



Ausdrill Limited

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30 September 2010

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ASX Limited
Exchange Centre
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SYDNEY NSW 2000

AUSDRILL LIMITED - Annual Report and Annual General Meeting

Please find attached the Ausdrill Limited 2010 Annual Report.

It is anticipated that the hard copy version of the Annual Report and Notice of Annual General Meeting and Explanatory Statement will be posted to shareholders on 20 October 2010.

Ausdrill Limited will hold its 2010 Annual General Meeting on Wednesday 24 November 2010 at 4.00 pm (Perth time) at the Hyatt Regency Perth, 98 Adelaide Terrace, Perth, Western Australia.

Ausdrill Limited

Domenic Santini
Company Secretary



2010 **Annual Report**

Corporate Directory

AUSDRILL LIMITED

ABN 95 009 211 474

DIRECTORS

Terence Edward O'Connor AM QC
Chairman

Ronald George Sayers
Managing Director
James Edward Askew
Terrence John Strapp
Mason Gordon Hills

SECRETARIES

Domenic Mark Santini
Mark Joseph Hughes

CHIEF FINANCIAL OFFICER

Mark Joseph Hughes

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

6-12 Uppsala Place
Canning Vale, Western Australia 6155

SHARE REGISTER

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia 6000

AUDITOR

PricewaterhouseCoopers
QV1 Building
250 St George's Terrace
Perth, Western Australia 6000

SOLICITORS

Cochrane Lishman
216 St George's Terrace
Perth, Western Australia 6000
Mallesons Stephen Jaques
Level 10, 152 St George's Terrace
Perth, Western Australia 6000

BANKERS

HSBC Australia Limited
190 St George's Terrace
Perth, Western Australia 6000
Westpac Banking Corporation Limited
Level 14, 109 St George's Terrace
Perth, Western Australia 6000

STOCK EXCHANGE LISTINGS

Ausdrill Limited shares are listed on
the Australian Stock Exchange.

ASX CODE: ASL

WEBSITE ADDRESS

www.ausdrill.com.au

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Directors' and Managing Director's Report on Operations

FINANCIAL RESULTS

Ausdrill is pleased to report another record after tax profit of \$48.2m in what has been a challenging environment. The 20% increase on the record profit of the previous year vindicates the Group's strategy of providing a diverse and vertically integrated service to the mining industry with particular focus on the needs of the larger mining houses.

Significant results include:

- Revenue from operations up 24% to \$632.9m
- EBITDA up 21% to \$152.3m
- Profit before tax up 12% to \$64.7m
- Profit after tax up 20% to \$48.2m
- Basic earnings per share up from 23.23c to 23.71c on an expanded capital base

The final dividend of 6c (fully franked and payable on 29 October 2010) makes a total dividend for the year of 11c per share.

The financial position of the Group remains strong with shareholders equity increasing from \$306.1m to \$501.5m, an NTA per share of \$1.78 including cash of \$144.4m and a net debt to equity ratio of 20%.

MINING OPERATIONS – AUSTRALIA

Generally our Australian operations continue to provide a solid base for the Group providing strong revenue and profit growth.

Drill and Blast

Ausdrill was founded on the Drill and Blast business and this continues to be an integral part of our business.

This business operates primarily on long term contracts for mining companies. For example it has worked in the Kalgoorlie super pit for KCGM since the pit started. It has recently won a 5 year contract with Navigator Resources at Bronzewing and a \$12m contract for in pit grade control for OZ Minerals at Prominent Hill.

The business also undertakes civil work, having recently completed a civil drill and blast job at Cape Lambert and is completing a \$24m site preparation contract on the Gorgon project.

Exploration Drilling

The Australian exploration effort is conducted through two businesses, one based in Kalgoorlie which primarily focuses on gold and base metals in the Goldfields region and the other based in Perth and servicing the North West.

Although there has been a significant drop off in junior exploration companies seeking drilling services, both businesses have been extremely busy, demonstrating the wisdom of our concentration on servicing the major companies.

The business has in recent times undertaken a program to upgrade our fleet of rigs with a number of new rigs having been built in-house. Our new rigs have special operational and safety features which are exclusive to Ausdrill. We are continuing to put new rigs in to service.

Significantly, the introduction of our new rigs has resulted in an increase in productivity and a consequent increase in exploration revenue and margins.

Ausdrill Mining Services Australia (AMSA)

With the recent purchase of 17 CAT 793 trucks this business now runs a fleet of 80 earthmoving units in Australia.

Its operations are primarily focused on the Pilbara with the hire of equipment to mining companies and contractors. The equipment is fully maintained by Ausdrill personnel.

We expect demand for the service provided by AMSA, to remain strong among the small to medium size companies in the gold mining sector which is expanding as confidence returns with the rise in the gold price.

MANUFACTURING

We have four manufacturing businesses – Drilling Tools Australia, Remet Engineers, DT HiLoad Australia and Drill Rigs Australia – all of which manufacture products for the mining industry.

Drilling Tools Australia (DTA)

This business makes drilling consumables including bits and hammers, both for internal use and also for sale to third parties.

During the year revenue grew by 36% to \$22.6m. Significantly, sales outside the Ausdrill Group were 49.4% of the total sales.

The business recently spent a further \$3.2m on new lathes and machines, increasing production capacity.

This business is expanding its product range. It has opened a Brisbane sales office to sell consumables to the mining, oil and gas industries in Queensland.

Remet Engineers

This business has been long established in Kalgoorlie manufacturing drill rods and pipes. It has also recently opened a state of the art factory at Canning Vale.

The new factory is installing the latest equipment including a specially designed friction welder which is unique in Australia. This will enable the design and manufacture of drill pipe for all aspects of mineral and methane gas drilling.

DT HiLoad

This business was part of Brandrill. It manufactures light weight heavy duty trays for mining and quarrying dump trucks. The advantage is that it enables the trucks to carry a heavier load.

In the past Brandrill imported the trays in kit form. Since Ausdrill acquired Brandrill it has invested in a new roller and plasma cutter. This has meant that the trays can be manufactured locally.

The business has a contract to supply 14 trays to KCGM for the super pit in Kalgoorlie and has recently supplied 6 trays to Lumwanna in Zambia.

Directors' and Managing Director's Report on Operations (continued)

Drill Rigs Australia.

This business manufactures blast hole, diamond and reverse circulation rigs, mainly for internal use but has recently sold rigs externally.

As noted earlier, the rigs have special innovations to make operation easier. Special regard has been paid to safety features to avoid injury to operators.

SUPPLY DIRECT

Supply Direct was set up to supply the needs of our overseas operations. The opportunity arose to supply the purchasing requirements of mine owners across Africa who were keen to use the service. In addition to Australia the business has offices in London and Johannesburg

The business recently lost a major client which took its purchasing in-house with a consequent reduction in revenue and profit. The business has been restructured and is making progress in replacing the lost business and has recently gained some new clients.

DIAMOND COMMUNICATIONS

This business has had a difficult year as power and telecommunication companies pruned their infrastructure budgets. In particular, Telstra minimised its expenditure because of uncertainties surrounding the national broadband network.

The NBN Company is now issuing tender documents for the broadband network. The rollout will consume all available resources. We expect Diamond to win a share of this work.

MINING OPERATIONS – AFRICA

African Mining Services

AMS provides the full suite of mining and exploration services to the mining industry ranging from load and haul through to exploration drilling.

The business has operated in a number of countries in West Africa. Currently its operations include the drill and blast and load and haul for Red Back Mining at Chirano, Goldfields at Damang, both in Ghana, and AngloGold Ashanti at Yatela in Mali. The Red Back contract has recently been extended for another 5 years and the AngloGold Ashanti contract extended until 2013.

Africa, and West Africa in particular, presents great opportunity with a number of new mines about to open and significant exploration under way.

Ausdrill Tanzania

This business commenced a 5 year drill and blast contract at Geita in Tanzania for AngloGold Ashanti in July last year. The job is proceeding very well.

The Geita operations have presented the business with a base from which it can undertake other mining and exploration services in the rapidly expanding East African region. Already other drilling work has been undertaken.

African Underground Mining Services

This is a joint venture with Barmac. The joint venture has underground mining contracts with Red Back Mining at Chirano and Newmont at Subika both in Ghana and with Randgold at Loulu, Mali.

The outlook remains positive with a number of major underground mining opportunities emerging in West Africa.

PERSONNEL AND SAFETY

Personnel

Our people are vital to the success of Ausdrill. We are fortunate to have a very loyal and committed group of people. In total we employ 3,366 people directly and another 253 people in joint ventures.

With the escalating demand for the Group's services attracting people with the requisite skills is becoming more difficult. We are working hard to promote Ausdrill as an employer of choice. We have a strong training program including an extensive apprenticeship program involving approximately 70 apprentices and a similar number of drilling traineeships.

Safety

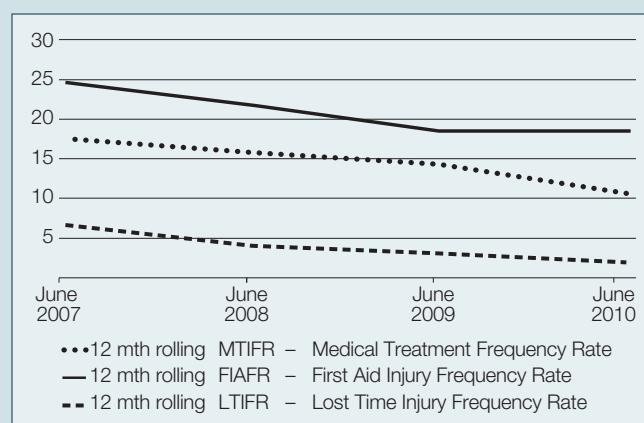
Safety is a priority for the Group and is supported by both the Board and the Executive Management Team.

Ausdrill is currently implementing the following key strategies across the entire Group:

- Development of an online Business Management System for all company quality assurance documents
- Review and alignment of all Policies, Standards and Guidelines
- Risk Based compliance through unified Safe Work Procedures
- Implementation of Online Event (Incident) and Training Management Systems

In recognition of the long term support for staff development within the drilling industry, Ausdrill won the coveted SkillsDMC Chairman's Award for the drilling industry at the national conference this year.

As the chart below shows we have achieved an improvement in our safety record in the 2010 year. Our objective is to continue to reduce incidents throughout the Group.



Directors' and Managing Director's Report on Operations (continued)

OUTLOOK

The Group has never been in a better position. The demand for its services is very strong and all businesses are performing well. The acquisition of Brandrill has been bedded down with integration of operations nearly completed.

The opportunities for the Group in both the gold and base metals sector is almost unlimited. This is the case not only in Australia but also Africa.

Approximately 60% of our business is in the gold mining industry which benefited from the increased price of gold during the global financial crisis. This meant that during that crisis the Group was able to increase its profit year on year.

The Board is concerned at the potential effect of the proposed mining tax. Australia has always enjoyed a reputation as a good country to invest because there was low sovereign risk. With the proposal to impose a new tax on companies which had invested under a different regime that reputation has been shredded.

When the petroleum tax was introduced it did not apply to existing projects, but that is not the case here. We are concerned at the effect the proposal will have on investment in our mining industry both by Australian and international companies, which may see investment in other countries as less risky than investment in Australia.

Subject to no unexpected changes in the current environment, the Board expects the profit for the current financial year to increase significantly.

Finally we would like to thank our management and staff for their efforts during the year. Their dedication and commitment is the reason for the successes which the Group has had this year.



T E O'Connor
Chairman

R G Sayers
Managing Director

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Ausdrill Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

DIRECTORS

The following persons were directors of Ausdrill Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

T E O'Connor

R G Sayers

J E Askew

T J Strapp

M G Hills was appointed as a non-executive Director on 24 February 2010 and continues in office at the date of this report.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of:

(a) provision of mining services including:

earthmoving;

drilling and blasting;

exploration drilling; and

in-pit grade control;

(b) manufacture of drilling rods and consumables, drill rigs and dump truck tray bodies;

(c) provision of mining supplies and logistics services; and

(d) contract services to the telecommunications and utility sectors.

DIVIDENDS – AUSDRILL LIMITED

Dividends paid to members during the financial year were as follows:

	2010 \$'000	2009 \$'000
Final ordinary dividend for the year ended 30 June 2009 of 6 cents (2008 – 6 cents) per fully paid share paid on 6 November 2009.	10,486	10,329
Interim ordinary dividend for the year ended 30 June 2010 of 5 cents (2009 – 5 cents) per fully paid share paid on 30 April 2010.	10,438	8,662
	<hr/> 20,924	<hr/> 18,991

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$15,709,210 (6 cents per fully paid share) to be paid on 29 October 2010 out of retained profits at 30 June 2010.

REVIEW OF OPERATIONS

A separate detailed review of Group operations during the financial year is included in the Directors' and Managing Director's Report on Operations and details on the segment results are set out in note 4 to the financial report.

Directors' Report (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 17 August 2009, the Directors of Ausdrill announced a proposed merger with Brandrill Limited. The merger was implemented via a scheme of arrangement approved by Brandrill shareholders on 26 November 2009. Under the terms of the merger, eligible Brandrill shareholders received one Ausdrill share for every 14.5 Brandrill shares held at the record date for the merger.

Other significant changes in the state of affairs of the Group during the financial year were as follows:

	2010 \$'000
A net increase in contributed equity of \$175,029,000 (from \$194,152,000 to \$369,181,000) as a result of:	
Placement of 30,960,000 fully paid ordinary shares @ \$2.00 each pursuant to Capital Raising	61,920
Issue of 13,348,789 fully paid ordinary shares @ 2.00 each pursuant to Entitlement Offer	26,698
Issue of 7,530,019 fully paid ordinary shares @ \$2.00 each – Entitlement Offer shortfall	15,060
Issue of 32,787,159 fully paid ordinary shares @ \$2.13 each in consideration of Brandrill Limited	69,837
Issue of 307,035 fully paid ordinary shares @ \$2.13 each pursuant to Cancellation of Brandrill options	654
Issue of 897,420 fully paid ordinary shares @ \$1.75 each under the dividend reinvestment plan	1,569
Issue of 1,215,759 fully paid ordinary shares @ \$2.05 each under the dividend reinvestment plan	2,486
Costs associated with issues of shares, net of tax	(3,195)
Net increase in share capital	175,029

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulations but is committed to reducing the impact of its operations on the environment. Our clients have obligations under environmental regulations. The Group complies with its contractual obligations in this regard.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

Directors' Report (continued)

INFORMATION ON DIRECTORS

Terence Edward O'Connor AM QC LLB (WA). *Non-executive Chairman.* Age 72.

Experience and expertise

Mr Terry O'Connor is a Barrister. He is a graduate of the University of Western Australia, and was formerly a partner in the legal firm Stone James Stephen Jaques (now Mallesons Stephen Jaques). Mr O'Connor was formerly the Chairman of the Anti-Corruption Commission, the Chancellor of the University of Notre Dame Australia and a Commissioner of the Australian Football League. Mr O'Connor has held the position of Chairman since 1993.

Other current directorships

Non-executive director of EBM Insurance Brokers Limited from 1990.

Former directorships in last 3 years

None

Special responsibilities

Chairman of the Board.

Chairman of the Remuneration Committee.

Member of the Audit Committee.

Interests in shares

1,000,000 ordinary shares.

Ronald George Sayers *Managing Director.* Age 58.

Experience and expertise

Mr Ron Sayers was re-appointed as Managing Director in December 2000. Mr Sayers founded Ausdrill in 1987 and was Managing Director until May 1997. He was formerly the branch manager of a large mining supply group and has been involved with the mining industry for over 40 years.

Other current directorships

Non-executive director of Carbine Resources Limited from March 2007.

Former directorships in last 3 years

None

Special responsibilities

Managing Director.

Member of the Remuneration Committee.

Interests in shares

36,842,497 ordinary shares.

James Edward Askew BE (Min) (Melb), M Eng Sci (Melb), F.AusIMM., M.A.I.M.E., M.C.I.M.M. *Non-executive director.* Age 62.

Experience and expertise

Mr Jim Askew is a mining engineer, having some 40 years international experience in the mining industry. He has held numerous positions on boards of mining companies in Australia, Europe and North America and has been a non-executive director of Ausdrill since 1987.

Other current directorships

Chairman of OceanaGold Corporation since 2006.

Non-executive director of Golden Star Resources Ltd from 1999.

Non-executive director of Conquest Mining Limited since 2010.

Former directorships in last 3 years

Chairman of Sino Gold Mining Ltd from 2002 to 2009.

Chairman of Asian Mineral Resources Limited from 2002 to 2010.

Non-executive director of Eldorado Gold Corporation from 2009 to 2010.

Special responsibilities

Member of the Audit Committee.

Member of the Remuneration Committee.

Interests in shares

600,000 ordinary shares.

Directors' Report (continued)

INFORMATION ON DIRECTORS (continued)

Terrence John Strapp CPA, F Fin., MAICD *Non-executive director. Age 66.*

Experience and expertise

Mr Terry Strapp was appointed as a non-executive director on 21 July 2005.

