AJ LUCAS GROUP LIMITED

ABN 12 060 309 104

FINANCIAL REPORT

YEAR ENDED 30 JUNE 2011

DIRECTORS' REPORT

The Board of directors of AJ Lucas Group Limited (the Company) present their report together with the consolidated financial report of AJ Lucas Group Limited, being the Company, its controlled entities, interests in associates and jointly controlled entities (the Group), for the financial year ended 30 June 2011 and the auditor's report thereon.

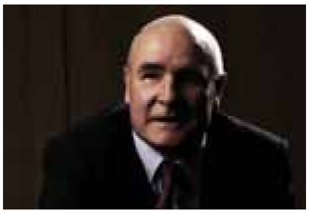
DIRECTORS

The Directors of the Company at any time during the financial year and up to the date of this report are as follows:

Director	Date of appointment/retirement
Allan Campbell	Appointed 6 March 1995
Phillip Arnall	Appointed 10 August 2010
Genelle Coghlan	Appointed 10 August 2010
Martin Green	Appointed 28 May 1999
Mike McDermott	Appointed 4 February 2010
Andrew Lukas	Retired 10 August 2010
Ian Stuart-Robertson	Retired 10 August 2010

Details of the current members of the Board, including their experience, qualifications, special responsibilities and term of office are set out below:

ALLAN CAMPBELL BCom LLB



Executive chairman and CEO

Age 55

After qualifying as a lawyer, Mr Campbell worked for several leading investment banks, initially in Australia and then for ten years in London and New York. During this period, he was given responsibility for corporate advisory and recovery where he gained valuable hands-on experience in the turnaround of distressed companies.

Mr Campbell acquired Lucas in 1995, and listed it on the ASX in 1999. Subsequently, he has been responsible for the Company's strategic direction and has established its position as one of the leading providers of infrastructure, construction and mining services in Australia.

PHILLIP ARNALL BCom

Independent non-executive director

Age 66

Mr Arnall has had a distinguished thirty year career in the mining and steel industries including senior executive responsibility at Smorgon Steel Group, Tubemakers and ANI Limited.

He is currently chairman of Ludowici Limited (since 2003) and a non-executive director of Bradken Limited since 2002 and Macquarie Generation since 2009.

Directorships of other listed companies over the past three years: Capral Limited (Chairman, 2002-2010).

He is a member of the Company's Audit and Risk Committee.

DIRECTORS' REPORT

GENELLE COGHLAN BCom LLB, LLM

Independent non-executive director

Age 55

Ms Coghlan has many years of business and finance experience domestically and internationally. After qualifying as a lawyer, she established a successful tourism business overseas. Following the sale of this venture, she became the managing director of a company making technical textiles with applications in the mining, water and construction industries.

She is currently president of Composites Australia Inc. She is also a member of the Company's Audit and Risk Committee.

MARTIN GREEN FCA

Independent non-executive director

Age 66

Mr Green is a Fellow of the Institute of Chartered Accountants and an official liquidator of the Supreme Court of NSW. He has been in public practice for 37 years, mainly specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels.

He is currently a principal at BRI Ferrier (NSW) Pty Ltd Chartered Accountants, a former honorary director/treasurer of the National Trust of Australia (NSW) and has served at various times in many public roles and capacities.

Mr Green also serves as Chairman of the Company's Audit and Risk Committee.

MIKE MCDERMOTT

Non-independent non-executive director

Age 66

Mr McDermott has worked in the drilling Industry since 1963. In 1970 he established McDermott Drilling in Sydney, growing it to the State's largest drilling company over the next 36 years.

Lucas acquired McDermott Drilling in 2006, retaining Mike to integrate McDermott's with the rest of the Lucas drilling business.

He is a director of the Australian Drilling Industry Association (ADIA), Australian Drilling Industry Training Committee (ADITC) and is the director representing the drilling industry on the Resources and Infrastructure Industry Skills Council (RIISC).

COMPANY SECRETARY

Mr Nicholas Swan MA, MBA, was appointed as company secretary on 15 November 2001. He has also served as the company secretary of several listed public companies as well as of a responsible entity for managed investment schemes.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) held during the financial year, during the period of each director's tenure, and number of such meetings attended by each director is:

	Board of Directors		Audit and Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Allan Campbell	19	19	–	–	–	–
Phillip Arnall	18	18	2	2	–	–
Genelle Coghlan	18	17	2	2	–	–
Martin Green	19	16	2	2	1	1
Mike McDermott	19	18	1	1	–	–
Andrew Lukas (retired 10/08/2010)	2	2	–	–	–	–
Ian Stuart-Robertson (retired 10/08/2010)	2	1	1	1	–	–

CORPORATE GOVERNANCE STATEMENT

The Board of directors is responsible for the corporate governance of the Group. This statement outlines the main corporate governance practices. Unless otherwise stated, these practices were in place for the entire year.

Board of directors

The directors of the Company are accountable to shareholders for the proper management of the business and affairs of the Company.

The key responsibilities of the Board are to:

- establish and monitor the corporate strategies of the Company;
- ensure proper corporate governance;
- monitor the performance of management;
- ensure that appropriate risk management systems, internal controls, reporting systems and compliance frameworks are in place and operating effectively;
- monitor financial results;
- approve decisions concerning investments, acquisitions and dividends; and
- comply with reporting and other requirements of the law.

The Board's role and responsibilities are documented in a written Board charter which is available on the investor page of the Company's website. The Board charter details the functions reserved to the Board and those delegated to the CEO who then engages senior management to assist in those delegated functions. The directors are also subject to a Code of Conduct, a copy of which is also available on the investor page of the Company website.

Composition of the Board

The constitution of the Company requires between three and ten directors. Currently there are five directors, four of whom are non-executive of whom three are independent.

The table below sets out the independence status of each director as at the date of this annual report.

Director	Status
Allan Campbell	Non-independent chief executive officer and chairman
Phillip Arnall	Independent non-executive director
Genelle Coghlan	Independent non-executive director
Martin Green	Independent non-executive director
Mike McDermott	Non-independent non-executive director

Profiles of the current directors including details of their qualifications and experience are found in the Directors' Report.

DIRECTORS' REPORT

Directors are appointed for their industry-specific expertise and commercial acumen. The Board believes that all the directors can make, and do make, quality and independent judgements in the best interests of the Company. While the Chairman is non-independent and is also the Chief Executive Officer, his contribution to the Company is considered vital to direct the strategy of the Company as well as its management. He is also a major shareholder and it is considered that his interests are aligned with those of other shareholders.

The directors are able to obtain independent advice at the expense of the Company.

During the financial year ended 30 June 2011, the Company did not have a formal nomination committee, it being the view that one was not necessary while the Board is its current size. The Board recognises the need for the size and composition of the Board to have a balance of skills and experience to allow it to make its decisions having regard to the interests of the various stakeholders of the Company. Directors are nominated for re-election by rotation.

The Board's performance is assessed on an informal basis given its size. It is noted that with such a small board, each director has, and is required, to actively participate in the business of the Board. On this basis, no formal evaluation process is undertaken.

Ethical and responsible decision making

The Company has a code of conduct to guide the directors and key executives. It includes disclosure of conflicts of interest and use of information not otherwise publicly known or available. Any director with an interest in matters being considered by the Board must take no part in decisions relating to those matters.

The Directors' Code of Conduct is available in the investor section of the Company's website as is the employee Code of Conduct as provided to each employee on commencing with the Company. These codes address the practices necessary to maintain confidence in the Company's integrity, to take account of legal obligations and expectations of stakeholders and the responsibility and accountability for reporting and investigating unethical practices.

Trading in Company securities

The Company has in place a Securities Trading Policy which restricts the times and circumstances in which directors, senior executives and certain employees may buy or sell shares in the Company. These persons are required to seek approval from the Company Secretary prior to trading.

Directors must also advise the Company, which advises the ASX on their behalf, of any transactions conducted by them in the Company's securities within five business days after the transaction occurs.

The Securities Trading Policy is available in the investor section of the Company's website.

Diversity

AJ Lucas is committed to being a diversity leader by providing a diversity inclusive workplace in which everyone has the opportunity to participate and is valued for their distinctive skills, experiences and perspectives. The Group is committed to ensuring all employees are treated fairly, equally and with respect. A copy of the Diversity Policy is available on the investor section of the Company's website.

Through periodic reviews of the Board composition and succession planning, the Board seeks to ensure that the skills and diversity of the Board are appropriate for the present and future requirements of the Group. The Board actively seeks to identify and recruit directors whose skills and attributes complement and enhance the effective operation of the Board. Currently of the five directors, one (20%) is female.

At present, 9% of our workforce is female. This reflects the reality of the industries in which the Group operates and the generally low participation rates of women in the engineering and mining services trades workforce across Australia and the world. The available pool of female candidates for engineering and manual roles is limited and consequentially constrains the ability of the Company to increase female participation through internal promotion and external recruitment both across the workforce generally and at a senior executive level.

Female participation rates are however considerably higher across the Group's service functions (such as finance, communications, HR, project support and office administration) accounting for 44% of total employees in these roles.

The Company has in place various programs to foster career development including training sessions for line managers, sponsoring attendance at executive managing training courses, implementation of flexible work place practices, and development and implementation of HR policies and practices to drive workforce participation rates of key diversity segments. The Board will monitor the effectiveness of these various initiatives to meet the Group's diversity plan including supporting women's progress into senior management positions.

DIRECTORS' REPORT

Integrity in financial reporting

The Board has established an Audit and Risk Committee which provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control systems, risk management systems, regulatory compliance and external audit. The Audit and Risk Committee is governed by the Audit and Risk Committee Charter which is available in the investor section of the Company's website.

The Committee must have at least three members. At least one member must have financial expertise and some members shall have an understanding of the industry in which the Company operates. All members must be independent non-executive directors.

The Audit and Risk Committee during the financial year consisted of those directors set out in the following table. Their qualifications and experience are set out in the Directors' Report.

Name	Independent/Non-independent
Martin Green (Chairman)	Independent non-executive director
Phillip Arnall (2)	Independent non-executive director
Genelle Coghlan (2)	Independent non-executive director
Mike McDermott (1)	Non-independent non-executive director
Ian Stuart-Robertson(1)	Non-independent executive director

(1) Retired from the Audit and Risk Committee on 10 August 2010.

(2) Appointed to the Audit and Risk Committee on 10 August 2010.

The principal roles of the committee are to:

- assess whether the accounting methods and statutory reporting applied by management are consistent and comply with accounting standards and applicable laws and regulations;
- make recommendations on the appointment of the external auditors, assess their performance and independence and ensure that management responds to audit findings and recommendations;
- discuss the adequacy and effectiveness of the Company's internal control systems and policies to assess and manage business risks and its legal and regulatory compliance programmes; and
- ensure effective monitoring of the Company's compliance with its codes of conduct and Board policy statements.

The Audit and Risk Committee meets with the external auditors at least twice a year. The Committee is authorised to seek information from any employee or external party and obtain legal or other professional advice.

The Audit and Risk Committee co-operates with its external auditors in the selection, appointment and rotation of external audit engagement partners.

The Chief Executive Officer and the Chief Financial Officer have provided assurance in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Timely and balanced disclosure

The Company has established policies and procedures designed to ensure compliance with ASX listing rules, continuous disclosure requirements and accountability for compliance at a senior level so that investors have equal and timely access to all material information.

The Company has a Continuous Disclosure and Communications Policy, a copy of which is on the investor page of its website.

Clear communication with shareholders

The Continuous Disclosure and Communications Policy promotes effective communication with shareholders and encourages shareholder participation at AGMs.

Risk identification and management

The Board has established policies on risk management. The systems of internal financial controls have been determined by senior management and are designed to provide reasonable but not absolute protection against fraud, material mis-statement or loss. The Chief Executive Officer and Chief Financial Officer provide representation to the Audit and Risk Committee and the Board that the risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Company has, in accordance with the Australian Standard on risk management AS/NZS4360:1999, developed a risk statement and underlying procedures for the key risk areas of People, Environment, Business and Reputation.

A copy of the risk statement is available on the investor page of the Company's website.

As part of the CEO's regular operational reviews, he reports to the Board on key areas of risk and the Company's management of risk.

The Company has had a number of external audits of particular types of risk during the year.

Encourage enhanced performance

The performance of the Audit and Risk Committee, individual directors and key executives is evaluated regularly by the Board.

The Board informally evaluates its performance and that of the individual directors and committees on a regular basis. The Board believes that the individuals on the Board have made quality and independent judgements in the best interests of the Company on all relevant issues during the reporting period. There has been a formal performance evaluation of all key executives (other than the executive director) during the reporting period.

Recognise the interests of all stakeholders

The Company has established various codes of conduct to guide compliance with legal and other obligations to stakeholders and the community at large. These include ethical and work standards, employment practices including occupational health and safety and employment opportunities, and environmental protection. The Company's compliance and that of its employees is monitored through internal review.

Remuneration

The Remuneration Committee reviews the remuneration of the executive directors and senior officers. The remuneration of the non-executive directors is based on the recommendations of independent remuneration consultants and while there is no formal charter for remuneration, the Board seeks independent advice as required.

The Company's non-executive directors receive fees for acting as a director of the Company. Additional fees are payable for being a member of a sub-committee such as the Audit and Risk Committee. Non-executive directors may receive shares in the Company as part of their fees.

Executive Directors and senior executives are remunerated based on a fixed wage plus incentive payments. The Company has performance and review policies and procedures in place for the evaluation of senior executives and these evaluations take place over the course of the year. The matters delegated to senior executives are such matters as are within the delegated authority of the CEO and delegated based on relevant skills and experience.

Further details in relation to the remuneration of directors and senior executives are set out in the Remuneration Report. The Board also seeks independent advice on the structure of executive pay and has acted in accordance with this advice.

The Company's Securities Trading Policy deals with executives entering into transactions limiting risk on unvested equity, and hedging more generally.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

AJ Lucas Group is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater, resources and property sectors.

The Group has in excess of 700 employees and a client base principally comprising major corporations and State and local governments.

The Group is structured into three principal operating segments:

DRILLING: Drilling services to the coal and coal seam gas industries for the degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.

BUILDING, CONSTRUCTION AND INFRASTRUCTURE: Construction and civil engineering services together with facilities management. The Group is also the market leader in the trenchless installation of conduits and pipes using horizontal directional drilling.

OIL AND GAS: Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.

REVIEW AND RESULTS OF OPERATIONS

Overview of the Group

The following table summarises the results for the year:

	2011 Year $'000	2011 2nd half $'000	2011 1st half $'000	2010 Year $'000	2010/11 Change %
Total revenue	433,373	203,611	229,762	358,490	20.9%
Reported EBITDA	29,405	26,489	2,916	52,320	(43.8%)
EBIT	1,327	12,249	(10,922)	24,481	(94.6%)
(Loss)/profit before tax	(21,422)	3,450	(24,872)	8,199	(361.3%)
Net (loss)/profit attributable to members	(11,527)	6,350	(17,877)	(7,128)	61.7%
Total assets	438,917	438,917	437,479	452,099	(2.9%)
Net assets	175,883	175,883	175,794	193,226	(9.0%)
Basic (loss)/earnings per share (cents)	(17.5)	9.7	(27.2)	(11.0)	59.1%

Total revenue increased by 20.9% to $433.4 million. This increase is reflected in an increase in the underlying EBITDA by $21.5 million to $16.95 million as shown in the following table.

	Drilling $'000	BC&I $'000	Oil & Gas $'000	Corporate $'000	2011 $'000	2010 $'000
Reconciliation:						
Reported EBITDA	42,800	(2,557)	(1,721)	(9,117)	29,405	52,320
Profit on sale of business	(23,686)	–	–	–	(23,686)	–
Profit on sale of exploration asset	–	–	–	–	–	(92,957)
Other income	–	–	–	–	–	(8,874)
Impairment of intangible assets	–	–	301	–	301	30,817
Impairment of equity accounted investee	–	–	250	–	250	7,911
Impairment of investment	–	–	–	–	–	532
Impairment of non-current receivable	–	3,919	–	–	3,919	–
Provisions on historical projects	–	2,880	–	–	2,880	–
Holding costs of asset held for sale	–	1,614	–	–	1,614	–
Advisory fees on balance sheet restructure	–	–	–	751	751	–
Loss generated by subsidiary during temporary period of control	–	–	–	–	–	4,024
Share of loss of equity accounted investee	–	483	1,033	–	1,516	1,634
Underlying EBITDA	**19,114**	**6,339**	**(137)**	**(8,366)**	**16,950**	**(4,593)**

The result was impacted by difficult trading conditions, most particularly project delays and wet weather, and market concerns over the Group's weak balance sheet and deficiency of working capital. The underlying EBITDA however, improved significantly in the second half, despite continued unseasonal heavy rainfall through to early May, reflecting the benefit of restructuring initiatives and improved contracting terms.

