



## Annual Report 2012

Smart, Sustainable  
Infrastructure Solutions.

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The Australian market, at this time, really needs a specialist engineering contractor who can add value and reduce infrastructure costs; one who clients can work with to produce desired outcomes. This is Lucas.



## Letter to Shareholders

There is no doubt that 2012 was a challenging financial year. Increasing economic uncertainty, rising operating costs, unseasonal bad weather, reduced investor confidence and a strained balance sheet, combined to make for a very difficult business environment for AJ Lucas. Contributing to this were continued demands for cash to support and develop our promising Cuadrilla and Bowland Basin investments; without commensurate progress in the commercialisation of these very valuable assets due to the suspension of hydraulic fracturing in the UK throughout this period.

Notwithstanding these challenges, substantial progress has been made in addressing our problems. We were fortunate that Kerogen Investments, a newly formed Hong Kong based energy fund, recognised the inherent value in Lucas' industrial and energy assets and the long-term logic of Lucas' strategy and has emerged as a new and substantial shareholder. We welcome Kerogen to the share register and thank them for their support. As a consequence of Kerogen's investment, we have restructured our borrowings and also agreed revised repayment terms relating to the amounts owing to the ATO.

We have also significantly restructured the business to return to the organisation structure which operated successfully prior to 2009 – one that proved profitable in the past. This has caused some pain and, during the year, we have said goodbye to a number of dedicated and talented employees. We thank those who have left Lucas for their invaluable contribution to the Company's development. Unfortunately, in this environment, we have to produce "more from less" – hence our continued investment in people and performance, training and world class systems. At the conclusion of this restructuring process, we are leaner, more focused, and a harder company, more aligned with the current economic environment.

The new financial year has brought its own fresh challenges. Declines in commodity prices, further slowing of global growth, reduced availability of capital, and rising costs are all impacting on the timing and scale of resource projects. Notwithstanding the subdued outlook for calendar year 2013, we believe that the Lucas business model allows us to decrease costs of production and/or the costs of infrastructure in resource projects. We will assist our customers reduce their costs in these difficult times through the superiority of Lucas' engineering capabilities, our specialised plant and equipment, and our better systems and procedures. This is a testament to the quality of our skill sets – and our investment in training and safety.

The introduction of the carbon tax has also created additional opportunities for AJ Lucas. There is now an increased requirement to recover all available gas within coal mines and to minimise fugitive emissions. The Company's pre-eminent directional drilling skills, with nearly thirty years of horizontal directional drilling experience, places Lucas at the forefront of being able to assist clients to achieve this.

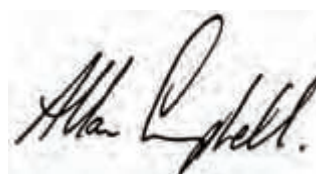
The imminent commencement of LNG export through the various Gladstone located LNG export facilities has also created an increased urgency to prove up and gather the necessary gas to feed these plants. This will be a 20 year long development programme. Lucas is ideally qualified to undertake these works with its unique combination of drilling, pipeline and civil engineering expertise.

The need for new public infrastructure continues. Governments are genuinely committed to new infrastructure and will find a way of funding it one way or another. This is particularly true in the water and telecommunications sectors where Lucas has specific engineering and project delivery expertise and a successful record.

Recommencement of hydraulic fracturing in Lancashire (for which we are hopeful) will allow us to flow the wells and thereby demonstrate the very significant resource we believe exists in the Bowland Basin. Such an occurrence would substantially alter the fortunes for both Lucas and Cuadrilla. We note the recent comments from the British Government in relation to unconventional hydrocarbons (and in particular shale gas) – the introduction of a "generous new tax regime", the investigation of UK shale gas reserves and various studies regarding an appropriate regulatory regime in relation to hydraulic fracturing.