Mr Strapp has extensive experience in banking, finance and corporate risk management and has been actively involved in the mining industry for 40 years. He is a Certified Practising Accountant (CPA), a Fellow of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors.

Other current directorships

Non-executive director of The Mac Services Group Limited from 2007.

Former directorships in last 3 years

Chairman of Mercator Gold PLC from 2004 to 2008.

Special responsibilities

Chairman of the Audit Committee.

Interests in shares

400,000 ordinary shares.

Mason Gordon Hills BEc, LLB (Hons) *Non-executive director. Age 39.*

Experience and expertise

Mr Mason Hills was appointed as a non-executive director on 24 February 2010.

Mr Hills has practised extensively in corporate finance and resources law. He was a partner of Wright Legal, a niche resources and industry focused banking and corporate law firm, before joining Resource Capital Fund in 2006. Mr Hills' practice included acquisitions, public offerings, corporate and securities regulation, project development and corporate and project finance acting for mining, mining services, financial institutions and government bodies both in Australia and overseas.

Mr Hills has a Bachelor of Economics from the University of Western Australia and a Bachelor of Laws with First Class Honours from Murdoch University.

Other current directorships

Non-executive director of Talison Lithium Limited.

Alternate non-executive director of Bannerman Resources Limited.

Former directorships in last 3 years

Non-executive director of Brandrill Limited from September 2008 to December 2009.

Special responsibilities

Member of the Audit Committee.

Interests in shares

Mr Hills is an employee of Resource Capital Fund which holds 7,898,160 Ausdrill shares at the date of this report.

COMPANY SECRETARIES

The company secretaries of the company are Mark Joseph Hughes and Domenic Mark Santini.

Mr Hughes is a Chartered Accountant who was appointed as company secretary in September 1994. He is the Chief Financial Officer of the Company having been promoted to this position in June 2000. Prior to joining the Company, Mr Hughes was a senior audit manager at a major chartered accounting practice.

Mr Santini is a Certified Practising Accountant who was appointed as company secretary in August 2007. He is also the Group Financial Controller of the Company. During the ten years prior to joining the Company, Mr Santini held various commercial roles with public and private companies.

Directors' Report (continued)

MEETINGS OF DIRECTORS

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors	Meetings of committees	
		Audit	Remuneration
Number of Meetings held	9	4	2
T E O'Connor	9	3	2
R G Sayers	9	*	2
J E Askew	8	2	2
T J Strapp	9	4	*
M G Hills	4	—	*

*Not a member of the relevant committee

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

Mr T J Strapp is the director retiring by rotation who, being eligible, offers himself for re-election.

Mr M G Hills was appointed as a director on 24 February 2010. In accordance with the Constitution, Mr M G Hills retires as a director at the Annual General Meeting and, being eligible, offers himself for re-election.

REMUNERATION REPORT

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information in this report has been audited, as required by *Section 308(3c) of the Corporations Act (2001)*.

A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate. The framework aligns executive reward with achievement of strategic objectives and conforms with prevailing market conditions. The Board ensures that executive remuneration satisfies the following key criteria for good governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that attracts and retains high calibre executives, is market competitive and complementary to the goals of the organisation. The structure recognises Group growth, rewards capability and experience and provides a clear salary structure.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board ensures non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market.

Directors' fees

At the Annual General Meeting held on 27 November 2009 shareholders approved an increase in the aggregate directors' fee pool limit from \$400,000 to \$800,000 per annum. No additional fees are payable to directors for their membership on board committees.

Australian based resident non-executive directors are also entitled to superannuation in accordance with the Superannuation Guarantee Legislation.

Directors' Report (continued)

REMUNERATION REPORT (continued)

A Principles used to determine the nature and amount of remuneration (continued)

Retirement allowances for directors

Other than compulsory superannuation contributions, non-executive directors do not receive any retirement allowances.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits;
- short term performance incentives;
- other remuneration such as superannuation; and
- long-term incentives through participation in the Ausdrill Employee Option Plan.

The combination of these comprises the executive's total remuneration.

Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive fixed base pay. The remuneration committee obtain relevant comparative information and seek independent advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Benefits

Executives can elect to receive a fully maintained motor vehicle as a component of their base pay.

Short-Term Incentives

The cash bonus is discretionary based on the group's performance and the amount is agreed by the remuneration committee.

The service bonus to all employees is based on years of service and payable annually.

Superannuation

Retirement benefits are delivered under the Superannuation Guarantee Legislation.

Ausdrill Employee Option Plan

Information on the Ausdrill Employee Option Plan is set out in Section D.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Ausdrill Limited Group are set out in the following tables.

The key management personnel of Ausdrill Limited includes the directors as per pages 7-8 above and the following executive officers, which are also the 5 highest paid executives of the company:

- A J McCulloch – General Manager Australian Operations
- A G Broad – General Manager Strategic Development
- M C Crocker – Group Engineering Manager
- M J Hughes – Chief Financial Officer
- B D Mann – General and Exploration Manager Kalgoorlie

The key management personnel of the Group are the directors of Ausdrill Limited as per pages 7-8 and the following executive officers, which are also the 5 highest paid executives of the Group:

- J Kavanagh – General Manager African Operations
- A J McCulloch – General Manager Australian Operations
- A G Broad – General Manager Strategic Development
- M C Crocker – Group Engineering Manager
- M J Hughes – Chief Financial Officer

Directors' Report (continued)

REMUNERATION REPORT (continued)

B Details of remuneration (continued)

Key management personnel of Ausdrill Limited and the Group

2010	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus**	Non-monetary benefits	Service bonus	Super-annuation	Retirement benefits			
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
T E O'Connor	90,000	—	—	—	8,100	—	—	—	98,100
J E Askew	60,000	—	—	—	—	—	—	—	60,000
T J Strapp	60,000	—	—	—	5,400	—	—	—	65,400
M G Hills *	27,500	—	—	—	2,475	—	—	—	29,975
Sub-total non-executive directors	237,500	—	—	—	15,975	—	—	—	253,475
<i>Executive director</i>									
R G Sayers	500,000	—	25,000	—	69,423	—	96,678	—	691,101
<i>Other key management personnel</i>									
J Kavanagh#	468,944	86,962	72,723	14,833	10,436	—	7,494	20,691	682,083
A J McCulloch	265,637	86,962	25,000	5,263	42,414	—	9,302	20,691	455,269
A G Broad *	262,101	61,962	25,000	14,296	31,613	—	—	20,691	415,663
M C Crocker#	269,847	36,206	27,756	16,611	10,506	—	15,586	13,794	390,306
B D Mann	180,692	66,308	25,000	18,243	62,932	—	12,914	13,794	379,883
M J Hughes#	245,582	66,308	—	13,586	29,293	—	10,302	13,794	378,865
Total key management personnel compensation	2,430,303	404,708	200,479	82,832	272,592	—	152,276	103,455	3,646,645

* Mr M G Hills was appointed as a non-executive director on 24 February 2010.

* Mr A G Broad resigned from the Group in July 2010.

Cash salary and fees include paid out accrued annual leave.

** Cash bonus paid relates to the year ended 30 June 2009.

2009	Short-term employee benefits				Post-employment benefits		Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Service bonus	Super-annuation	Retirement benefits			
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
T E O'Connor	90,000	—	—	—	8,100	—	—	—	98,100
J E Askew	60,000	—	—	—	5,400	—	—	—	65,400
T J Strapp	60,000	—	—	—	5,400	—	—	—	65,400
Sub-total non-executive directors	210,000	—	—	—	18,900	—	—	—	228,900
<i>Executive director</i>									
R G Sayers	228,108	—	25,000	—	106,061	—	8,979	—	368,148
<i>Other key management personnel</i>									
A G Broad *	160,417	—	—	—	14,438	—	4,371	13,038	192,264
A J McCulloch	248,240	—	25,000	—	32,547	—	6,641	13,038	325,466
J Kavanagh	275,000	—	—	—	24,750	—	4,434	13,038	317,222
B D Mann	115,306	—	25,000	—	114,606	—	6,373	8,692	269,977
M J Hughes	197,989	—	—	—	17,819	—	5,395	8,692	229,895
Total key management personnel compensation	1,435,060	—	75,000	—	329,121	—	36,193	56,498	1,931,872

* Mr A G Broad rejoined the Group in December 2008

Directors' Report (continued)

REMUNERATION REPORT (continued)

B Details of remuneration (continued)

Name	Fixed remuneration		At risk - STI		At risk – LTI	
	2010	2009	2010	2009	2010	2009
<i>Executive directors of Ausdrill Limited</i>						
R G Sayers	100%	100%	–	–	–	–
<i>Other key management personnel of Ausdrill Limited and the Group</i>						
J Kavanagh	97%	96%	–	–	3%	4%
A J McCulloch	95%	96%	–	–	5%	4%
A G Broad	95%	93%	–	–	5%	7%
M C Crocker	96%	–	–	–	4%	–
B D Mann	96%	97%	–	–	4%	3%
M J Hughes	96%	96%	–	–	4%	4%

C Service agreements

Remuneration and other terms of employment for the Managing Director, Mr R G Sayers, are formalised in a service agreement. The major provisions of the agreement relating to remuneration are:

- Term of agreement – 4 years commencing 1 July 2005.
- Base salary, inclusive of superannuation, for the year ended 30 June 2008 of \$331,584 to be reviewed annually by the Remuneration Committee.
- Payment of a termination benefit upon completion of the agreement of \$650,000. Payment of a termination benefit on early termination by the Company, other than for gross misconduct, of \$650,000 less \$60,000 per year of the contract period not completed.

This contract has expired and is currently under re-negotiation.

All other key management personnel are employed on standard letters of appointment that provide for annual reviews of base salary and between 4 and 12 weeks of termination by either party.

D Share-based compensation

Options

Options are granted under the Ausdrill Employee Option Plan which was last approved by shareholders at the 2005 annual general meeting. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Under the plan, participants are granted options which only vest if the employees are still employed by the Group at the end of the vesting period.

Options are granted under the plan for no consideration. Options are granted for a five year period and become exercisable as follows:

- 33.33% after the second anniversary
- 33.33% after the third anniversary
- 33.34% after the fourth anniversary

Directors' Report (continued)

REMUNERATION REPORT (continued)

D Share-based compensation (continued)

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
12 November 2008	12 November 2010	12 November 2013	\$1.29	\$0.1982
12 November 2008	12 November 2011	12 November 2013	\$1.34	\$0.1911
12 November 2008	12 November 2012	12 November 2013	\$1.44	\$0.1765
12 May 2009	12 May 2011	12 May 2014	\$1.29	\$0.1477
12 May 2009	12 May 2012	12 May 2014	\$1.34	\$0.1447
12 May 2009	12 May 2013	12 May 2014	\$1.44	\$0.1367
30 June 2009	30 June 2011	30 June 2014	\$1.29	\$0.1112
30 June 2009	30 June 2012	30 June 2014	\$1.34	\$0.1084
30 June 2009	30 June 2013	30 June 2014	\$1.44	\$0.1011

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

Details of options over ordinary shares in the company provided as remuneration to each director of Ausdrill Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Ausdrill Limited. Options may not be exercised during the period of four weeks prior to the release of the half-yearly and annual financial results of the Group to the market. Further information on the options is set out in note 41 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
Directors of Ausdrill Limited				
T E O'Connor	—	—	—	—
J E Askew	—	—	—	—
T J Strapp	—	—	—	—
M G Hills	—	—	—	—
R G Sayers	—	—	—	—
Other key management personnel of the Group				
J Kavanagh	—	300,000	—	—
A J McCulloch	—	300,000	—	—
A G Broad	—	300,000	—	—
M C Crocker	—	200,000	—	—
B D Mann	—	200,000	—	—
M J Hughes	—	200,000	—	—

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Directors' Report (continued)

REMUNERATION REPORT (continued)

E Additional information

Performance of Ausdrill Limited

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the four years to June 2010.

	30-Jun-10 \$000	30-Jun-09 \$000	30-Jun-08 \$000	30-Jun-07 \$000
Revenue	632,861	508,965	390,984	368,162
Net profit before tax	64,704	57,642	50,474	36,589
Net profit after tax	48,177	40,245	35,332	26,619
Share price at start of year	0.91	2.47	2.59	1.41
Share price at end of year	1.65	0.91	2.47	2.59
Basic earnings per share	23.71	23.23	22.72	20.87
Diluted earnings per share	23.53	23.23	22.72	20.87
Dividends cents per share	11.00	11.00	11.00	9.00

During the year there was a cash service bonus paid. These bonuses are discretionary and are subject to the Group's overall performance.

During the year the Company issued no options under the Ausdrill Employee Option Plan. The Employee Option Plan is designed to provide long-term incentives for executives to deliver long-term shareholder returns.

Details of remuneration: options

For each grant of options included in the tables on pages 11-13, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The options vest after two, three and four years, provided the vesting conditions are met (see page 13). No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
J Kavanagh	2009	—	—	30/06/2011	nil	3,665
	2009	—	—	30/06/2012	nil	8,726
	2009	—	—	30/06/2013	nil	10,459
A J McCulloch	2009	—	—	30/06/2011	nil	3,665
	2009	—	—	30/06/2012	nil	8,726
	2009	—	—	30/06/2013	nil	10,459
A G Broad	2009	—	—	30/06/2011	nil	3,665
	2009	—	—	30/06/2012	nil	8,726
	2009	—	—	30/06/2013	nil	10,459
M C Crocker	2009	—	—	30/06/2011	nil	2,443
	2009	—	—	30/06/2012	nil	5,818
	2009	—	—	30/06/2013	nil	6,973
B D Mann	2009	—	—	30/06/2011	nil	2,443
	2009	—	—	30/06/2012	nil	5,818
	2009	—	—	30/06/2013	nil	6,973
M J Hughes	2009	—	—	30/06/2011	nil	2,443
	2009	—	—	30/06/2012	nil	5,818
	2009	—	—	30/06/2013	nil	6,973

The cash bonus is discretionary and is based on the Group's performance. For the cash bonus paid as per the table on page 11, the percentage of the bonus paid was 100%.

Directors' Report (continued)

REMUNERATION REPORT (continued)

E Additional information (continued)

Share-based compensation: Options

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
J Kavanagh	3.0%	56,579	—	—	56,579
A J McCulloch	5.0%	56,579	—	—	56,579
A G Broad	5.0%	56,579	—	—	56,579
M C Crocker	4.0%	37,720	—	—	37,720
B D Mann	4.0%	37,720	—	—	37,720
M J Hughes	4.0%	37,720	—	—	37,720

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Loans to directors and executives

No loans have been made to directors of Ausdrill Limited or the key management personnel of the Group, including their personally-related entities.

Share options granted to directors

No options over unissued ordinary shares of Ausdrill Limited were granted during the prior or current year or since the end of the financial year to any directors as part of their remuneration.

Shares under option

Outstanding unlisted options under the Ausdrill Limited Employee Option Plan to acquire fully paid ordinary shares in the company as at the date of this report are 5,400,000.

Shares under option

Unissued ordinary shares of Ausdrill Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
12 November 2008	12 November 2013	\$1.29	1,399,989
12 May 2009	12 May 2014	\$1.29	133,332
30 June 2009	30 June 2014	\$1.29	266,665
12 November 2008	12 November 2013	\$1.34	1,399,998
12 May 2009	12 May 2014	\$1.34	133,334
30 June 2009	30 June 2014	\$1.34	266,667
12 November 2008	12 November 2013	\$1.44	1,400,013
12 May 2009	12 May 2014	\$1.44	133,334
30 June 2009	30 June 2014	\$1.44	266,668
			5,400,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Directors' Report (continued)

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid a premium in respect of insuring the directors and officers of the Company and the Group. The insurance contract prohibits disclosure of the premium or the nature of liabilities insured against under the policy.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 30.

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

AUDITORS' INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



R G SAYERS
MANAGING DIRECTOR

Perth
30 September 2010

Auditors' Independence Declaration

For the year ended 30 June 2010



PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of Ausdrill Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read "Nick Henry".

Nick Henry
Partner
PricewaterhouseCoopers

Perth
30 September 2010

Corporate Governance Statement

30 June 2010

The Company and the Board are committed to achieving and demonstrating the highest standards of corporate governance. This statement reports on the Company's key governance principles and practices. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and developments in corporate governance.

The Company, as a listed entity, must comply with the Corporations Act 2001 (Cwlth) (Corporations Act), the ASX Listing Rules and other Australian and international laws. The ASX Listing Rules require the Company to report on the extent to which it has followed the corporate governance recommendations contained in the ASX Guidelines. Details of the Company's compliance with the ASX Guidelines are set out below.

The Company believes that, except in one respect, throughout the 2010 financial year and to the date of this report it has complied with all of the ASX Guidelines. The recommendation with which the Company has not complied is Recommendation 2.4 (that the Board should establish a nomination committee). Given the size of the Board and the Company, the Board considers that it is appropriate for the full Board to perform the functions that would otherwise be fulfilled by a nomination committee.

