation of the Group on 30 November 2018 (refer to Note 1.2), 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 has been created, refer to Note 21);
- (d) 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 30 for information on this transaction; and
- (e) 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 22 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)

21. Group reorganisation reserve

	Note	30 June 2019 \$	30 June 2018 \$
Balance at 1 July		-	-
Arising on the Group Restructure		140,812,242	-
Balance at 30 June		<u>140,812,242</u>	<u>-</u>

During the year, the Group undertook a corporate restructure which has been treated as a reorganization for accounting purposes. As a result of this transaction, a group reorganisation reserve has been 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 (refer to Note 1.2 and Note 20).

22. Share based payment reserve

Balance at 1 July		23,396	-
Credit to equity for equity-settled share-based payments		1,934,411	23,396
Balance at 30 June		<u>1,957,807</u>	<u>23,396</u>

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 20.

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 \$1,934,411 (2018: \$23,396) was recognised in the period.

Refer to share based payments information at Note 30 for further details.

23. Retained earnings

Balance at 1 July		25,775,523	14,825,373
Dividends paid	24	-	-
Net profit for the year		20,761,912	10,950,150
Balance at 30 June		<u>46,537,435</u>	<u>25,775,523</u>

Notes to the Consolidated Financial Statements (continued)

24. Dividend

	Note	30 June 2019 \$	30 June 2018 \$
Amounts recognised as distributions to equity holders in the year:			
Final dividend paid at \$0.00 per share		-	-
Franked dividends			
Franking credits available for subsequent reporting periods based on a tax rate of 30.0%		13,740,373	4,730,194

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.

25. Leasing commitments

Operating lease commitments

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

Within one year	812,462	938,903
In the second to fifth years inclusive	2,346,902	2,744,996
After five years	-	195,869
	3,159,364	3,879,768
Finance lease commitments		
<i>Amounts payable under finance leases:</i>		
Within one year	1,806,246	451,094
In the second to fifth years inclusive	2,783,966	676,531
After five years	-	-
	4,590,212	1,127,625
Less: future finance charges	(229,462)	(59,454)
Present value of lease obligations	4,360,750	1,068,171

It is the Group's policy to lease certain items of equipment under finance leases. The average lease term is 3 years (2018: 3 years). For the year ended 30 June 2019, the average weighted effective interest rate payable was 3.78% (2018: 4.23%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

26. 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	
	\$	\$	\$	\$	\$
2019					
Cash and bank balances	-	16,911,961	-	-	16,911,961
Trade and other receivables	-	47,803,793	-	-	47,803,793
Other financial assets (i)	515,667	-	-	-	515,667
Borrowings	-	-	-	63,645,187	63,645,187
Obligations under finance leases	-	-	-	4,360,750	4,360,750
Trade and other payables	-	-	-	21,807,522	21,807,522
	FVTPL	Amortised cost	FVTPL	Amortised cost	Total
	\$	\$	\$	\$	\$
2018					
Cash and bank balances	-	8,692,827	-	-	8,692,827
Trade and other receivables	-	30,778,368	-	-	30,778,368
Other financial assets (i)	319,500	-	-	-	319,500
Borrowings	-	-	-	26,294,078	26,294,078
Obligations under finance leases	-	-	-	1,068,171	1,068,171
Trade and other payables	-	-	-	11,260,154	11,260,154
Other financial liabilities (ii)	-	-	5,881,388	-	5,881,388

Notes to the Consolidated Financial Statements (continued)

26. 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.

- (i) 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 2019, listed investments with a carrying value of \$361,667 (2018: \$165,500) 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 2019, financial assets with a carrying value of \$154,000 (2018: \$154,000) have been measured at Level 3.
- (ii) Other financial liabilities carried at fair value through the profit and loss in the prior year (as per Note 14) were measured according to inputs other than quoted prices within Level 1 indirectly. The methodology employed in this valuation related to the achievement of earnings by the business in excess of an agreed earnings benchmark of \$8.3million. The valuation was subject to an earnings multiple that was set out in the purchase agreement. Accordingly, it is treated as Level 2 in the fair value hierarchy.

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 \$467,330 (2018: \$176,012).

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

Other price risks

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

Equity investments in entities (see Note 11) are held for strategic rather than trading purposes. The Group does not actively trade these investments. A five percentage point increase / decrease in the underlying value of the equity instruments would result in a net profit after tax increase / decrease of approximately \$26,000 (2018: \$16,000).