Both Lucas and Cuadrilla are of the opinion that successful development of the Bowland Basin could prove to be a "game changer", not only for themselves but also for the British economy itself; leading to new jobs, plentiful supplies of (cheaper) gas, more security of energy supply, reduced imports, and reduced carbon emissions. We believe that shale gas from the Bowland shale can be developed safely and in an environmentally responsible, and a community acceptable manner. Expert scientific data and opinion supports our view. We have therefore strengthened Cuadrilla's management to deliver this mission and create a "fit for purpose" company which forms the benchmark for this type of activity throughout the whole of Europe.

With a strengthened balance sheet and sufficient working capital, our business should return to profitability and levels of performance that we used to produce, having regard to our strong tender pipeline and significant drilling order backlog. We thank all of our employees, suppliers and customers for sticking with us during these troubled times of reorganisation and recapitalisation of the Company.



Allan Campbell

## People and Safety

Lucas' skilled and experienced people are considered its most important asset.



At year-end, Lucas had more than 700 employees working at 11 offices and in excess of 80 rigs and project sites in operation.

With its skilled and experienced people considered its most important asset, safety remains the Company's most fundamental operational priority. Lucas' commitment to offering a safe work environment is particularly significant, given project sites are often located in remote areas, with limited access to recovery facilities.

Building safe practices relies on the cooperation of all employees and, in 2012, Lucas continued to embed its safety ideologies through training and education.

During the year, carefully implemented training strategies saw the continuation of regular Safety Leaders' Forums. These forums, aimed at the upper-most levels of management in the Company, were designed to engage leaders, educating them about our safety procedures and practices, embedding our strong safety culture and building awareness at all levels of the business.

As a result of these strategic approaches, the business has built a first-class safety track record, efficiency and technical leadership and is at the forefront of the increasingly stringent operating standards within the coal and CSG industries.

Due to the complex nature of the work and the standards employed throughout the business, Lucas Drilling operates in a highly regulated environment, with safety the leading priority. This environment requires high standards of compliance with a broad set of guidelines and regulations driven by federal and state legislation, as well as specific standards set by individual customers.

To address these required standards, Lucas has developed the Lucas Operating Platform, a detailed and integrated safety management system designed to ensure stringent environmental and safety practices are applied across all activities and operations. This platform consists of comprehensive management systems for safety, financial reporting, contract management, maintenance and training and drives a philosophy of continuous improvement.

Management throughout the business is key to the success of safety practices, and through the Leaders Forums and Lucas Operating Platform, managers gain ownership of safety processes and help ensure they are implemented in every facet of our business.

In addition to the innovation-based approach that saw the Lucas Operating Platform implemented, niche areas of the business have also adopted additional new approaches to ensure safety standards are maintained to the highest degree. In 2012, a new safety function was introduced at Lucas, with the aim of establishing an audit and assurance program that delivers the benefits of sharing experiences and best practices. This program has adopted a modern approach to safety, enabling our people to communicate their knowledge and learnings to others in the business.

## Lucas has built a first-class track record of safety, efficiency and technical leadership.

During the year, significant improvement in Lucas' safety procedures ensured the Company's drilling division was able to achieve a positive and rewarding result in its safety performance. Using industry-standard measures, Lucas Drilling achieved a 9.3% improvement in its 12 month rolling Total Recordable Incident Frequency Rate – a reduction from 16.2 in July 2011 to 14.7 in June 2012. These positive results exemplify the success of programs, forums and other strategic approaches implemented throughout the year to increase the focus on, and commitment to our stringent safety procedures.

While this is a significant achievement, Lucas continues to seek further improvements in all safety metrics across all areas of the business.



## Drilling and Drilling Services

With decades of drilling experience, more than 600 expert staff, and one of the largest fleet of drilling rigs in Australia, Lucas has a strong order book and is well positioned for the next financial year.



Lucas' full-service drilling offering is characterised by a culture of continuous improvement, stringent safety practices and success across a broad spectrum of specialties.