Principle 1: Lay solid foundations for management and oversight

The relationship between the Board, the Managing Director and other senior management is critical to the long term success of the Company. The directors are accountable to the shareholders and must ensure that the Company is appropriately managed to protect and enhance the interests and wealth of shareholders and other key stakeholders. The Board recognises its responsibility to act honestly, fairly, diligently and in accordance with the law and to promote this culture throughout the organisation.

The responsibilities of the board are to:

- oversee the Company, including its control and accountability systems;
- appoint and remove the Managing Director and conduct his or her performance assessment;
- appoint and remove the Company Secretary;
- ratify the appointment and/or removal of members of the senior management team;
- provide input into and final approval of management's development of corporate strategy and performance objectives;
- provide strategic guidance to the Company including contributing to the development of and approving the corporate strategy;
- review, ratify and monitor systems of risk management and internal control, codes of conduct, and legal compliance;
- monitor senior executives' performance and implementation of strategy;
- ensure appropriate resources are available to senior executives;
- approve and monitor organisational performance and the achievement of the Company's strategic goals and objectives and the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- with the assistance of the Audit Committee, approve and monitor financial and other reporting, including approval of the annual and half-year financial reports and liaison with the Company's external auditors;
- ensure there are effective management processes in place and approve major corporate initiatives;
- enhance and protect the reputation of the organisation;
- establish and regularly review an appropriate remuneration policy; and
- consider and review (in lieu of the establishment of a nomination committee):
 - the necessary and desirable competencies of directors;
 - Board succession plans;
 - the process for evaluation of the performance of the Board, its committees and directors; and
 - the appointment and re-election of directors.

Day to day management of the Company's affairs and implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior management executives. These delegations are reviewed on an annual basis.

Matters reserved to the Board include determining whether the Company should commence business in a new industry or jurisdiction, entering arrangements that create a significant commitment for the Company, the capital structure of the Company including the increase or decrease of shares on issue, and approving business plans and budgets.

The Board Charter (available in the Corporate Governance section on the Company's website at www.ausdrill.com.au) explains the balance of responsibility between the Chair, non-executive directors and the Managing Director.

Corporate Governance Statement (continued)

30 June 2010

The monitoring of senior executives' performance and implementation of strategy is, as set out above, the responsibility of the Board. The Board conducts annual performance reviews of senior management to consider performance against key performance indicators and other measures. The last senior management performance review was conducted in May 2010 in accordance with the process described in this paragraph.

Principle 2: Structure the Board to add value

The Board operates in accordance with the broad principles expressed in its Charter which is available in the Corporate Governance section on the Company's website at www.ausdrill.com.au. The Charter details the Board's composition and responsibilities.

Details of the members of the Board, their experience, expertise, qualifications and terms of office are set out in the directors' report under the heading "Information on Directors". At the date of signing the directors' report, the Board comprises one executive director and four non-executive directors.

Board composition

The Board is structured to ensure that:

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

Under the Board Charter:

- the Board should comprise between 3 and 7 directors;
- a majority of the Board should be independent directors;
- the Chairman should be an independent director;
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director;
- the Company is to maintain a mix of directors on the Board from different backgrounds with complementary skills and experience; and
- the role of Chairman and Managing Director should not be exercised by the same individual.

Directors' independence

The Board has adopted the definition of "independent director" set out in the ASX Guidelines, and determines the independence of directors based on those guidelines. Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

The Board has a majority of directors who are independent. There are four non-executive directors (Messrs O'Connor (the Chairman), Askew, Strapp and Hills), all of whom are considered independent at the date of signing the directors' report.

The only director who is not considered to be independent is the Managing Director and Chief Executive Officer, Mr Sayers, as he is an executive and he and his related entities are substantial shareholders of the Company.

Some recent thinking on corporate governance has introduced a view that a director's independence may be perceived to be affected by lengthy service on a board. Although Messrs O'Connor and Askew have served on the Board for considerable periods of time, the Board does not consider that this has had any significant effect on their independence and therefore still considers them to be independent. The Board will continue to monitor developments on this issue (and any changes to the ASX Guidelines in this regard).

The Board assesses independence each year. To enable this process, the directors are asked to provide all information that may be relevant to the assessment.

Non-executive directors

The four non-executive directors met several times during the year, in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the Board.

Term of office

The Company's Constitution specifies that at every annual general meeting (AGM) one-third of the directors (except a Managing Director) or the number nearest to but exceeding one-third must retire from office and that no director may retain office without re-election for more than three years or (if later) until the third AGM following their last election. A director may stand for re-election.

Corporate Governance Statement (continued)

30 June 2010

Chairman and Managing Director

The Chairman is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning. In accepting the position, the Chairman has acknowledged that it requires a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chairman.

The Managing Director is accountable for planning, co-ordinating and directing the operations of the Company to achieve strategic, financial and operating objectives as agreed with the Board. The Board Charter specifies that the role of Chairman and Managing Director should not be exercised by the same individual.

Induction

Letters of appointment for each new Board member set out the terms and conditions of the appointment as well as the legal and disclosure obligations as required by the Corporations Act 2001 (Cwlth) ("Corporations Act") and the ASX Listing Rules.

The Company has also developed an induction program for non-executive directors and senior executives which enables new directors and senior executives to actively participate in Board decision-making as soon as possible. The induction program ensures that new directors and senior executives have a full understanding of the Company's financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board and senior executives.

Commitment

The Board held nine board meetings and an additional corporate strategy workshop during the year. One of those meetings was held at an operational site of the company and a full tour of the facilities was included as part of the visit.

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

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the number of meetings attended by each director is disclosed in the directors' report on page 9.

Under the Employee Code of Conduct (which applies to directors) accepting any external appointment is not permitted without the permission of the Managing Director. It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the Board. No new appointments of this nature were accepted during the year ended 30 June 2010. Mr Sayers has been a non-executive director of Carbine Resources Limited since March 2007.

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

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

Conflict of interests

The Board has adopted a Conflicts of Interest Protocol which is set out in the Board Charter. In accordance with the Conflicts of Interest Protocol, in circumstances where the Company Secretary has been notified of a conflict of interest by a director or where the Managing Director in consultation with the Chairman has determined a director to have a conflict of interest, for so long as that conflict of interest remains:

- the director concerned will not receive Board (or Board committee) papers or other information which relates in any way to the declared or perceived matter which is the subject of the conflict of interest; and
- the director concerned will be requested to withdraw from any part of a Board (or Board committee) meeting for the duration of any discussion on that matter.

Mr Sayers and entities connected with Mr Sayers had business dealings with the Group during the year, as described in note 29 to the financial statements.

Independent professional advice

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

Corporate Governance Statement (continued)

30 June 2010

Board committees

The Board has established the following committees to assist in the execution of its duties and to allow detailed consideration of complex issues:

- a Remuneration Committee; and
- an Audit Committee (which also fulfils the functions of a risk committee).

The full Board performs the functions that would otherwise be fulfilled by a nomination committee.

The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. Each of these charters is reviewed on an annual basis and is available in the Corporate Governance section on the Company's website at www.ausdrill.com.au. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

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

The Board notes the commentary in the ASX Guidelines that:

- a board nomination committee is an efficient mechanism for examination of the selection and appointment practices of the Company;
- for a smaller board, the same efficiencies may not be derived from a formal committee structure; and
- companies without a nomination committee should have Board processes in place which raise issues that would otherwise be considered by the nomination committee.

The Board Charter (available in the Corporate Governance section on the Company's website at www.ausdrill.com.au) sets out the Board's policy for the nomination and appointment of directors. This states that it is the responsibility of the Board to consider and review (in lieu of the establishment of a nomination committee):

- the necessary and desirable competencies of directors;
- Board succession plans;
- the process for evaluation of the performance of the Board, its committees and directors; and
- the appointment and re-election of directors.

The Board assesses the skills required to discharge competently the Board's duties having regard to the Company's performance, financial position and strategic direction. As and when it considers it appropriate, and when a non-executive director retires, the Board assesses the skills represented on the Board by the non-executive directors and determines whether those skills meet the skills identified as required. Having regard to the skills required and the skills already represented on the Board, the Board will implement a process to identify suitable candidates for appointment as a non-executive director. The process for identifying suitable candidates may include a search undertaken by an appropriately qualified independent third party acting on a brief prepared by the Board which identifies the skills sought. The full Board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company.

The Board's recommendation in respect of the re-election of existing directors is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and the Company. The Board is also aware of the advantages of Board renewal and succession planning.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

Performance assessment

The Board undertakes an annual self assessment performance evaluation of itself, its committees and the Chairman. The performance evaluation is conducted in such a manner as the Board deems appropriate. The assessment also considers the adequacy of induction and continuing education, access to information and the support provided by the Company Secretary. Management are invited to contribute to this appraisal process. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. An assessment carried out in accordance with this process was undertaken during November 2009.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The results and any action plans of the Chairman's assessment are documented together with specific performance goals which are agreed for the coming year.

Corporate Governance Statement (continued)

30 June 2010

Access to information and Company Secretary

The Board Charter provides that senior executives should supply the Board with information in a form and timeframe, and of a quality, that enables the Board to discharge its duties effectively. Directors are entitled to request additional information where they consider such information necessary to make informed decisions.

The Company Secretary plays an important role in supporting the effectiveness of the Board by monitoring that Board policy and procedures are followed, and coordinating the timely completion and despatch of Board agenda and briefing material. All directors are entitled to have access to the Company Secretary.

Principle 3: Promote ethical and responsible decision making

Code of Conduct

The Board has adopted a code of conduct for directors to promote responsible decision making and ethical behaviour (Directors' Code). The Directors' Code supplements the duties and responsibilities of directors imposed by the law. The Director's Code is set out in the Company's Board Charter which is available in the Corporate Governance section on the Company's website at www.ausdrill.com.au.

The Board considers that the Directors' Code reflects the practices necessary and appropriate to maintain confidence in the company's integrity and to take into account the directors' legal obligations and the expectations of the Company's stakeholders.

Under the Directors' Code, a director:

- must act honestly, in good faith and in the best interests of the Company as a whole;
- has a duty to use care and diligence in fulfilling the functions of office and exercising the powers attached to the office;
- must use the powers of office for a proper purpose, in the best interests of the Company as a whole;
- must recognise that the primary responsibility is to the Company as a whole but may, where appropriate, have regard to the interests of all stakeholders of the Company;
- must not make improper use of information acquired as a director;
- must not take improper advantage of the position of director;
- must properly manage any conflict with the interests of the Company;
- has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board;
- acknowledges that confidential information received in the course of the exercise of directorial duties remains the property of the Company (or the person who disclosed it) and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company (or the person who disclosed it) or is required by law;
- should not engage in conduct likely to bring discredit upon the company; and
- has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and the ASX Listing Rules and with the principles of the Directors' Code.

The Board recognises that it has a responsibility to set the ethical tone and standards of the Company.

In addition to the Directors' code, the Company has adopted a code of conduct for all directors and employees (Employees' Code). The Employees' Code is available in the Corporate Governance section on the Company's website at www.ausdrill.com.au. The Employees' Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and the reasonable expectations of all stakeholders.

In summary, the key principles set out in the Employees' Code require all employees and directors to act with the utmost integrity and professionalism, to exercise objectivity, fairness, equality, courtesy, consideration and sensitivity, to avoid conflicts of interest and to comply with the letter and the spirit of the law. Given that the Company also operates outside of Australia, the Employees' Code contains detailed provisions dealing with bribery of foreign officials. The Employees' Code also details the responsibility and accountability of individuals for reporting and investigating breaches of the code, including the Company's policies on "whistleblowers".

The Board Charter requires the Board to take steps to ensure that the Employees' Code is integrated into management processes and that standards consistent with the code are implemented and enforced appropriately by management.

Corporate Governance Statement (continued)

30 June 2010

Trading in securities

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees (Securities Trading Policy). The Securities Trading Policy is available in the Corporate Governance section on the Company's website at www.ausdrill.com.au.

In summary, the Company's Securities Trading Policy imposes basic trading restrictions on all employees of the Company and its related companies who hold "inside information", and additional trading restrictions on the directors and senior executives of the Company.

Directors and senior executives must seek the Chairman's consent before trading in the Company's securities. They (along with those involved in the preparation and release of the Company's financial statements) are also prohibited from trading in the Company's securities for a period of four weeks prior to the announcement of the Company's half-year and full-year results (except where approved by the Board or in certain other circumstances).

Under the Securities Trading Policy, it is the responsibility of the Company Secretary to introduce appropriate compliance standards and procedures to ensure that the policy is properly implemented.

The Securities Trading Policy is reviewed annually by the Audit Committee to assess compliance and effectiveness.

The Board is satisfied that the Company has complied with its policies on ethical standards, including trading in securities.

Principle 4: Safeguard integrity in financial reporting

Audit committee

The Company has established an Audit Committee to assist the Board in fulfilling its responsibilities in relation to financial information published by the Company and the Company's internal controls, external audit process and risk management systems.

The Audit Committee consists of Messrs Strapp (Chairman), Askew, O'Connor and Hills. Details of their qualifications and attendance at Audit Committee meetings are set out in the directors' report on pages 7 to 8. The Audit Committee met four times during the financial year.

All members of the Audit Committee are financially literate and have an appropriate understanding of the industries in which the Company operates. In addition, Mr Strapp is a qualified accountant and a finance professional with experience in financial and accounting matters. Messrs Strapp, Askew, O'Connor and Hills are considered to be independent in accordance with the principles detailed above.

The Company and Audit Committee have adopted an Audit Committee Charter. A copy of the charter is available in the Corporate Governance section on the Company's website at www.ausdrill.com.au.

The Audit Committee's objectives are to:

- assist the Board to discharge its responsibilities in relation to the Company's:
 - reporting of financial information;
 - application of accounting policies;
 - financial management;
 - internal control systems;
 - risk management systems;
 - business policies and practices;
 - protection of the Company's assets; and
 - compliance with applicable laws, regulations, standards and best practice guidelines;
- improve the credibility and objectivity of the accountability process, including financial reporting;
- provide a formal forum for communication between the Board and senior financial management;
- improve the effectiveness of the internal and external audit functions and be a forum for improving communications between the Board and the internal and external auditors;
- facilitate the maintenance of the independence of the external auditor;
- review the Company's financing arrangements and hedging strategies;
- provide a structured reporting line for internal audit and facilitate the maintenance of the independence of any internal auditor;
- improve the quality of internal and external reporting of financial and non-financial information;
- oversee the establishment and implementation of the risk management and internal control system of the Company; and
- review the effectiveness of the Company's risk management and internal control system.

The Audit Committee obtains regular reports from management, the external auditors and any project teams under its charter.

Corporate Governance Statement (continued)

30 June 2010

The Audit Committee has full and open access to all of the Company's books and records and to management, staff and the external auditors of the Company. The Audit Committee is entitled to consult independent experts and institute special investigations if it considers it necessary in order to fulfil its responsibilities.

External auditors

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 1989. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 30 June 2009.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 30 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

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

Principle 5: Make timely and balanced disclosures

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's securities. This helps to ensure investor confidence and achieve full and fair value for the Company's securities through appropriate disclosure. A copy of the disclosure policy is available in the Corporate Governance section of the Company's website at www.ausdrill.com.au.

The Company Secretary has been nominated as the person responsible for communications with the ASX. In addition, the Company Secretary has responsibility for overseeing, coordinating and monitoring disclosure of information to ASX and communicating with the Managing Director, the Chairman and the Chief Financial Officer in relation to continuous disclosure matters.

The Managing Director is responsible for overseeing and coordinating disclosure of information to the media and to analysts, brokers and shareholders and communicating with the Company Secretary in relation to continuous disclosure matters. The Managing Director and Company Secretary are also responsible for ensuring that all employees are aware of their obligation to bring price-sensitive matters to management's attention, and to safeguard the confidentiality of corporate information to avoid the need for premature disclosure.

Each Manager of a business unit is responsible for communicating with the Company Secretary in relation to possible continuous disclosure matters concerning the business unit.

All information disclosed to the ASX is posted on the Company's website as soon as practicable after it is disclosed to ASX.

The Company hosts briefings for institutional investors and analysts to discuss information already released to the market via ASX and to provide background information to assist analysts and institutions in their understanding of the Company's businesses. The Company's policy is to not disclose or discuss price sensitive information unless it has already been released to the market via ASX.

Generally, such interviews are conducted by the Managing Director and other senior executives, sometimes with the support of advisers. The Company Secretary may attend to consider (together with the Managing Director and other senior executives) whether there has been an inadvertent disclosure of price sensitive information. If there has been such a disclosure, then the information is immediately disclosed to ASX.

Principle 6: Respect the rights of shareholders

The Company has established a shareholder communications policy which recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the Company. A copy of the shareholder communications policy is available in the Corporate Governance section of the Company's website at www.ausdrill.com.au.