Divisional performance

Contributions from the business divisions were as follows:

	Revenue $'000	Reported EBITDA $'000	Margin %
2011			
Drilling	185,936	42,800	23.0
Building, construction & infrastructure	247,437	(2,557)	(1.0)
Oil & gas	–	(1,721)	N/A
2010			
Drilling	203,207	23,656	11.6
Building, construction & infrastructure	155,282	(19,503)	(12.6)
Oil & gas	–	57,726	N/A

Drilling

The results of the division for the financial year improved significantly in the second half as shown in the following table:

	2011 Year $'000	2011 2nd half $'000	2011 1st half $'000	2010 Year $'000	2010/11 Change %
Revenue	185,936	88,829	97,107	203,207	(8.5%)
Underlying EBITDA	19,114	12,320	6,794	23,656	(19.2%)
EBITDA margin	10.3%	13.9%	7.0%	11.6%	

The drilling operations were impacted during the year by the long running "wet" commencing in late August and lasting through to early May. The almost continuous interruptions to drilling activity throughout this period and the additional costs incurred in scaling up and down activity greatly reduced margins. The result was also adversely impacted by significant restructuring costs including the closure of several maintenance facilities, rationalisation of the logistics operations and increased maintenance expenditure to upgrade the rig fleet.

The return of drier weather from May onwards saw a resurgence in margins aided by the reduced overhead costs achieved by the division's restructuring. EBITDA for the June quarter amounted to $9.4 million despite weather interruptions in April and suspension of drilling for a period of time due to well control events on non-Lucas drilling sites.

The sale of the underground in-seam (UIS) business in March for $25.5 million generated a profit before tax of $23.7 million further bolstering the profitability of the division. The sale was undertaken to free up resources to focus on the Group's surface drilling and well management activities.

The forecast for the Drilling Division in FY12 is much improved; with additional contracts awarded, lower overheads and improved plant and equipment management. Management expect that, provided there is not an unusually prolonged and heavy wet as experienced in FY11, the Drilling Division will produce EBITDA in FY12 more than double that earned in FY11.

Building, Construction and Infrastructure

The Building, construction and infrastructure division also had a much improved second half as demonstrated in the following table:

	2011 Year $'000	2011 2nd half $'000	2011 1st half $'000	2010 Year $'000	2010/11 Change %
Revenue	247,437	114,782	132,655	155,282	59.3%
Underlying EBITDA	6,339	5,242	1,097	(19,503)	(132.5%)
EBITDA margin	2.6%	4.6%	0.8%	(12.6%)	

Contract margins and execution were satisfactory with a significant improvement in profitability over the prior year, particularly in the second half as activity on projects delayed in the first half accelerated and contracting terms were renegotiated.

DIRECTORS' REPORT

The divisional result however, was again disappointing because of insufficient work undertaken to recover overhead. Although some restructuring of the division was undertaken to reduce costs, the Group also invested significant sums in skilled personnel to develop its expertise in water and waste water management and to enhance its trenching capabilities. The benefits of this investment are now being realised with the award of a significant amount of work in the water sector since balance date.

The divisional result was unfavourably affected by provisions of $6.8 million made for the collection of receivables and resolution of disputes on past projects. Additional expenses for holding and other costs of $1.6 million were also incurred on a strata level commercial property developed by the Company. Since balance date, there has been increased buyer interest in this building with contracts exchanged on a quarter of floors available for sale at that time.

Management changes made during FY11 in this Division are now bearing fruit. Once the balance sheet is restructured, and Group liquidity improved, management is confident of the award of more work with a corresponding lift in profitability.

Activity in the Coal Seam Methane (CSM) industry has increased in recent times as projects in this sector achieve final investment decision, complete engineering and commence to let contracts. Lucas is examining a number of business associations designed to capitalise on Lucas' engineering and pipeline skills in this area and expects to be awarded further projects in the oil and gas sector in due course.

The Group also continues to pursue operations and maintenance contracts, with further award of work in facilities management, gas reticulation, pipeline remediation and operation of water facilities.

Lucas has high expectations for this area of activity utilising the Group's core skill sets in oil and gas and water and wastewater. Lucas is currently engaging additional personnel to expand this area of operations.

Oil and Gas

CUADRILLA

During the year, Cuadrilla Resources, the Company's 41% owned associate, completed the drilling of its first exploration well, Preese Hall #1, in the Bowland Basin near Blackpool in north-west England. A second well, Grange Hill #1, was also recently completed and the drill rig has now been deployed to the third well identified as Becconsall #1. AJ Lucas also owns a 25% direct interest in the Bowland Prospect.

Drilling work conducted to date has taken longer than expected and been more expensive to drill than budgeted, as a consequence of encountering thicker and harder shale sequences than expected and the nature of the geological conditions. The extent of the gas bearing shales are however, greater than expected, with a thickness of over 3,000 feet encountered in Preese Hall.

The Preese Hall #1 fracturing programme was planned at various depths to test the prospective pay zones. The programme was however, suspended after completion of five of twelve planned fracs following minor seismic tremors in the Blackpool area. Despite this, the fracturing carried out to date has established that the shales will fracture and that gas will flow to the surface. Flow rates from the last two fracs have been satisfactory and operations are underway to drill out the plug between stages to allow optimised flow from all five frac zones.

Cuadrilla has commissioned a panel of geo-mechanical experts to report on the possibility of a relationship between the fracturing operations and the seismic tremors and they are expected to report in the near future.

Cuadrilla holds exploration permits in five other sedimentary basins in the UK, The Netherlands and Poland, covering in excess of 1 million net acres. It also has an option to acquire a 29.33% interest in a company exploring the Pannonian Basin in Hungary.

MONUMENT PROSPECT

Lucas holds a 10% contractual Net Profit Interest (NPI) in the Monument Prospect ("Monument") located in Trinity County in East Texas. This investment, which cost $87.8 million, is fully impaired on account of there being insufficient historical drilling data to assess the recoverability of the investment.

The operator of Monument now proposes to commence drilling in Q4 calendar 2011. The Company is informed that recent drilling activity on adjacent acreage to Monument has produced encouraging results. On this basis, once drilling commences at Monument, Lucas has high expectations of the commercial prospectivity of the acreage which may allow the impairment charge to be reversed in part or in full in the future.

LIKELY DEVELOPMENTS

The global demand for coal continues to be very buoyant. The significant investment in coal exploration and coal export infrastructure capacity should translate into increased demand for Lucas' drilling services. The implementation of the proposed carbon tax also has the potential to increase demand for gas drainage services, as more extensive methane drainage pre-mining generally reduces fugitive emissions in the ventilation air during mining activities. There is also expected to be a significant increase in coal seam gas drilling activity as the various Queensland LNG export project infrastructure works progress and prepare to move into production.

The Group's civil engineering business also expects increased activity as demand for infrastructure grows to support the resources export sector. The Group is also experiencing increased acceptance of its expertise in water and waste water with the award of a significant number of projects in this sector in recent months. The Group's operations and maintenance order book is also enjoying increased demand.

The Group will maintain its shareholding in Cuadrilla as its drilling activities progress with an expectation that a preliminary assessment of the reserves at the Bowland Basin shale prospect will be available by the end of the 2012 financial year.

The recapitalisation of the Group's balance sheet with its corresponding reduction in leverage and increase in liquidity will facilitate the award of new work and provide it with the working capital to conduct the increased works.

REVIEW OF FINANCIAL CONDITION

Balance Sheet

The balance sheet showed a deficiency in net current assets of $114.7 million at balance date. The deficit was principally due to the classification of the Australian Taxation Office (ATO) debt, Redeemable Convertible Preference Shares (RCPS) and ANZ facilities as current liabilities. Since balance date, the Company has announced a recapitalisation, subject to the approval of relevant regulatory authorities, shareholders and financiers. Implementation of this recapitalisation will result in the refinancing and repayment of debt as well as increased funds available for forecast working capital. See Events Subsequent to Reporting Date later in this report for further details.

Cash flows from operations

Cash flow generated from operations amounted to a net inflow of $12.1 million (2010: $8.4 million). This result was impacted by the timing of contracts, notably the delay in commencement of several projects, and the reduced operating profitability of the business.

Impact of legislation and other external requirements

There were no changes in environmental or other legislative requirements during the year that significantly impacted the results or operations of the Group.

DIVIDENDS

No dividends have been declared by the Company since the end of the previous year.

STATE OF AFFAIRS

The Group experienced liquidity difficulties during the year because of the difficult trading conditions. The sale of the underground in-seam (UIS) business for $25.5 million eased these difficulties and importantly allowed the Company to meet the calls on its 25% directly owned investment in the Bowland Basin and Bolney Basin shale gas prospects in England. Subsequent to reporting date, the Company has commenced a recapitalisation which will strengthen the balance sheet and provide additional working capital to the Group.

ENVIRONMENTAL REGULATIONS & NATIVE TITLE

As infrastructure engineers, meeting stringent environmental and land use regulations, including native title issues, are an important element of our work. Lucas is committed to identifying environmental risks and engineering solutions to avoid, minimise or mitigate them. We work closely with all levels of government, landholders, Aboriginal land councils and other bodies to ensure our activities have minimal or no effect on land use and areas of environmental, archaeological or cultural importance. One of the key benefits of directional drilling is its ability to avoid or substantially mitigate environmental impact.

Group policy requires all operations to be conducted in a manner that will preserve and protect the environment.

The Directors are not aware of any significant environmental incidents, or breaches of environmental regulations during or since the end of the financial year.

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date, the Company has entered into a number of financial arrangements which, subject to approval from relevant regulatory authorities, shareholders and financiers, will result in a significant recapitalisation of the Company.

DIRECTORS' REPORT

These financial arrangements comprise:

- a placement of 9,917,650 ordinary shares, equivalent to 15% of the Company's issued ordinary shares, at $1.35 per share to Kerogen Investments No.1 (HK) Limited, a Hong Kong wholly owned subsidiary of Kerogen General Partners Limited ("Kerogen"), raising new equity of $13,388,827;
- subject to shareholder approval, on the assumption of a Rights Issue (see below) of between $30 million and $35 million at $1.35 per share, the grant to Kerogen of options over 10,917,504 shares in the Company exercisable at any time after the Rights Issue for a period of 4 years (subject to a ratchet down if the Company pays back part of the mezzanine facility early); and
- the provision of a two year $66.5 million mezzanine loan facility by Kerogen. The proceeds of the facility will be applied predominantly to the redemption of the Redeemable Convertible Preference Shares ("RCPS").

The Company has also announced an intention to conduct a fully underwritten rights issue to raise between $30 million and $35 million ('Rights Issue'). Subject to shareholders agreeing to buy back the RCPS and to grant to Kerogen the aforementioned options, Kerogen has offered to sub-underwrite up to the full amount of the Rights Issue. It is proposed to complete the Rights Issue subject to necessary approvals by late November 2011.

An extraordinary general meeting of shareholders will be called in due course to approve the redemption of the RCPS and other conditions for the provision of the mezzanine facility by Kerogen.

Of the monies subscribed under the placement, US$9.9 million has been subscribed for equity in Cuadrilla Resources Holdings Limited ("Cuadrilla"). The subscription has ensured that Lucas' equity shareholding in Cuadrilla remains equal to that of Riverstone Carlyle at 40.93% of Cuadrilla's expanded issued share capital.

On 23 September 2011, Cuadrilla announced estimated Gas in Place of 200 trillion cubic feet at the Bowland Basin shale prospect in North West England. The Bowland Basin prospect is 75% owned by Cuadrilla, with Lucas owning the remaining 25% directly.

The Company continues to investigate the sale of some or all of its drilling business activities and other operating businesses.

Otherwise, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

OTHER DISCLOSURES

Shares issued on exercise of rights and options

During or since the end of the financial year, the Company issued the following ordinary shares as result of the exercise of rights:

Number of shares	Amount paid on each share
819,536	$Nil

There were no amounts unpaid on the shares issued.

Unissued shares under rights and options

At the date of this report, unissued shares of the Company under rights are:

Expiry date	Exercise price	Number of shares
24 November 2011	$1.10	550,000
30 June 2012	–	144,787
31 August 2012	–	299,527
23 November 2012	$2.11	250,000
30 June 2013	–	93,861

All rights expire on the earlier of their expiry date, termination of the employee's employment and cessation of the officer's service.

The rights do not entitle the holders to participate in any share issue of the Company. 38,686 unexercised rights lapsed during the year.

DIRECTORS' SHAREHOLDINGS AND OTHER INTERESTS

The relevant interest of each director and their director-related entities in the shares and rights over shares issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report are:

	Ordinary Shares	Rights issued under Management Rights Plan
Allan Campbell	10,140,083	598,648
Martin Green	200,000	–
Mike McDermott	–	–
Phillip Arnall	–	–
Genelle Coghlan	–	–

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities including expenses to another person or entity (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Group, except where the liability arises out of conduct involving a lack of good faith.

No indemnity has been provided to the auditors of the Company.

Insurance premiums

Since the end of the previous financial year, the Company has paid premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ending 30 November 2011.

NON-AUDIT SERVICES

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants', as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Payments to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year, as set out in note 9 of the consolidated financial statements, amounted to $275,935 (2010: $283,409).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 20 and forms part of the Directors' Report for the financial year ended 30 June 2011.

ROUNDING OFF

The Company is of a kind referred to in ASIC 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the Directors' Report and the consolidated financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

REMUNERATION REPORT – AUDITED

This remuneration report outlines the remuneration policy for key management personnel comprising the directors of the Company and senior executives of the Company and the Group including the five most highly remunerated Company and Group executives. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. The Company Secretary is not considered to be a key management person and has been excluded from key management personnel disclosures in the financial report.

Remuneration philosophy

The key principle of the Company's executive remuneration policy is to set remuneration at a level that will attract and retain qualified and experienced personnel and motivate and reward them to achieve strategic objectives and improve business results.

Remuneration is structured to reward employees for increasing shareholder value. This is achieved by providing a fixed remuneration component together with short and long-term performance-based incentives.

Through creating goal congruence between directors, executives and shareholders, it is hoped to maximise shareholder value.

AJ Lucas aims to set fixed annual remuneration at market median levels for jobs of comparable size and responsibility using established job evaluation methods and to provide incentives to enable top performers to be remunerated at the upper end of the market, subject always to the performance of the Group.

The aim of the incentive plans is to drive performance to successfully implement annual business plans and increase shareholder value.

The remuneration for executives and staff is reviewed annually, using a formal performance appraisal process and market data derived from independent surveys of people with similar competencies and responsibilities.

Remuneration structure

Remuneration packages include a mix of fixed and variable remuneration and short and long-term incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration which is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits including motor vehicles as well as employer contributions to superannuation funds.

Incentive based remuneration

Incentive based remuneration includes short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial objectives.

All incentive based remuneration is subject to the Group achieving certain performance criteria including continued services and a target level of profit. In certain cases, the criteria may not reflect the Group performance but may be based on a particular project or company's performance. Subject to these performance criteria being met, the short-term incentives (STI) may be received as cash or ordinary shares in the Company. This is generally subject to a minimum percentage being taken in shares but may vary on a case by case basis.

The long-term incentive (LTI) is only available to be taken in ordinary shares and vests after three years subject to the recipient still being employed by the Group at that time.

Management Rights Plan

The management rights and options plan is available to employees, directors and other persons at the discretion of the Board. Nominated persons are granted rights to acquire shares in the Company. The exercise of rights can be satisfied by either the issue of shares for no consideration or by the monetary equivalent of the underlying shares on the date of grant of the rights. The exercise of options is satisfied by the exercise price as agreed. No rights were issued during the year.

Deferred Share Plan

The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the Group ceases. No shares were issued in either of the last two years.

Employee Share Acquisition Plan

The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to $1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Employees must have been employed by any entity within the Group for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of 3 years from the date of issue or the date their employment with the Group ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares.