In 2012, despite a challenging economic climate, Lucas continued to build its competitive position in the market, offering services in exploration and development drilling, coal-seam gas production drilling, in-seam directional drilling for de-gasification of coal mines, well services and engineering services for well design.

With a focus on providing the flexibility required to meet market demand, the Company's more than 80 rigs are multi-functional, giving them the capacity to switch application between coal and coal seam gas, broadening Lucas' market appeal. In 2012, this capacity for diversification has once again been critical in managing divisional work load and has underpinned the performance of the group.

With decades of drilling experience, more than 600 expert staff, and one of the largest fleet of drilling rigs in Australia, Lucas has a strong order book and is well positioned to take advantage of opportunities arising in the next financial year.

### Strong engineering and technical capacity

In 2012, with the introduction of the new carbon tax legislation, Australia's sudden transformation into a high carbon-cost economy could have had a potentially significant impact on the resource and energy industries. Fortunately, Lucas was well equipped, both in technology and skills, to meet these emerging challenges.

With expertise in directional drilling, a method that is safer than traditional underground drilling and capable of reducing fugitive gas emissions, Lucas is well placed to continue operating competitively in the newly carbon-cost-conscious environment.

Enabling longer-term mining planning, directional drilling has particular appeal given its capacity for reduced surface footprint and drilling numerous holes in different directions and at varying depths from the same drill pad. Lucas has many years of horizontal directional drilling experience, and over the last 12 months, has continued to share these steering skills across both drilling and civil engineering applications to maximise its knowledge base and better use its resources.

In recent years, Lucas has invested significantly in new, state-of-the-art drill rigs which promise safer operation and higher productivity.

Lucas production rigs in particular, remain in high demand for the production of coal seam gas, necessary for the LNG export plants being built at Curtis Island, near Gladstone.

As the Gladstone LNG projects work towards completion and rely primarily on coal seam gas for their energy source, Lucas' integrated drilling service with advanced OH&S systems, continue to provide an appealing and cost-effective drilling offering.

Lucas' combined pipeline and drilling experience allows the Company to design, construct and manage surface infrastructure, such as the gas gathering systems, as well as drill various source wells.

## Lucas has a strong presence in all the major coal and CSG producing basins of Australia's eastern states.

### Strategic geographical service offering

Lucas has a strong presence in all the major coal and CSG producing basins within Australia's eastern states, including the Bowen, Surat and Galilee basins in Queensland and the Hunter Valley, Gunnedah and Illawarra coal regions in New South Wales. This broad geographical distribution assisting in protecting the Company from some of the effects of extreme weather which can interrupt the performance of the fleet as a whole, as well as limiting the Group's exposure to any individual commodity.

### Blue chip client base

Lucas' strong safety record and drilling expertise is of particular appeal to the major resource and energy companies, many of which are long-standing customers of the Company, such as Xstrata, Anglo Coal and BHP in the coal industry and Santos and Arrow for CSG. This appeal was further demonstrated during 2012 by the \$240 million gas drainage contract awarded to Lucas Drilling by Xstrata.

### Highly qualified employees

Lucas places a special emphasis on training to drive productivity and enhance safety. In 2012, the Company maintained its focus on developing specialist skills that will ultimately provide a career path for our employees. This commitment assists in increasing employee retention and minimising staff turnover.



## Engineering and Construction

Lucas has been at the forefront of designing and installing infrastructure which decreases the environmental footprint, adopts a smarter solution and is technically superior to alternative methodologies.



Lucas specialises in providing engineering solutions and construction services for infrastructure in the water and waste water, telecommunications, energy and resource industries.

### Oil and gas

As one of the pre-eminent HDD engineering and contracting businesses in the world, Lucas has for many years been at the forefront of designing and installing infrastructure in Australia which decreases the environmental footprint, adopts a smarter solution or is technically superior to alternative methodologies. This expertise has received growing recognition in recent years in an increasingly resource constrained economy and environmentally conscious society.