All shareholders are entitled to receive a copy of the Company's annual reports. In addition, the Company seeks to provide opportunities for communication with shareholders through electronic means.

Corporate Governance Statement (continued)

30 June 2010

The Company's website (www.ausdrill.com.au) carries the following information for shareholders:

- ASX announcements
- Details relating to the Company's directors and senior management
- Dividend history
- Annual reports
- Top 20 shareholders
- The full text of notices of meeting and explanatory materials
- Press releases and financial data for at least the last three years

The website allows shareholders to make direct contact with the Company and access Company information on demand. The website also has an option for shareholders to register their email address for email updates on certain Company matters. The Company's share registrar offers a similar service to alert shareholders of new Company announcements to ASX.

The Company is committed to continuously reviewing its website and use of communication technologies to consider:

- opportunities for more effective communications with shareholders; and
- improved communications with shareholders unable to be physically present at meetings.

Principle 7: Recognise and manage risk

The Board, through the Audit Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Audit Committee Charter is available in the Corporate Governance section of the Company's website at www.ausdrill.com.au. In summary, the Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The Board actively promotes a culture of quality and integrity.

A corporate strategy workshop attended by senior management is held annually over several days. The purpose of the workshop is to review the Group's strategic direction in detail and includes specific focus on the identification of the key business and financial risks which could prevent the Company from achieving its objectives.

The Company's risk management policies and the operation of the risk management and compliance systems are overseen by senior management. During the financial year, the Board and the Audit Committee received regular reports from management as to the effectiveness of the Company's management of material risks that may impede business objectives. Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

The Board requires that each major proposal submitted to the Board for decision is accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The environment, health and safety management system (EHSMS)

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance.

The Company has systems in place which aim to:

- monitor the Company's compliance with all relevant legislation;
- continually assess and improve the impact of the Company's operations on the environment;
- encourage employees to actively participate in the management of environmental and OH&S issues;
- work with trade associations representing the Company's businesses to raise standards;
- use energy and other resources efficiently; and
- encourage the adoption of similar standards by the Company's principal suppliers, contractors and distributors.

The Company is committed to reducing the impact of its operations on the environment. Many of the Company's contracts contain specific environmental obligations and the Company complies with all contractual obligations and with all other environmental regulations applicable to the Company.

Corporate Governance Statement (continued)

30 June 2010

Corporate reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

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

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee to assist the Board in fulfilling its responsibilities to ensure that the Company has remuneration policies and practices which enable it to attract and retain directors and executives that will make a contribution towards achieving positive outcomes for shareholders.

The Remuneration Committee consists of Messrs O'Connor (Chairman), Askew and Sayers. Details of their qualifications and attendance at Remuneration Committee meetings are set out in the directors' report on pages 7 to 8. A majority of the Remuneration Committee members (Mr O'Connor and Mr Askew) are considered to be independent directors in accordance with the principles discussed above. The Remuneration Committee met two times during the financial year.

The Remuneration Committee operates in accordance with its charter which is available in the Corporate Governance section of the Company's website at www.ausdrill.com.au. The Remuneration Committee's objectives and responsibilities are to review and make recommendations to the Board on:

- remuneration, recruitment, retention and termination policies and procedures for senior executives and directors;
- senior executives' remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for directors.

The Remuneration Committee Charter states that the Remuneration Committee shall have access to appropriate internal and external resources to enable it to fulfil its functions appropriately. The Remuneration Committee is authorised to seek advice from external consultants or specialists to assist with its functions.

The Company's remuneration policies are aimed to motivate senior executives to pursue the long-term growth and success of the Company and to demonstrate a clear relationship between senior executives' performance and remuneration. No individual is directly involved in deciding their own remuneration. The structure of remuneration for non-executive directors is clearly distinguished from that of executive directors and senior executives. Non-executive directors are not entitled to any retirement benefits other than those required pursuant to the Superannuation Guarantee Legislation. Non-executive directors do not receive options or bonus payments.

Further information on the Company's remuneration of directors and executives (including the principles used to determine remuneration) is set out in the directors' report under the heading "Remuneration Report".

The Company's Securities Trading Policy (available in the Corporate Governance section of the Company's website at www.ausdrill.com.au) provides that participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

Financial Report

30 June 2010

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This financial report covers the consolidated financial statements for the consolidated entity consisting of Ausdrill Limited and its subsidiaries. The financial report is presented in the Australian currency.

Ausdrill Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Ausdrill Limited
6-12 Uppsala Place
CANNING VALE WA 6155

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors and Managing Director's Report on Operations commencing on page 2 and in the Directors' Report on page 5, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2010. The Directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: www.ausdrill.com.au.

Consolidated statement of comprehensive income

For the year ended 30 June 2010

	Note	Consolidated 2010 \$'000	2009 \$'000
Revenue from continuing operations	5	632,861	508,965
Other income	6	4,159	23,505
Materials		(208,953)	(196,697)
Labour		(211,397)	(161,738)
Rental and hire		(18,876)	(6,326)
Depreciation and amortisation expense	7	(69,833)	(52,415)
Finance costs	7	(17,725)	(16,079)
Other expenses from ordinary activities		(43,551)	(39,643)
Takeover defence costs		—	(1,727)
Merger costs		(1,255)	—
Share of net (loss) of associates accounted for using the equity method		(726)	(203)
Profit before income tax		64,704	57,642
Income tax (expense)	8	(16,140)	(17,397)
Profit from continuing operations		48,564	40,245
(Loss) from discontinued operations	42	(387)	—
Profit for the year		48,177	40,245
Other comprehensive income			
(Loss) on revaluation of land and buildings, net of tax	26	(11)	(7,117)
Available-for-sale financial assets	26	13	(126)
Exchange differences on translation of foreign operations	26	(7,686)	8,569
Other comprehensive income for the year, net of tax		(7,684)	1,326
Total comprehensive income for the year		40,493	41,571
Profit attributable to:			
Equity holders of Ausdrill Limited		48,255	40,245
Non-controlling interests		(78)	—
Profit for the year		48,177	40,245
Total comprehensive income attributable to:			
Equity holders of Ausdrill Limited		40,571	41,571
Non-controlling interests		(78)	—
Total comprehensive income for the year		40,493	41,571
Earnings per share		Cents	Cents
Basic earnings per share	40	23.71	23.23
Diluted earnings per share	40	23.53	23.23

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2010

		Consolidated	
	Notes	2010 \$'000	2009 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	144,387	44,686
Trade and other receivables	10	132,638	84,314
Inventories	11	104,759	86,097
Total current assets		381,784	215,097
Non-current assets			
Receivables	12	2,257	9,667
Investments accounted for using the equity method	13	15,526	1,902
Available-for-sale financial assets	14	103	128
Property, plant and equipment	15	449,763	371,112
Deferred tax assets	16	174	209
Intangible assets	17	35,873	3,510
Total non-current assets		503,696	386,528
TOTAL ASSETS		885,480	601,625
LIABILITIES			
Current liabilities			
Trade and other payables	18	115,823	55,954
Borrowings	19	95,591	70,418
Current tax liabilities	20	2,252	11,658
Provisions	21	5,379	2,911
Liabilities of a disposal group held for sale	42	—	64
Total current liabilities		219,045	140,941
Non-current liabilities			
Borrowings	22	147,309	140,662
Deferred tax liabilities	23	15,523	12,689
Provisions	24	2,115	1,139
Total non-current liabilities		164,947	154,490
TOTAL LIABILITIES		383,992	295,495
NET ASSETS		501,488	306,130
EQUITY			
Contributed equity	25	369,181	194,152
Reserves	26(a)	5,000	12,342
Retained profits	26(b)	126,967	99,636
Capital and reserves attributable to the owners of Ausdrill Limited		501,148	306,130
Non-controlling interest		340	—
TOTAL EQUITY		501,488	306,130

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2010

	Notes	Attributable to members of Ausdrill Limited				Minority interest	Total equity
		Contributed equity	Reserves	Retained earnings	Total		
CONSOLIDATED – 2009							
Balance at 1 July 2008		191,528	10,822	78,382	280,732	–	280,732
Total comprehensive income for the year		–	1,326	40,245	41,571	–	41,571
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs		2,624	–	–	2,624	–	2,624
Dividends paid	27	–	–	(18,991)	(18,991)	–	(18,991)
Employee share options – value of employee services	26	–	194	–	194	–	194
Balance at 30 June 2009		194,152	12,342	99,636	306,130	–	306,130
CONSOLIDATED – 2010							
Balance at 1 July 2009		194,152	12,342	99,636	306,130	–	306,130
Total comprehensive income for the year		–	(7,684)	48,255	40,571	(78)	40,493
Transactions with owners in their capacity as owners							
Contributions of equity, net of transactions costs		4,027	–	–	4,027	–	4,027
Shares issued in consideration of acquisition of subsidiary, net of transaction costs		70,466	–	–	70,466	–	70,466
Shares issued pursuant to capital raising, net of transaction costs		100,536	–	–	100,536	–	100,536
Non-controlling interest on acquisition of subsidiary		–	–	–	–	418	418
Dividends paid	27	–	–	(20,924)	(20,924)	–	(20,924)
Employee share options – value of employee services	26	–	342	–	342	–	342
Balance at 30 June 2010		369,181	5,000	126,967	501,148	340	501,488

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2010

		Consolidated	
	Note	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		644,383	528,816
Payments to suppliers and employees (inclusive of goods and services tax)		(487,367)	(455,808)
		157,016	73,008
Interest received		1,898	3,452
Interest and other costs of finance paid		(16,952)	(15,518)
Income taxes paid		(21,094)	(13,955)
Management fee received from associate		2,139	1,369
Dividend received		–	45
Net cash inflow from operating activities	38	123,007	48,401
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	33	111	(86)
Payment for purchase of business, net of cash acquired		(500)	–
Payment for purchase of equity investments		(6,445)	–
Payments for property, plant and equipment		(43,349)	(105,309)
Payments for available-for-sale financial assets		(103)	–
Proceeds from sale of property, plant and equipment		2,665	22,254
Proceeds from sale of business		15,183	–
Loans to related parties		–	(5,270)
Proceeds from sale of available-for-sale financial assets		333	2,219
Cash sold on disposal of subsidiary		(22)	–
Net cash (outflow) from investing activities		(32,127)	(86,192)
Cash flows from financing activities			
Proceeds from issues of shares, net of transaction costs		99,114	–
Proceeds from secured borrowings		3,481	59,995
Repayment of secured borrowings		(41,733)	(26,255)
Repayment of hire purchase and lease liabilities		(34,953)	(25,620)
Dividends paid to company's shareholders	27	(16,869)	(16,351)
Net cash inflow (outflow) from financing activities		9,040	(8,231)
Net increase (decrease) in cash and cash equivalents		99,920	(46,022)
Cash and cash equivalents at the beginning of the financial year		44,686	88,956
Effects of exchange rate changes on cash and cash equivalents		(219)	1,752
Cash and cash equivalents at end of year	9	144,387	44,686
Non-cash financing and investing activities	39		

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

30 June 2010

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Ausdrill Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial statement has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of Ausdrill Limited and its subsidiaries also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conforming with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Financial statement presentation

The Company has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Ausdrill Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Ausdrill Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for all business combinations by the Group (refer to note 1(ab)).

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively. Investments in subsidiaries are accounted for at cost in the individual financial statements of Ausdrill Limited.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Principles of consolidation (continued)

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 36).

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit or loss, and its share of post-acquisition movements in the reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Ausdrill Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

AASB 8 – Operating Segments

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

Change in accounting policy

The Group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Goodwill is allocated by management to groups of cash generating units on a segment level. The change in reportable segments has not impacted on the allocation of goodwill between segments. There has been no further impact on the measurement of the Group's assets and liabilities. Comparatives for 2009 have been restated.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

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

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise temporary differences and losses.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income tax (continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Impairment of assets

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

(g) Inventories

(i) Consumables and store items

Consumables and store items are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business.

(h) Cash and cash equivalents

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

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Contract services

Sales are recognised monthly on the basis of units of production at agreed contract rates.

(ii) Mining supplies and manufactured goods

Sales are recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the customer.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement no more than 90 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

(k) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 10) and (note 12).

(ii) Available-for-sale financial assets

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

Financial assets – reclassification

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

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

Subsequent measurement

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

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

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Investments and other financial assets (continued)

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

Details on how the fair value of financial instruments is determined are disclosed in note 2.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(l) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(m) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation.

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property, plant and equipment (continued)

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining reserve attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on major earthmoving plant and equipment and components is calculated on machine hours worked over their estimated useful life. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings 25 years
- Plant and equipment 2-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(f)).

Gains or losses on disposals are determined by comparing proceeds with carrying amounts. These gains or losses are included in profit or loss.

(n) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(ii) Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 1 to 3 years.

(iii) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit.

(iv) Designs and Drawings

Designs and drawings acquired as part of a business combination are recognised separately from goodwill. The designs and drawings are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the projected technical life of the design and drawings, which is expected to be five years.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 to 60 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Fees paid on the establishment of loan facilities which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(r) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

(s) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in other payables. All other short-term employee benefit obligations are presented as other payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee benefits (continued)

(iii) Share-based payments

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

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

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(t) Contributed equity

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(u) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred. Significant costs incurred in overhauling plant and equipment are capitalised and depreciated over the remaining useful life of the asset or the component in accordance with note 1(m).

(v) Goods and services tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(x) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 15). Finance leases are capitalised at the lease's inception at the fair value of the leased property, plant and equipment or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(z) Financial instrument transaction costs

Transaction costs relating to financial instrument transactions are included in the carrying amounts, except for financial assets or liabilities that are measured at fair value through profit or loss.

(aa) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) Business combinations

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

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

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

Change in accounting policy

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combinations (continued)

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

The changes were implemented prospectively from 1 July 2009 and affected the accounting for the acquisition of Brandrill Limited disclosed in note 33. No adjustments were necessary to any of the amounts previously recognised in the financial statements.

(ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) **AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions AASB2** (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

(ii) **AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues AASB 132** (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

(iii) **AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9** (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has not yet decided when to adopt AASB 9.

(iv) **Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards** (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. There will be no impact on the Group's financial statements.

Notes to the consolidated financial statements (continued)

30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) New accounting standards and interpretations (continued)

(v) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(ad) Parent entity financial information

The financial information for the parent entity, Ausdrill Limited, disclosed in note 43 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Ausdrill Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) *Tax consolidation legislation*

Ausdrill Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

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

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

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

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

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

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

(iii) *Financial guarantees*

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

Notes to the consolidated financial statements (continued)

30 June 2010

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange and other price risks and aging analysis for credit risk.

The Group's key management personnel report to the Audit Committee and Board regularly on the progress and objectives of the risks and the associated corporate governance policy objectives.

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	144,387	44,686
Trade and other receivables	132,638	84,314
Non-current receivables	2,257	9,667
Available-for-sale financial assets	103	128
	279,385	138,795
Financial liabilities		
Trade and other payables	115,823	56,018
Borrowings	242,900	211,080
	358,723	267,098

(a) Market risk

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

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The currencies in which these transactions primarily are denominated are AUD, USD, ZAR, EURO, GBP and CEDI.

The Group hedges its USD trade receivables that are denominated in a currency that is foreign to its functional currency. The Group uses forward exchange contracts to hedge its foreign currency risk. All of the forward exchange contracts have maturities of less than 6 months. As of the date of this report, the Group held USD\$1,282,414 in forward exchange contracts.

The Group hedges large capital expenditure items acquired in US dollars that are to be delivered over a long period of time.

In respect of other monetary assets and liabilities held in currencies other than the AUD, the Group ensures that the net exposure is kept to an acceptable level by matching foreign denominated financial assets with matching financial liabilities and vice versa.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2010		30 June 2009	
	USD	CEDI	USD	CEDI
	\$'000	\$'000	\$'000	\$'000
Cash	2,441	3,317	3,094	197
Trade receivables	3,497	–	2,772	–
Trade payables	3,631	2,264	2,774	896
Borrowings	8,035	–	2,881	–

Notes to the consolidated financial statements (continued)

30 June 2010

2 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
USD	0.8827	0.7432	0.8426	0.8059
CEDI	1.2686	1.2023	1.2140	1.2023

Sensitivity Analysis

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	Consolidated		Profit or Loss A\$'000
	Equity A\$'000	Profit or Loss A\$'000	
30 June 2010			
USD		607	607
CEDI		(79)	(79)
		528	528
30 June 2009			
USD		(25)	(25)
CEDI		55	55
		30	30

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant. The Group's exposure to other foreign exchange movements is not material.

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as available-for-sale. The Group is not exposed to commodity price risk.

If the quoted prices had increased / decreased by 10%, with all other variables held constant, the Group's equity would have increased / decreased by \$7,215 (2009: \$8,960).

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risks arise from cash, cash equivalents and long-term borrowings. Cash, cash equivalents and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2010 and 2009, the Group's borrowings at variable rate were denominated in Australian Dollars.

