# AJ LUCAS GROUP LIMITED

**ABN: 12 060 309 104**

# PRELIMINARY FINANCIAL REPORT

**YEAR ENDED 30 JUNE 2012**

# APPENDIX 4E

**(Previous Corresponding Reporting Period:**
**Year ended 30 June 2011)**

# Results for Announcement to the Market

for the year ended 30 June 2012

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

| | Change | | $A'000 |
|---|---|---|---|
| Revenues from ordinary activities | Up 16.4% | to | 504,276 |
| Loss before interest and tax | Down 7,118.8% | to | (93,140) |
| Loss from ordinary activities after tax attributable to members | Down 856.3% | to | (110,237) |
| Loss for the period attributable to members | Down 856.3% | to | (110,237) |

| **NTA Backing** | Current year | Previous Corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | 44.6¢ | 95.2¢ |

| **Dividends** | | Amount per security | Franked amount per security |
|---|---|---|---|
| Final dividend | - current year | 0.0¢ | N/A |
| | - previous year | 0.0¢ | N/A |
| Total dividend | - current year | 0.0¢ | N/A |
| | - previous year | 0.0¢ | N/A |

**Audit**

The preliminary financial report is based on financial statements which are in the process of being audited.

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Company Secretary

NJW Swan

31 August 2012

## Commentary on the Results

for the year ended 30 June 2012

Difficult trading conditions and lack of working capital resulted in the Group recording a very disappointing result despite revenue increasing by 16.4% to $504.3 million from $433.4 million in the previous financial year.

Underlying EBITDA decreased by 79.3% from $17.0 million to $3.5 million. However, balance sheet restructuring costs and contract provisioning reduced the reported EBITDA to a loss of $21.5 million.

A summary of the Group's unaudited preliminary financial results compared with the prior year is as follows:

| | 2012 Year $'000 | 2012 2nd half $'000 | 2012 1st half $'000 | 2011 Year $'000 | 2011/12 Change % |
|---|---|---|---|---|---|
| **Total revenue** | 504,276 | 238,011 | 266,265 | 433,373 | 16.4% |
| Reported EBITDA | (21,517) | (28,127) | 6,610 | 29,405 | (173.2%) |
| **EBIT** | (93,140) | (86,996) | (6,144) | 1,327 | (7,118.8%) |
| Loss before tax | (116,579) | (97,394) | (19,185) | (21,422) | 444.2% |
| **Net loss for the year** | (110,237) | (96,618) | (13,619) | (11,527) | 856.3% |
| Total assets | 415,354 | 415,354 | 456,839 | 438,917 | (5.4%) |
| Net assets | 113,494 | 113,494 | 178,062 | 175,883 | (35.5%) |
| | | | | | |
| Basic loss per share (cents) | (133.2) | (102.3) | (19.1) | (17.5) | 661.4% |

A reconciliation of the reported EBITDA to the underlying EBITDA is shown in the following table:

| | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Corporate $'000 | 2012 $'000 | 2011 $'000 |
|---|---|---|---|---|---|---|
| **Reconciliation:** | | | | | | |
| **Reported EBITDA** | 11,012 | (16,078) | (3,287) | (13,164) | (21,517) | 29,405 |
| Profit on sale of business | – | – | – | – | – | (23,686) |
| Impairment of intangible assets | – | – | – | – | – | 301 |
| Impairment of equity accounted investee | – | – | – | – | – | 250 |
| Impairment of non-current receivable | – | – | – | – | – | 3,919 |
| Provisions and settlement of historical projects | 3,763 | 5,860 | – | – | 9,623 | 2,880 |
| Closure of asset services business | – | 3,436 | – | – | 3,436 | – |
| Prior year insurance claim | (435) | – | – | – | (435) | – |
| Redundancy costs | 420 | – | – | – | 420 | – |
| Make good costs on lease termination | 181 | – | – | – | 181 | – |
| Net loss on sales of assets held for sale | – | 365 | – | – | 365 | 1,614 |
| Advisory fees on balance sheet restructure | – | – | – | 6,677 | 6,677 | 751 |
| Share of overhead - Lucas Energy UK | – | – | – | 1,319 | 1,319 | – |
| Cost of options granted | – | – | – | 627 | 627 | – |
| Loan write off | – | – | – | 459 | 459 | – |
| Share of loss of equity accounted investee | – | 377 | 1,969 | – | 2,346 | 1,516 |
| **Underlying EBITDA** | **14,941** | **(6,040)** | **(1,318)** | **(4,082)** | **3,501** | **16,950** |

Difficult market conditions, liquidity issues and balance sheet strain resulting from poor debt markets and the E&P activities made this a very challenging financial year. In the UK, continued and unplanned expenditure on Bowland and Cuadrilla exacerbated this situation, causing negative cash flow impact on the Australian operations. Notwithstanding this, cash generated from operations increased by $8.1 million to $20.3 million.

The Lucas balance sheet needs to be fixed and the cash drain to the UK needs to be addressed. Much of the last year has been taken up dealing with these issues. The operating environment, while busy, is very challenging. Scarcity of quality human resources at all levels (and the competition for them between clients and contractors), rising costs, lower commodity prices, inflexibility of labour and the costs of doing business in Australia combine to produce an operating environment where margins are under continual pressure.

## Commentary on the Results

for the year ended 30 June 2012

While the financial result is totally unsatisfactory, Lucas actually achieved a lot of positive things during the year. The operating divisions have been reorganised and restructured (substantially lowering the operating cost base), Oracle ERP has now "gone live", the Cuadrilla strategy has been re-examined and, Lucas activities have been re-orientated to focus on core drilling and engineering expertise; while clients deal with the consequences of the global financial challenges, lower commodity prices and their own internal issues in terms of project management.