Relationship of remuneration to company performance

In considering the Group's performance and benefits for shareholder wealth, executive management has had regard to the following indices in respect of the current financial year and the previous four financial years.

Year ended	30 Jun 2011	30 Jun 2010	30 Jun 2009	30 Jun 2008	30 Jun 2007
Total revenue ($'000)	433,373	358,490	499,177	424,301	216,369
Net (loss)/profit after tax attributable to members ($'000)	(11,527)	(7,128)	103,253	14,027	6,396
(Loss)/earnings per share	(17.5)c	(11.0)c	156.1c	25.5c	11.9c
Dividend per share	–	5.5c	9.5c	6.0c	0.0c
Share price at balance date	$1.35 (1)	$2.23	$3.18	$6.27	$2.00
Share price (depreciation)/appreciation	(40%)	(30%)	(49%)	314%	230%

(1) The Company shares were suspended from trading on the Australian Securities Exchange on 26 May 2011. The price shown is the last traded price prior to the suspension in trading.

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. No new incentive based remuneration was granted during the year.

Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named highest paid executives of the Company and Group and other key management personnel are as per the table set out below:

		SHORT-TERM BENEFITS			POST EMPLOYMENT		OTHER LONG TERM BENEFITS	SHARE BASED PAYMENTS			
		Salary/ fees [1] $	Non-monetary benefits [2] $	Total $	Superannuation benefits $	Termination benefit $	Long term benefits (long service leave) $	Value of rights and options [3] $	Total $	Proportion of remuneration performance related %	Value of options and rights as proportion of remuneration %
Executive directors											
Allan Campbell	2011	649,957	–	649,957	50,000	–	–	166,524	866,481	–	19.2
	2010	592,686	–	592,686	49,541	–	–	438,265	1,080,492	–	40.6
Andrew Lukas	2011	18,828	–	18,828	–	–	–	15,852	34,680	–	45.7
(retired 10 Aug 2010)	2010	350,004	–	350,004	–	–	–	44,713	394,717	–	11.3
Ian Stuart-Robertson	2011	38,446	–	38,446	–	–	–	15,852	54,298	–	29.2
(retired 10 Aug 2010)	2010	349,992	–	349,992	–	–	–	44,713	394,705	–	11.3
Non-executive directors											
Martin Green	2011	80,000	–	80,000	–	–	–	–	80,000	–	–
	2010	80,000	–	80,000	–	–	–	–	80,000	–	–
Phillip Arnall	2011	73,314	–	73,314	–	–	–	–	73,314	–	–
(appointed 10 Aug 2010)											
Genelle Coghlan	2011	73,333	–	73,333	–	–	–	–	73,333	–	–
(appointed 10 Aug 2010)											
Garry O'Meally	2010	33,000	–	33,000	–	–	–	–	33,000	–	–
(retired 27 Nov 2009)											
Mike McDermott	2011	91,535	–	91,535	9,473	–	276	–	101,285	–	–
(appointed 4 Feb 2010)	2010	87,664	–	87,664	7,333	–	1,338	–	96,335	–	–
Executive officers											
Peter Williams	2011	622,764	187	622,951	54,000	–	–	–	676,951	–	–
General Manager, Construction											
Kevin Lester	2011	274,524	–	274,524	24,564	–	7,530	5,134	311,752	–	1.6
General Manager, Pipelines	2010	274,164	4,500	278,664	24,811	–	7,952	20,249	331,675	–	6.1
Mark Summergreene	2011	251,074	240	251,314	24,628	–	5,230	4,723	285,895	–	1.7
Chief Financial Officer	2010	241,818	4,500	246,318	20,196	–	21,414	18,629	306,558	–	6.1
Brett Tredinnick	2011	284,792	–	284,792	27,630	–	16,734	4,206	333,362	–	1.3
General Manager, Drilling	2010	241,617	20,291	261,908	21,096	–	3,908	16,588	303,500	–	5.5
Mark Tonkin	2011	253,939	–	253,939	21,509	–	5,734	4,206	285,388	–	1.5
General Manager, Strategy & Planning	2010	235,800	4,500	240,300	20,642	–	3,490	16,588	281,020	–	5.9
Former											
Denis O'Brien	2010	294,851	–	294,851	18,626	29,469	–	–	342,946	–	–
General Manager, Queensland											
Mike Much	2010	220,813	–	220,813	–	2,920	–	–	223,733	–	–
General Manager, Oil & Gas											
Ian Redfern	2011	19,427	5,038	24,465	2,202	47,835	–	6,523	81,025	–	8.1
General Manager, Construction	2010	284,839	–	284,839	26,422	–	27,864	25,728	364,852	–	7.1

Amounts disclosed for remuneration of key management persons exclude insurance premiums of $75,493 (2010: $24,825) paid by the Group in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers of the Company and its controlled entities, This amount has not been allocated to the individuals covered by the insurance policy as the directors believe that no reasonable basis for such allocation exists.

(1) Salary and wages, including accrued leave paid out on retirement.

(2) Non-monetary benefits comprise benefits subject to FBT.

(3) The fair value of the rights and options has been calculated using a Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights and options allocated to this reporting period. No new issue of options or rights was made during the year.

Other benefits

The remuneration policy provides that directors and senior executives may obtain loans from the Group. All such loans are made at commercial rates and therefore do not represent a benefit to the recipient or attract fringe benefit tax. No loan amounts have been written down as the balances are considered fully collectible.

Service agreements

All executive directors and senior executives are employed under a standard contract. The service contract outlines the components of remuneration but does not prescribe how remunerations levels are modified year to year. The Board has the ability to provide discretionary benefits which may fall outside existing incentive programs under the terms of these contracts, for example, in relation to major projects. Remuneration levels are reviewed every year to take into account cost of living changes, any change in the scope of the role performed and any changes required to meet the principles of the remuneration policy.

The service contracts are unlimited in term. All contracts can be terminated without notice by the Company with compensation, if any, payable to the employee in accordance with the law or by negotiated agreement.

Non-executive directors

The remuneration of the non-executive directors, currently $75,000 per annum each, is determined by the Board within the aggregate amount approved by shareholders. $5,000 per annum additional remuneration is paid for serving on any sub-committee of the Board. In recognition that the amount of the individual fees paid to non-executive directors is less than generally paid to persons in such roles in comparable sized companies, the Company has in the past periodically awarded them shares under its Deferred Share Plan. Such shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their service with AJ Lucas ceases.

Rights over equity instruments granted as compensation

Details of rights granted as compensation to each director of the Company and each of the named executives during the reporting period and details of the rights that vested during the reporting period are as follows:

	Number of rights vested during 2011
Directors	
AS Campbell	203,861
AJ Lukas	70,000
I Stuart-Robertson	70,000
Executives	
I Redfern	61,333
K Lester	48,271
M Summergreene	44,409
B Tredinnick	39,544
M Tonkin	39,544

No options or rights have been granted since the end of the previous financial year.

Exercise of rights granted as compensation

During the reporting period, the following shares were issued on the exercise of rights previously granted as compensation to the named executives:

	2011 Number of shares	2011 Amount paid $/share
Executives		
I Redfern	61,333	–
K Lester	48,271	–
M Summergreene	44,409	–
B Tredinnick	39,544	–
M Tonkin	39,544	–

There are no amounts unpaid on the shares issued as a result of the exercise of the rights.

Analysis of share-based payments granted as compensation

Details of the vesting profile of the rights granted as compensation to each director of the Company and each of the named executives is detailed below:

	Rights granted		Vested in year	Forfeited in year (1)	Financial years in which rights vest
	Number	Date	%	%	
Directors					
AS Campbell	250,000	24-Nov-06	–	–	2010
	110,000	23-Nov-07	100	–	2011
	144,787	26-Nov-08	–	–	2010
	93,861	26-Nov-08	100	–	2011
AJ Lukas (retired 10/09/2010)	150,000	24-Nov-06	–	–	2010
	70,000	23-Nov-07	100	–	2011
I Stuart-Robertson (retired 10/09/2010)	150,000	24-Nov-06	–	–	2010
	70,000	23-Nov-07	100	–	2011
Executives					
I Redfern	61,333	31-Aug-07	100	–	2011
K Lester	48,271	31-Aug-07	100	–	2011
M Summergreene	44,409	31-Aug-07	100	–	2011
B Tredinnick	39,544	31-Aug-07	100	–	2011
M Tonkin	39,544	31-Aug-07	100	–	2011

(1) The % forfeited in the year represents the reduction from the maximum number of rights available to vest due to the performance hurdle not being achieved.

Analysis of movements in rights

The movement during the reporting period, by value, of rights over ordinary shares of the Company held by each Company director and each of the named executives is detailed below:

	Value of rights exercised in year (1)	Lapsed in year (2)
	$	$
Executives		
I Redfern	107,946	–
K Lester	84,957	–
M Summergreene	78,160	–
B Tredinnick	69,597	–
M Tonkin	69,597	–

(1) The value of the rights is calculated as the market price of the Company's shares on the Australian Securities Exchange as at close of trading on the date the rights were exercised after deducting the price paid to exercise the rights.

(2) The value of the rights that lapsed during the year represents the benefits foregone and is calculated at the date of the right lapses using a Black-Scholes pricing model assuming the performance hurdle has not been met. No rights lapsed in the year.

Signed in accordance with a resolution of the directors pursuant to s.298 (2) of the Corporations Act 2001.

Allan Campbell,

Director

Dated at Sydney, this 30th day of September 2011

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tony Nimac
Partner
Sydney

30 September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Revenue	5	433,373	358,490
Total revenue		**433,373**	**358,490**
Other income	6	23,686	101,831
Material costs		(145,150)	(120,399)
Sub-contractor costs		(94,344)	(57,599)
Employee expenses		(119,340)	(125,030)
Plant and other construction costs		(60,220)	(61,320)
Impairment of intangible asset	8	(301)	(30,817)
Depreciation and amortisation expenses	8	(28,078)	(27,839)
Impairment of equity accounted investee	8	(250)	(7,911)
Impairment of investment	8	–	(532)
Impairment of receivables	8	(3,919)	–
Other expenses		(2,614)	(2,759)
Results from operating activities		**2,843**	**26,115**
Finance income		891	2,052
Finance costs		(23,640)	(18,334)
Net finance costs	7	**(22,749)**	**(16,282)**
Share of loss of equity accounted investee	18	(1,516)	(1,634)
(Loss)/profit before income tax		**(21,422)**	**8,199**
Income tax benefit/(expense)	10	9,895	(15,327)
Loss for the year		**(11,527)**	**(7,128)**
Other comprehensive income			
Effective portion of changes in fair value of hedges		426	1,250
Exchange differences on translation of foreign operations		(6,372)	2,082
Other comprehensive (loss)/income for the year		**(5,946)**	**3,332**
Total comprehensive loss for the year		**(17,473)**	**(3,796)**
Total comprehensive loss attributable to owners of the company		**(17,473)**	**(3,796)**
Earnings per share:			
Basic (loss)/earnings per share (cents)	11	(17.5)	(11.0)
Diluted (loss)/earnings per share (cents)	11	(17.5)	(11.0)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	12	1,348	9,313
Trade and other receivables	13	61,193	58,640
Inventories	14	52,946	51,083
Assets classified as held for sale	15	11,072	11,841
Other assets	16	1,899	755
Total current assets		**128,458**	**131,632**
Non-current assets			
Trade and other receivables	13	–	21,505
Property, plant and equipment	17	136,896	140,766
Exploration assets	19	7,946	–
Intangible development assets	20	647	703
Other intangible assets	21	112,283	115,071
Investments in equity accounted investees	18	52,687	42,422
Total non-current assets		**310,459**	**320,467**
Total assets		**438,917**	**452,099**
Current liabilities			
Trade and other payables	23	88,412	78,446
Interest-bearing loans and borrowings	24	99,745	66,474
Current tax liabilities	25	47,922	55,549
Employee benefits	27	7,031	6,448
Total current liabilities		**243,110**	**206,917**
Non-current liabilities			
Interest-bearing loans and borrowings	24	12,718	34,834
Deferred tax liabilities	22	5,677	15,946
Employee benefits	27	1,529	1,176
Total non-current liabilities		**19,924**	**51,956**
Total liabilities		**263,034**	**258,873**
Net assets		**175,883**	**193,226**
Equity			
Share capital		91,935	91,935
Reserves		(810)	5,006
Retained earnings		84,758	96,285
Total equity	28	**175,883**	**193,226**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Share capital $'000	Translation reserve $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Retained earnings $'000	Total equity $'000
Balance 1 July 2009	91,935	857	2,372	(2,392)	106,985	199,757
Total comprehensive income						
Loss for the period	–	–	–	–	(7,128)	(7,128)
Other comprehensive income						
Effective portion of changes in fair value of hedges	–	–	–	1,250	–	1,250
Foreign currency translation differences	–	2,082	–	–	–	2,082
Total comprehensive income/(loss)	**–**	**2,082**	**–**	**1,250**	**(7,128)**	**(3,796)**
Transactions with owners recorded directly in equity						
Dividends to shareholders	–	–	–	–	(3,572)	(3,572)
Share based payment transactions	–	–	837	–	–	837
Total contributions by and distributions to owners	–	–	837	–	(3,572)	(2,735)
Balance 30 June 2010	**91,935**	**2,939**	**3,209**	**(1,142)**	**96,285**	**193,226**
Balance 1 July 2010	91,935	2,939	3,209	(1,142)	96,285	193,226
Total comprehensive income						
Loss for the period	–	–	–	–	(11,527)	(11,527)
Other comprehensive income						
Effective portion of changes in fair value of hedges	–	–	–	426	–	426
Foreign currency translation differences	–	(6,372)	–	–	–	(6,372)
Total comprehensive income/(loss)	**–**	**(6,372)**	**–**	**426**	**(11,527)**	**(17,473)**
Transactions with owners recorded directly in equity						
Share based payment transactions	–	–	130	–	–	130
Total contributions by and distributions to owners	–	–	130	–	–	130
Balance 30 June 2011	**91,935**	**(3,433)**	**3,339**	**(716)**	**84,758**	**175,883**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Cash receipts from customers		401,949	390,152
Cash payments to suppliers and employees		(389,824)	(381,784)
Cash generated from operations		**12,125**	**8,368**
Interest received		46	852
Income taxes paid		(8,002)	(6,038)
Interest and other costs of finance paid		(3,865)	(14,145)
Net cash from/(used in) operating activities	34(b)	**304**	**(10,963)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		7,708	1,939
Proceeds from sale of exploration asset		–	98,499
Proceeds from sale of shares in listed entity		–	945
Proceeds from collecting acquired receivables		–	165
Proceeds from sale of business		23,686	–
Proceeds from sale of assets held for sale		1,402	–
Repayment of loans by director related entities		–	(4,279)
Payments for equity accounted investments		(2,506)	(28,652)
Payment for intangible assets		(301)	(30,815)
Payments for plant and equipment		(15,360)	(30,169)
Exploration and evaluation expenditure		(7,946)	(1,499)
Loans to other entities		(213)	(179)
Proceeds from loans to other entities		546	2,455
Net cash from investing activities		**7,016**	**8,410**
Cash flows from financing activities			
Repayment of borrowings		(3,632)	(52,352)
Deferred payment for acquisition		(2,500)	(19,382)
Dividends paid		–	(3,572)
Payment of finance lease liabilities		(14,437)	(11,595)
Net cash used in financing activities		**(20,569)**	**(86,901)**
Net decrease in cash and cash equivalents		**(13,249)**	**(89,454)**
Cash and cash equivalents at beginning of the year		6,863	96,317
Cash and cash equivalents at end of the year	34(a)	**(6,386)**	**6,863**

The accompanying notes are an integral part of these consolidated financial statements.

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1. REPORTING ENTITY

AJ Lucas Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 394 Lane Cove Road, Macquarie Park, NSW 2113. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually referred to as 'Group entities') and the Group's interest in associates and jointly controlled entities.

AJ Lucas is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater, resources and property sectors.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') including Australian interpretations adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 29 September 2011.

(B) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed in note 4.

(C) GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business for a period of at least 12 months from the date that these financial statements are approved.