Refer to note 22(c) for the impact of fair value risk on borrowings.

Refer to note 2(c) Liquidity Risk for cash, cash equivalents and variable interest rate exposure.

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash and Cash Equivalents	144,387	44,686
Variable Rate Borrowings	24,851	27,261

Group sensitivity

At 30 June 2010, if interest rates had changed by +/- 100 basis points (bps) from the year-end rates with all other variables held constant, pre-tax profit for the year would have been \$1,195,356 higher/lower (2009 – change of 100 bps: \$174,250 higher/lower), mainly as a result of higher/lower interest income from these variable interest rate financial assets.

Notes to the consolidated financial statements (continued)

30 June 2010

2 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. Credit risk also arises from cash and cash equivalents. The Group limits its exposure to credit risk from cash and cash equivalents by only investing in counterparties that have an acceptable credit rating.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in note 2(a)(i).

Credit risk further arises in relation to financial guarantees given to certain parties. Financial guarantees are generally only provided to wholly-owned subsidiaries or for purposes of entering into equipment lease and hire purchase arrangements, and premise rental agreements. Details of outstanding guarantees are provided in note 43(b).

The Group's credit policy requires each new customer to be individually analysed for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings when available and credit references from previous customers. Purchase limits are established for each customer. Customers that fail to meet the Group's benchmark credit worthiness may transact with the Group only on a prepayment basis.

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Consolidated	
	2010 \$'000	2009 \$'000
(AUD)		
Australia	82,779	41,689
Africa	45,296	47,754
North America	123	—
Asia	138	154
Europe	128	53
	128,464	89,650

Trade receivables

Counterparties with external credit rating (Moody's)

A1	9,979	3,226
A3	20	—
Baa1	14,278	6,862
Baa3	12,193	13,662
B2	23,359	13,711
	59,829	37,461

*Counterparties without external credit rating***

Group 1	26,734	817
Group 2	41,901	51,372
Group 3	—	—
	68,635	52,189

Total trade receivables

128,464

89,650

Notes to the consolidated financial statements (continued)

30 June 2010

2 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Group's maximum exposure to credit risk for cash at bank and short term deposits was:

	Consolidated	
	2010 \$'000	2009 \$'000
Cash at bank and short-term bank deposits		
(AUD)		
AA	126,687	42,328
AA-	414	395
A+	8,347	209
B+	40	—
B-	8,899	1,754
	144,387	44,686

** Group 1 – new customer (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, the group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. The Group policy is to maintain a net debt to equity ratio of no greater than 70%.

Maturities of financial liabilities

The tables below analyses the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amount liabilities \$'000	Total contractual cash flows \$'000	Less than 6 months \$'000	6-12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000
Group – At 30 June 2010							
Non-derivatives							
Non-interest bearing	115,824	115,824	115,824	—	—	—	—
Financial guarantee contracts	17,316	17,316	—	—	—	—	—
Variable rate	24,851	26,222	20,154	1,787	2,862	1,419	—
Fixed rate	218,049	273,572	51,746	46,342	84,776	58,221	32,487
Total non-derivatives	376,040	432,934	187,724	48,129	87,638	59,640	32,487
Group – At 30 June 2009							
Non-derivatives							
Non-interest bearing	56,018	56,018	56,018	—	—	—	—
Financial guarantee contracts	—	—	—	—	—	—	—
Variable rate	27,261	28,502	16,004	1,681	9,572	1,245	—
Fixed rate	183,819	209,801	34,454	33,791	81,488	60,068	—
Total non-derivatives	267,098	294,321	106,476	35,472	91,060	61,313	—

Details about the financial guarantee contracts are provided in note 43. The amounts disclosed in the table are the maximum amounts allocated to the earliest period in which the guarantee could be called. The parent entity does not expect these payments to eventuate.

Notes to the consolidated financial statements (continued)

30 June 2010

2 FINANCIAL RISK MANAGEMENT (continued)

(d) Fair value measurements

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

As of 1 July 2009, Ausdrill Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

At 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Available-for-sale financial assets				
Equity securities	103	—	—	103
Total assets	103	—	—	103

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

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(n). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

(iii) Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation for its plant and equipment. This estimate is based on historical assessments of the useful life obtained from similar equipment. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down assets where the useful life of the asset is considered to have expired.

Were the actual useful lives of the plant and equipment to differ by 10% from management's estimates, the carrying amount of the plant and equipment would be an estimated \$6,672,550 higher or \$6,672,550 lower (2009: \$5,241,500 higher or \$5,241,500 lower).

Notes to the consolidated financial statements (continued)

30 June 2010

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Critical judgements in applying the entity's accounting policies

There have been no critical judgements used in preparing the Group's financial statements for the year ended 30 June 2010.

4 SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the internal reports reviewed by the chief operating decision maker that is used to make strategic decisions. The chief operating decision maker assesses the performance of the operating segments based on revenue and profit before tax.

The operating segments are identified by the chief operating decision maker based on the nature of the services provided. The reportable segments are based on aggregated operating segments determined by the similarity of the services provided and the nature of risks and returns associated with each business segment.

Business segments

The entity is organised into the following divisions by service type:

Contract Mining Services Australia:

The provision of mining services including drilling and blasting, in-pit grade control, exploration drilling and earthmoving in Australia.

Contract Mining Services Africa:

The provision of mining services including drilling and blasting, in-pit grade control, exploration drilling and earthmoving in Africa.

Manufacturing:

The manufacture of drilling rods and consumables, drill rigs and tray bodies.

Supply and Logistics:

The provision of mining supplies and logistics services.

All other segments:

Entities which do not meet the aggregation criteria for the current segments. This segment also includes Group central functions like treasury, financing and administration.

Intersegment eliminations:

Represents transactions which are eliminated on consolidation.

Notes to the consolidated financial statements (continued)

30 June 2010

4 SEGMENT INFORMATION (continued)

(b) Primary reporting – Business segments

	Contract Mining Services Australia	Contracting Mining Services Africa	Manu- facturing	*Supply & Logistics	All other segments	Intersegment Eliminations	Consolidated
Full Year ended 30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue							
Sales to external customers	362,065	195,062	22,406	30,937	22,333	-	632,803
Intersegment sales	45	-	32,535	10,988	128	(43,696)	-
Total sales revenue	362,110	195,062	54,941	41,925	22,461	(43,696)	632,803
Other revenue	13,802	493	178	251	5,672	(18,498)	1,898
Total segment revenue	375,912	195,555	55,119	42,176	28,133	(62,194)	634,701
Segment result							
Income tax expense							(15,975)
Profit for the year							48,177
Segment assets	712,398	254,537	75,758	18,158	221,251	(396,622)	885,480
Segment liabilities	267,027	146,101	62,821	16,621	239,960	(348,538)	383,992
Other segment information							
Investments in associates	3,142	12,384	-	-	-	-	15,526
Share of net (losses) of associates	(628)	(98)	-	-	-	-	(726)
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	57,352	29,232	14,664	259	2,068	-	103,575
Depreciation and amortisation expense	38,323	27,089	2,707	138	1,576	-	69,833
Interest Expense	12,890	5,811	2,516	523	14,483	(18,498)	17,725
Full Year ended 30 June 2009							
Segment revenue							
Sales to external customers	209,402	221,519	12,890	39,765	21,892	-	505,468
Intersegment sales	-	-	26,257	18,957	129	(45,343)	-
Total sales revenue	209,402	221,519	39,147	58,722	22,021	(45,343)	505,468
Other revenue	11,785	172	100	(40)	9,653	(18,173)	3,497
Total segment revenue	221,187	221,691	39,247	58,682	31,674	(63,516)	508,965
Segment result							
Income tax expense							(17,397)
Profit for the year							40,245
Segment assets	405,993	246,833	39,249	18,916	181,066	(290,432)	601,625
Segment liabilities	164,373	146,154	33,468	17,168	176,721	(242,389)	295,495
Other segment information							
Investments in associates	-	1,902	-	-	-	-	1,902
Share of net (losses) of associates	-	(203)	-	-	-	-	(203)
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	65,506	79,235	8,290	56	5,795	-	158,882
Depreciation and amortisation expense	21,050	27,246	1,607	164	2,348	-	52,415
Interest Expense	8,289	12,021	1,606	1,001	12,301	(19,139)	16,079

*This segment predominantly operates in the African region.

Notes to the consolidated financial statements (continued)
30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

4 SEGMENT INFORMATION (continued)

Included in all other segments on the previous page are assets and liabilities of the Group's central treasury, financing and administration function, with receivables and investments of \$163,800 million and payables of \$209,811 million, which are of an intergroup nature that represent funding arrangements in different operating segments within the Group.

(c) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the directors is measured in a manner consistent with that in the income statement.

Segment revenue reconciles to total revenue from continuing operations as follows:

Total revenue to external customers	632,803	505,468
Interest revenue	1,898	3,452
Dividends received	–	45
Less: sales from discontinued operation	(1,840)	–
Total revenue from continuing operations (note 5)	632,861	508,965

(ii) Segment result

A reconciliation of the segment result to operating profit before income tax is provided as follows:

Segment result per segment note	64,152	57,642
Add:		
Loss before income tax from discontinued operation	541	–
Loss on sale of discontinued operation before income tax	11	–
Profit before income tax from continuing operations	64,704	57,642

Notes to the consolidated financial statements (continued)

30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
4 SEGMENT INFORMATION (continued)		
<i>(iii) Segment tax expense</i>		
A reconciliation of the segment tax expense to income tax expense in the statement of comprehensive income is provided as follows:		
Income tax expense per segment note	15,975	17,397
Add:		
Income tax benefit resulting from the operational loss from the discontinued operation	162	-
Income tax benefit resulting from the loss on sale of discontinued operation	3	-
Income tax expense from continuing operations	16,140	17,397
5 REVENUE		
From continuing operations		
Sales Revenue	630,963	505,468
<i>Other revenue</i>		
Dividends	-	45
Interest – Related parties	498	613
Interest – Others	1,400	2,839
	1,898	3,497
	632,861	508,965
From discontinued operations (note 42)		
Sales Revenue	1,840	–
6 OTHER INCOME		
Realised foreign exchange gains	–	11,883
Unrealised foreign exchange gains	–	3,101
Other	4,159	3,411
Sale of Inventory	–	5,110
	4,159	23,505

Notes to the consolidated financial statements (continued)
30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
7 EXPENSES		
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	1,192	1,204
Plant and equipment	65,533	50,885
Total depreciation	<u>66,725</u>	<u>52,089</u>
<i>Amortisation</i>		
Amortisation of intangibles	3,108	326
<i>Finance costs</i>		
Hire purchase interest	10,643	6,348
Interest paid/payable – other	7,082	9,731
Finance costs expensed	<u>17,725</u>	<u>16,079</u>
<i>Net loss on disposal of property, plant and equipment</i>	643	131
Net foreign exchange losses	2,216	–
<i>Impairment on acquisition</i>		
Impairment of goodwill	100	430
<i>Impairment losses – financial assets</i>		
Trade receivables	697	229
8 INCOME TAX EXPENSE		
(a) Income tax expense		
Current tax	16,407	13,111
Deferred tax	5,517	4,999
Adjustments for current tax of prior periods	<u>(5,784)</u>	<u>(713)</u>
	16,140	17,397
Deferred income tax expense (revenue) included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 16)	5,218	(120)
Increase in deferred tax liabilities (note 23)	299	5,119
	5,517	4,999
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	64,704	57,642
Tax at the Australian tax rate of 30% (2009 – 30%)	<u>19,411</u>	<u>17,293</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share of net loss of associates	218	28
Share-based payments	103	58
Other non-deductible items	<u>314</u>	<u>134</u>
	20,046	17,513
Difference in overseas tax rates	1,878	597
(Over) provision in prior years	<u>(5,784)</u>	<u>(713)</u>
	(3,906)	(116)
Income tax expense	16,140	17,397

Notes to the consolidated financial statements (continued)

30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
8 INCOME TAX EXPENSE (continued)		
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Current tax – credited directly to equity (note 25)	1,369	7
	<hr/>	<hr/>
	1,369	7
(d) Tax expense (income) relating to items of other comprehensive income		
(Losses) on revaluation of land and buildings (note 26(a))	(5)	(3,050)
Available-for-sale financial assets (note 26(a))	5	54
	<hr/>	<hr/>
	–	(2,996)
(e) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	3,150	–
Potential tax benefit @ 30%	<hr/>	<hr/>
All unused tax losses were incurred by Australian entities that are not part of the tax consolidated group.	945	–
9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	144,387	44,686
(a) Risk exposure		
The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.		
10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES		
Net trade receivables		
Trade receivables	108,659	68,446
Provision for impairment of receivables	(2,504)	(1,462)
	<hr/>	<hr/>
	106,155	66,984
Other debtors		
Other debtors	20,052	12,997
Prepayments	6,431	4,332
	<hr/>	<hr/>
	132,638	84,313
(a) Impaired trade receivables		
As at 30 June 2010, current trade receivables of the Group with a nominal value of \$12,532,187 (2009: \$6,136,240) were impaired. The amount of the provision was \$2,504,432 (2009: \$1,462,144).		
The ageing of these receivables is as follows:		
3 to 6 months	4,766	3,045
Over 6 months	7,766	3,091
	<hr/>	<hr/>
	12,532	6,136

Notes to the consolidated financial statements (continued)

30 June 2010

Consolidated	
2010	2009
\$'000	\$'000

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (continued)

(b) Past due but not impaired receivables

As at 30 June 2010, current trade receivables of the Group with nominal value of \$28,616,750 (2009: \$11,560,503) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing of these trade receivables is as follows:

Up to 2 months	18,589	8,540
Over 2 months	10,028	3,021
	<hr/>	<hr/>

Movements in the provision for impairment of receivables are as follows:

At 1 July 2009	1,462	1,532
Provision for impairment recognised during the year	697	229
Receivables written off during the year as uncollectable	–	422
Impact of acquisitions	453	–
Unused amount reversed	<hr/>	<hr/>
	(108)	(721)
	<hr/>	<hr/>
	2,504	1,462

The creation and release of the provision for impaired receivables has been included in other expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

(c) Other Debtors

This amount includes operating expense rebates and an amount recoverable from a third party for damages sustained in a fire.

(d) Fair value and credit risk

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

The maximum exposure to credit risk at the reporting date is the fair value amount of each class of receivable mentioned above. Refer to note 2 for more information on the risk management policy of the Group.

Consolidated	
2010	2009
\$'000	\$'000

11 CURRENT ASSETS – INVENTORIES

Consumables and store items – at cost	104,759	86,097
	<hr/>	<hr/>

12 NON-CURRENT ASSETS – RECEIVABLES

Loans to associated entities	1,682	9,667
Other receivables	575	–
	<hr/>	<hr/>
	2,257	9,667

13 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Shares in associates (note 36)	15,526	1,902
	<hr/>	<hr/>

(a) Shares in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

Notes to the consolidated financial statements (continued)

30 June 2010

	Consolidated			
	2010	2009		
	\$'000	\$'000		
14 NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS				
At beginning of year	128	1,061		
Additions	103	–		
Disposals	(333)	(550)		
Losses from impairment	–	(3)		
Revaluation adjustment	205	(380)		
At end of year	<u>103</u>	128		
Listed equity securities	103	128		
Total equity securities	<u>103</u>	128		
(a) Non-current assets pledged as security				
Refer to note 22 for information on non-current assets pledged as security by the Group.				
15 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT				
	Land and buildings \$'000	Plant and equipment – at cost \$'000	Plant and equipment under finance – at cost \$'000	Total \$'000
Consolidated				
At 1 July 2008				
Cost or fair value	41,066	167,289	204,736	413,091
Accumulated depreciation	–	(85,442)	(52,050)	(137,492)
Net book amount	<u>41,066</u>	81,847	152,686	275,599
Year ended 30 June 2009				
Opening net book amount	41,066	81,847	152,686	275,599
Exchange differences	275	7,669	12,955	20,899
Revaluation adjustment	(10,184)	–	–	(10,184)
Acquisition of subsidiary	–	343	46	389
Additions	10,137	56,087	92,659	158,883
Disposals	–	(21,922)	(463)	(22,385)
Transfers between classes	1,209	(873)	(336)	–
Depreciation charge	(1,204)	(24,310)	(26,575)	(52,089)
Closing net book amount	<u>41,299</u>	98,841	230,972	371,112
At 30 June 2009				
Cost or fair value	41,299	221,094	295,422	557,815
Accumulated depreciation	–	(122,253)	(64,450)	(186,703)
Net book amount	<u>41,299</u>	98,841	230,972	371,112
Year ended 30 June 2010				
Opening net book amount	41,299	98,841	230,972	371,112
Exchange differences	(207)	(221)	(9,294)	(9,722)
Acquisition of business	340	33,865	36,371	70,576
Additions	1,350	57,715	44,510	103,575
Disposals	–	(12,845)	(6,208)	(19,053)
Transfer between group members	–	(680)	680	–
Transfers between classes	1	448	(449)	–
Depreciation charge	(1,192)	(32,487)	(33,046)	(66,725)
Closing net book amount	<u>41,591</u>	144,636	263,536	449,763
At 30 June 2010				
Cost or fair value	42,774	288,042	354,767	685,583
Accumulated depreciation	(1,183)	(143,406)	(91,231)	(235,820)
Net book amount	<u>41,591</u>	144,636	263,536	449,763

Notes to the consolidated financial statements (continued)

30 June 2010

15 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2009 revaluations were made by the directors as at 30 June 2009 and were based on independent assessments by members of the Australian Property Institute. The revaluation adjustment net of applicable deferred income taxes was debited to other reserves in shareholders' equity (note 26).