Management deficiencies have been addressed, a meaningful presence has been established in Western Australia, systems have again been improved (to such an extent that Lucas believes its OHS&E systems are amongst the best that operate in the drilling and CSG fields), new management has been introduced to Cuadrilla, legacy issues relating to the Mitchell acquisition are now finally been dealt with and the balance sheet is well on the way to restoration.

Most of the losses were incurred in the second half and predominantly relate to impairment charges for goodwill attaching to the drilling business, non-recurring business rationalisation and restructuring costs and, further project provisioning in a difficult contract environment. As a result, the Group now has much reduced overheads and a more flexible cost structure more aligned to the volume of work.

New equity amounting to $46.6 million was introduced during the year with a further $40 million agreed to be subscribed by Kerogen Investments, the Group's major shareholder and finance provider, subject to shareholder approval at a meeting of shareholders to be held on 5 September, 2012. This demonstrates the ongoing support of Kerogen to the Group.

The Drilling division has a strong order book and underpins the operating cash flow requirements of the Group. The Engineering & Construction division (formerly known as Building, Construction & Infrastructure or BCI) has reduced in size, reflecting the return to its core capabilities. This division however, has secured contracts for new work and has prequalified and is tendering for a significant amount of work. Provided there is no significant deterioration in the Australian economy or a return of extraordinary wet weather, both divisions are expected to perform better, with more focused and tighter management, off a much lower cost base.

The results by division are as follows:

**Drilling Division**

| | 2012<br>Year<br>$'000 | 2012<br>2nd half<br>$'000 | 2012<br>1st half<br>$'000 | 2011<br>Year<br>$'000 | 2011/12<br>Change<br>% |
|---|---|---|---|---|---|
| Revenue | 189,640 | 91,993 | 97,647 | 185,936 | 2.0% |
| Underlying EBITDA | 14,941 | 2,414 | 12,527 | 19,114 | (21.8%) |
| EBITDA margin | 7.9% | 2.6% | 12.8% | 10.3% | |

The Drilling division increased its revenue notwithstanding the challenging market conditions. However, its result was impacted by continued unseasonal wet weather, unscheduled maintenance and occasional unanticipated stand downs by clients - reflecting weaker commodity prices and more particularly, uncertainty in the coal market. The result was further impacted by a decision to provide $3.8 million for amounts attributable to contracts undertaken in prior years.

Reflecting the reduced level of profitability and the Group's outlook for the resources sector, a comprehensive review was conducted of the carrying value of the division and a decision made to impair its value by $45.0 million. A $1.9 million impairment charge was also made for land and buildings occupied by the division.

Certain sectors of the drilling business are experiencing strong demand particularly directional drilling, as a cost effective method of degassing coal mines to allow long term mine planning and minimising future gas emissions. The plant replacement strategy is resulting in decreased maintenance costs and a decrease in unplanned stoppages. A number of rigs have been sold or decommissioned. New rigs are being introduced and a plan to upgrade the CSG rigs is being developed. Margins in the coal exploration drilling business are under pressure (principally due to lower commodity prices and the increased cost base being experienced by clients) but margins are holding elsewhere. The strong Lucas management systems and the quality of drilling personnel are still considered to be the most important factors which distinguish Lucas Drilling from its competitors. The market is much tougher than in previous years and is expected to be so for at least the next 12-24 months. However, a reduced cost base and strong focus on operations and servicing clients are expected to increase profitability and cash flow this financial year, underpinned by an order book in excess of $330 million.

## Commentary on the Results

for the year ended 30 June 2012

### Engineering & Construction Division

The Engineering & Construction division reported a weaker result than in the prior year as shown in the following table:

| | 2012<br>Year<br>$'000 | 2012<br>2nd half<br>$'000 | 2012<br>1st half<br>$'000 | 2011<br>Year<br>$'000 | 2011/12<br>Change<br>% |
|---|---|---|---|---|---|
| Revenue | 314,636 | 146,018 | 168,618 | 247,437 | 27.2% |
| Underlying EBITDA | (6,040) | (14,394) | 8,354 | 6,339 | (195.3%) |
| EBITDA margin | (1.9%) | (9.9%) | 5.0% | 2.6% | |

The performance of the division was generally sound, as shown by the first half's results. However, provisions for certain contracts where the eventual financial outcome is the subject of negotiation resulted in a loss in the second half. A resolution process is being followed in certain instances to settle these matters which may result in a greater recovery of the amounts subject to the disputes than currently assumed. The division results were also affected by an inadequate work load, reflected in a reduced turnover in the second half, and consequently a disproportionate level of overheads. The cost base has now been reduced. A new senior management team has been installed to engineer and manage projects with an upgraded emphasis on risk management: focusing on the core activities of pipelines, HDD and water/waste water projects in selected parts of the market.

The result was also adversely affected by the performance of the asset services business (formed in 2010). Accordingly, it was decided to close down this business at a cost, including operating losses during the year, of $3.4 million.

The division also settled various contracts undertaken in prior years at a cost of $5.9 million. Settlement of these contracts together with a return to focus on the Group's core expertise of engineering services on critical infrastructure works is expected to result in an improvement in divisional performance.

The Western Australian operations have performed strongly. Lucas completed the Gorgon landfall project, Stage 1 of the SSWA Desalination Alliance project and commenced two new projects in the water/waste water sector. A strong team has now been assembled in WA, a Perth office has been established and Lucas is looking to grow this business within its traditional core activities. Similarly, the Queensland operations for Lucas Engineering & Construction are being bolstered. The resourcing in Western Australia and Queensland reflects the two principal areas where Lucas sees the growth opportunities.