The Directors note the following events and conditions which have been considered in assessing the appropriateness of the going concern assumption:

- the Group generated a loss after tax for the year of $17.5 million. This was due in part to delays in a number of projects due to poor weather and other conditions and lower levels of activity due to market concerns over the Group's weak balance sheet and deficiency of working capital. As a result, the Group has forecast additional short-term working capital funding requirements amounting to $10 million which is being addressed subsequent to year-end through the actions noted below; and
- as at balance date, the Group's current liabilities exceeded its current assets by $114.7 million. The deficiency in net current assets is principally due to the classification of the Australian Taxation Office (ATO) debt, redeemable convertible preference shares (RCPS) and ANZ facilities as current liabilities, reflecting the contractual rights of these third parties to be able to call on these amounts within 12 months from balance date.

In considering the impact of these factors on the appropriateness of the use of the going concern assumption, the Directors have had regard to the fact that subsequent to balance date, the Group has entered into a number of financial arrangements subject to certain conditions and the approval of relevant regulatory authorities, shareholders and financiers. These will result in the refinancing and repayment of debt as set out below, as well as increased funds available for forecast working capital needs. These financial arrangements comprise:

- a placement of 9,917,650 ordinary shares, equivalent to 15% of the Company's issued ordinary shares, at $1.35 per share to Kerogen Investments No.1 (HK) Limited, a Hong Kong wholly owned subsidiary of Kerogen General Partners Limited ("Kerogen"), raising new equity of $13.4 million. The Company received the subscription amount on 28 September 2011, the majority (US$9.9 million) of which was applied to subscribe for the Company's equity capital entitlement in its Cuadrilla investment, with the residual used for working capital;
- provision of a two-year $66.5 million mezzanine loan facility from Kerogen. The proceeds of the facility will be applied predominantly to redemption of the RCPS. An extraordinary general meeting of shareholders will be called in mid-November 2011 to approve the redemption of the RCPS and other conditions for the provision of the mezzanine loan facility, including the issue of share options to Kerogen; and

- the Group has also announced an intention to conduct a rights issue to raise between $30 million and $35 million ("Rights Issue") by late November 2011. Subject to shareholders agreeing to buy back the RCPS and to grant Kerogen the aforementioned options, Kerogen has agreed to participate in the Rights Issue as a sub-underwriter. The proceeds of the rights issue will be applied to provide working capital funding together with the partial repayment of the ATO debt.

In addition to the above financial arrangements, the Directors have also had regard to the following in assessing the appropriateness of using the going concern assumption:

- the Group continues to investigate the sale of some or all of its drilling business activities and other operating businesses. Should a sale occur, the proceeds will be applied against any residual amount payable to the ATO not satisfied from the above Rights Issue, and/or fund future working capital requirements, any potential shortfall in funding should any of the financial arrangements with Kerogen not eventuate and partial repayment of the proposed mezzanine debt facility from Kerogen, as required;
- the ongoing moratorium in respect of the deferred payment arrangement with the ATO;
- the ongoing discussions with the Group's senior lender to extend the current debt maturity from 30 November 2011 and/or the ability of the Group to refinance such debt in light of the recapitalisation of the balance sheet;
- the Directors' views in respect of the reasonableness of the profit and cash flow forecasts of the Group, having regard to the status of tenders recently won and pending, cost reduction program, recent improved financial performance and lower financing costs resulting from the anticipated recapitalisation of the balance sheet;
- the Directors' views in respect of the progress being made towards commercialising the Group's investment in Monument Prospect, East Texas; and
- the Directors' views in respect of the value of the Group's investment in Cuadrilla Resources Holdings Limited and the direct equity interest in the Bowland Basin and Bolney Basin Shale prospects in England.

After considering the above factors, the Directors have concluded that the use of the going concern assumption is appropriate.

Had the going concern basis not been used, adjustments would need to be made relating to the recoverability and classification of certain assets, and the classification and measurement of certain liabilities to reflect the fact that the Group may be required to realize its assets and settle its liabilities other than in the ordinary course of business, and at amounts different from those stated in the consolidated financial report.

(D) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Australian dollars which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

(E) USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

- Note 14 – Inventories
- Note 21 – Key assumptions used in discounted cash flow projections
- Note 22 – Utilisation of tax losses
- Note 27 – Measurement of share based payments
- Note 29 – Valuation of financial instruments
- Note 32 – Contingencies

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities.

Certain comparative amounts have been reclassified to conform with current year's presentation.

(A) BASIS OF CONSOLIDATION

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

ACQUISITIONS ON OR AFTER 1 JULY 2009

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

ACQUISITIONS BETWEEN 1 JULY 2004 AND 1 JULY 2009

For acquisitions between 1 July 2004 and 1 July 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

ACQUISITIONS PRIOR TO 1 JULY 2004 (DATE OF TRANSITION TO IFRSS)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 July 2003. In respect of acquisitions prior to 1 July 2003, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

SUBSIDIARIES: Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (EQUITY ACCOUNTED INVESTEES): Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

JOINTLY CONTROLLED OPERATIONS: A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

TRANSACTIONS ELIMINATED ON CONSOLIDATION: Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(B) FOREIGN CURRENCY

FOREIGN CURRENCY TRANSACTIONS: Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

FOREIGN OPERATIONS: The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

(C) FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL ASSETS: The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

LOANS AND RECEIVABLES: Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

AVAILABLE-FOR-SALE FINANCIAL ASSETS: Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note P), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

NON-DERIVATIVE FINANCIAL LIABILITIES: Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

COMPOUND FINANCIAL INSTRUMENTS: Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING HEDGE ACCOUNTING: The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

(D) SHARE CAPITAL

ORDINARY SHARES: Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends thereon are recognised as a liability in the period in which they are declared.

REDEEMABLE CONVERTIBLE PREFERENCE SHARES: Redeemable convertible preference shares are classified as a liability as they are redeemable on a specific date or at the option of the shareholders, and the dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit and loss as accrued.

(E) LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(F) LEASE PAYMENTS

Payments made under operating leases are recognised in the profit or loss income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(G) REVENUE

SERVICES RENDERED: Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to certification of work performed.

CONSTRUCTION CONTRACTS: Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future construction activity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the profit or loss.

(H) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested, dividend income, gains on hedging instruments and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, dividends on preference shares classified as liabilities, foreign currency losses and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(I) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

TAX CONSOLIDATION: The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is AJ Lucas Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

NATURE OF TAX FUNDING ARRANGEMENTS AND TAX SHARING ARRANGEMENTS: The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivables/(payables) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(J) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible preference shares and share rights granted to employees.

(K) SEGMENT REPORTING

DETERMINATION AND PRESENTATION OF OPERATING SEGMENTS: An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(L) CONSTRUCTION WORK IN PROGRESS

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of inventories in the statement of financial position for all contracts on which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income in the statement of financial position.

(M) PROPERTY, PLANT AND EQUIPMENT

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

LEASED ASSETS: Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets under finance lease are measured at an amount equal to the lower of fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

SALE OF NON-CURRENT ASSETS: The net gain or loss on disposal is included in profit or loss in "other income" at the date control of the asset passes to the buyer, usually when an unconditional contract for sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

SUBSEQUENT COSTS: The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

DEPRECIATION: Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Plant and equipment	Years
Leasehold improvements	5
Buildings	33-40
Plant and equipment	3-15
Leased plant and equipment	3-15

The residual value, useful life and depreciation method applied to an asset are reviewed at each financial year-end and adjusted if appropriate at least annually.

(N) INTANGIBLE ASSETS

GOODWILL: Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and jointly controlled entities.

ACQUISITIONS OF NON-CONTROLLING INTERESTS: Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

SUBSEQUENT MEASUREMENT: Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

RESEARCH AND DEVELOPMENT: Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products or processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

CUSTOMER RELATIONSHIPS AND CUSTOMER CONTRACTS: Customer relationship and customer contracts intangibles that are acquired by the Group that have finite lives are measured at cost less accumulated amortisation and impairment losses.

OTHER INTANGIBLE ASSETS: Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

SUBSEQUENT EXPENDITURE: Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

AMORTISATION: Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Other development assets – five years
- Customer intangibles:
  - (i) Contracts — are amortised over the life of each contract between one to five years.
  - (ii) Customer relationships — are amortised over a five year period after the expiration of the contract.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(O) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained legal rights to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability; and

(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

When the area of interest enters the development phase, the accumulated exploration and evaluation is transferred to gas assets in development.

(P) IMPAIRMENT

FINANCIAL ASSETS (INCLUDING RECEIVABLES): A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

NON-FINANCIAL ASSETS: The carrying amounts of the Group's non-financial assets, other than inventories, construction work in progress and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("the cash generating unit" or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(Q) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(R) EMPLOYEE BENEFITS

DEFINED CONTRIBUTION SUPERANNUATION FUNDS: A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

OTHER LONG-TERM EMPLOYEE BENEFITS: The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

TERMINATION BENEFITS: Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

SHORT-TERM BENEFITS: Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

SHARE-BASED PAYMENT TRANSACTIONS: The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(S) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(T) GOODS AND SERVICES TAX

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

(U) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group’s 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4. DETERMINATION OF FAIR VALUES

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

PROPERTY, PLANT AND EQUIPMENT: The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items when available and replacement cost when appropriate.

INTANGIBLE ASSETS: The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

INVENTORIES: The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

INVESTMENTS IN EQUITY AND DEBT SECURITIES: The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

TRADE AND OTHER RECEIVABLES: The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

DERIVATIVES: The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

NON-DERIVATIVE FINANCIAL LIABILITIES: Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

SHARE-BASED PAYMENT TRANSACTIONS: The fair value of employee stock options and share appreciation rights are measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

FINANCIAL GUARANTEES: For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

5. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Drilling	Drilling services to the coal and coal seam gas industries for degasification of coal mines and the recovery and commercialisation of coal seam gas, and associated services.
Building, Construction & infrastructure (BC&I)	Construction and civil engineering services, together with facilities management. The Group is also the market leader in the trenchless installation of pipes and conduits using horizontal directional drilling.
Oil & gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, USA and Australia.

There are varying levels of integration between the Drilling and Building, Construction & Infrastructure reportable segments. The accounting policies of the reportable segments are the same as described in note 3.

Information regarding the results of each reportable segment is included below. Management measures performance based on earnings before interest, income tax, depreciation and amortisation (EBITDA) and segment profit before interest and income tax, and after adjusting for amortisation of intangibles associated with acquisitions. Inter-segment pricing is determined on an arm's length basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

5. OPERATING SEGMENTS (CONT)

	Drilling $'000	BC&I $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
2011							
Reportable segment revenue							
Revenue - services rendered	185,936	–	–	185,936	–	–	185,936
Revenue - construction contracts	–	247,437	–	247,437	–	–	247,437
Inter-segment revenue	6,606	(4)	–	6,602	–	(6,602)	–
Total consolidated revenue	**192,542**	**247,433**	**–**	**439,975**	**–**	**(6,602)**	**433,373**
EBITDA	**42,800**	**(2,557)**	**(1,721)**	**38,522**	**(9,117)**	**–**	**29,405**
Less: Depreciation and amortisation	21,747	3,616	–	25,363	2,715	–	28,078
Reportable segment profit/(loss)	**21,053**	**(6,173)**	**(1,721)**	**13,159**	**(11,832)**	**–**	**1,327**
Reconciliation:							
Interest income	–	3	–	3	26	–	29
Interest expense	(14,933)	(1,947)	–	(16,880)	(6,760)	–	(23,640)
Net foreign exchange gain	273	–	–	273	589	–	862
Consolidated loss before income tax							**(21,422)**
2010							
Reportable segment revenue							
Revenue - services rendered	203,207	–	–	203,207	–	–	203,207
Revenue - construction contracts	–	155,282	–	155,282	–	–	155,282
Inter-segment revenue	2,682	22	–	2,704	–	(2,704)	–
Total consolidated revenue	**205,889**	**155,304**	**–**	**361,194**	**–**	**(2,704)**	**358,490**
EBITDA	**23,656**	**(19,503)**	**57,726**	**61,878**	**(9,558)**	**–**	**52,320**
Less: Depreciation and amortisation	23,287	2,137	–	25,424	2,415	–	27,839
Reportable segment profit/(loss)	**369**	**(21,640)**	**57,726**	**36,454**	**(11,973)**	**–**	**24,481**
Reconciliation:							
Interest income	–	–	947	947	881	–	1,828
Interest expense	(14,658)	(502)	–	(15,160)	(3,174)	–	(18,334)
Net foreign exchange gain	–	–	–	–	224	–	224
Consolidated profit before income tax							**8,199**

5. OPERATING SEGMENTS (CONT)

OTHER SEGMENT INFORMATION

	Drilling $'000	BC&I $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
2011							
Segment assets	260,984	98,976	52,268	412,228	26,689	–	438,917
Segment liabilities	115,501	71,072	46,489	233,062	29,972	–	263,034
Depreciation and amortisation	21,747	3,616	–	25,363	2,715	–	28,078
Share of loss of equity accounted investees	–	(483)	(1,033)	(1,516)	–	–	(1,516)
Equity accounted investments	–	419	52,268	52,687	–	–	52,687
Capital expenditure	13,848	18,216	–	32,064	4,562	–	36,626
Impairment of intangible asset	–	–	301	301	–	–	301
Impairment of equity accounted investee	–	–	250	250	–	–	250
2010							
Segment assets	279,577	87,284	59,983	426,844	25,255	–	452,099
Segment liabilities	121,919	59,909	55,531	237,359	21,514	–	258,873
Depreciation and amortisation	23,287	2,137	–	25,424	2,415	–	27,839
Share of loss of equity accounted investees	–	(799)	(835)	(1,634)	–	–	(1,634)
Equity accounted investments	–	25	42,397	42,422	–	–	42,422
Capital expenditure	18,741	16,911	–	35,652	–	–	35,652
Impairment of intangible asset	–	–	30,817	30,817	–	–	30,817
Impairment of equity accounted investee	–	–	7,911	7,911	–	–	7,911
Profit on sale of exploration asset	–	–	92,957	92,957	–	–	92,957
Other income	–	–	8,874	8,874	–	–	8,874

5. OPERATING SEGMENTS (CONT)

GEOGRAPHICAL INFORMATION

Geographical revenue and assets are based on the respective geographical location of customers and assets.

	Revenues		Non-current assets	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Australia	433,373	358,490	250,245	260,484
Europe	–	–	60,214	59,983
	433,373	**358,490**	**310,459**	**320,467**

6. OTHER INCOME

	2011	2010
	$'000	$'000
Profit on sale of exploration asset	–	92,957
Profit on sale of business asset	23,686	–
Remeasurement of interest in associate to fair value	–	2,953
Net gain on deconsolidation	–	5,756
Profit on disposal of investment in listed entity	–	165
	23,686	**101,831**

7. FINANCE INCOME AND FINANCE COSTS

	2011	2010
	$'000	$'000
Interest income	29	1,828
Net foreign exchange gain	862	224
Finance income	**891**	**2,052**
Interest expense	(23,640)	(18,334)
Finance costs	**(23,640)**	**(18,334)**
Net finance costs recognised in profit and loss	**(22,749)**	**(16,282)**

8. OTHER EXPENSES

Profit before income tax has been arrived at after charging the following items:

	2011	2010
	$'000	$'000
Depreciation of property, plant and equipment	17,838	17,556
Amortisation of:		
Leased plant and equipment	7,398	5,499
Development expenditure	53	228
Contracts and customer relationships	2,789	4,556
Total amortisation	10,240	10,283
Total depreciation and amortisation	**28,078**	**27,839**
Impairment of intangible asset	301	30,817
Impairment of investment	–	532
Impairment of equity accounted investee	250	7,911
Impairment of non-current receivables	3,919	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

9. AUDITOR'S REMUNERATION

	2011 $	2010 $
Audit services		
Auditors of the Company — KPMG		
Audit and review of financial reports		
Australia	**407,128**	**449,779**
Other services		
Auditors of the Company — KPMG		
Other professional services	107,454	118,478
Taxation services - Australia	138,018	164,931
Taxation services - overseas firms	30,463	–
	275,935	**283,409**

10. INCOME TAX

	2011 $'000	2010 $'000
Recognised in profit or loss		
Current tax (benefit)/expense		
Current year	(390)	10,747
Prior year adjustments	374	209
	(16)	10,956
Deferred tax expense		
Origination and reversal of temporary differences	(7,895)	4,371
Prior year adjustment	(1,984)	–
Total income tax (benefit)/expense in profit or loss	**(9,895)**	**15,327**
Numerical reconciliation between tax benefit and pre-tax net profit/(loss)		
Accounting (loss)/profit before income tax	(21,422)	8,199
Prima facie income tax expense calculated at 30% (2010:30%)	(6,427)	2,460
Adjustment for:		
Equity settled share based payments	39	251
Equity accounted loss	455	490
Non-deductible expenses	40	1,242
Amortisation of customer contracts	837	1,318
Effect of tax rate in foreign jurisdictions	11	6
Impairment expenses	165	11,778
Research and development allowance	(2,990)	(1,053)
Non-assessable interest	–	(284)
Utilisation of capital losses not previously recognised	(415)	(1,090)
	(8,285)	15,118
Income tax (over)/under provided in prior year	(1,610)	209
Income tax (benefit)/expense attributable to operating (loss)/profit	**(9,895)**	**15,327**

11. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the loss after tax attributable to ordinary shareholders of $11,527,000 (2010: loss after tax of $7,128,000) and a weighted average number of ordinary shares outstanding of 65,958,247 (2010: 65,082,055) calculated as follows:

	2011 Number	2010 Number
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 July	65,298,128	64,945,877
Effect of exercise of management rights	660,119	136,178
Weighted average number of ordinary shares (basic) at 30 June	**65,958,247**	**65,082,055**

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2011 was based on the loss after tax attributable to ordinary shareholders of $11,527,000 (2010: loss after tax of $7,128,000) and a weighted average number of shares outstanding of 65,958,247 (2010: 65,082,055) calculated as follows:

	2011 $'000	2010 $'000
(Loss)/profit attributable to ordinary shareholders (diluted)		
(Loss)/profit attributable to ordinary shareholders	(11,527)	(7,128)
(Loss)/profit attributable to ordinary shareholders (diluted) for the year ended 30 June	**(11,527)**	**(7,128)**

	2011 Number	2010 Number
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares (basic)	65,958,247	65,082,055
Weighted average number of ordinary shares (diluted) at 30 June	**65,958,247**	**65,082,055**

At 30 June 2011, 1,338,176 (2010: 2,196,397) rights were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

12. CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Bank balances	1,348	9,313

13. TRADE AND OTHER RECEIVABLES

	2011 $'000	2010 $'000
Current		
Trade receivables (net of impairment losses)	51,453	49,786
Other receivables	9,083	8,232
Other loans	657	622
	61,193	**58,640**
Non-current		
Receivable from associate	–	17,586
Other receivables (net of impairment losses)	–	3,919
	–	**21,505**
Total trade and other receivables	**61,193**	**80,145**

Current trade receivables are shown net of impairment losses of $49,000 (2010: $48,000) and non-current other receivables are shown net of impairment losses of $3,919,000 (2010: $nil). The receivable from associate reported at the prior year balance date comprises preference shares held in Cuadrilla Resources Limited, a company formed to explore for and develop unconventional hydrocarbons in Europe, and cumulative interest thereon (refer to note 18).

14. INVENTORIES

	2011 $'000	2010 $'000
Materials and consumables	7,930	6,146
Construction work in progress	45,016	44,937
Total inventories	**52,946**	**51,083**
Construction work in progress comprises:		
Contract costs incurred to date	745,907	790,256
Profit recognised to date	116,104	165,430
	862,011	955,686
Less: progress billings	(816,995)	(910,749)
Net construction work in progress	**45,016**	**44,937**

15. ASSETS CLASSIFIED AS HELD FOR SALE

During the prior financial year, the Group developed for sale a strata title commercial office building. Costs of holding this building amounting to $1.614 million were expensed over the year. It is expected that this asset will be sold over the next year. An impairment test was conducted on the Group's carrying value of the property and it was determined that no impairment of the asset was required.

16. OTHER ASSETS

	2011 $'000	2010 $'000
Prepayments	1,899	755

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Enterprise development $'000	Capital works in progress $'000	Total $'000
30 June 2011							
At cost	2,887	5,850	149,821	61,538	4,419	–	224,515
Accumulated depreciation/amortisation	(1,146)	(373)	(72,468)	(13,632)	–	–	(87,619)
	1,741	**5,477**	**77,353**	**47,906**	**4,419**	**–**	**136,896**
30 June 2010							
At cost	2,796	4,411	135,817	58,592	–	4,363	205,979
Accumulated depreciation/amortisation	(589)	(191)	(46,862)	(17,571)	–	–	(65,213)
	2,207	**4,220**	**88,955**	**41,021**	**–**	**4,363**	**140,766**
30 June 2009							
At cost	1,364	4,396	110,390	51,125	–	15,412	182,687
Accumulated depreciation/amortisation	(39)	(149)	(31,278)	(12,770)	–	–	(44,236)
	1,325	**4,247**	**79,112**	**38,355**	**–**	**15,412**	**138,451**

17. PROPERTY, PLANT AND EQUIPMENT (CONT)

RECONCILIATIONS

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Enterprise development $'000	Capital works in progress $'000	Total $'000
2011							
Balance at 1 July 2010	2,207	4,220	88,955	41,021	–	4,363	140,766
Additions	48	–	15,805	16,478	4,295	–	36,626
Disposals	–	–	(15,229)	(31)	–	–	(15,260)
Transfer between classes of assets	43	1,355	5,005	(2,164)	124	(4,363)	–
Depreciation	(557)	(98)	(17,183)	–	–	–	(17,838)
Amortisation	–	–	–	(7,398)	–	–	(7,398)
Balance at 30 June 2011	**1,741**	**5,477**	**77,353**	**47,906**	**4,419**	**–**	**136,896**
2010							
Balance at 1 July 2009	1,325	4,247	79,112	38,355	–	15,412	138,451
Additions	1,432	–	27,416	9,822	–	792	39,462
Disposals	–	–	(594)	(1,657)	–	–	(2,251)
Transfer to assets classified as held for sale	–	–	–	–	–	(11,841)	(11,841)
Depreciation	(550)	(27)	(16,979)	–	–	–	(17,556)
Amortisation	–	–	–	(5,499)	–	–	(5,499)
Balance at 30 June 2010	**2,207**	**4,220**	**88,955**	**41,021**	**–**	**4,363**	**140,766**

18. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

Name of investee	Ownership 2011	Ownership 2010	2011 Carrying value $'000	2010 Carrying value $'000
Cuadrilla Resources Holdings Limited (associate)	40.93%	40.93%	52,268	42,397
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50%	50%	419	25
			52,687	**42,422**

Summary financial information for the equity accounted investees, not adjusted for the percentage ownership held by the Group, is as follows:

Name of investee	Current assets $'000	Non-current assets $'000	Total assets $'000	Current liabilities $'000	Non-current liabilities $'000	Total liabilities $'000	Income $'000	Expenses $'000	Profit/ (loss) $'000
2011									
Cuadrilla Resources Holdings Limited	5,632	79,886	85,518	7,805	1,333	9,138	–	(2,525)	(2,525)
Marais-Lucas Technologies Pty Limited	132	1,419	1,551	3,782	–	3,782	183	(1,148)	(965)
	5,764	**81,305**	**87,069**	**11,587**	**1,333**	**12,920**	**183**	**(3,673)**	**(3,490)**
2010									
Cuadrilla Resources Holdings Limited	13,863	65,750	79,613	4,991	77,862	82,853	–	(8,678)	(8,678)
Marais-Lucas Technologies Pty Limited	49	1,163	1,212	1,725	753	2,478	–	(1,598)	(1,598)
	13,912	**66,913**	**80,825**	**6,716**	**78,615**	**85,331**	**–**	**(10,276)**	**(10,276)**

The Group's share of loss of equity accounted investees is $1,516,000 (2010: $1,634,000). During both the current and the prior year, the Group did not receive dividends from any of its investments in equity accounted investees.

18. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES (CONT)

Cuadrilla

The following summarises the changes in the Group's ownership interest in Cuadrilla:

	2011 $'000	2010 $'000
Equity accounted ownership interest at beginning of year	42,397	1,504
Share of equity accounted losses prior to gaining control	–	(226)
Acquisition of 45.36% ownership interest (consideration transferred)	–	33,018
Remeasurement of equity accounted interest (11.59%) to fair value	–	2,953
Net gain on deconsolidation	–	5,756
Transfer of non-current receivable to investments in equity accounted investees (net of prior year foreign currency translation)	17,242	–
Share of equity accounted losses subsequent to loss of control	–	(608)
Share of equity accounted losses during the year	(1,033)	–
Movement of foreign currency translation recognised in equity	(6,338)	–
Equity accounted ownership interest at end of the year	**52,268**	**42,397**

The fair value of the equity accounted investment was provisionally determined in the prior year by reference to the amount subscribed for equity paid by a third party in February 2010. In finalising the accounting for the equity investment in Cuadrilla in the current year, an amount previously accounted for as a non-current receivable has been transferred as part of the equity accounted investment.

Marais-Lucas Technologies Pty Limited

Marais-Lucas Technologies Pty Limited is a joint venture company with Groupe Marais SA of France to promote the use of Marais' specialist trenching machines for the installation of telecommunications networks in Australia and certain Asian countries. The joint venture company is equally owned by both investors, with neither having control.

19. EXPLORATION ASSETS

	2011 $'000	2010 $'000
Cost		
Balance at 1 July	–	4,354
Acquisitions	7,946	1,446
Disposals	–	(5,542)
Transferred to equity accounted investments	–	(258)
Balance at 30 June	**7,946**	**–**

The exploration assets comprise the Company's 25% direct equity interest in the Bowland Basin and Bolney Basin shale prospects in England. The other 75% is owned by Cuadrilla Resources Holdings Limited (refer note 18) in which Lucas held a 40.93% shareholding at balance date.

20. INTANGIBLE DEVELOPMENT ASSETS

	2011 $'000	2010 $'000
Cost		
Balance at beginning of year	2,671	2,618
Acquisitions	–	53
Balance at end of year	**2,671**	**2,671**
Amortisation		
Balance at beginning of year	1,968	1,740
Amortisation for the year	56	228
Balance at end of year	**2,024**	**1,968**
Carrying amounts	**647**	**703**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

21. OTHER INTANGIBLE ASSETS

	Customer intangibles $'000	Goodwill $'000	Net profit interest (1) $'000	Total $'000
Cost				
Balance at 1 July 2009	18,719	112,516	56,644	187,879
Transfers	(868)	868	–	–
Acquisitions	–	177	30,817	30,994
Balance at 30 June 2010	**17,851**	**113,561**	**87,461**	**218,873**
Balance at 1 July 2010	17,851	113,561	87,461	218,873
Acquisitions	–	–	301	301
Balance at 30 June 2011	**17,851**	**113,561**	**87,762**	**219,174**
Amortisation and impairment losses				
Balance at 1 July 2009	10,184	1,600	56,644	68,428
Amortisation for the year	4,556	–	–	4,556
Impairment loss	–	–	30,817	30,817
Balance at 30 June 2010	**14,740**	**1,600**	**87,461**	**103,801**
Balance at 1 July 2010	14,740	1,600	87,461	103,801
Amortisation for the year	2,789	–	–	2,789
Impairment loss	–	–	301	301
Balance at 30 June 2011	**17,529**	**1,600**	**87,762**	**106,891**
Carrying amounts				
At 1 July 2009	8,535	110,916	–	119,451
At 30 June 2010	**3,111**	**111,961**	**–**	**115,072**
At 1 July 2010	3,111	111,961	–	115,072
At 30 June 2011	**322**	**111,961**	**–**	**112,283**

(1) Lucas has a 10% net profit interest (NPI) in oil and gas leasehold interests in the Monument Prospect ("the Prospect") located in Trinity Country, East Texas, USA. The investment represents a contractual right to future income streams and has therefore been classified as an intangible asset within the scope of AASB 138 Intangible Assets. No recent exploratory drilling has been conducted at the Prospect and the Company has therefore been unable to prepare a discounted cash flow analysis to support its carrying value. Accordingly, the investment has been fully impaired including $301,000 in the current year (2010: $30,817,000) being the additional amount invested during the year. Future exploration and evaluation activity may allow an assessment of future cash flows to be performed and a reassessment made of the carrying value.

21. OTHER INTANGIBLE ASSETS (CONT)

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which.

The aggregate carrying amounts allocated to each cash generating unit (CGU) are:

	2011 $'000	2010 $'000
Drilling	108,129	108,129
Building, construction and infrastructure	3,832	3,832
	111,961	**111,961**

The recoverable amount of each CGU is based on their value in use and was determined by discounting the future cash flow to be generated from the continuing use of the CGU's. The calculations use cash flow projections based on the 2012 and 2013 business plan, extended over a period of five years. Cash flows into perpetuity are extrapolated using growth rates relevant to the sector and business plan. A post-tax discount rate is applied adjusted for the industry in which each unit operates.

Key assumptions used in discounted cash flow projections

EBITDA growth, terminal value growth rates and discount rates were the key drivers for determining cash flows. These assumptions were projected based on past experience, actual operating results and the business plan for 2012 and 2013. The business plan for 2012 and 2013 forecasts improvement in EBITDA based on a return to normal operating activity in Drilling (for example less abnormal weather, higher utilization on higher margin work, lower overhead and restructuring costs) as well as an improvement in the order book in Building, Construction and Infrastructure. Forecast nominal revenue industry growth rates of between 4.5% and 8.8% were applied to extrapolate revenue for the years 2014 to 2016. Consistent margin and expense percentages were also applied in 2014 to 2016 based on the 2013 business plan. A long-term growth rate into perpetuity of 3% has been used. This rate is considered within the range of long term growth rates for the industry and country within which the CGU's operates.

Post-tax discount rates of 13.95% and 14.85% have been applied to Drilling and Building, Construction and Infrastructure respectively to discount the forecast future attributable post-tax cash flows. Each discount rate in the current year reflects specific risks relating to the CGU's.

The recoverable amount of each CGU exceeds its carrying amount.

Sensitivity to changes in assumptions

The estimation of the recoverable amount of each CGU was tested for sensitivity using reasonable possible changes in key assumptions.

The following changes in assumptions would lead to the carrying amount of the Drilling CGU exceeding the recoverable amount at balance date:

- an increase in the discount rate by 1.05% or greater;
- a reduction in EBITDA growth for 2012 of 8.14%; or
- a terminal growth rate lower than 1.21%.

22. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**	**2011 $'000**	**2010 $'000**
Consolidated						
Inventories	–	–	(8,867)	(16,086)	(8,867)	(16,086)
Equity accounted investments	–	–	(2,613)	(2,613)	(2,613)	(2,613)
Intangibles	–	–	(28)	(28)	(28)	(28)
Intangible development costs	–	–	(213)	(213)	(213)	(213)
Exploration, evaluation and development expenditure	–	–	–	(696)	–	(696)
Capitalised interest and borrowing costs	–	–	(135)	(63)	(135)	(63)
Property, plant and equipment	123	(37)	–	–	123	(37)
Impairment of trade debtors	35	35	–	–	35	35
Provisions for employee benefits	2,567	2,286	–	–	2,567	2,286
Trade creditors	944	801	–	–	944	801
Other creditors and accruals	1,821	362	–	–	1,821	362
Unrealised foreign exchange differences	299	–	–	–	299	–
Tax value of loss carried forward recognised	390	306	–	–	390	306
Tax assets/(liabilities)	**6,179**	**3,753**	**(11,856)**	**(19,699)**	**(5,677)**	**(15,946)**
Set off of tax	(6,179)	(3,753)	6,179	3,753	–	–
Net tax liabilities	**–**	**–**	**(5,677)**	**(15,946)**	**(5,677)**	**(15,946)**

22. DEFERRED TAX ASSETS AND LIABILITIES (CONT)

Movement in temporary differences during the year:

	Balance 01 Jul 10 $'000	Recognised in profit and loss $'000	Balance 30 Jun 11 $'000
2011			
Inventories	(16,086)	7,220	(8,866)
Equity accounted investments	(2,613)	–	(2,613)
Intangibles	(28)	–	(28)
Intangible development costs	(213)	–	(213)
Exploration, evaluation and development expenditure	(696)	696	–
Capitalised interest and borrowing costs	(63)	(72)	(135)
Property, plant and equipment	(37)	160	123
Doubtful debts impairment recognised	35	–	35
Provisions for employee benefits	2,286	281	2,567
Trade creditors	801	143	944
Other creditors and accruals	362	1,458	1,820
Unrealised foreign exchange differences	306	(7)	299
Tax value of loss carried forward recognised	–	390	390
	(15,946)	**10,269**	**(5,677)**

	Balance 01 Jul 09 $'000	Recognised in profit and loss $'000	Balance 30 Jun 10 $'000
2010			
Inventories	(16,184)	98	(16,086)
Equity accounted investments	–	(2,613)	(2,613)
Intangibles	(77)	49	(28)
Intangible development costs	(243)	30	(213)
Exploration, evaluation and development expenditure	(1,239)	543	(696)
Capitalised interest and borrowing costs	–	(63)	(63)
Property, plant and equipment	(35)	(2)	(37)
Doubtful debts impairment recognised	2,291	(2,256)	35
Provisions for employee benefits	2,207	79	2,286
Trade creditors	1,040	(239)	801
Other creditors and accruals	351	11	362
Unrealised foreign exchange differences	313	(7)	306
	(11,576)	**(4,370)**	**(15,946)**

Unrecognised deferred tax assets

As at 30 June 2011, the Group had not recognised deferred tax assets of $1,158,697 (2010: $1,158,697) in relation to foreign income tax losses.