(b) Non-current assets pledged as security

Refer to note 22 for information on non-current assets pledged as security by the Group.

(c) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Buildings		
Cost	30,670	29,204
Accumulated depreciation	(5,120)	(4,316)
Net book amount	25,550	24,888

16 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

Doubtful debts	673	439
Employee benefits	5,782	3,700
Provision for stock obsolescence	352	1,121
Borrowing and business expenses	2,206	1,367
Foreign tax credits	7,596	7,928
Other provisions	4,255	2,155
Available-for-sale financial assets	6	6
Trading Stock	–	108
Unrealised foreign exchange	136	96
	21,006	16,920
Set-off of deferred tax liabilities (note 23)	(20,832)	(16,711)
Net deferred tax assets	174	209

Movements:

Opening balance at 1 July	209	82
(Charged) / credited to profit or loss (note 8)	(5,218)	120
Credited to equity	1,369	7
Acquisition of business (note 33)	3,814	–
Closing balance at 30 June	174	209
Deferred tax assets to be recovered within 12 months	132	157
Deferred tax assets to be recovered after more than 12 months	42	52
	174	209

Notes to the consolidated financial statements (continued)

30 June 2010

17 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Customer Contracts \$'000	Other intangible assets \$'000	Goodwill \$'000	Total \$'000
Year ended 30 June 2009				
Opening net book amount	–	1,628	2,208	3,836
Acquisition of subsidiary	–	–	430	430
Impairment charge	–	–	(430)	(430)
Amortisation charge	–	(326)	–	(326)
Closing net book amount	–	1,302	2,208	3,510
At 30 June 2009				
Cost	–	1,628	2,638	4,266
Accumulated amortisation and impairment	–	(326)	(430)	(756)
Net book amount	–	1,302	2,208	3,510
Year ended 30 June 2010				
Opening net book amount	–	1,302	2,208	3,510
Acquisition of business	12,479	11	23,081	35,571
Impairment charge	–	–	(100)	(100)
Amortisation charge	(2,782)	(326)	–	(3,108)
Closing net book amount	9,697	987	25,189	35,873
At 30 June 2010				
Cost	12,479	1,639	25,719	39,837
Accumulated amortisation and impairment	(2,782)	(652)	(530)	(3,964)
Net book amount	9,697	987	25,189	35,873

(a) Description of the Group's intangible assets and goodwill

(i) Customer Contracts

The customer contracts intangible assets arose on the merger of the Brandrill Group on 16 December 2009 and are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over the remaining period of the contracts they relate to. The amortisation has been recognised in the income statement in the line item "amortisation". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(ii) Other intangible assets

The other intangible asset arose on the acquisition of Remet in April 2008 in relation to designs and drawings and is carried at cost less accumulated depreciation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of five years. The amortisation has been recognised in the income statement in the line item "amortisation". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iii) Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (c) and (d) of this note).

(b) Impairment losses recognised

An impairment loss of \$100,000 was recognised in the 2010 financial year (2009: \$430,000) in relation to the goodwill acquired for Synegex.

Notes to the consolidated financial statements (continued)

30 June 2010

17 NON-CURRENT ASSETS – INTANGIBLE ASSETS (continued)

(c) Impairment tests for goodwill and intangibles with indefinite useful lives

(i) Description of the cash generating units and other relevant information

Goodwill has been allocated to two cash generating units, each of which is a reportable segment, for impairment testing as follows:

- Contract Mining Services Australia (CMSA) cash generating unit
- Manufacturing cash generating unit

Contract Mining Services Australia cash generating unit

Goodwill is allocated to the Group's CMSA cash generating unit. The Brandrill drill and blast business is considered, together with the pre-existing Ausdrill Group's contract mining services activities, to be a single cash generating unit as it has been integrated into the operations of the core contract mining services business in the Ausdrill Group.

The recoverable amount of the CMSA unit has been determined based on a value in use calculation using the 2011 cash flow projections approved by senior management. This has been extrapolated over a further period of four years, using a conservative growth rate of 1.0% per annum. After five years a terminal growth rate is assumed and a terminal value in use value calculated. The pre-tax, risk adjusted discount rate applied to cash flow projections is 18% (2009 : -).

Manufacturing cash generating unit

Goodwill is allocated to the Group's Manufacturing cash generating unit. The DT Hi Load business is considered, together with the pre-existing Ausdrill Group manufacturing activities, to be a single cash generating unit, as it has been integrated into the operations of the core manufacturing business in the Ausdrill Group.

The recoverable amount of the manufacturing unit is determined based on a value in use calculation using the 2011 cash flow projections approved by senior management. This has been extrapolated over a further period of four years, using a conservative growth rate of 1.0% per annum. After five years a terminal growth rate is assumed and a terminal value in use value calculated. The pre-tax, risk adjusted discount rate applied to cash flow projections is 19% (2009: 11%).

(ii) Carrying amount of goodwill and trademarks allocated to each of the cash generating units

		CMSA	Manufacturing	Total
		Segment	Segment	
2010		\$'000	\$'000	\$'000
	Carrying amount of goodwill	19,599	5,590	25,189
2009				
	Carrying amount of goodwill	–	2,208	2,208

(d) Key assumptions used for value-in-use calculations

Cash Generating Unit	EBITDA margin *		Growth rate **		Pre-Tax Discount rate ***	
	2010	2009	2010	2009	2010	2009
	%	%	%	%	%	%
CMSA	22.6	–	1.0	–	18.2	–
Manufacturing	25.2	25.0	1.0	–	19.1	11.0

* Budgeted EBITDA margin

** Weighted average growth rate used to extrapolate cash flows beyond the budget period

*** In performing the value-in-use calculations for each CGU, the group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

Discount rates reflect management's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the Group as a whole and adjusted for country and business risk specific to the unit.

At 30 June 2010 the assessed value-in-use for each CGU exceeded the carrying amounts of the goodwill and no impairment loss has been recognised.

Notes to the consolidated financial statements (continued)

30 June 2010

17 NON-CURRENT ASSETS – INTANGIBLE ASSETS (continued)

(e) Impact of possible changes in key assumptions

CMSA

The recoverable amount of the CMSA cash generating unit (CGU) is estimated to be \$423.5 million. This exceeds the carrying amount of the CGU at 30 June 2010 by \$144.5 million.

If the pre-tax risk adjusted discount rate applied to the cash flow projections of the CMSA CGU was 27%, instead of 18%, the recoverable amount of the CGU would equal its carrying amount. A reasonably possible change in any of the other key assumptions would not cause the carrying amount of the CMSA CGU to exceed its recoverable amount.

Manufacturing

The recoverable amount of the Manufacturing cash generating unit (CGU) is estimated to be \$64.5 million. This exceeds the carrying amount of the CGU at 30 June 2010 by \$26.8 million.

If the pre-tax risk adjusted discount rate applied to the cash flow projections of the Manufacturing CGU was 32%, instead of 19%, the recoverable amount of the CGU would equal its carrying amount. A reasonably possible change in any of the other key assumptions would not cause the carrying amount of the Manufacturing CGU to exceed its recoverable amount.

18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade payables	61,026	31,101
Other creditors and accruals	53,845	23,862
Other payables	952	991
	<hr/> 115,823	<hr/> 55,954

19 CURRENT LIABILITIES – BORROWINGS

Secured		
Bank loans	38,047	40,991
Hire purchase liabilities (note 31)	55,808	27,955
Other loans	1,736	1,472
Total secured current borrowings	<hr/> 95,591	<hr/> 70,418

(a) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 2.

(b) Fair value disclosures

Details of the fair value of borrowings for the Group are set out in note 22.

(c) Security

Details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 22.

20 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

Income tax	2,252	11,658
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21 CURRENT LIABILITIES – PROVISIONS

Employee benefits – long service leave	3,895	2,911
Other provisions	1,484	–
	<hr/> 5,379	<hr/> 2,911

Notes to the consolidated financial statements (continued)

30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

22 NON-CURRENT LIABILITIES – BORROWINGS**Secured**

Bank loans	47,103	72,659
Hire purchase liabilities (note 31)	100,206	68,003
Total non-current borrowings	147,309	140,662

(a) Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

Bank overdrafts and bank loans	85,150	113,650
Hire purchase liabilities	156,014	95,958
Other loans	1,736	1,472
Total secured liabilities	242,900	211,080

(b) Assets pledged as security

The bank loans are secured by:

- (i) Registered mortgage debenture over all the assets and undertakings of the parent entity;
- (ii) First ranking mortgage over land and buildings;
- (iii) Assignment of vehicles financed;
- (iv) A negative pledge over a controlled entity's existing fixed assets;
- (v) A lien over the specific asset financed.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

Current**Floating charge**

Cash and cash equivalents	88,169	27,712
Receivables	33,832	31,516
Inventory	17,849	18,083
Total current assets pledged as security	139,850	77,311

Non-current**First mortgage**

Freehold land and buildings	33,204	39,192
-----------------------------	--------	--------

Hire purchase/Finance lease

Plant and equipment	175,221	132,587
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Secured bank loans

Plant and equipment	87,027	98,385
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Floating charge

Available-for-sale financial assets	–	128
Plant and equipment	15,664	20,280
Freehold land and buildings	3,194	–
	18,858	20,408

Total non-current assets pledged as security

	314,310	290,572
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Total assets pledged as security

	454,160	367,883
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Notes to the consolidated financial statements (continued)

30 June 2010

22 NON-CURRENT LIABILITIES – BORROWINGS (continued)

(c) Fair value

The carrying amounts and fair values of borrowings at the end of reporting period are:

	2010		2009	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
On-balance sheet				
<i>Non-traded financial liabilities</i>				
Bank loans	85,150	77,429	113,650	121,302
Hire purchase liabilities	156,014	145,267	95,958	98,325
Other loans	1,736	1,736	1,472	1,472
	242,900	224,432	211,080	221,099

23 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated	
	2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:		
Prepayments	72	191
Inventories	7,425	6,160
Receivables – diesel fuel rebate	2,660	734
Foreign branch distributable profit	7,705	6,027
Depreciation	13,190	10,837
Revaluation of land & buildings	5,172	5,057
Unrealised foreign exchange	131	394
Total deferred tax liabilities	36,355	29,400
Set-off of deferred tax assets (note 16)	(20,832)	(16,711)
Net deferred tax liabilities	15,523	12,689
Movements:		
Opening balance at 1 July	12,689	10,674
Charged to profit or loss (note 8)	299	5,119
(Credited) to other comprehensive income	–	(3,104)
Acquisition of business (note 33)	2,535	–
Closing balance at 30 June	15,523	12,689
Deferred tax liabilities to be settled within 12 months	1,328	1,245
Deferred tax liabilities to be settled after more than 12 months	14,195	11,444
	15,523	12,689

24 NON-CURRENT LIABILITIES – PROVISIONS

Employee benefits – long service leave	2,115	1,139
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Notes to the consolidated financial statements (continued)

30 June 2010

25 CONTRIBUTED EQUITY

	Parent		Parent	
	2010 Shares	2009 Shares	2010 \$'000	2009 \$'000
(a) Share capital				
Fully paid ordinary shares	261,820,159	174,773,978	369,181	194,152

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price \$	\$'000
1 July 2008	Opening balance	172,150,470		191,528
26 October 2008	Dividend reinvestment plan issue	1,085,524	\$1.40	1,515
8 April 2009	Dividend reinvestment plan issue	1,537,984	\$0.73	1,125
	Less: Transaction costs arising on share issues			(16)
30 June 2009	Balance	174,773,978		194,152
1 July 2009	Opening balance	174,773,978	194,152	
6 November 2009	Dividend reinvestment plan issue	897,420	\$1.75	1,569
16 December 2009	Consideration for Brandrill Limited	32,787,159	\$2.13	69,837
18 December 2009	Cancellation of Brandrill options	307,035	\$2.13	654
9 April 2010	Shares issued pursuant to Capital Raising	30,960,000	\$2.00	61,920
30 April 2010	Dividend reinvestment plan issues	1,215,759	\$2.05	2,486
7 May 2010	Shares issued pursuant to Entitlement Offer	13,348,789	\$2.00	26,698
11 May 2010	Shortfall Shares – Entitlement Offer	7,530,019	\$2.00	15,060
				372,376
	Less: Transaction costs arising on share issues			(4,564)
	Deferred tax credit recognised directly in equity			1,369
30 June 2010	Balance	261,820,159		369,181

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. There will be no discount applied to the weighted average market price of all shares traded during the five business days up to and including the record date for determining the entitlement to this dividend.

(e) Options

Options to take up ordinary shares in the capital of Ausdrill Limited outstanding and granted during the year are detailed in note 41.

(i) Ausdrill Limited Employee Option Plan

The number of options granted during the year under the Ausdrill Limited Employee Option Plan was nil (2009: 6,000,000). Outstanding unlisted options under the Ausdrill Limited Employee Option Plan to acquire fully paid ordinary shares in the company as at the date of this report are 5,400,000 (2009: 5,400,000).

Notes to the consolidated financial statements (continued)

30 June 2010

25 CONTRIBUTED EQUITY (continued)

(f) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings as shown in the balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet.

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain a net gearing ratio of up to 70%. The net gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Total borrowings (note 22(a))	242,900	211,080
Less: cash and cash equivalents (note 9)	<u>(144,387)</u>	<u>(44,686)</u>
Net debt	<u>98,513</u>	<u>166,394</u>
Total equity	<u>501,488</u>	<u>306,130</u>
	20%	54%

The decreased gearing ratio is due to the equity issued for the merger with Brandrill Limited and the capital raising during the year.

Notes to the consolidated financial statements (continued)
30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
26 RESERVES AND RETAINED PROFITS		
(a) Reserves		
Land and buildings revaluation reserve	11,758	11,769
Available-for-sale investments revaluation reserve	–	(13)
Share based payments reserve	536	194
Foreign currency translation reserve	(7,294)	392
	<hr/>	<hr/>
	5,000	12,342
Movements:		
<i>Land and buildings revaluation reserve</i>		
Balance 1 July	11,769	18,886
Revaluation – gross (note 15)	–	(10,184)
Currency translation differences arising during the year	(11)	–
Deferred tax (note 23)	–	3,067
Balance 30 June	<hr/>	<hr/>
	11,758	11,769
Movements:		
<i>Available-for-sale investments revaluation reserve</i>		
Balance 1 July	(13)	113
Revaluation – gross (note 14)	205	(380)
Deferred tax (note 16)	(62)	114
Transfer to net profit – gross	(187)	200
Deferred tax (note 16)	57	(60)
Balance 30 June	<hr/>	<hr/>
	–	(13)
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	194	–
Option expense	342	194
Balance 30 June	<hr/>	<hr/>
	536	194
Movements:		
<i>Foreign currency translation reserve</i>		
Balance 1 July	392	(8,177)
Currency translation differences arising during the year	(7,686)	8,569
Balance 30 June	<hr/>	<hr/>
	(7,294)	392
(b) Retained profits		
Movements in retained profits were as follows:		
Opening retained earnings	99,636	78,382
Net profit for the year	48,255	40,245
Dividends	(20,924)	(18,991)
Balance 30 June	<hr/>	<hr/>
	126,967	99,636

Notes to the consolidated financial statements (continued)

30 June 2010

26 RESERVES AND RETAINED PROFITS (continued)

(c) Nature and purpose of reserves

(i) Land and buildings revaluation reserve

The land and buildings revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in note 1(m). The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

(ii) Available-for-sale investments revaluation reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(iii) Share-based payments reserve

The share based payments reserve is used to recognise the fair value of options issued to employees but not exercised that are expensed in the statement of comprehensive income each year.

(iv) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

27 DIVIDENDS

	Parent entity	
	2010 \$'000	2009 \$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2009 of 6 cents (2008 – 6 cents) per fully paid share paid on 6 November 2009 (2008 – 24 October 2008)		
Fully franked (2008 – fully franked)	10,486	10,329
Interim dividend for the year ended 30 June 2010 of 5 cents (2009 – 5 cents) per fully paid share paid on 30 April 2010 (2009 – 8 April 2009)		
Fully franked (2009 – fully franked)	10,438	8,662
Total dividends provided for or paid	20,924	18,991
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2010 and 2009 were as follows:		
Paid in cash	16,869	16,351
Satisfied by issue of shares	4,055	2,640
	20,924	18,991
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 6 cents per fully paid ordinary share, (2009 – 6 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 29 October 2010, out of retained profits at 30 June 2010, but not recognised as a liability at year end, is	15,709	10,486

Notes to the consolidated financial statements (continued)

30 June 2010

27 DIVIDENDS (continued)

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax for the year ending 30 June 2010.