### Energy Investments

Activity throughout the year at Bowland was limited to drilling wells at Grange Hill 1 and Becconsall 1. These wells encountered shales over 3,000 feet thick. Core studies, analysis of sample cuttings and geophysical analysis of these wells identified a series of prospective pay zones throughout the shale zones.

No fracking was undertaken during the period, following the voluntary suspension of fracking by Cuadrilla in May 2011 after the minor seismic events at Preese Hall No.1. In April 2012, the UK Department of Energy and Climate Change (DECC) published an independent expert report which recommended measures to be taken to mitigate the risks of seismic tremors from hydraulic fracturing of rock.

Much debate is taking place regarding the development of shale gas and, in particular, the practice of hydraulic fracturing or "fracking". Some of this is informed but much is not. A number of authoritative papers have been published including a report entitled "Shale Gas Extraction in the UK: a review of hydraulic fracturing" in June 2012 by The Royal Society and The Royal Academy of Engineering. Cuadrilla is in agreement with the recommendations of this report and is already implementing its recommendations.

Cuadrilla is hopeful that approval to recommence fracking is received from DECC in the not too distant future and is planning within the relevant regulatory regime for disposal of water, monitoring of seismic activity and other relevant planning matters. Spudding of Anna's Road (which is to include a lateral well) is planned for mid-September.

Once wells are flowed (both vertical and horizontal), Cuadrilla will have a much improved view of the commercial prospectivity of the Bowland basin. At this stage, data has been very positive and both Lucas and Cuadrilla hold high hopes for its commercial viability.

### Outlook

The Drilling division has a full order book totalling in excess of $330 million reflecting its leading market drilling service capability for the coal and coal seam gas industries. The Company's multipurpose drill rigs have the flexibility to switch between coal exploration and CSG according to market demand. Thus, while the Group is experiencing some softness in coal demand, this is being offset by increasing demand for CSG and directional drilling services. A significant investment in drill rigs over the last financial year has resulted in the Company having a much more modern rig fleet able to meet the requirements of its customer base, which will further enhance the prospects for this division.

The Engineering & Construction division order book has reduced over the last year, but has restructured its cost base to match this. In addition to tendering for work individually, it has partnered with several leading engineering companies to tender for new works which will allow the Company to re-establish its market position over time.

The $40 million capital raising, subject to shareholder approval at a meeting on 5 September, will significantly strengthen the Group's balance sheet and provide it with the working capital to undertake the anticipated works and to meet immediate financier and creditor payments. The recapitalisation, together with rescheduling of existing finance facilities provided by Kerogen, will also provide the Group with the resources necessary to sustain its immediate investment requirements in Cuadrilla and the Bowland basin.

Strengthening of management at Cuadrilla, a new business plan and greater emphasis on "bang for buck" is expected to enhance the value of the Bowland asset significantly once Cuadrilla is in a position to recommence fracking and flow/test the wells. The data thus far is very encouraging and attention is now being given to the commercial/political aspects of development of this acreage.

In summary, Lucas' vision over the past few years may have been correct but a combination of circumstances, not least adverse weather conditions, general business uncertainty, an overly ambitious acquisition, global financial uncertainty, weak debt markets and some poor management choices have resulted in weak financial performance. The Group has therefore been restructured and rationalised to focus on its core expertise where its strengths have traditionally been.

There is no doubt that there is still substantial infrastructure works required to be built, despite the slowdown and uncertainty in the resources sector, and Lucas is well positioned to win its share of these. Lucas is planning for a tough trading environment in its engineering and drilling activities as market factors work themselves through however, given the strategic position of Lucas in these markets and a lower cost base, the expectation is that financial performance will improve significantly. Adequate finance and restoration of the balance sheet is what is required to allow this outcome to be achieved. The EGM on 5 September 2012, if the relevant resolutions are passed, goes a long way to achieving this but the Company recognises that more work is required on this aspect and a number of strategies are currently been pursued.

# A J LUCAS GROUP LIMITED

## ABN: 12 060 309 104

## PRELIMINARY FINANCIAL REPORT
## FOR THE YEAR ENDED 30 JUNE 2012

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

| | Note | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|---|
| Revenue | 2 | 504,276 | 433,373 |
| **Total revenue** | | **504,276** | **433,373** |
| | | | |
| Other income | 3 | – | 23,686 |
| Material costs | | (146,113) | (145,150) |
| Sub-contractor costs | | (177,923) | (94,344) |
| Employee expenses | | (125,352) | (119,340) |
| Plant and other construction costs | | (61,091) | (60,220) |
| Advisory fees on balance sheet restructure | | (6,677) | – |
| Impairment of intangible asset | 4 | (44,960) | (301) |
| Depreciation and amortisation expenses | 4 | (24,793) | (28,078) |
| Impairment of land and buildings | 4 | (1,870) | – |
| Impairment of receivables | 4 | (2,352) | (3,919) |
| Impairment of equity accounted investee | 4 | – | (250) |
| Costs of options granted | | (627) | – |
| Other expenses | | (3,312) | (2,614) |
| **Results from operating activities** | | **(90,794)** | **2,843** |
| | | | |
| Finance income | | 2,618 | 891 |
| Finance costs | | (26,057) | (23,640) |
| **Net finance costs** | 5 | **(23,439)** | **(22,749)** |
| | | | |
| Share of loss of equity accounted investee | | (2,346) | (1,516) |
| | | | |
| **Loss before income tax** | | **(116,579)** | **(21,422)** |
| Income tax benefit | 6 | 6,342 | 9,895 |
| **Loss for the year** | | **(110,237)** | **(11,527)** |
| | | | |
| **Other comprehensive income** | | | |
| Effective portion of changes in fair value of hedges | | 638 | 426 |
| Exchange differences on translation of foreign operations | | (140) | (6,372) |
| **Other comprehensive income/(loss) for the year** | | **498** | **(5,946)** |
| **Total comprehensive loss for the year** | | **(109,739)** | **(17,473)** |
| **Total comprehensive loss attributable to owners of the company** | | **(109,739)** | **(17,473)** |
| | | | |
| **Earnings per share:** | | | |
| Basic (loss)/earnings per share (cents) | | (133.2) | (17.5) |
| Diluted (loss)/earnings per share (cents) | | (133.2) | (17.5) |

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated preliminary financial report.