23. TRADE AND OTHER PAYABLES

	2011 $'000	2010 $'000
Current		
Trade payables	41,334	38,625
Other payables and accruals	46,445	38,679
Hedge liability	633	1,142
	88,412	**78,446**

24. INTEREST-BEARING LOANS AND BORROWINGS

	2011 $'000	2010 $'000
Current		
Bank overdraft - secured	7,734	2,450
Other borrowings - secured	173	–
Deferred subsidiary acquisition consideration - unsecured	–	2,500
Bank loans - secured (1)	17,888	8,740
Lease liabilities - secured (1)	29,490	9,174
Redeemable convertible preference shares - unsecured (2)	44,460	43,610
	99,745	**66,474**
Non-current		
Lease liabilities - secured (1)	12,718	23,377
Bank loans - secured (1)	–	11,457
	12,718	**34,834**
Financing facilities		
(a) The Group has access to the following lines of credit and bank guarantees		
Bank overdraft - secured	13,500	8,500
Lease liabilities - secured	46,963	38,535
Bank loan - secured	17,888	20,197
	78,351	**67,232**
Total facilities utilised at balance date:		
Bank overdraft - secured	7,734	2,450
Lease liabilities - secured	42,208	32,550
Bank loan - secured	17,888	20,197
	67,830	**55,197**
Total facilities not utilised at balance date:		
Bank overdraft - secured	5,766	6,050
Lease liabilities - secured	4,755	5,985
	10,521	**12,035**

(1) At 30 June 2011, certain bank loans and lease liabilities were classified as current due to the breach of borrowing covenants at that date and as they mature on 30 November 2011.

(2) During the prior year, the Group caused a Trigger Event under the terms of its Redeemable Convertible Preference Shares (RCPS) by non-payment of the half-yearly coupon by the due date. Following the occurrence of this Trigger Event, the holders of the RCPS are able to demand their redemption at any time prior to their maturity date (8 December 2013). Accordingly, the RCPS have been classified as a current liability at the reporting date.

	2011 $'000	2010 $'000
(b) Bond and other facilities provided by surety entities		
Bond facilities in aggregate	25,277	60,000
Amount utilised	(21,712)	(34,025)
Unused facilities	**3,565**	**25,975**
Bank indemnity guarantee	4,084	13,619
Amount utilised	(885)	(3,692)
Unused facilities	**3,199**	**9,927**
Bank standby letter of credit	2,900	5,900
Amount utilised	–	(838)
Unused facilities	**2,900**	**5,062**

Of the bonds utilised, $9,607,982 (2010: $18,613,014) are on projects which are yet to achieve practical completion.

24. INTEREST-BEARING LOANS AND BORROWINGS (CONT)

LOANS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

	Nominal interest rate %	Financial year of maturity	2011 $'000	2010 $'000
Bank overdraft	12.61	2012	7,734	2,450
Secured bank loan (1)	6.27	2012	3,442	5,242
Secured bank loan (1)	6.59	2012	2,750	3,350
Secured bank loan (1)	9.61	2012	5,087	4,044
Secured bank loan (1)	8.35	2012	6,609	7,561
Other borrowings - secured	9.25	2012	173	–
Deferred subsidiary acquisition consideration	–	2009 - 2011	–	2,500
Redeemable convertible preference shares	Avg 13.84(2)	2012 (3)	44,460	43,610
Financial lease liabilities	Avg 7.87	2012- 2015	42,208	32,551
			112,463	**101,308**

All loans are denominated in Australian dollars.

(1) At 30 June 2011, certain bank loans and lease liabilities were classified as current due to the breach of borrowing covenants at that date and as they mature on 30 November 2011.

(2) Weighted average rate over the year. See below for details.

(3) During the prior year, the Group caused a Trigger Event under the terms of its Redeemable Convertible Preference Shares (RCPS) by non-payment of the half-yearly coupon by the due date. Following the occurrence of this Trigger Event, the holders of the RCPS are able to demand their redemption at any time prior to their maturity date (8 December 2013). Accordingly, the RCPS have been classified as a current liability at the reporting date.

BANK FACILITIES

The bank overdraft, bank loans, indemnity guarantee and standby letter of credit are all secured by a registered fixed and floating charge over all the assets of the Group.

REDEEMABLE CONVERTIBLE PREFERENCE SHARES

The principal terms of the Redeemable Convertible Preference Shares (RCPS) are:

Term:	5 years
Maturity Date:	8 December 2013
Ranking:	In priority to ordinary shares for the payment of dividends and the payment of capital on a winding up of the Company.
Dividend Rate:	13% per annum payable semi-annually and cumulative. A 2% per annum penalty applied throughout the current financial year as a result of the incurrence of the trigger event.
Conversion Price:	$7.20 per share subject to various anti-dilution terms including on a rights issue or placement where the issue price is less than 90% of the current market price.
Estimate of dilution:	6,250,000 ordinary shares (if converted at conversion price).
Voting Rights:	No right to vote except: • when a dividend is in arrears • to vary the rights of the Redeemable Convertible Preference Shares or on certain other resolutions concerning the wind up of the Company • to reduce the share capital • with regards to the disposal of any of the Group's businesses or to approve the terms of a buy-back

24. INTEREST-BEARING LOANS AND BORROWINGS (CONT)

The movement in the carrying value of the RCPS during the year is as follows:

	2011 $'000	2010 $'000
Carrying amount at beginning of year	43,610	43,172
Transaction costs - amortised	850	438
Carrying amount at end of year	**44,460**	**43,610**

FINANCE LEASE FACILITIES

The Group's lease liabilities are secured by the leased assets of $47,906,000 (2010: $41,021,000) which, in the event of default, revert to the lessor.

	2011 $'000	2010 $'000
Finance lease liabilities		
Payments		
Within one year	32,494	11,375
Between one and five years	15,180	25,650
	47,674	**37,025**
Less: interest		
Within one year	(3,004)	(2,201)
Between one and five years	(2,462)	(2,273)
	(5,466)	(4,474)
Total lease liabilities (1)	**42,208**	**32,551**
Lease liabilities provided for in the financial statements:		
Current	29,490	9,174
Non-current	12,718	23,377
Total lease liabilities	**42,208**	**32,551**

(1) At 30 June 2011, certain of the lease liabilities were classified as current due to the breach of borrowing covenants at that date and as they expire on 30 November 2011.

The Group leases plant and equipment under finance leases expiring from one to four years. At the end of the lease terms, the Group has the option to purchase the plant and equipment at a predetermined cost.

25. CURRENT TAX LIABILITIES

The current tax liability for the Group of $47,922,000 (2010: $55,549,000) represents the amount of income tax payable in respect of prior financial periods. The Group has entered into a deferred installment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over three years. The ATO has however, agreed to a moratorium of the payment schedule pending the sale of assets. This agreement is subject to monthly review and accordingly, the liability has been reported as a current liability. Interest is payable on this liability at the general interest charge rate levied by the ATO.

26. OPERATING LEASES

LEASES AS LESSEE

	2011 $'000	2010 $'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	4,317	3,065
Between one and five years	3,000	3,024
	7,317	**6,089**

The Group leases property under non-cancellable operating leases expiring from one to three years. The leases generally provide the Group with a right of renewal. During the financial year, $6,534,000 (2010: $3,159,000) was recognised as an expense in the profit or loss in respect of operating leases.

LEASES AS LESSOR

The Group leased out its former head office held under lease. The lease expired on 31 October 2010. The future minimum lease payments under non-cancellable leases are as follows:

	2011 $'000	2010 $'000
Less than one year	–	16

During the year ended 30 June 2011, $nil was recognised as rental income in the profit or loss (2010: $39,583).

27. EMPLOYEE BENEFITS

	2011 $'000	2010 $'000
Provision for employee benefits, including on-costs:		
Current	7,031	6,448
Non-current	1,529	1,176
	8,560	**7,624**

SUPERANNUATION PLANS

Benefits provided under the superannuation funds to which the Group contributes are based on accumulated contributions and earnings for each employee. The Group has a legal obligation to contribute to the funds in accordance with the Superannuation Guarantee Charge legislation. The amount recognised as an expense for the financial year was $6,725,569 (2010: $8,057,577).

EMPLOYEE SHARE PLAN

The Group has three employee incentive schemes that were approved by shareholders in annual general meetings. Total securities granted but unissued under these schemes cannot exceed 15% of the total number of shares on issue.

A) MANAGEMENT RIGHTS PLAN: The management rights and options plan is available to employees, directors and other persons at the discretion of the Board. Nominated persons are granted rights to acquire shares in the Company. The exercise of rights can be satisfied by either the issue of shares for no consideration or by the monetary equivalent of the underlying shares on the date of grant of the rights. The exercise of options is satisfied by the exercise price as agreed. No rights or options were issued during the year.

27. EMPLOYEE BENEFITS (CONT)

The number and weighted average exercise prices of rights at balance date are as follows:

	Weighted average exercise price 2011	Number of rights and options 2011	Weighted average exercise price 2010	Number of rights and options 2010
Outstanding at beginning of the period	$0.52	2,196,397	$0.44	2,548,648
Exercised during the period	–	(819,536)	–	(352,251)
Lapsed during the period	–	(38,685)	–	–
Outstanding at end of the period	$0.85	1,338,176	$0.52	2,196,397
Exerciseable at end of the period	**$0.85**	**1,338,176**	**0.82**	**733,473**

The options outstanding at 30 June 2011 have an exercise price in the range of $nil to $2.11 (2010: $nil to $2.11) and a weighted average contractual life of 0.9 year (2010: 2.0 years).

During the financial year, 819,536 share options were exercised (2010: 352,251) and 38,685 lapsed (2010: nil). The weighted average share price at the dates of exercise was $1.76 (2009: $2.64).

During the year the Group recognised as an expense $130,005 (2010: $837,492) in relation to share based payments. The liability at year end for cash settled rights is $404,418 (2010: $404,418). All rights holders electing to exercise their rights entitlements during the year were settled by acquiring shares. No rights were exercised and settled by cash.

The fair value of the rights granted in previous years has been calculated using a Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period.

The following factors and assumptions were used in determining the fair value of rights on grant date for those share based payments granted in previous years:

Grant date	Expiry date	Share price on grant date	Exercise price	Expected volatility	Risk free interest rate	Expected dividend yield	Fair value at grant date
26-Nov-2008	30-Jun-2013	$4.60	–	N/A	3.6%	2.4%	$4.27
26-Nov-2008	30-Jun-2012	$4.60	–	N/A	3.2%	2.4%	$4.42
23-Nov-2007	23-Nov-2012	$3.40	$2.11	51%	6.4%	2.2%	$1.70
31-Aug-2007	31-Aug-2012	$2.11	–	N/A	6.2% - 6.3%	2.8%	$1.88 - $2.05
24-Nov-2006	24-Nov-2011	$1.08	$1.10	44%	5.7%	4.8%	$0.25

B) DEFERRED SHARE PLAN: The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the Group ceases. No shares were issued in either of the last two years.

C) EMPLOYEE SHARE ACQUISITION PLAN: The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to $1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Employees must have been employed by any entity within the Group for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of 3 years from the date of issue or the date their employment with the Group ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares.

No shares were issued under this plan in either of the last two years.

28. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent:

SHARE CAPITAL - ORDINARY SHARES

	Company 2011 No. Of Shares	2010 No. Of Shares
Movements during the year		
On issue at 1 July	65,298,128	64,945,877
Exercise of rights under the Management Rights Plan	819,536	352,251
On issue at 30 June - fully paid	**66,117,664**	**65,298,128**

During the year, 819,536 (2010: 352,251) ordinary shares were issued as a result of the exercise of vested options arising from the 2008 Management Rights Plan granted to key management. The options were exercised at an average price of $nil. All issued shares are fully paid.

The redeemable convertible preference shares are classified as liabilities (see note 24).

Holders of ordinary shares are entitled to receive dividends and, in the event of a winding up of the Company, to any proceeds of liquidation after all creditors and other stockholders. Holders of redeemable convertible preference shares are entitled to receive dividends as described in note 24.

On a show of hands, every holder of ordinary shares present at a shareholder meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote. Redeemable convertible preference shares do not carry the right to vote unless a dividend is in arrears or in certain other circumstances as described in note 24.

NATURE AND PURPOSE OF RESERVES

EMPLOYEE EQUITY BENEFITS RESERVE: The employee equity benefits reserve represents the expense associated with equity-settled compensation under the employee management rights and short-term and long-term incentive plans.

TRANSLATION RESERVE: The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

HEDGING RESERVE: The hedging reserve comprises the effective portion of the cumulative net change in the present value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

DIVIDENDS

The following dividends were declared and paid by the Company:

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
2011	-	-	-	-
2010				
Final 2009	5.5	3,572	100% franked	28 September 2009

No dividends in respect of the 2011 financial year have been declared or paid.

DIVIDEND FRANKING ACCOUNT

After the payment of the current tax liability, the balance of franking credits available to shareholders of the Company is $62,966,276 (2010: $63,618,664).

29. FINANCIAL INSTRUMENTS

OVERVIEW

The Group's activities expose it to the following risks from their use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk (including currency and interest rate risks); and
- Operational risk.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

TRADE AND OTHER RECEIVABLES: The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base consists of mainly government, semi-government and major public company customers. The demographics of the Group's customer base, including the default risk of the industry and location in which the customers operate, has less of an influence on credit risk.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, past experience and other factors. This includes all major contracts and tenders approved by the Tender Review Committee.

In monitoring customer credit risk, customers are grouped by operating segment, then by their receivable ageing profile. Ongoing monitoring of receivable balances minimises exposure to bad debts.

A provision for impairment is recognised when there is objective evidence that a individual trade receivable is impaired.

INVESTMENTS: The Group limits its exposure to credit risk by only investing in liquid securities of short maturity issued by a reputable party or in readily marketable securities listed on a recognisable securities exchange. Given these investment criteria, management does not expect any counterparty to fail to meet its obligations.

GUARANTEES: Group policy is to provide financial guarantees only to wholly-owned subsidiaries and joint ventures where the Company owns 50% of the joint venture company.

29. FINANCIAL INSTRUMENTS (CONT)

EXPOSURE TO CREDIT RISK: The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011 $'000	2010 $'000
Trade and other receivables	61,193	80,145
Bank balances	1,348	9,313
	62,541	**89,458**
Maximum exposure to credit risk for trade and other receivables at the reporting date by segment was:		
Drilling	20,823	22,177
Building, construction and infrastructure	39,713	39,760
Oil and gas	–	17,586
Unallocated	657	622
	61,193	**80,145**

IMPAIRMENT LOSSES: The ageing of the Group's trade and other receivables at the reporting date was:

	Gross 2011 $'000	Impairment 2011 $'000	Gross 2010 $'000	Impairment 2010 $'000
The ageing of loans and receivables at the reporting date was:				
Not past due	50,555	(3,919)	68,498	–
Past due up to 30 days	4,255	–	3,264	–
Past due 31 to 120 days	5,448	–	5,405	–
Past due 121 days to one year	3,295	–	2,255	–
More than one year	1,608	(49)	771	(48)
	65,161	**(3,968)**	**80,193**	**(48)**

IMPAIRMENT ALLOWANCE: Based on historic default rates, the Group believe that no impairment allowance is required for loans and receivables not past due.

The impairment allowance related to specific customers, identified as being in trading difficulties, or where specific debts are in dispute. The impairment allowance does not include debts past due relating to customers with a good credit history, or where payments of amounts due under a contract for such customers are delayed due to works in dispute and previous experience indicated that the amount will be paid in due course.