	Consolidated	
	2010	2009
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 – 30%)	<u>18,668</u>	<u>16,759</u>

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax,
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$6,732,518 (2009: \$4,494,188).

28 DERIVATIVE FINANCIAL INSTRUMENTS

(a) Instruments used by the Group

(i) Forward exchange contracts

These contracts are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Any changes in fair values are taken to the income statement immediately. At balance date the net unrealised loss on these contracts amounted to \$73,895 (2009: net unrealised gain \$354,824).

The procurement and logistics business records some sales in US dollars. The Group had entered forward exchange contracts to sell US dollars based on the expected date of payment of the foreign currency by the client.

Refer to note 2 for foreign exchange risk exposures.

29 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	3,118,322	1,510,060
Post-employment benefits	272,592	329,121
Long-term benefits	152,276	36,193
Share-based payments	<u>103,455</u>	<u>56,498</u>
	<u>3,646,645</u>	<u>1,931,872</u>

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 10 to 15.

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in sections D and E of the remuneration report on pages 12 to 15.

Notes to the consolidated financial statements (continued)

30 June 2010

29 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(a) Key management personnel compensation (continued)

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Ausdrill Limited and other key management personnel of the Group, including their personally related parties, are set out below.

There were no options held by any director during the years ended 30 June 2010 and 30 June 2009.

	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
2010							
<i>Other key management personnel of the Group</i>							
J Kavanagh	300,000	—	—	—	300,000	—	300,000
A J McCulloch	300,000	—	—	—	300,000	—	300,000
A G Broad	300,000	—	—	—	300,000	—	300,000
M C Crocker	200,000	—	—	—	200,000	—	200,000
B D Mann	200,000	—	—	—	200,000	—	200,000
M J Hughes	200,000	—	—	—	200,000	—	200,000

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Ausdrill Limited and each of the key management personnel of the Group, including their personally-related entities, are set out below:

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
2010				
<i>Directors of Ausdrill Limited</i>				
<i>Ordinary shares</i>				
T E O'Connor	1,000,000	—	—	1,000,000
R G Sayers	34,342,497	—	2,500,000	36,842,497
J E Askew	600,000	—	—	600,000
T J Strapp	105,531	—	294,469	400,000
M G Hills *	—	—	—	—

* M G Hills appointed 24 February 2010

2009

Directors of Ausdrill Limited

Ordinary shares

T E O'Connor	953,448	—	46,552	1,000,000
R G Sayers	25,766,875	—	8,575,622	34,342,497
J E Askew	600,000	—	—	600,000
T J Strapp	105,531	—	—	105,531

There were no shares held by any other key management personnel of the Group, during the years ended 30 June 2010 and 30 June 2009.

Mr Hills is an employee of Resource Capital Funds Management Pty Ltd ("RCFMPL"). Resource Capital Fund IV L.P., a fund managed by a related party of RCFMPL, owns 7,898,160 Ausdrill Limited shares.

Notes to the consolidated financial statements (continued)

30 June 2010

29 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Loans to key management personnel

No loans were made to directors of Ausdrill Limited or other key management personnel of the Group, including their personally related parties.

(c) Other transactions with key management personnel

(i) Directors of Ausdrill Limited

Mr J E Askew, a director of Ausdrill Limited, is a director of Golden Star Resources Ltd. A subsidiary of Ausdrill Limited, African Mining Services (Ghana) Pty Ltd, entered into contracts with Golden Star Resources Ltd for the hire of plant and equipment. The contracts are based on normal commercial terms and conditions.

Mr R G Sayers, a director of Ausdrill Limited, is a shareholder of FMR Investments Pty Ltd, which has provided a \$6 million funding facility to Energy Drilling Australia Pty Ltd, an associate entity of Ausdrill Limited. The facility was entered into on 10 November 2009 and was based on normal commercial terms and conditions. An unsecured guarantee was provided by Ausdrill Limited for this facility. This has been subsequently repaid in full at the date of this report.

Mr R G Sayers, a director of Ausdrill Limited, is a shareholder of FMR Investments Pty Ltd, which provided a \$14 million hire purchase funding facility to Ausdrill Mining Services Pty Ltd, a subsidiary of Ausdrill Limited. The facility was entered into on 23 October 2009 and was based on normal commercial terms and conditions. An unsecured guarantee was provided by Ausdrill Limited for this facility. This has been subsequently repaid in full at the date of this report.

Ausdrill Limited has rented an office building from Mr R G Sayers for the past 9 years with a further term of less than 1 year remaining. The rental agreement is based on normal commercial terms and conditions. This Lease expires in September 2010 and the Group is in the process of negotiating a new rental agreement.

Aggregate amounts of each of the above types of other transactions with directors of Ausdrill Limited:

	2010	2009
	\$	\$
Amounts recognised as revenue		
Sales revenue	<u>6,352,762</u>	—
Amounts recognised as expense		
Finance costs	<u>870,770</u>	—
Rent of office building	<u>358,032</u>	331,254
	<u>1,228,802</u>	331,254

Aggregate amounts payable to director related entities of the Group at the end of the reporting period relating to the above types of other transactions:

Subsidiaries		
Current liabilities	<u>2,427,697</u>	—
Non-current liabilities	<u>9,788,070</u>	—
Associates		
	<u>5,984,149</u>	—

Notes to the consolidated financial statements (continued)

30 June 2010

30 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Group, and its related practices:

	Consolidated	
	2010	2009
	\$	\$
(a) Assurance services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	429,273	211,309
Related practices of PricewaterhouseCoopers Australian firm	90,727	57,284
Non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the Group	12,124	78,198
Total remuneration for audit services	532,124	346,791
(b) Other assurance services		
<i>Taxation services</i>		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of company income tax returns	333,675	165,150
Related practices of PricewaterhouseCoopers Australian firm	122,345	172,546
Other auditors of subsidiaries	15,681	41,484
Total remuneration for taxation services	471,701	379,180
<i>Other services</i>		
PricewaterhouseCoopers Australian firm		
Advisory and accounting consulting services	341,422	97,292
Total remuneration for other services	341,422	97,292
Total remuneration for non-audit services	813,123	476,472
Total auditors' remuneration	1,345,247	823,263

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

Notes to the consolidated financial statements (continued)
30 June 2010

31 COMMITMENTS

	Consolidated	
	2010	2009
	\$'000	\$'000
(a) Capital commitments		
<i>Property, plant and equipment</i>		
Payable:		
Within one year	11,972	13,616
The capital commitments are to be funded from cash and available finance facilities.		
(b) Lease commitments		
<i>(i) Hire purchase liabilities</i>		
Within one year	62,253	34,354
Later than one year but not later than two years	62,952	50,837
Later than two years but no later than five years	53,651	24,912
Total minimum hire purchase commitments	178,856	110,103
Future finance charges	(22,842)	(14,145)
	<u>156,014</u>	<u>95,958</u>
<i>Hire purchase liabilities:</i>		
Current	55,808	27,955
Non-current	100,206	68,003
	<u>156,014</u>	<u>95,958</u>
<i>(ii) Operating leases</i>		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1,975	976
Later than one year but not later than five years	3,295	688
Later than five years	175	322
	<u>5,445</u>	<u>1,986</u>

Notes to the consolidated financial statements (continued)

30 June 2010

32 RELATED PARTY TRANSACTIONS

(a) Parent entities

The ultimate parent entity of the Group is Ausdrill Limited.

(b) Key management personnel

Disclosure relating to key management personnel are set out in note 29.

(c) Transactions with other related parties

The following transactions occurred with related parties:

	Consolidated	
	2010	2009
	\$	\$
<i>Sales of goods and services</i>		
Associates	7,766,509	5,159,969
<i>Interest received / receivable</i>		
Associates	498,377	612,868
<i>Management fee received / receivable</i>		
Associates	2,138,901	1,368,779
<i>Purchases of goods</i>		
Associates	—	145,148

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

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

<i>Current receivables (sales of goods and services)</i>		
Associates	6,011,725	2,647,272
<i>Non-current receivables (loans)</i>		
Associates	1,681,503	9,667,436

(e) Loans to / from related parties

Loans to associates

Beginning of Year	9,667,730	4,574,448
Loans advanced	1,681,503	6,708,551
Loans repaid	—	(1,615,269)
Loans reclassified to equity	(9,667,730)	—
Interest charged	498,377	612,868
Interest received	(498,377)	(612,868)
End of year	1,681,503	9,667,730

(f) Guarantees

Information on guarantees provided by the parent entity are disclosed in note 43.

(g) Terms and Conditions

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year was 9.80% (2009: 7.92%).

Notes to the consolidated financial statements (continued)

30 June 2010

33 BUSINESS COMBINATIONS

(a) Summary of acquisition

On 16 December 2009 the parent entity acquired 100% of the issued share capital of Brandrill Limited, a mining services company specialising in drilling and blasting with contracts across Australia in both mining and civil projects. The acquisition has significantly increased the Group's market share in this industry which complements the Group's existing businesses and will reduce costs through economies of scale.

Details of the net assets acquired and goodwill are as follows:

	2010
	\$'000
Purchase consideration	70,370
Fair value of shares issued	<u>70,370</u>
Total purchase consideration	<u>70,370</u>

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

	Fair value
	\$'000
Cash and cash equivalents	111
Property plant and equipment	69,906
Intangible assets	12,479
Inventories	14,141
Receivables	21,178
Other current assets	4,066
Deferred tax asset (net)	1,279
Other non-current assets	46
Payables	(19,056)
Employee benefit liabilities	(4,668)
Borrowings	(50,058)
Current tax liability	(1,375)
Net identifiable assets acquired	<u>48,049</u>
Less: non-controlling interests	(418)
Goodwill on acquisition	<u>22,739</u>
Net assets acquired	<u>70,370</u>

The goodwill is attributable to the workforce and profitability of the acquired business along with the synergies that are expected to arise. None of the goodwill recognised is expected to be deductible for tax purposes.

Equity instruments issued

The Group issued 33,037,595 ordinary shares in Ausdrill Limited in consideration for the acquisition of Brandrill. The fair value of ordinary shares issued has been determined with reference to the price quoted on the Australian Stock Exchange at the date of acquisition.

Acquired receivables

The fair value of acquired trade receivables is \$21,178,000. The gross contractual amount for trade receivables due is \$21,631,000, of which \$453,000 is expected to be uncollectible.

Acquisition related costs

Acquisition related costs of \$1,255,000 are included in the statement of comprehensive income.

Non-controlling interests

In accordance with the accounting policy set out in note 1, the Group elected to recognise the non-controlling interests in DT Hi Load Australia Pty Ltd at its proportionate share of the acquired net identifiable assets.

Revenue and profit contribution

If the acquisition had occurred on 1 July 2009, consolidated revenue and consolidated profit for the year ended 30 June 2010 would have been \$707,044,000 and \$48,678,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2009, together with the consequential tax effects. The subsidiary's costs of the merger have also been excluded.

Notes to the consolidated financial statements (continued)

30 June 2010

34 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding**	
			2010	2009
			%	%
Ausdrill (Ghana) Pty Ltd	Australia	Ordinary	100	100
Perforaciones Ausdrill Chile Ltda	Chile	Ordinary	100	100
Golden Plains Pty Ltd	Australia	Ordinary	100	100
Ausminco Mining & Equipment Suppliers Pty Ltd	Australia	Ordinary	100	100
Supply Direct Pty Ltd	Australia	Ordinary	100	100
West African Mining Services Ltd	Ghana	Ordinary	100	100
Mining Technology and Supplies Ltd	Ghana	Ordinary	100	100
Ausdrill International & Management Services Pty Ltd	Australia	Ordinary	100	100
Ausdrill International Pty Ltd	Australia	Ordinary	100	100
Australian Communications Engineering Pty Ltd	Australia	Ordinary	100	100
Logistics Direct Ltd	Ghana	Ordinary	100	100
Diamond Communications Pty Ltd	Australia	Ordinary	100	100
Supply Direct South Africa Pty Ltd	Australia	Ordinary	100	100
Ausdrill Northwest Pty Ltd	Australia	Ordinary	100	100
Logistics Direct Australia Pty Ltd	Australia	Ordinary	100	100
Ausdrill Properties Pty Ltd	Australia	Ordinary	100	100
Ausdrill Utilities Pty Ltd	Australia	Ordinary	100	100
Drilling Tools Australia Pty Ltd	Australia	Ordinary	100	100
African Mining Services (Ghana) Pty Ltd	Australia	Ordinary	100	100
Independent Components WA Pty Ltd	Australia	Ordinary	—	100
Drill Rigs Australia Pty Ltd	Australia	Ordinary	100	100
Ausdrill Mining Services Pty Ltd	Australia	Ordinary	100	100
Remet Engineers Pty Ltd	Australia	Ordinary	100	100
Westrans Pty Ltd	Australia	Ordinary	—	100
Synegex Holdings Pty Ltd	Australia	Ordinary	100	—
Brandrill Limited	Australia	Ordinary	100	—
Brandrill Exploration Drilling Pty Ltd	Australia	Ordinary	100	—
RockTek Limited	Australia	Ordinary	100	—
Rockmin Pty Ltd	Australia	Ordinary	100	—
Rockbreaking Solutions Pty Ltd	Australia	Ordinary	100	—
RockTek USA Ltd	USA	Ordinary	100	—
DT Hi Load Australia Pty Ltd	Australia	Ordinary	90	—

** All controlled entities are directly controlled by Ausdrill Limited with the exception of:

Perforaciones Ausdrill Chile Ltda is 99% owned by Ausdrill Limited and 1% owned by Ausdrill International Pty Ltd.

African Mining Services (Ghana) Pty Ltd, West African Mining Services Limited which are 100% owned by Ausdrill International Pty Ltd.

Mining Technology and Supplies Limited which is 100% owned by West African Mining Services Limited.

Australian Communications Engineering Pty Ltd which is 100% owned by Diamond Communications Pty Ltd.

Supply Direct Pty Ltd which is 100% owned by Golden Plains Pty Ltd.

Supply Direct South Africa Pty Ltd, Logistics Direct Australia Pty Ltd and Logistics Direct Limited are 100% owned by Supply Direct Pty Ltd.

Remet Engineers which is 100% owned by Drilling Tools Australia Pty Ltd.

Brandrill Exploration Drilling Pty Ltd and Rockbreaking Solutions which are 100% owned by Brandrill Limited.

RockTek Limited and Rockmin Pty Ltd which are 100% owned by Rockbreaking Solutions Pty Ltd and RockTek USA which is 100% owned by RockTek Limited.

DT Hi Load Australia Pty Ltd which is 90% owned by Brandrill Limited.

Ausdrill Limited carries on business in Australia. African Mining Services (Ghana) Pty Ltd, Ausdrill (Ghana) Pty Ltd, West African Mining Services Limited, Mining Technology and Supplies Limited and Logistics Direct Limited carry or carried on business in Ghana. Perforaciones Ausdrill Chile Ltda carried on business in Chile, and Supply Direct South Africa Pty Ltd carries on business in South Africa. Supply Direct Pty Ltd has a branch which carries on business in the United Kingdom. Steps have been taken for the voluntary liquidation of West African Mining Services Limited, Mining Technology and Supplies Ltd and Perforaciones Ausdrill Chile Ltda.

Westrans Pty Ltd and Independent Components WA Pty Ltd were disposed of on 30 June 2010.

Synergex Holdings Pty Ltd was acquired by Ausdrill International Pty Ltd on 1 July 2009.

Notes to the consolidated financial statements (continued)

30 June 2010

35 DEED OF CROSS GUARANTEE

Ausdrill Limited and Brandrill Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Ausdrill Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2010 of the closed group consisting of Ausdrill Limited and Brandrill Limited.

	2010 \$'000
<i>Income statement</i>	
Revenue from continuing operations	265,934
Other income	463
Materials	(69,637)
Labour	(114,566)
Rental and hire	(5,542)
Depreciation and amortisation expense	(26,577)
Finance costs	(7,834)
Other expenses from ordinary activities	(15,951)
Profit before income tax	26,290
Income tax expense	(7,820)
Profit for the year	18,470
<i>Statement of comprehensive income</i>	
Profit for the year	18,470
Other comprehensive income	
Available-for-sale financial assets	74
Other comprehensive income for the year, net of tax	74
Total comprehensive income for the year	18,544
<i>Summary of movements in consolidated retained earnings</i>	
Retained earnings at the beginning of the financial year	30,374
Profit for the year	18,544
Dividends provided for or paid	(20,924)
Retained earnings at the end of the financial year	27,992

Notes to the consolidated financial statements (continued)

30 June 2010

35 DEED OF CROSS GUARANTEE (continued)**(b) Consolidated statement of financial position**

Set out below is a consolidated balance sheet as at 30 June 2010 of the closed group consisting of Ausdrill Limited and Brandrill Limited.