# Consolidated Statement of Financial Position

At 30 June 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 4,343 | 1,348 |
| Trade and other receivables | | 57,051 | 61,193 |
| Inventories | | 55,918 | 52,946 |
| Assets classified as held for sale | | 5,503 | 11,072 |
| Other assets | | 862 | 1,899 |
| **Total current assets** | | **123,677** | **128,458** |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 133,638 | 136,896 |
| Exploration assets | | 16,073 | 7,946 |
| Intangible development assets | | 580 | 647 |
| Other intangible assets | 8 | 67,001 | 112,283 |
| Deferred tax assets | | 782 | – |
| Investments in equity accounted investees | 9 | 73,603 | 52,687 |
| **Total non-current assets** | | **291,677** | **310,459** |
| **Total assets** | | **415,354** | **438,917** |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 120,348 | 88,412 |
| Interest-bearing loans and borrowings | 10 | 91,171 | 99,745 |
| Current tax liabilities | 11 | 32,692 | 47,922 |
| Derivative liabilities | | 2,665 | – |
| Employee benefits | | 7,849 | 7,031 |
| **Total current liabilities** | | **254,725** | **243,110** |
| | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 10 | 41,881 | 12,718 |
| Derivative liabilities | | 4,015 | – |
| Deferred tax liabilities | | – | 5,677 |
| Employee benefits | | 1,239 | 1,529 |
| **Total non-current liabilities** | | **47,135** | **19,924** |
| **Total liabilities** | | **301,860** | **263,034** |
| **Net assets** | | **113,494** | **175,883** |
| | | | |
| **Equity** | | | |
| Share capital | | 138,506 | 91,935 |
| Reserves | | 467 | (810) |
| Retained earnings | | (25,479) | 84,758 |
| **Total equity** | | **113,494** | **175,883** |

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated preliminary financial report.

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

| | Share capital $'000 | Translation reserve $'000 | Option reserve $'000 | Employee equity benefits reserve $'000 | Hedging reserve $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| 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** |
| Balance 1 July 2011 | 91,935 | (3,433) | – | 3,339 | (716) | 84,758 | 175,883 |
| **Total comprehensive income** | | | | | | | |
| Loss for the period | – | – | – | – | – | (110,237) | (110,237) |
| Other comprehensive income | | | | | | | |
| Effective portion of changes in fair value of hedges | – | – | – | – | 638 | – | 638 |
| Foreign currency translation differences | – | (140) | – | – | – | – | (140) |
| **Total comprehensive income/(loss)** | **–** | **(140)** | **–** | **–** | **638** | **(110,237)** | **(109,739)** |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| Issue of ordinary shares | 46,571 | – | – | – | – | – | 46,571 |
| Issue of options | – | – | 637 | – | – | – | 637 |
| Share based payment transactions | – | – | – | 142 | – | – | 142 |
| Total contributions by and distributions to owners | 46,571 | – | 637 | 142 | – | – | 47,350 |
| **Balance 30 June 2012** | **138,506** | **(3,573)** | **637** | **3,481** | **(78)** | **(25,479)** | **113,494** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated preliminary financial report.

## Consolidated Statement of Cash Flows

For the year ended 30 June 2012

| | Note | 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 554,348 | 401,949 |
| Cash payments to suppliers and employees | | (534,081) | (389,824) |
| **Cash generated from operations** | | **20,267** | **12,125** |
| Interest received | | – | 46 |
| Income taxes paid | | (15,229) | (8,002) |
| Interest and other costs of finance paid | | (16,296) | (3,865) |
| **Net cash (used in)/from operating activities** | 13(b) | **(11,258)** | **304** |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of plant and equipment | | 4,717 | 7,708 |
| Proceeds from sale of business | | – | 23,686 |
| Proceeds from sale of assets held for sale | | 3,679 | 1,402 |
| Payments for equity accounted investments | | (23,309) | (2,506) |
| Advisory fees on balance sheet restructure | | (5,252) | – |
| Payment for intangible assets | | – | (301) |
| Payments for plant and equipment | | (22,631) | (15,360) |
| Exploration and evaluation expenditure | | (8,670) | (7,946) |
| Loans to other entities | | (732) | (213) |
| Proceeds from loans to other entities | | – | 546 |
| **Net cash (used in)/from investing activities** | | **(52,198)** | **7,016** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 46,571 | – |
| Proceeds from issue of options | | 10 | – |
| Proceeds of borrowings – mezzanine | | 96,000 | – |
| Proceeds of borrowings – other | | 1,179 | – |
| Repayment of borrowings | | (14,851) | (3,632) |
| Repayment of redeemable convertible preference shares | | (45,000) | – |
| Deferred payment for acquisition | | – | (2,500) |
| Payment of finance lease liabilities | | (16,367) | (14,437) |
| **Net cash from/(used in) financing activities** | | **67,542** | **(20,569)** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **4,086** | **(13,249)** |
| Cash and cash equivalents at beginning of the year | | (6,386) | 6,863 |
| **Cash and cash equivalents at end of the year** | 13(a) | **(2,300)** | **(6,386)** |

The consolidated statement of cash flows are to be read in conjunction with the notes to the consolidated preliminary financial report.