When the Group is satisfied that no recovery of the amount owing is possible, the amounts considered irrecoverable are written off directly against the financial asset. At 30 June 2011, the Group has collective impairments on its trade receivables of $49,000 (2010: $48,000) and non-current other receivables of $3,919,000 (2010: $nil). The impairment of the non-current receivable relates to a debtor for which a deferred payment plan was negotiated in 2009. The debtor was placed into receivership during the year and is not expected to be received.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity is managed to ensure, as far as possible, that sufficient funds are available to meet liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

29. FINANCIAL INSTRUMENTS (CONT)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Carrying amount $'000	Contractual cash flows: Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2011							
Non-derivative financial liabilities							
Trade and other payables - unsecured	87,779	(87,779)	(87,779)	–	–	–	–
Bank overdraft - secured	7,734	(7,734)	(7,734)	–	–	–	–
Bank loans - secured (2)	17,888	(18,971)	(11,990)	(6,981)	–	–	–
Other loans - secured	173	(175)	(175)	–	–	–	–
Lease liabilities - secured	42,208	(47,673)	(22,881)	(9,612)	(9,301)	(5,879)	–
Redeemable convertible preference shares - unsecured (1)	44,460	(57,986)	(57,986)	–	–	–	–
Derivative financial liabilities							
Interest rate swaps used for hedging	633	(633)	(349)	(284)	–	–	–
	200,875	**(220,951)**	**(188,894)**	**(16,877)**	**(9,301)**	**(5,879)**	**–**

	Carrying amount $'000	Contractual cash flows: Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2010							
Non-derivative financial liabilities							
Trade and other payables - unsecured	77,304	(77,304)	(77,304)	–	–	–	–
Bank overdraft - secured	2,450	(2,450)	(2,450)	–	–	–	–
Subsidiary acquisition deferred consideration	2,500	(2,500)	(2,500)	–	–	–	–
Bank loans - secured	20,197	(22,861)	(8,903)	(1,121)	(3,970)	(8,867)	–
Lease liabilities - secured	32,551	(37,026)	(5,598)	(5,778)	(11,752)	(13,898)	–
Redeemable convertible preference shares - unsecured (1)	43,610	(45,000)	(45,000)	–	–	–	–
Derivative financial liabilities							
Interest rate swaps used for hedging	1,142	(1,562)	(391)	(375)	(684)	(112)	–
	179,754	**(188,703)**	**(142,146)**	**(7,274)**	**(16,406)**	**(22,877)**	**–**

(1) During the previous financial year, the Group caused a Trigger Event under the terms of the RCPS (refer note 24) and accordingly, the RCPS has been disclosed as a current liability at reporting date.

(2) At 30 June 2011, certain bank loans and lease liabilities were classified as current due to the breach of borrowing covenants at that date and as they mature on 30 November 2011.

MARKET RISK

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

29. FINANCIAL INSTRUMENTS (CONT)

CURRENCY RISK: The Group operates internationally and is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily with respect to the US dollar.

The Group's major foreign currency exposure relates to sales of services and purchases of raw materials, consumables and equipment and investments in oil and gas prospects. The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group's executive team actively monitors foreign currency exposures and where appropriate establishes financial instruments which ensure that sound management of currency risk is maintained.

EXPOSURE TO CURRENCY RISK

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts in Australian dollars (in thousands):

	Euro	USD	XPF	NZD	HKD	GBP	CAD
2011							
Trade and other receivables	–	–	–	–	–	438	–
Trade payables	(953)	(1,161)	(1)	(18)	(6)	–	–
Net balance sheet exposure	**(953)**	**(1,161)**	**(1)**	**(18)**	**(6)**	**438**	**–**
2010							
Trade and other receivables	–	17,586	–	–	–	622	–
Trade payables	(4)	(823)	(62)	(2)	–	(50)	(25)
Net balance sheet exposure	**(4)**	**16,763**	**(62)**	**(2)**	**–**	**572**	**(25)**

SENSITIVITY ANALYSIS

At 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the respective foreign currencies with all other variables held constant, the Group post-tax loss and equity would have been $170,000 lower/$170,000 higher.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	**2010**	**2011**	**2010**
Euro	0.7245	0.6355	0.7405	0.6979
USD	0.9881	0.8821	1.0739	0.8523
XPF	86.92	77.25	89.06	85.09
HKD	7.6826	6.8456	8.3581	6.6340
NZD	1.3044	1.2552	1.2953	1.2308
GBP	0.6208	0.5585	0.6667	0.5666
CAD	0.9887	0.9308	1.0389	0.8976

29. FINANCIAL INSTRUMENTS (CONT)

INTEREST RATE RISK: The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group entered into interest rate hedges in prior financial years to cap exposure to increases in interest rate volatility.

	2011 $'000	2010 $'000
Fixed rate instruments		
Financial liabilities	(86,842)	(83,648)
	(86,842)	**(83,648)**
Variable rate instruments		
Financial assets	1,348	9,313
Financial liabilities	(25,622)	(18,802)
	(24,274)	**(9,489)**

At reporting date, the Group had the following variable rate borrowings:

	30 June 2011		30 June 2010	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdraft	12.61	(7,734)	7.07	(2,450)
Deferred subsidiary acquisition consideration	–	–	–	(2,500)
Bank loans	8.04	(17,888)	6.28	(13,852)
Net exposure to cash flow interest rate risk		**(25,622)**		**(18,802)**

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss for the Group.

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by $1,619,092 for the Group (2010: $548,391). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed consistently from year to year.

29. FINANCIAL INSTRUMENTS (CONT)

FAIR VALUES

FAIR VALUES VERSUS CARRYING AMOUNTS: The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying amount $'000	Fair value $'000
2011		
Bank balances	1,348	1,348
Trade and other receivables	61,193	61,193
Trade and other payables	(88,412)	(88,412)
Bank overdraft - secured	(7,734)	(7,734)
Bank loans	(17,888)	(17,888)
Lease liabilities	(42,208)	(42,208)
Redeemable convertible preference shares	(44,460)	(44,460)
	(138,161)	**(138,161)**

	Carrying amount $'000	Fair value $'000
2010		
Bank balances	9,313	9,313
Trade and other receivables	80,145	80,145
Trade and other payables	(78,446)	(78,446)
Bank overdraft - secured	(2,450)	(2,450)
Deferred subsidiary acquisition consideration	(2,500)	(2,500)
Bank loans	(20,197)	(20,197)
Lease liabilities	(32,551)	(32,551)
Redeemable convertible preference shares	(43,610)	(43,610)
	(90,296)	**(90,296)**

The following methods and assumptions are used in estimating the fair values of financial instruments:

- Loans and borrowings, and finance leases – present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date
- Trade and other receivables and payables – carrying amount equals fair value

CAPITAL MANAGEMENT: The Board policy is to maintain a capital base so as to maximise shareholder returns having regard also to the need to maintain investor, creditor and market confidence and to sustain future development of the business. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of between 12% and 16%. In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 10.6% (2010: 9.5%).

The Board's target is for employees (excluding directors) of the Group to hold 4% of the Company's ordinary shares by 2013. At present, employees hold approximately 2.5% of the Company's ordinary shares, or just under 3% assuming that all outstanding share rights vest and are exercised. Management is considering structures for extending the Group's employee share schemes beyond key management and other senior employees; at present other employees are only periodically allotted shares under the Employee Share Acquisition Plan (ESAP) under which eligible employees are granted up to $1,000 of free shares per annum.

Subsequent to balance date, the Company has entered into a number of financial arrangements which, subject to approval from relevant regulatory authorities, shareholders and financiers, will result in a significant recapitalisation of the Company. Refer to note 38 for further details.

29. FINANCIAL INSTRUMENTS (CONT)

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2011 $'000	2010 $'000
Total liabilities	263,034	258,872
Less: cash and cash equivalents	(1,348)	(9,313)
Net debt	261,686	249,559
Total equity	175,883	193,226
Less: amounts accumulated in equity relating to cash flow hedges	(633)	(1,142)
Adjusted capital	175,250	192,084
Debt to adjusted capital ratio at 30 June	1.49	1.30

FAIR VALUE HIERARCHY: The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2011				
Derivative financial liabilities	–	633	–	633
	–	**633**	**–**	**633**
30 June 2010				
Derivative financial liabilities	–	1,142	–	1,142
	–	**1,142**	**–**	**1,142**

In order to determine the fair value of derivative financial liabilities, management used a valuation technique in which all significant inputs were based on observable market data.

30. INTERESTS IN JOINT VENTURES

Joint venture name	Prinicpal activities	Participation interest 2011 %	Participation interest 2010 %	Contribution to Operating results of the Group profit/(loss) 2011 $'000	Contribution to Operating results of the Group profit/(loss) 2010 $'000
Southern SeaWater Alliance	Construction and operation of desalination plant	19	19	7,774	4,594
Amec Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	–	–
Eastern Pipeline Alliance	Pipe laying and related construction activities	46	46	(13)	(676)

30. INTERESTS IN JOINT VENTURES (CONT)

Included in the assets and liabilities of the Group are the following assets and liabilities employed in the joint ventures:

	2011 $'000	2010 $'000
Assets		
Current assets		
Cash and cash equivalents	1,087	1,418
Trade and other receivables	2,037	9,677
Other	42	1
Construction work in progress	1,358	1,629
Total assets	**4,524**	**12,725**
Liabilities		
Current liabilities		
Trade and other payables	3,341	11,847
Total liabilities	**3,341**	**11,847**

31. CONSOLIDATED ENTITIES

The financial statements at 30 June 2011 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

Name of entity	Country of incorporation	Ownership interest 2011 %	Ownership interest 2010 %
Parent entity			
AJ Lucas Group Limited			
Controlled entities			
Australian Water Engineering Pty Limited	Australia	100	–
Water Balance Australia Pty Limited	Australia	50	–
AJ Lucas Operations Pty Limited	Australia	100	100
AJ Lucas Plant & Equipment Pty Limited	Australia	100	100
AJ Lucas Drilling Pty Limited	Australia	100	100
Lucas Shared Services Pty Limited (i)	Australia	100	100
AJ Lucas Testing Pty Limited	Australia	100	100
Smart Electrical & Power Services Pty Limited (ii)	Australia	100	100
AJ Lucas Joint Ventures Pty Limited	Australia	100	100
AJ Lucas (Hong Kong) Limited	Hong Kong	100	100
AJ Lucas Coal Technologies Pty Limited	Australia	100	100
Subsidiary of AJ Lucas Coal Technologies Pty Limited			
Mitchell Drilling Corporation Pty Limited	Australia	100	100
Lucas Xtreme Drilling Pty Limited	Australia	50	–
Lucas Contract Drilling Pty Limited	Australia	100	100
Wholly owned subsidiary of Lucas Contract Drilling Pty Limited			
McDermott Drilling Pty Limited	Australia	100	100
Lucas Stuart Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Stuart Pty Limited			
Ketrim Pty Limited	Australia	100	100
Stuart Painting Services Pty Limited	Australia	100	100
Lucas Stuart Projects Pty Limited	Australia	100	100
Jaceco Drilling Pty Limited	Australia	100	100
Geosearch Drilling Service Pty Limited	Australia	100	100
Lucas Energy (UK) Limited	England	100	100
257 Clarence Street Pty Limited	Australia	100	100
Lucas SARL	New Caledonia	100	100
Lucas Energy (Holdings) Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Energy (Holdings) Pty Limited			
Lucas (Arawn) Pty Limited	Australia	100	100
Lucas Energy (WA) Pty Limited	Australia	100	100
Lucas Power Holdings Pty Limited	Australia	100	100
Lucas Cuadrilla Pty Limited	Australia	100	100

(i) Name changed from AJ Lucas Pipelines Pty Ltd on 6 April 2011.

(ii) Name changed to Lucas Operations (WA) Pty Ltd on 12 September 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

32. CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

The directors are of the opinion that provisions are not required in respect of the following matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(i) Under the joint venture agreements (see note 30), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint ventures. As at 30 June 2011, the assets of the joint venture were sufficient to meet such liabilities. The liabilities of the joint ventures not included in the consolidated financial statements amounted to $3,341,000 (2010: $11,847,000).

(ii) During the normal course of business, entities within the Group may incur contractor's liability in relation to their performance obligations for specific contracts. Such liability includes the potential costs to carry out further works and/or litigation by or against those Group entities. Provision is made for the potential costs of carrying out further works based on known claims and previous claims history, and for legal costs where litigation has been commenced. While the ultimate outcome of these claims cannot be reliably determined at the date of this report, based on previous experience, amounts specifically provided, and the circumstances of specific claims outstanding, no additional costs are anticipated.

(iii) Under the terms of the Class Order described in note 37, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

COMMITMENTS

At 30 June 2011, the Group had commitments contracted but not provided for and payable within one year of $nil (2010: $1,354,703) for the purchase of new plant and equipment under finance leases.

33. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial years ended 30 June 2011 and 2010, the parent entity of the Group was AJ Lucas Group Limited.

	2011 $'000	2010 $'000
Results of the parent entity		
Profit for the year	9,246	33,844
Total comprehensive income for the year	**9,246**	**33,844**
Financial position of the parent entity at year end		
Current assets	771	10,569
Total assets	299,302	279,583
Current liabilities	65,048	60,881
Total liabilities	71,223	60,881
Total equity of the parent entity comprises:		
Share capital	91,935	91,935
Employee equity benefit reserve	3,339	3,209
Retained earnings	132,805	123,558
Total equity	**228,079**	**218,702**

Parent entity commitments and contingencies

The parent entity has guaranteed, to various unrelated parties, the performance of various subsidiaries in relation to various contracts. In the event of default, the parent entity undertakes to meet the contractual obligations of the relevant subsidiary.

PARENT ENTITY GUARANTEES IN RESPECT OF DEBTS OF ITS SUBSIDIARIES

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note 37.

34. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2011 $'000	2010 $'000
(a) Reconciliation of cash			
For the purposes of the statement of cash flows, cash includes cash at bank, cash on hand and bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash assets	12	1,348	9,313
Bank overdraft	24	(7,734)	(2,450)
Total cash		**(6,386)**	**6,863**
(b) Reconciliation of cash flows from operating activities			
Loss for the year		(11,527)	(7,128)
Adjustments for:			
Interest on capitalised leases		2,941	1,790
Interest on investments in equity accounted investees		793	–
Interest on deferred acquisition consideration		–	882
Loss on sale of non-current assets		–	312
Gain on sale of intangible development asset		–	(92,958)
Gain on sale of other investments		–	(165)
Gain on sale of business		(23,686)	–
Loss on sale of listed shares		–	98
Remeasurement of interest in associate to fair value		–	(2,953)
Net gain on deconsolidation		–	(5,756)
Net foreign exchange loss on other loans		178	–
Share of loss of equity accounted investees		1,515	1,634
Share of equity accounted expenses		–	4,024
Impairment of intangible assets		301	30,816
Impairment of equity accounted investee		250	7,911
Impairment of investments		–	532
Impairment of non-current receivable		3,919	–
Depreciation		18,144	17,556
Amortisation of:			
Leased assets		7,091	5,499
Intangibles		2,789	4,556
Development expenditure		55	228
Borrowing cost (included in finance cost)		1,893	1,481
Operating profit/(loss) before changes in working capital and provisions		**4,656**	**(31,641)**
Change in receivables		3,921	(6,143)
Change in other current assets		(1,143)	152
Change in inventories		(1,863)	10,306
Change in payables		11,137	6,025
Change in provisions for employee benefits		937	351
Change in tax balances		(17,897)	9,124
Change in employee equity benefit reserve		130	837
Change in reserves		426	26
Net cash from/(used in) operating activities		**304**	**(10,963)**

(c) Non-cash financing and investment activities

During the year, the Group acquired plant and equipment with an aggregate fair value of $16,478,000 (2010: $9,822,000) by means of finance leases. These purchases are not reflected in the Statement of Cash Flows.

(d) Financing arrangements

Refer note 24.

35. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

EXECUTIVE DIRECTORS

- Allan Campbell
- Andrew Lukas (retired 10 August 2010)
- Ian Stuart-Robertson (retired 10 August 2010)

NON-EXECUTIVE DIRECTORS

- Martin Green
- Mike McDermott
- Phillip Arnall (appointed 10 August 2010)
- Genelle Coghlan (appointed 10 August 2010)

EXECUTIVES

Ian Redfern [(1)]	General Manager, Construction
Kevin Lester	General Manager, Pipelines
Mark Summergreene	Chief Financial Officer
Brett Tredinnick	General Manager, Drilling
Mark Tonkin	General Manager, Strategy & Planning
Peter Williams [(2)]	General Manager, Construction

(1) Ceased employment on 30 July 2010.