Notes to the Consolidated Financial Statements (continued)

26. 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 2019, 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)

26. 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 2019				
Trade and other payables	Nil	21,807,522	-	21,807,522
Finance lease liability	3.78%	1,670,564	2,690,186	4,360,750
Syndicate loan facilities	5.76%	3,491,055	59,854,132	63,345,187
30 June 2018				
Trade and other payables	Nil	11,260,154		11,260,154
Finance lease liability	4.23%	413,810	654,361	1,068,171
Syndicated loan facilities	6.78%	-	26,294,078	26,294,078

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

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

	Note	30 June 2019 \$	30 June 2018 \$
Total borrowings	15	68,005,937	27,362,249
Less cash	6	(16,911,961)	(8,692,827)
Net debt		51,093,976	18,669,422
Total equity		117,348,283	82,876,901
Total capital		168,442,259	101,547,323
Gross gearing ratio (gross debt / equity)		57.9%	33.0%
Net gearing ratio (net debt / equity)		43.5%	22.5%

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

Notes to the Consolidated Financial Statements (continued)

27. 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 32 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 28 and 29 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 2019 \$	30 June 2018 \$
<i>Sales and purchases of goods and services</i>			
Transactions with M Thurston		91,950	-

- DDH 1 Drilling Pty Ltd utilises a corporate box and 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. 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)

27. Related party transactions (continued)

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

At 30 June 2019, the Group owed \$8,052 (2018: nil) to Sportsking Pty Ltd. This business is related to Mr Thurston.

(d) Loans to / from related parties

	Note	30 June 2019 \$	30 June 2018 \$
<i>Loans from Shareholders</i>			
M Pollock			
Balance at the beginning of the reporting period		-	5,918,191
Loans converted to equity		-	(5,918,191)
Balance at the end of the reporting period		-	-
M Thurston			
Balance at the beginning of the reporting period		-	5,918,192
Loans converted to equity		-	(5,918,192)
Balance at the end of the reporting period		-	-
Oaktree Capital			
Balance at the beginning of the reporting period		-	11,836,386
Loans converted to equity		-	(11,836,386)
Balance at the end of the reporting period		-	-

(e) Terms and conditions of related party transactions

Loans provided by KMP's in previous periods to DDH 1 Drilling Pty Ltd attracted interest rates of 5.5%pa.

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

28. 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 Gordon Pollock	(Managing Director)	
Mr Matthew George Thurston	(Operations Director)	
Mr Jarrod Solomons		
Mr Byron Beath		
Mr Richard Bennett		
Mr Alan Broome		
Mr Sy Van Dyk	(Chief Executive Officer)	Appointed 1 October 2018
Mr Ben MacKinnon	(Chief Financial Officer)	Appointed 9 April 2018

Notes to the Consolidated Financial Statements (continued)

29. Key management personnel compensation

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

	Note	30 June 2019 \$	30 June 2018 \$
Short term employee benefits		1,613,178	665,268
Post-employment benefits		99,983	53,664
Non-monetary benefits ¹		39,076	14,888
Long-term benefits ²		13,486	38,782
Share based payments		846,757	4,389
Total		2,612,480	776,991

¹ – Non-monetary benefits includes reportable FBT amounts.

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

30. 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)

30. 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:

	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
As at 1 July		2,944,483		-
Modified during the year *	0.45	2,944,483	-	-
Granted during the year	0.47	7,845,279	0.91	2,944,483
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year		13,734,245		2,944,483
Exercisable at 30 June	0.46	-	0.91	-

* In the prior year, 2,944,483 M Class shares had been issued by DDH 1 Drilling Pty Ltd. In the current year, upon the reorganisation of the Group on 30 November 2018, 5,888,966 M Class shares were issued in DDH1 Holding Pty Ltd on a 2-for-1 basis.

The Class M shares outstanding at 30 June 2019 had a weighted average exercise price of 46 cents (2018: 91 cents), and a weighted average remaining contractual life of 9.3 years (2018: 10 years). In the current financial year, M Class shares were granted on 30 November 2018, 17 December 2018 and 13 May 2019 (2018: 31 May 2018 only).

The aggregate of the estimated fair values of the Plan Shares granted during 2019 is \$2,004,961 (2018: \$1,506,576).