Lucas' expertise has been recognised in projects such as the Barrow Island landfall on the Gorgon project where Lucas successfully completed nine bore holes during the year for the landfalls onshore which connect the upstream facilities to the onshore infrastructure. This was the largest horizontal directional drilling contract ever conducted in Australia and required very precise engineering and steering skills to successfully deliver the project whilst complying with the strict environmental standards required on the island.

Lucas' horizontal directional drilling expertise has also been acknowledged by the recent award of two 800 metre sewer carrier lines under Lake Glenmaggie in rural Victoria. Lucas' selection reflects our demonstrated success in managing environmentally sensitive projects such as the Gorgon landfall.

Lucas was also recently awarded the Node 3 Transfer Transport Pipeline for Arrow Energy in Moranbah. This project comprises the installation of a 16km gas pipeline and a 17km water pipeline to take gas in the Arrow CSG field to its Moranbah gas processing facility.

Lucas' detailed knowledge and experience of the design and construction of pipeline infrastructure is also shown by our continued retention to maintain assets of this kind. For in excess of ten years, Lucas has provided maintenance services for the Moomba to Sydney Pipeline. Recently, this work was expanded to include recoating of the Amadeus Gas Pipeline in the Northern Territory. This experience puts Lucas in a strong position to win other work of a similar nature as existing contracts expire.

### Water and waste water

Lucas' environmental engineering capability has also resulted in an increasing amount of work being awarded to Lucas in the water and waste water sector.

Following successful delivery of Stage 1 of the Southern SeaWater desalination plant built in alliance with Water Corporation and other contractors, Lucas was immediately retained to construct the second stage of the plant; doubling its capacity to 100 billion litres per annum. Work on the project is proceeding to schedule and is expected to be completed by early calendar 2013.

Lucas' sensitivity to environmental factors, particularly in non-urban areas, together with our specialist industry sector and engineering capability has resulted in the award of numerous other projects in the water industry.

## **Our expertise has received growing recognition in an increasingly resource constrained economy and environmentally conscious society.**

Projects recently undertaken include the Mayfield to Broadmeadow waste water upgrade as well as connection to mains sewerage of rural communities in Robertson, located in the Southern Highlands of New South Wales, Kangaroo Valley and the towns of Burringbar and Mooball, located in the Tweed Valley of northern New South Wales. Works undertaken on these projects include the installation of an advanced wastewater treatment system, also known as a Membrane Bioreactor, with a consequent reduction in pollution risk to the local drinking water catchment area.

### **Telecommunications**

The Marais-Lucas joint venture is also enjoying increasing recognition for its network installation capability, particularly for the Ultra Fast Broadband (UFB) fibre optic roll out in New Zealand, where it has been selected as a preferred supplier to Chorus, one of four companies contracted to implement the UFB roll out. Capable of installing upwards of 400 metres per day with minimal surface disturbance, Marais-Lucas recently completed 10km of trenching connecting over 600 homes.

The Marais-Lucas micro-trenching capability is also gaining increasing recognition in Australia. The Company has recently been awarded a 25km project by ETSA for the installation of fibre optic cable at Mt Gambier in South Australia. The Company will shortly take delivery of a specialist trencher capable of simultaneously cutting the trench, feeding in the pipe or fibre optic and backfilling in one pass. This creates much less surface disturbance, causes less disruption to passing traffic and considerably decreases delivery time.



## Cuadrilla

Analysis of the flow data from fracks conducted in April and May 2011 suggests the very large hydrocarbon resource, currently estimated at 200TCF, will most probably flow at commercial rates.

Cuadrilla experienced a challenging year, as government regulation impacted its ability to move ahead with projects at Lancashire.

Limited progress was made during the year to confirm the reserves within the Bowland basin due to suspension of fracking throughout the period.