(2) Ceased employment on 31 August 2011.

KEY MANAGEMENT PERSONNEL COMPENSATION

	2011 $	2010 $
The key management personnel compensation is:		
Short-term employee benefits	2,737,398	3,321,039
Other long term benefits	35,504	65,966
Post-employment benefits	214,006	188,668
Termination benefits	47,835	32,388
Share based payments	223,020	625,472
	3,257,763	**4,233,533**

INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' Report. Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

35. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT)

The aggregate amounts recognised during the year relating to key management personnel and their related parties, were as follows:

Key management persons	Contracting entity	Transactions	Note	2011 $	2010 $
Phillip Arnall	Felix Ventures Pty Ltd	Non-executive director services	(i)	73,314	–
Genelle Coghlan	Dunblane Pty ltd	Non-executive director services	(i)	73,333	–
Andrew Lukas	AJ Lucas Equipment Pty Ltd	Executive director services	(i)	18,828	350,004
Ian Stuart-Robertson	Urban Enterprises Pty Ltd	Executive director services	(i)	38,446	349,992
Ian Stuart-Robertson	John Hollis & Partners	Quantity surveyors	(ii)	20,823	14,240
Martin Green	BRI Ferrier (NSW) Pty Ltd	Non-executive director services	(i)	80,000	80,000

(i) Services are provided through the contracting entity. Such services were provided in the ordinary course of business and on normal terms and conditions. Mr Lukas and Mr Stuart-Robertson retired as directors of the Company on 10 August 2010. The amount payable for these services is shown in the Remuneration Report.

(ii) Mr Stuart-Robertson is a director of John Hollis & Partners which provided quantity surveying services. Amounts were charged at normal market rates for such services and were due and payable under normal payment terms.

EQUITY HOLDINGS AND TRANSACTIONS

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

2011	Held at 1 July 2010	Received on exercise of rights	Net other change	Held at 30 June 2011
Directors				
Allan Campbell	10,140,083	–	–	10,140,083
Ian Stuart-Robertson (retired 10 August 2010)	1,386,750	–	–	1,386,750
Andrew Lukas (retired 10 August 2010)	6,204,833	–	–	6,204,833
Martin Green	153,000	–	47,000	200,000
Executives				
Ian Redfern	97,104	61,333	(158,437)	–
Kevin Lester	193,097	48,271	(15,000)	226,368
Mark Summergreene	37,800	44,409	–	82,209
Brett Tredinnick	101,228	39,544	–	140,772
Mark Tonkin	17,399	39,544	–	56,943

2010	Held at 1 July 2009	Received on exercise of rights	Net other change	Held at 30 June 2010
Directors				
Allan Campbell	10,140,083	–	–	10,140,083
Ian Stuart-Robertson	1,386,750	–	–	1,386,750
Andrew Lukas	6,204,833	–	–	6,204,833
Martin Green	125,000	–	28,000	153,000
Garry O'Meally (retired 27 November 2009)	219,180	–	–	219,180
Executives				
Ian Redfern	109,239	34,239	(46,374)	97,104
Kevin Lester	193,234	20,543	(20,680)	193,097
Mark Summergreene	18,900	18,900	–	37,800
Brett Tredinnick	84,399	16,829	–	101,228
Mark Tonkin	355,146	16,829	(354,576)	17,399

35. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT)

RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

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

2011	Held at 1 July 2010	Cancelled	Exercised	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Directors						
Allan Campbell	598,648	–	–	598,648	203,861	598,648
Ian Stuart-Robertson (retired 10 August 2010)	220,000	–	–	220,000	70,000	220,000
Andrew Lukas (retired 10 August 2010)	220,000	–	–	220,000	70,000	220,000
Executives						
Ian Redfern (ceased employment)	61,333	–	(61,333)	–	61,333	–
Kevin Lester	48,271	–	(48,271)	–	43,271	–
Mark Summergreene	44,409	–	(44,409)	–	44,409	–
Brett Tredinnick	39,544	–	(39,544)	–	39,544	–
Mark Tonkin	39,544	–	(39,544)	–	39,544	–

2010	Held at 1 July 2009	Cancelled	Exercised	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors						
Allan Campbell	598,648	–	–	598,648	394,787	394,787
Ian Stuart-Robertson	220,000	–	–	220,000	150,000	150,000
Andrew Lukas	220,000	–	–	220,000	150,000	150,000
Executives						
Ian Redfern	95,572	–	(34,239)	61,333	–	–
Kevin Lester	68,814	–	(20,543)	48,271	–	–
Mark Summergreene	63,309	–	(18,900)	44,409	–	–
Brett Tredinnick	56,373	–	(16,829)	39,544	–	–
Mark Tonkin	56,373	–	(16,829)	39,544	–	–

36. NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The Group has a related party relationship with its subsidiaries (see note 31) and joint ventures (see note 30). These entities trade with each other from time to time on normal commercial terms.

Other than amounts owing to/from AJ Lucas (Hong Kong) Limited, on which interest is paid/receivable at 7.0% per annum, no interest is payable on inter-company balances. The aggregate amounts included in the profit from ordinary activities before income tax that resulted from transactions between entities in the Group are:

	2011 $'000	2010 $'000
Receivables:		
Aggregate amount receivable from wholly owned entities of the Company:		
AJ Lucas (Hong Kong) Limited	20	20
AJ Lucas Operations Pty Limited	93,006	83,422
AJ Lucas Coal Technologies Pty Limited	175,709	173,311
Lucas Cuadrilla Pty Limited	54,424	53,131
	323,159	**309,884**
Payables:		
Aggregate amount payable to wholly owned entities of the Company:		
Lucas Stuart Pty Limited	4,708	4,708
McDermott Drilling Pty Limited	11,504	11,504
Geosearch Drilling Service Pty Limited	14,090	14,090
	30,302	**30,302**

37. DEED OF CROSS GUARANTEE

On 16 June 2008, several of the entities in the Group entered into a Deed of Cross Guarantee. Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the Group's wholly owned subsidiaries entering into the Deed are relieved from the Corporations Act 2001 requirements to prepare, have audited and lodge financial reports, and directors' reports.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

37. DEED OF CROSS GUARANTEE (CONT)

The subsidiaries subject to the Deed are:

Name of entity
AJ Lucas Operations Pty Limited
AJ Lucas Plant & Equipment Pty Limited
AJ Lucas Drilling Pty Limited
Lucas Shared Services Pty Limited
AJ Lucas Testing Pty Limited
Lucas Operations (WA) Pty Limited
AJ Lucas Joint Ventures Pty Limited
AJ Lucas Coal Technologies Pty Limited
Lucas Contract Drilling Pty Limited
McDermott Drilling Pty Limited
Lucas Stuart Pty Limited
Ketrim Pty Limited
Stuart Painting Services Pty Limited
Lucas Stuart Projects Pty Limited
Jaceco Drilling Pty Limited
Geosearch Drilling Service Pty Limited
Lucas Energy Holdings Pty Limited
Lucas Energy (WA) Pty Limited
Lucas (Arawn) Pty Limited
Lucas Power Holdings Pty Limited
Mitchell Drilling Corporation Pty Limited

A consolidated summarised statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2011 are set out as follows:

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	2011 $'000	**2010 $'000**
(Loss)/profit before tax	(21,385)	8,218
Income tax benefit/(expense)	9,962	(15,326)
(Loss)/profit after tax	(11,423)	(7,108)
Retained profit at beginning of the year	95,094	105,774
Dividends recognised during the year	–	(3,572)
Retained profit at end of year	83,671	95,094

37. DEED OF CROSS GUARANTEE (CONT)

STATEMENT OF FINANCIAL POSITION

	2011 $'000	2010 $'000
Current assets		
Cash and cash equivalents	1,347	9,312
Trade and other receivables	61,316	58,660
Construction work in progress	52,946	51,083
Assets classified as held for sale	11,072	11,841
Other assets	1,899	755
Total current assets	**128,580**	**131,651**
Non-current assets		
Trade and other receivables	–	21,505
Development assets	647	703
Exploration assets	7,946	–
Equity accounted investees	52,687	42,422
Intangible assets	112,283	115,071
Property, plant and equipment	136,896	140,766
Total non-current assets	**310,459**	**320,467**
Total assets	**439,039**	**452,118**
Current liabilities		
Trade and other payables	88,413	78,446
Interest-bearing loans and borrowings	99,745	66,474
Income tax payable	47,922	55,549
Provisions	7,031	6,448
Total current liabilities	**243,111**	**206,917**
Non-current liabilities		
Interest-bearing loans and borrowings	12,718	34,834
Deferred tax liabilities	5,761	16,048
Provisions	1,529	1,176
Total non-current liabilities	**20,008**	**52,058**
Total liabilities	**263,119**	**258,975**
Net assets	**175,920**	**193,143**
Equity		
Issued capital	91,935	91,935
Reserves	314	6,114
Retained earnings	83,671	95,094
Total equity	**175,920**	**193,143**

38. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Company has entered into a number of financial arrangements which, subject to approval from relevant regulatory authorities, shareholders and financiers, will result in a significant recapitalisation of the Company.

These financial arrangements comprise:

- a placement of 9,917,650 ordinary shares, equivalent to 15% of the Company's issued ordinary shares, at $1.35 per share to Kerogen Investments No.1 (HK) Limited, a Hong Kong wholly owned subsidiary of Kerogen General Partners Limited ("Kerogen"), raising new equity of $13,388,827;
- the provision of a two year $66.5 million mezzanine loan facility by Kerogen. The proceeds of the facility will be applied predominantly to the redemption of the Redeemable Convertible Preference Shares ("RCPS"); and
- subject to shareholder approval, on the assumption of a Rights Issue (see below) of between $30 million and $35 million at $1.35 per share, the grant to Kerogen of options over 10,917,504 shares in the Company exercisable at any time after the Rights Issue for a period of 4 years (subject to a ratchet down if the Company pays back part of the mezzanine facility early).

The Company has also announced an intention to conduct a fully underwritten rights issue to raise between $30 million and $35 million ('Rights Issue'). Subject to shareholders agreeing to buy back the RCPS and to grant to Kerogen the aforementioned options, Kerogen has offered to sub-underwrite up to the full amount of the Rights Issue. It is proposed to complete the Rights Issue subject to necessary approvals by late November 2011.

An extraordinary general meeting of shareholders will be called in due course to approve the redemption of the RCPS and other conditions for the provision of the mezzanine facility by Kerogen.

Of the monies subscribed under the placement, US$9.9 million has been subscribed for equity in Cuadrilla Resources Holdings Limited ("Cuadrilla"). The subscription has ensured that Lucas' equity shareholding in Cuadrilla remains equal to that of Riverstone Carlyle at 40.93% of Cuadrilla's expanded issued share capital.

On 23 September 2011, Cuadrilla announced estimated Gas in Place of 200 trillion cubic feet at the Bowland Basin shale prospect in North West England. The Bowland Basin prospect is 75% owned by Cuadrilla, with Lucas owning the remaining 25% directly.

The Company continues to investigate the sale of some or all of its drilling business activities and other operating businesses.

Otherwise, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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DIRECTORS' DECLARATION

1 In the opinion of the directors of AJ Lucas Group Limited (the Company):

(a) the consolidated financial statements and notes, that are contained in pages 21 to 76 and the Remuneration Report included in the Directors' Report, set out on pages 14 to 19, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; 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.

2 There are reasonable grounds to believe that the Company and the group entities identified in note 37 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.

4 The directors draw attention to note 2(A) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Allan Campbell
Director
30 September 2011

KPMG

Independent auditor's report to the members of AJ Lucas Group Limited

Report on the financial report

We have audited the accompanying financial report of AJ Lucas Group Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, Notes 1 to 38, comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 2(A), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

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

KPMG

Independent auditor's report to the members of AJ Lucas Group Limited (continued)

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(A).

Emphasis of matter regarding going concern

Without qualifying our opinion, we draw attention to Note 2(C) in the financial report which indicates that the Group incurred a net loss of $17.5 million during the year ended 30 June 2011, has forecast additional short term additional working capital funding requirements amounting to $10 million and, as of that date, the Group's current liabilities exceed its current assets by $114.7 million.

These conditions along with other matters set forth in Note 2(C), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without the ongoing support of the Group's financiers and other third parties, until the completion of the financial arrangements and asset sale initiatives described in Note 2(C), and the achievement of forecast profits and cash flows.

Report on the remuneration report

We have audited the remuneration report included in pages 14 to 19 of the directors' report for the year ended 30 June 2011. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of AJ Lucas Group Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Tony Nimac
Partner
Sydney

30 September 2011

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 AUGUST 2011)

	Number of Security Holders		
Securities held	**Ordinary shares**	**Redeemable convertible preference shares**	**Rights**
1 - 1,000	1,010	–	–
1,001 - 5,000	1,420	–	–
5,001 - 10,000	508	–	–
10,001 - 100,000	488	4	–
100,001 and over	39	1	3
Total	3,465	5	3

310 shareholders held less than a marketable parcel of ordinary shares.

TWENTY LARGEST ORDINARY SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Andial Holdings Pty Limited	12,758,000	19.30
Citicorp Nominees Pty Limited	3,664,014	5.54
HSBC Custody Nominees (Australia) Limited	2,541,328	3.84
JP Morgan Nominees Australia Limited	2,516,705	3.81
JP Morgan Nominees Australia Limited<Cash Income A/C>	2,444,097	3.70
Amalgamated Dairies Limited	2,333,000	3.53
National Nominees Limited	2,278,271	3.45
HSBC Custody Nominees (Australia) Limited - A/C 2	1,875,014	2.84
Forty Traders Limited	1,566,348	2.37
Buttonwood Nominees Pty Ltd	1,550,000	2.34
Mitchell Drilling Contractors Pty Ltd<Trustee Of Tanson Account>	1,399,580	2.12
Cogent Nominees Pty Limited	1,262,530	1.91
Gwynvill Trading Pty Limited	1,096,363	1.66
HSBC Custody Nominees (Australia) Limited-GSCO ECA	837,633	1.27
Bond Street Custodians Ltd<Macquarie Smaller Co's A/C>	659,611	1.00
Australian Reward Investment Alliance	605,777	0.92
Forsyth Barr Custodians Ltd<Forsyth Barr Ltd-Nominee A/C>	574,585	0.87
ABN Amro Clearing Sydney Nominees Pty Ltd<Custodian A/C>	328,871	0.50
UBS Nominees Pty Ltd	322,558	0.49
NZ Guardian Trust Company Ltd <01035700 A/C>	290,950	0.44
Total	**40,905,235**	**61.90**

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

SUBSTANTIAL SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Andial Holdings Pty Limited	17,490,000	26.45
Amalgamated Dairies Group	4,230,348	6.39

ON-MARKET BUY BACK: There is no current on-market buy back.

UNQUOTED EQUITY SECURITIES: As at 31 August 2011, there were 1,338,176 rights over unissued ordinary shares in the Company.

REDEEMABLE CONVERTIBLE PREFERENCE SHARES: The following entities held 20% or more of the number of redeemable convertible preference shares on issue:

Name	Number of shares held	% of shares
Perpetual Nominees Limited	414,623	92.1

VOTING RIGHTS

Ordinary shares - Refer to note 28 of the financial statements.

Redeemable convertible preference shares - Refer to note 24 of the financial statements.

Rights - These are no voting rights attached to the rights.

DIRECTORY

COMPANY SECRETARY

Nicholas Swan MA, MBA

REGISTERED OFFICE

394 Lane Cove Road
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SHARE REGISTRY

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Enquiries outside Australia: +61 3 9615 5970

Email: web.queries@computershare.com.au

Website: www.computershare.com

STOCK EXCHANGE

The Company is listed on the Australian Securities Exchange with the code 'AJL'. The Home Exchange is Sydney.

AUDITORS

KPMG
10 Shelley Street
Sydney NSW 2000

BANKERS

ANZ Bank
20 Martin Place
Sydney NSW 2000

QUALITY CERTIFIERS (AS/NZS ISO 9001:2000)

Bureau Veritas

AUSTRALIAN BUSINESS NUMBER

12 060 309 104

OTHER INFORMATION

AJ Lucas Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.