Notes to the Consolidated Financial Statements (continued)

30. Share based payments (continued)

The fair value of the Class M shares 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 is no observable share price history from which to calculate a historical volatility estimate. The expected volatility is therefore based on an assessment of the share price volatility of other similar businesses.
- (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 assumed to be December 2019, and accordingly the share based payment will be expensed over the vesting period.
- (iv) The risk-free rate assumed in the model is assumed to best fit with the yield on three-year Australian Government bonds, to broadly match the effective life of the plan.
- (v) Potential dividends are not expected to be significant over the plan period and have therefore been assumed to be nil for the purpose of the valuation.

The Group recognised a total share based expense of \$1,934,411 (2018: \$23,396) in relation to the above equity-settled share-based payment transactions.

Notes to the Consolidated Financial Statements (continued)

31. Acquisition of subsidiaries

Acquisition of Ranger

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 at 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)

31. 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 have been excluded from consideration transferred and have been recognised as an expense in other expenses in the consolidated statement of profit or loss and other comprehensive income.

Ranger Drilling contributed \$11,999,362 revenue and \$3,364,425 to the Group's profit before tax for the period between the date of acquisition and the reporting date.

If the acquisition of Ranger Drilling had been completed on the first day of the financial year, Group revenues for the year would have been \$212,794,374 and profit of the Group would have been \$29,098,565.

Acquisition of Strike

In the previous reporting period on 31 May 2018, DDH 1 Holdings Pty Ltd ("DDH1 Drilling") acquired a 100% equity interest in Strike Drilling Pty Ltd ("**Strike**"), an exploration and water well drilling company based in Kewdale, Western Australia. DDH1 Drilling acquired Strike to increase its operational drilling capacity through the addition of its drilling rig fleet, operational expertise and customer base. Strike was acquired through a combination of issue of shares in DDH1 Drilling, and debt funding. Upon completion of the acquisition, DDH1 Drilling obtained control of Strike from that date. Details of the acquisitions are below. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

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

Notes to the Consolidated Financial Statements (continued)

31. Acquisition of subsidiaries (continued)

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

32. 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 2019	30 June 2018
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%	Nil
Strike Drilling Pty Ltd	Provision of Drilling Services	Australia	100%	100%
Ranger Exploration Drilling Pty Ltd	Provision of Drilling Services	Australia	100%	Nil
Izett Holdings Pty Ltd	Provision of Drilling Services	Australia	100%	Nil

Ranger Exploration Drilling Pty Ltd and Izett Holdings Pty Ltd were added as members of the tax consolidated group following their acquisition.

Notes to the Consolidated Financial Statements (continued)

33. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements except as set out below. See Note 1 for a summary of the significant accounting policies relating to the Group. The below current year comparative information is that of DDH1 Holding Pty Ltd.

Financial position	30 June 2019 \$	30 June 2018 \$
Assets		
Current assets	3	3
Non-current assets	68,853,038	-
Total assets	68,853,041	3
Liabilities		
Current liabilities	-	-
Non-current liabilities	-	-
Total liabilities	-	-
Equity		
Issued capital	209,665,283	3
Restructure reserve	(140,812,242)	-
Share based payment reserve	1,716,495	-
Accumulated losses	(1,716,495)	-
Total equity	68,853,041	3
Financial performance		
Loss for the year	(1,716,495)	-
Total comprehensive income / (loss)	(1,716,495)	-

34. Auditor's remuneration

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

	Note	30 June 2019 \$	30 June 2018 \$
Audit Services:			
Fees for audit services		382,274	35,500
Non-Audit Services:			
Vendor due diligence		165,000	55,000
		165,000	55,000
Total remuneration		547,274	90,500

The auditor of the Group is Deloitte Touche Tohmatsu.

Notes to the Consolidated Financial Statements (continued)

35. Capital commitments

The Group has capital commitments for purchases of drill rigs assets totalling \$11,063,237 (2018: nil).

36. Bank guarantees

The Group has bank guarantees in the amount of \$628,970 (2018: nil) in relation to obligations under operating leases and rental premises.

37. Post-reporting date events

The Group is advanced in its plans to undertake an Initial Public Offering ('**IPO**') on the Australian Securities Exchange ('**ASX**'). The IPO is expected to take place in or around December 2019.

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.

38. 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.

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



Director
Mr Murray Gordon Pollock

Dated this 7th day of October 2019

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 2019, 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 ended 30 June 2019, 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 2019 and of its financial performance for the year ended 30 June 2019; 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* (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 2019 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

N Menezes

Nicole Menezes

Partner

Chartered Accountants

Perth, 7 October 2019