### 1. Basis of preparation

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The consolidated preliminary financial statements of the Company as at and for the year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated preliminary financial report is based on the Group's financial statements which are in the process of being audited and have been prepared in accordance with Australian Accounting Standards (AASB's) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements also comply with International Financial Reporting Standards adopted by the International Accounting Standards Board. The accounting policies adopted are consistent with those of the previous financial year.

The financial report is presented in Australian dollars and has been prepared on an historical cost basis, except for available for sale assets which have been measured at fair value at reporting date. 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, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated preliminary financial report was authorised by the Board of Directors on 30 August 2012.

#### i) Going concern

The consolidated preliminary financial report has 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 preliminary 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 $110.2 million including non-cash impairment charges of $45.0 million on goodwill and $1.9 million on land and buildings.
- As at balance date, the Group's current liabilities exceeded its current assets by $131.0 million. The deficit in net current assets is accounted for in large part by the classification of the mezzanine finance, ANZ and lease finance facilities and amounts owing to the Australian Taxation Office (ATO) as current liabilities.

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 30 June 2012:

- The Company has entered into a subscription agreement with Kerogen Investments No.1 (HK) limited ("Kerogen") under which, subject to shareholder approval at a shareholder meeting to be held on 5 September 2012, Kerogen has agreed to subscribe for shares in the Company to raise $30 million and to exercise options over shares in the Company to raise a minimum of a further $10 million;
- The Company has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over five years, including $10 million from the proceeds of the September 2012 equity raising; and
- Kerogen has provided additional loan facilities to the Group amounting to $11.0 million for working capital as well as allow the Group to meet capital calls and provide funding to sustain the Group's investment in Cuadrilla and its directly owned shale gas acreage in Europe. These borrowings will be partially repaid through the September 2012 capital raising. Kerogen has also indicated a preparedness to provide or arrange additional short term financing as required; and
- The Company is engaged in ongoing discussions with Kerogen to vary the repayment terms of the mezzanine finance facility and to capitalise interest until such time as the Group has the capacity to repay the amounts owing.

In assessing the appropriateness of using the going concern assumption, the Directors have also had regard to their views in respect of:

- the continuing support of Kerogen, as both a substantial debt holder and shareholder of the Group;
- the reasonableness of the profit and cash flow forecasts of the Group, having regard to the order backlog, the status of tenders pending and cost reduction program; and

- the value of the Group's investment in Cuadrilla and the direct equity interest in the Bowland shale prospect 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 realise its assets and settle its liabilities other than in the ordinary course of business, and at amounts different from those stated in the consolidated preliminary financial report.

**ii) Estimates**

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

In preparing these consolidated preliminary financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2011.

Given the nature of the contracts that the Group undertakes, there is exposure to claims and variations for which the Group has made judgements in respect of final outcomes.

### 2. Segment reporting

The Group comprises the following main business 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. |
| Engineering and construction (E&C) | 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 and gas | Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA. |

### 2. Segment reporting (cont)

| | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| **Reportable segment revenue** | | | | | | | |
| Revenue - services rendered | 189,640 | – | – | 189,640 | – | – | 189,640 |
| Revenue - construction contracts | – | 314,636 | – | 314,636 | – | – | 314,636 |
| Inter-segment revenue | 11,303 | – | – | 11,303 | – | (11,303) | – |
| **Total consolidated revenue** | **200,943** | **314,636** | **–** | **515,579** | **–** | **(11,303)** | **504,276** |
| **EBITDA** | **11,012** | **(16,078)** | **(3,287)** | **(8,353)** | **(13,164)** | **–** | **(21,517)** |
| Less: Depreciation, amortisation and impairment | (64,127) | (4,187) | – | (68,314) | (3,309) | – | (71,623) |
| **Reportable segment loss** | **(53,115)** | **(20,265)** | **(3,287)** | **(76,667)** | **(16,473)** | **–** | **(93,140)** |
| Reconciliation: | | | | | | | |
| Interest income | – | – | – | – | 46 | – | 46 |
| Interest expense | (8,360) | (2,493) | – | (10,853) | (15,062) | – | (25,915) |
| Net change in fair value of derivative liability | – | – | – | – | 2,572 | – | 2,572 |
| Net foreign exchange gain/(loss) | 164 | – | – | 164 | (306) | – | (142) |
| **Consolidated loss before income tax** | | | | | | | **(116,579)** |
| **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 profit before income tax** | | | | | | | **(21,422)** |

### 2. Segment reporting (cont)

| | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| Segment assets | 231,459 | 76,570 | 88,430 | 396,459 | 18,895 | – | 415,354 |
| Segment liabilities | (122,346) | (75,464) | (68,047) | (265,857) | (36,003) | – | (301,860) |
| Depreciation, amortisation and impairment | (64,127) | (4,187) | – | (68,314) | (3,309) | – | (71,623) |
| Share of loss of equity accounted investees | – | (377) | (1,969) | (2,346) | – | – | (2,346) |
| Equity accounted investments | – | 1,246 | 72,357 | 73,603 | – | – | 73,603 |
| Capital expenditure | 19,664 | 199 | – | 19,863 | 5,648 | – | 25,511 |
| Impairment of intangible asset | (44,960) | – | – | (44,960) | – | – | (44,960) |
| Impairment of land and buildings | (1,870) | – | – | (1,870) | – | – | (1,870) |
| **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) |

## 2. Segment reporting (cont)

| | Revenues | | Non-current assets | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Australia | 504,276 | 433,373 | 203,163 | 250,245 |
| Europe | – | – | 88,430 | 60,214 |
| Asia/Pacific | – | – | 84 | – |
| | **504,276** | **433,373** | **291,677** | **310,459** |

## 3. Other income

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Profit on sale of business asset | – | 23,686 |