	2010 \$'000
Current assets	
Cash and cash equivalents	91,839
Trade and other receivables	56,713
Inventories	27,621
Total current assets	<u>176,173</u>
Non-current assets	
Receivables	198,874
Investments in subsidiaries at cost	3,256
Property, plant and equipment	149,263
Deferred tax assets	537
Intangible assets	26,012
Total non-current assets	<u>377,942</u>
Total assets	<u>554,115</u>
Current liabilities	
Trade and other payables	44,914
Borrowings	47,607
Current tax liabilities	725
Provisions	2,565
Total current liabilities	<u>95,811</u>
Non-current liabilities	
Borrowings	57,520
Provisions	1,567
Total non-current liabilities	<u>59,087</u>
Total liabilities	<u>154,898</u>
Net assets	<u>399,217</u>
Equity	
Contributed equity	369,181
Reserves	2,043
Retained earnings	27,993
Total equity	<u>399,217</u>

Notes to the consolidated financial statements (continued)

30 June 2010

36 INVESTMENTS IN ASSOCIATES

(a) Carrying amounts

Information relating to associates is set out below.

Name of company	Principal activity	Ownership interest		Consolidated	
		2010 %	2009 %	2010 \$'000	2009 \$'000
<i>Unlisted</i>					
African Underground Mining Services Ghana Ltd	Contract Mining	50	50	12,384	1,902
African Underground Mining Services Mali SARL	Contract Mining	50	—	—	—
Energy Drilling Australia Pty Ltd	Contract Mining	50	—	3,142	—
				15,526	1,902

The above associates are incorporated in Ghana, Mali and Australia.

(b) Movements in carrying amounts

Carrying amount at the beginning of the financial year	1,902	1,858
Share of (losses) after income tax	(726)	(203)
Share of exchange difference on translation	(36)	247
Acquisition of interests in associates	14,386	—
Carrying amount at the end of the financial year	15,526	1,902

(c) Summarised financial information of associates

	Company's share of:			
	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/ (Loss) \$'000
2010				
African Underground Mining Services Ghana Ltd	24,882	11,656	19,973	264
African Underground Mining Services Mali SARL	4,063	4,118	1,553	(362)
Energy Drilling Australia Pty Ltd	5,017	3,470	82	(628)
	33,962	19,244	21,608	(726)
2009				
African Underground Mining Services Ghana Ltd	14,886	13,039	13,090	(203)
	14,886	13,039	13,090	(203)

37 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 25 August 2010, the directors declared the payment of a final ordinary dividend of \$15,709,210 (6 cents per fully paid share) to be paid on 29 October 2010 out of retained profits at 30 June 2010. The financial effect of this transaction has not been brought to account at 30 June 2010.

Notes to the consolidated financial statements (continued)

30 June 2010

38 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2010 \$'000	2009 \$'000
Profit for the year	48,177	40,245
Depreciation and amortisation	69,833	52,415
Net loss on sale of non-current assets	643	131
Net (gain) loss on sale of available-for-sale financial assets	(187)	136
Net loss on sale of business	11	–
Bad debts and provision for doubtful debts	697	(487)
Net exchange differences	102	(1,251)
Share of losses of associates	726	203
Fair value (gains) on investments	(100)	–
Impairment of goodwill	100	430
Non-cash employee benefits expense – share-based payments	342	194
Change in operating assets and liabilities		
(Increase) in trade debtors	(27,395)	(8,128)
(Increase) in inventories	(408)	(26,743)
(Increase) in other operating assets	(8,404)	(391)
Increase / (decrease) in future income tax benefit	1,278	(123)
Increase / (decrease) in trade creditors	42,079	(11,509)
Increase / (decrease) in other provisions	1,911	(304)
(Decrease) / increase in provision for income taxes payable	(11,117)	1,364
Increase in provision for deferred income tax	4,719	2,219
Net cash inflow from operating activities	123,007	48,401

39 NON-CASH INVESTING AND FINANCING ACTIVITIES

Acquisition of plant and equipment by means of finance leases or hire purchase	60,226	53,574
Acquisition of subsidiary by issue of shares	70,370	–
Issue of shares under company dividend reinvestment plan	4,055	2,640
	134,651	56,214

Notes to the consolidated financial statements (continued)
30 June 2010

40 EARNINGS PER SHARE

	Consolidated	
	2010 Cents	2009 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	23.71	23.23
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	23.53	23.23
(c) Reconciliations of earnings used in calculating earnings per share		
<i>Basic and diluted earnings per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share:		
From continuing operations	48,642	40,245
From discontinued operation	(387)	–
	48,255	40,245
(d) Weighted average number of shares used as the denominator		
	Consolidated	
	2010 Number '000	2009 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	203,527	173,248
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	1,568	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	205,095	173,248
<i>(i) Options</i>		
Options granted to employees under the Ausdrill Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. There have been 1,567,892 options included in the determination of diluted earnings per share.		

Notes to the consolidated financial statements (continued)

30 June 2010

41 SHARE-BASED PAYMENTS

(a) Employee Option Plan

The establishment of the Ausdrill Limited Employee Option Plan was approved by shareholders at the 2005 annual general meeting. The Employee Option Plan is designed to provide long-term incentives for senior management (excluding executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options are granted for a five year period and become exercisable as follows:

- 33.33% after the second anniversary
- 33.33% after the third anniversary
- 33.34% after the fourth anniversary

Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share. Options may not be exercised during the period of four weeks prior to the release of the half yearly and annual financial results of the group to the market.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at	Granted	Exercised	Forfeited	Balance at	Vested and
			start of the year	during the year	during the year	during the year	end of the year	exercisable at end of the year
			Number	Number	Number	Number	Number	Number
12/11/2008	12/11/2013	\$1.29	1,399,989	—	—	—	1,399,989	—
12/11/2008	12/11/2013	\$1.34	1,399,998	—	—	—	1,399,998	—
12/11/2008	12/11/2013	\$1.44	1,400,013	—	—	—	1,400,013	—
12/05/2009	12/05/2014	\$1.29	133,332	—	—	—	133,332	—
12/05/2009	12/05/2014	\$1.34	133,334	—	—	—	133,334	—
12/05/2009	12/05/2014	\$1.44	133,334	—	—	—	133,334	—
30/06/2009	30/06/2014	\$1.29	266,665	—	—	—	266,665	—
30/06/2009	30/06/2014	\$1.34	266,667	—	—	—	266,667	—
30/06/2009	30/06/2014	\$1.44	266,668	—	—	—	266,668	—
Total			5,400,000	—	—	—	5,400,000	—

No options expired during the periods covered by the above table.

Fair value of options granted

There were no options granted during the year ended 30 June 2010. The assessed fair value at grant date of options granted during the year 30 June 2009 was in the range of 10-20 cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

- exercise price: as detailed above
- grant date: as detailed above
- expiry date: as detailed above
- share price at grant date: ranging from \$0.92 to \$1.22
- expected price volatility of the company's shares: ranging from 43 % to 58%
- expected dividend yield: ranging from 9.88% to 13.11%
- risk-free interest rate: ranging from 4.45% to 5.00%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Expenses arising from share-based payment transactions

	Consolidated	
	2010 \$'000	2009 \$'000
Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:	342	194
Options issued under employee option plan		

Notes to the consolidated financial statements (continued)

30 June 2010

42 DISCONTINUED OPERATIONS

(i) Description

On 28 February 2010 the Group sold its Strange Drilling business and the division disposed of is reported in this financial report as a discontinued operation. This business, whilst engaged in similar activities, utilised a very different fleet of equipment which was not compatible with the Group's existing operations.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented are for the two months ended 28 February 2010.

	2010 \$'000
Revenue (note 5)	1,840
Expenses	(2,381)
(Loss) before income tax	<u>(541)</u>
Income tax benefit	162
(Loss) after income tax of discontinued operations	<u>(379)</u>
(Loss) on sale of the division before income tax	(11)
Income tax benefit	3
(Loss) on sale of the division after income tax	<u>(8)</u>
(Loss) from discontinued operation	<u>(387)</u>
Net cash inflow from operating activities	80
Net cash inflow from investing activities (includes an inflow of \$15,183,000 from the sale of the division)	<u>15,183</u>
Net increase in cash generated by the division	<u>15,263</u>

(iii) Details of the sale of the division

Consideration received or receivable:	
Cash	15,183
Total disposal consideration	<u>15,183</u>
Carrying amount of net assets sold	15,194
(Loss) on sale of the division before income tax	<u>(11)</u>
Income tax benefit	3
(Loss) on sale after income tax	<u>(8)</u>

The carrying amounts of assets and liabilities as at the date of sale (28 February 2010) were:

	28 Feb 2010 \$'000
Property, plant and equipment	14,282
Other current assets	390
Inventories	713
Total assets	<u>15,385</u>
Trade creditors	(191)
Total liabilities	<u>(191)</u>
Net assets	<u>15,194</u>

Notes to the consolidated financial statements (continued)

30 June 2010

43 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity	
	2010	2009
	\$'000	\$'000
Balance sheet		
Current assets	139,900	77,350
Non-current assets	364,115	258,550
Total assets	<u>504,015</u>	<u>335,900</u>
Current liabilities	64,118	62,186
Non-current liabilities	35,536	47,523
Total liabilities	<u>99,654</u>	<u>109,709</u>
<i>Shareholders' equity</i>		
Contributed equity	369,181	194,152
Reserves	2,043	1,666
Retained earnings	<u>33,137</u>	<u>30,373</u>
	<u>404,361</u>	<u>226,191</u>
Profit for the year	23,688	17,696
Total comprehensive income	<u>23,723</u>	<u>17,878</u>

(b) Guarantees entered into by the parent entity

The parent entity has given unsecured guarantees in respect of:

(i) leased and hire purchased equipment of subsidiaries amounting to \$95,847,753 (2009: \$32,328,647)

(ii) funding of subsidiaries for acquisition of plant and equipment amounting to \$59,706,838 (2009: \$81,129,734)

The parent entity has also provided an unsecured contingent guarantee to African Underground Mining Services Ghana Ltd, an associate entity, for an equipment and working capital facility of USD30 million. As at 30 June 2010 an amount of USD9,534,971 has been drawn down under this facility.

The parent entity has provided an unsecured guarantee of \$6 million to Energy Drilling Australia Pty Ltd, an associate entity, for an equipment and working capital facility. This facility has since been repaid.

In addition, there are cross guarantees given by Ausdrill Limited and Brandrill Limited as described in note 35.

No deficiencies of assets exist in any of these companies.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity; see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$2,288,983 (30 June 2009: \$5,837,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Directors' declaration

30 June 2010

In the directors' opinion:

- (a) the financial statements and notes set out on pages 28 to 83 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 35 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the managing director and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



R G SAYERS
MANAGING DIRECTOR

Perth
30 September 2010

Independent auditor's report to the members

30 June 2010



Independent auditor's report to the members of Ausdrill Limited

Report on the financial report

We have audited the accompanying financial report of Ausdrill Limited (the company) which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Ausdrill Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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Independent Audit Report to the Members of Ausdrill Limited (continued)



Independent auditor's report to the members of Ausdrill Limited (continued)

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Ausdrill Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 15 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Ausdrill Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Nick Henry'.

Nick Henry
Partner

Perth
30 September 2010

Shareholder information

30 June 2010

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding as at 31 August 2010:

Ordinary shares		
Number of Holders	Shares	
1 – 1,000	2,588	905,707
1,001 – 5,000	2,600	6,845,626
5,001 – 10,000	1,194	8,803,957
10,001 – 100,000	1,551	36,569,565
100,001 and over	<u>134</u>	<u>208,695,304</u>
	<u>8,067</u>	<u>261,820,159</u>

There were 1,336 holders of less than a marketable parcel of 278 ordinary shares.

B. EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities as at 31 August 2010 are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
1. Cherry Garden Nominees	36,301,664	13.87
2. National Nominees Limited	33,522,010	12.80
3. J P Morgan Nominees Australia Limited	25,220,265	9.63
4. HSBC Custody Nominees (Australia) Limited	15,875,155	6.06
5. Bremerton Pty Ltd (The Bartlett Family Fund)	15,018,698	5.74
6. Resource Capital Fund IV L.P.	7,898,160	3.02
7. Citicorp Nominees Pty Ltd	7,198,095	2.75
8. Cogent Nominees Pty Ltd	7,022,381	2.68
9. ANZ Nominees Limited (Cash Income)	5,234,618	2.00
10. CTS Funds Pty Ltd	4,534,947	1.73
11. HSBC Custody Nominees (Australia) Limited-GSCO ECA	4,189,207	1.60
12. ANZ Nominees Limited (Income Reinvest Plan)	3,417,761	1.31
13. GP & DL Connell (Connell Contractor Super)	3,408,040	1.30
14. PG Wright Super Fund	2,466,233	0.94
15. Queensland Investment Corporation	2,126,193	0.81
16. Gerald Harvey	1,975,846	0.75
17. UBS Nominees Pty Ltd	1,481,081	0.57
18. Kingarth Pty Ltd	1,410,001	0.54
19. PM & JL Bartlett	1,202,793	0.46
20. Garry Patrick Connell	1,069,740	0.41
Total held by the twenty largest shareholders	180,572,888	68.97

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below as at 31 August 2010:

Name	Ordinary Shares	
	Number held	Percentage
1. Cherry Garden Nominees Pty Ltd / Ronald George Sayers	36,842,497	14.07%
2. Eley Griffiths Group	19,720,544	7.53%
3. Bremerton Group / PM & JL Bartlett	16,758,093	6.40%
4. Invesco Australia Limited	13,094,233	5.00%

D. VOTING RIGHTS

Every member present at a meeting of the company in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Financial Table

		2006	2007	2008	2009	2010
REVENUE						
Sales Revenue	\$'000	317,134	365,605	387,141	505,468	630,963
Interest Received	\$'000	1,510	2,557	3,828	3,452	1,898
Dividends Received	\$'000	0	0	15	45	0
Total	\$'000	318,644	368,162	390,984	508,965	632,861
PROFIT						
EBITDA	\$'000	54,632	71,132	88,512	126,136	152,262
Depreciation and amortisation expense	\$'000	21,168	26,996	28,890	52,415	69,833
EBIT	\$'000	33,464	44,136	59,622	73,721	82,429
Finance Costs	\$'000	5,314	7,547	9,148	16,079	17,725
Profit before income tax	\$'000	28,150	36,589	50,474	57,642	64,704
Income tax expense	\$'000	9,114	9,970	15,142	17,397	16,140
Profit after tax from continuing operations	\$'000	19,036	26,619	35,332	40,245	48,564
Profit / (loss) from discontinued operations	\$'000	0	925	0	0	(387)
Profit for the year	\$'000	19,036	27,544	35,332	40,245	48,177
Number of Ordinary Shares at Year End	000's	130,803	132,209	172,150	174,774	261,820
Weighted Number of Ordinary Shares	000's	113,705	131,996	155,489	173,248	203,527
Basic earnings per share	cents	16.74	20.87	22.72	23.23	23.71
Diluted earnings per share	cents	16.74	20.87	22.72	23.23	23.53
BALANCE SHEET						
Total Assets	\$'000	266,263	307,085	503,070	601,625	885,480
Total Liabilities	\$'000	130,635	155,854	222,338	295,495	383,992
Shareholders' Equity	\$'000	135,628	151,231	280,732	306,130	501,488
Net tangible assets per share	cents	1.04	1.14	1.61	1.73	1.78
CASH FLOWS						
Gross cash flows from operating activities	\$'000	42,724	53,675	52,925	73,008	157,016
Net cash flows from operating activities	\$'000	34,451	48,220	43,037	48,401	123,007
Net cash flows from investing activities	\$'000	(50,370)	(20,891)	(88,673)	(86,192)	(32,127)
Net cash flows from financing activities	\$'000	50,291	(23,075)	86,966	(8,231)	9,040
Closing cash balance	\$'000	45,425	48,555	88,956	44,686	144,387
Gross Debt	\$'000	85,359	97,504	135,908	211,080	242,900
Net Debt	\$'000	39,934	48,949	46,952	166,394	98,513
DIVIDENDS						
Total Dividends per share	cents	6.00	9.00	11.00	11.00	11.00
Total Dividends paid	\$'000	5,664	9,187	15,171	18,991	20,924
NET INTEREST EXPENSE	\$'000	3,804	4,990	5,320	12,627	15,827
NET DEBT/EQUITY	%	29	32	17	54	20
EBIT TO SALES REVENUE	%	10.55	12.07	15.40	14.58	13.06
EMPLOYEES AT YEAR END	#	1,660	1,651	2,072	2,531	3,366