## 4. Other expenses

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 16,533 | 17,838 |
| Amortisation of: | | |
| Leased plant and equipment | 7,870 | 7,398 |
| Contracts and customer relationships | 322 | 2,789 |
| Development expenditure | 68 | 53 |
| Total amortisation | 8,260 | 10,240 |
| **Total depreciation and amortisation** | **24,793** | **28,078** |
| | | |
| Impairment of intangible asset | 44,960 | 301 |
| Impairment of land and buildings | 1,870 | – |
| Impairment of receivables | 1,893 | 3,919 |
| Impairment of other receivables | 459 | – |
| Impairment of equity accounted investee | – | 250 |

## 5. Finance income and finance costs

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Interest income | 46 | 29 |
| Net change in fair value of derivative liability | 2,572 | – |
| Net foreign exchange gain | – | 862 |
| **Finance income** | **2,618** | **891** |
| | | |
| Interest expense | (23,805) | (23,640) |
| Redeemable convertible preference share - redemption fees | (1,158) | – |
| Amortisation of options and fees on mezzanine finance facility | (952) | – |
| Net foreign exchange loss | (142) | – |
| **Finance costs** | **(26,057)** | **(23,640)** |
| **Net finance costs recognised in profit and loss** | **(23,439)** | **(22,749)** |

## 6. Income tax benefit

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **Recognised in profit or loss** | | |
| **Current tax benefit** | | |
| Current year | (12,187) | (390) |
| Tax losses not recognised in current year | 12,187 | – |
| Prior year adjustments | – | 374 |
| | – | (16) |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (6,883) | (7,895) |
| Prior year adjustment | (1,424) | (1,984) |
| Prior year tax losses previously recognised not carried forward | 390 | – |
| Prior year tax losses not recognised | 1,575 | – |
| **Total income tax benefit in profit or loss** | **(6,342)** | **(9,895)** |
| | | |
| Numerical reconciliation between tax benefit and pre-tax net profit/(loss) | | |
| Accounting loss before income tax | (116,579) | (21,422) |
| Prima facie income tax benefit calculated at 30% (2011:30%) | (34,974) | (6,427) |
| Adjustment for: | | |
| Equity settled share based payments | 88 | 39 |
| Equity accounted loss | 704 | 455 |
| Non-deductible expenses | 567 | 40 |
| Non-deductible option expense | 1,027 | – |
| Amortisation of customer contracts | 97 | 837 |
| Effect of tax rate in foreign jurisdictions | 5 | 11 |
| Impairment expenses | 14,187 | 165 |
| Research and development allowance | – | (2,990) |
| Fair value- derivative option gain non-assessable | (771) | – |
| Prior year tax losses not recognised | 1,965 | – |
| Current year tax losses not recognised | 12,187 | – |
| Utilisation of capital losses not previously recognised | – | (415) |
| | (4,918) | (8,285) |
| Income tax over provided in prior year | (1,424) | (1,610) |
| **Income tax benefit attributable to operating loss** | **(6,342)** | **(9,895)** |

## 7. Property, plant and equipment

The carrying value for each class of property, plant and equipment and reconciliations of the movement in each class 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 |
|---|---|---|---|---|---|---|---|
| **30 June 2012** | | | | | | | |
| At cost | 2,888 | 3,912 | 161,735 | 64,072 | 9,865 | – | 242,472 |
| Accumulated depreciation/amortisation | (1,723) | (402) | (85,604) | (20,190) | (915) | – | (108,834) |
| | **1,165** | **3,510** | **76,131** | **43,882** | **8,950** | **–** | **133,638** |
| **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** |
| **2012** | | | | | | | |
| Balance at 1 July 2011 | 1,741 | 5,477 | 77,353 | 47,906 | 4,419 | – | 136,896 |
| Additions | 1 | – | 16,587 | 3,477 | 5,446 | – | 25,511 |
| Disposals | – | – | (1,950) | (546) | – | – | (2,496) |
| Impairment | – | (1,870) | – | – | – | – | (1,870) |
| Depreciation | (577) | (97) | (15,859) | – | – | – | (16,533) |
| Amortisation | – | – | – | (6,955) | (915) | – | (7,870) |
| Balance at 30 June 2012 | **1,165** | **3,510** | **76,131** | **43,882** | **8,950** | **–** | **133,638** |
| **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** |

### 8. Other intangible assets

| | Customer intangibles $'000 | Goodwill $'000 | Net profit interest $'000 | Total $'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| 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** |
| | | | | |
| Balance at 1 July 2011 | 17,851 | 113,561 | 87,762 | 219,174 |
| Acquisitions | – | – | – | – |
| **Balance at 30 June 2012** | **17,851** | **113,561** | **87,762** | **219,174** |
| | | | | |
| **Amortisation and impairment losses** | | | | |
| 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** |
| | | | | |
| Balance at 1 July 2011 | 17,529 | 1,600 | 87,762 | 106,891 |
| Amortisation for the year | 322 | – | – | 322 |
| Impairment loss | – | 44,960 | – | 44,960 |
| **Balance at 30 June 2012** | **17,851** | **46,560** | **87,762** | **152,173** |
| | | | | |
| **Carrying amounts** | | | | |
| At 1 July 2010 | 3,111 | 111,961 | – | 115,072 |
| **At 30 June 2011** | **322** | **111,961** | **–** | **112,283** |
| | | | | |
| At 1 July 2011 | 322 | 111,961 | – | 112,283 |
| **At 30 June 2012** | **–** | **67,001** | **–** | **67,001** |

**Impairment tests for cash generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each cash generating unit are:

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Drilling | 63,169 | 108,129 |
| Engineering and Construction | 3,832 | 3,832 |
| | **67,001** | **111,961** |

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on the 2013 budget and 2014 plan, extended over a five year period using industry growth rates. A post-tax discount rate is applied adjusted for the risk of the industry in which each unit operates.

**Key assumptions used for value in use calculations**

Cash flows were projected based on past experience, actual operating results in 2012, budget in 2013 and the business plan for 2014. Real growth rates of between 6.6-11.3% and 3.9-23.9% were applied to the Drilling and Engineering and Construction cash generating units respectively to extrapolate cash flows for years 2015-2017 based on forecast industry growth rates. Long-term growth rates of 3% are used into perpetuity based on expected long range growth rates.

Post-tax discount rates of 13.00% and 19.23% have been applied to the Drilling and Engineering and Construction cash generating units respectively to discount the forecast future attributable post-tax cash flows. The discount rate reflects specific risks relating to the relevant cash-generating units. As at 30 June 2012 the recoverable amount of each cash-generating unit exceeds its carrying amount. For drilling this was achieved through the recognition of an impairment loss of $45.0 million during the year.

## 9. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

| Name of investee | Ownership 2012 | Ownership 2011 | 2012 Carrying value $'000 | 2011 Carrying value $'000 |
|---|---|---|---|---|
| Cuadrilla Resources Holdings Limited (associate) | 42.97% | 40.93% | 72,357 | 52,268 |
| Marais-Lucas Technologies Pty Limited (joint controlled entity) | 50% | 50% | 1,246 | 419 |
| | | | **73,603** | **52,687** |

Summary financial information is as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cuadrilla Resources Holdings Ltd $'000 | Marais-Lucas Technologies Pty Ltd $'000 | Total $'000 | Cuadrilla Resources Holdings Ltd $'000 | Marais-Lucas Technologies Pty Ltd $'000 | Total $'000 |
| Current assets | 11,524 | 774 | 12,298 | 5,632 | 132 | 5,764 |
| Non-current assets | 125,199 | 1,312 | 126,511 | 79,886 | 1,419 | 81,305 |
| **Total assets** | **136,723** | **2,086** | **138,809** | **85,518** | **1,551** | **87,069** |
| | | | | | | |
| Current liabilities | 14,941 | 5,067 | 20,008 | 7,805 | 3,782 | 11,587 |
| Non-current liabilities | 1,404 | - | 1,404 | 1,333 | - | 1,333 |
| **Total liabilities** | **16,345** | **5,067** | **21,412** | **9,138** | **3,782** | **12,920** |
| | | | | | | |
| Income | 4,000 | 1,775 | 5,775 | - | 183 | 183 |
| Expenses | (8,583) | (2,528) | (11,111) | (2,525) | (1,148) | (3,673) |
| **Loss** | **(4,583)** | **(753)** | **(5,336)** | **(2,525)** | **(965)** | **(3,490)** |

### 9. Investments in equity accounted investees (cont)

**Cuadrilla**

Movement in the carrying value of the Group's investment in Cuadrilla is as follows:

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| Equity accounted ownership interest at beginning of year | 52,268 | 42,397 |
| Purchase of additional ownership interest | 22,191 | – |
| Transfer of non-current receivable to investments in equity accounted investees | – | 17,242 |
| Share of equity accounted losses during the year | (1,969) | (1,033) |
| Movement of foreign currency translation recognised in equity | (133) | (6,338) |
| **Equity accounted ownership interest at end of the year** | **72,357** | **52,268** |

### 10. Interest-bearing loans and borrowings

| | 2012<br>$'000 | 2011<br>$'000 |
|---|---|---|
| **Current** | | |
| Bank overdraft - secured | 6,643 | 7,734 |
| Other borrowings - unsecured | 48,169 | – |
| Bank loans - secured (1) | 4,436 | 17,888 |
| Lease liabilities - secured (1) | 31,793 | 29,490 |
| Other borrowings - secured | 130 | 173 |
| Redeemable convertible preference shares - unsecured | – | 44,460 |
| | **91,171** | **99,745** |
| **Non-current** | | |
| Lease liabilities - secured (1) | – | 12,718 |
| Other borrowings - unsecured | 41,881 | – |
| | **41,881** | **12,718** |
| **Financing facilities** | | |
| **(a) The Group has access to the following lines of credit and bank guarantees** | | |
| Bank overdraft - secured | 8,500 | 13,500 |
| Other borrowings - secured | 130 | – |
| Other borrowings - unsecured | 90,050 | – |
| Lease liabilities - secured | 36,877 | 46,963 |
| Bank loans - secured | 4,436 | 17,888 |
| | **139,993** | **78,351** |
| Total facilities utilised at balance date: | | |
| Bank overdraft - secured | 6,643 | 7,734 |
| Other borrowings - secured | 130 | – |
| Other borrowings - unsecured | 90,050 | – |
| Lease liabilities - secured | 31,793 | 42,208 |
| Bank loans - secured | 4,436 | 17,888 |
| | **133,052** | **67,830** |
| Total facilities not utilised at balance date: | | |
| Bank overdraft - secured | 1,857 | 5,766 |
| Lease liabilities - secured | 5,084 | 4,755 |
| | **6,941** | **10,521** |

(1) At 30 June 2012, certain bank loans and lease liabilities were classified as current due to the breach of borrowing covenants at that date.

## 10. Interest-bearing loans and borrowings (cont)

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **(b) Bond and other facilities provided by surety entities** | | |
| Bond facilities in aggregate | 16,529 | 25,277 |
| Amount utilised | (15,044) | (21,712) |
| Unused facilities | **1,485** | **3,565** |
| | | |
| Bank indemnity guarantee | 4,000 | 4,084 |
| Amount utilised | (2,464) | (885) |
| Unused facilities | **1,536** | **3,199** |
| | | |
| Bank standby letter of credit | 2,900 | 2,900 |
| Amount utilised | – | – |
| Unused facilities | **2,900** | **2,900** |

Of the bonds utilised, $6,590,697 (2011: $9,607,982) are on projects which are yet to achieve practical completion.

**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.

**Finance lease facilities**

The Group's lease liabilities are secured by the leased assets of $43,882,000 (2011: $47,906,000) which, in the event of default, revert to the lessor.

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Finance lease liabilities** | | |
| Payments | | |
| Within one year | 18,695 | 32,494 |
| Between one and five years | 15,867 | 15,180 |
| | **34,562** | **47,674** |
| Less: interest | | |
| Within one year | (1,777) | (3,004) |
| Between one and five years | (992) | (2,462) |
| | (2,769) | (5,466) |
| **Total lease liabilities** (1) | **31,793** | **42,208** |
| | | |
| Lease liabilities provided for in the financial statements: | | |
| Current | 31,793 | 29,490 |
| Non-current | – | 12,718 |
| **Total lease liabilities** | **31,793** | **42,208** |

(1) At 30 June 2012, all of the lease liabilities were classified as current due to the breach of borrowing covenants at that date.

## 11. Current tax liabilities

The current tax liability represents the amount of income tax payable in respect of prior financial periods. The Company has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over five years, including $10.0 million from the proceeds of the September 2012 equity raising.

### 12. Interests in Joint Ventures

| Joint venture name | Principal activities | Participation interest | | Contribution to Operating results of the Group profit/(loss) | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | | % | % | $'000 | $'000 |
| Southern SeaWater Alliance | Construction and operation of desalination plant | 19 | 19 | 6,397 | 7,774 |

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

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 3,688 | 1,087 |
| Trade and other receivables | 7,367 | 2,037 |
| Other | 24 | 42 |
| Construction work in progress | 3,193 | 1,358 |
| **Total assets** | **14,272** | **4,524** |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 11,795 | 3,341 |
| **Total liabilities** | **11,795** | **3,341** |

### 13. Reconciliation of cash flows from operating activities

| | Note | 2012 $'000 | 2011 $'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 | | 4,343 | 1,348 |
| Bank overdraft | 10 | (6,643) | (7,734) |
| **Total cash** | | **(2,300)** | **(6,386)** |
| **(b) Reconciliation of cash flows from operating activities** | | | |
| Loss for the year | | (110,237) | (11,527) |
| Adjustments for: | | | |
| Interest on capitalised leases | | 3,073 | 2,941 |
| Interest on investments in equity accounted investees | | – | 793 |
| Loss on sale of non-current assets | | 276 | – |
| Interest income receivable | | (47) | – |
| Cost of issue of options | | 627 | – |
| Loss on sale of assets held for sale | | 365 | – |
| Loss on foreign currency loan | | 63 | – |
| Gain on sale of business | | – | (23,686) |
| Fair value adjustment in derivative liability | | (2,572) | – |
| Foreign exchange gain on restatement of equity accounted investee | | 140 | – |
| Net foreign exchange loss on other loans | | (23) | 178 |
| Net foreign exchange loss on restatement of exploration assets | | 440 | – |
| Share of prior year overhead expenses exploration assets | | 343 | – |
| Share of loss of equity accounted investees | | 2,253 | 1,515 |
| Advisory fees on balance sheet restructure | | 5,252 | – |
| Impairment of intangible asset | | 44,960 | 301 |
| Impairment of equity accounted investee | | – | 250 |
| Impairment of other receivables | | 459 | – |
| Impairment of land and buildings | | 1,870 | – |
| Impairment of non-current receivable | | – | 3,919 |
| Depreciation | | 16,533 | 18,144 |
| Accounting interest and fees on mezzanine debt | | 3,239 | – |
| Amortisation of: | | | |
| Leased assets | | 7,870 | 7,091 |
| Intangibles | | 322 | 2,789 |
| Development expenditure | | 68 | 55 |
| Borrowing cost (included in finance cost) | | 717 | 1,893 |
| **Operating (loss)/profit before changes in working capital and provisions** | | **(24,009)** | **4,656** |
| Change in receivables | | (542) | 3,921 |
| Change in other current assets | | 6,097 | (1,143) |
| Change in inventories | | (2,972) | (1,863) |
| Change in payables | | 30,689 | 11,137 |
| Change in provisions for employee benefits | | 528 | 937 |
| Change in tax balances | | (21,689) | (17,897) |
| Change in employee equity benefit reserve | | 142 | 130 |
| Change in reserves | | 498 | 426 |
| **Net cash (used in)/from operating activities** | | **(11,258)** | **304** |

**(c) Non-cash financing and investment activities**

During the year, the Group acquired plant and equipment with an aggregate fair value of $3,477,000 (2011: $16,478,000) by means of finance leases. These purchases are not reflected in the Statement of Cash Flows.

**(d) Financing arrangements**

Refer to note 10.

## 14. Subsequent Events

Subsequent to balance date:

- The Company has entered into a subscription agreement with Kerogen Investments No.1 (HK) limited ("Kerogen") under which, subject to shareholder approval at a shareholder meeting to be held on 5 September 2012, Kerogen has agreed to subscribe for shares in the Company to raise $30 million and to exercise options over shares in the Company to raise a minimum of a further $10 million;
- The Company has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over five years, including $10.0 million from the proceeds of the September 2012 equity raising; and
- Kerogen has provided additional loan facilities to the Group amounting to $11.0 million for working capital as well as allow the Group to meet capital calls and provide funding to sustain the Group's investment in Cuadrilla and its directly owned shale gas acreage in Europe. These borrowings will be partially repaid through the September 2012 capital raising.

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.