Despite this, continued preparatory work was carried out in anticipation of the UK Department of Energy and Climate Change (DECC) allowing the resumption of fracking at some stage. Wells at Grange Hill No. 1 and Beconsall No. 1 were completed and another well has been spudded at Anna's Road. An application has also been made to drill a horizontal well at Anna's Road. The completed wells encountered much thicker shale, in excess of 3,000 feet, than originally anticipated.

A 3D seismic program over 125 sq Km of the north and north-west part of the Bowland basin has been undertaken, and will provide further scientific evidence to unlock the basin's geological secrets.

Analysis of the limited flow data from fracks conducted in April and May 2011 suggests the very large hydrocarbon resource, currently estimated at 200TCF Gas in Place, will most probably flow at commercial rates. However, further fracking of the wells is required to more fully estimate the size and commercial viability of this resource.

Assuming permission is granted to recommence hydraulic fracturing of the wells, Cuadrilla has proposed a number of checks and balances to mitigate and manage seismic activity, fracture gradients, water management, traffic control and ensure "state-of-the-art", best practice methodology in proving up what could be a very significant resource which may change the socio-economic prospects of Lancashire.





## World Class Systems

Our new integrated ERP system will enable Lucas to achieve its goal of providing the highest quality service to our customers and enhance relationships with suppliers.

Lucas now has world class systems and processes following the recent completion of the implementation of its Oracle Enterprise Resource Planning (ERP) system. The system, with fully integrated functionalities including project management, asset management, inventory management, human resource management, payroll, procurement and financial management, places the Company on an equal footing with companies of a much larger size.

The implementation of the new system will significantly streamline the Group's operations through the decommissioning of six legacy systems. This will greatly improve productivity but most importantly radically improve business intelligence. Daily information will now be available to management, allowing better and more informed decision making, improved allocation and management of resources, and materially reduced wastage.

The new system also allows integration of the Group's tendering and project management thereby allowing earlier identification of problem contracts and their quicker rectification. The improved cost reporting is of great importance to our clients, lifts their confidence in our capability to deliver projects and should lead to the award of a greater volume of work.

The new integrated system, together with our Customer Relationship Management (CRM) system, will enable Lucas to achieve our goal of providing the highest quality service to our customers and enhance our relationship with our suppliers.

Lucas will continue to build on its strong Information Technology foundation with numerous further improvements to be introduced in due course.



**AJ Lucas Group Limited**  
**Financial Report**  
Year Ended 30 June 2012



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# 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 2012 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       |
|-----------------|---------------------------|
| 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 |

**PHILLIP ARNALL BCom**  
Independent  
Non-Executive Director  
Age 67

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. Mr Arnall is currently a non-executive director of Bradken Limited and Macquarie Generation. Directorships of other listed companies over the past three years: Capral Limited (Chairman, 2002-2010 and Ludowici Limited 2006-2012). Mr Arnall is a member of the Company's Audit & Risk and Remuneration Committees.

**ALLAN CAMPBELL BCom LLB**  
Executive Chairman  
and CEO  
Age 56

After qualifying as a lawyer, Mr Campbell worked as an investment banker for many years, initially in Australia and then for ten years in London and New York. Mr Campbell was head of mergers and acquisitions and corporate reorganisations at James Capel & Co Ltd in London 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 including acquisition of its substantial investment portfolio in unconventional hydrocarbons.



**GENELLE COGHLAN BCom LLB, LLM**

**Independent  
Non-Executive Director  
Age 56**

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.

**MIKE MCDERMOTT**

**Non-Independent  
Non-Executive Director  
Age 67**

Mr McDermott has worked in the drilling industry since 1963. In 1970, he established McDermott Drilling in Sydney, growing it into one of New South Wales' largest drilling company over the next 36 years when it was acquired by the Company. He is a director of the Australian Drilling Industry Association (ADIA), serves on the Australian Drilling Industry Training Committee (ADITC) and was the director representing the drilling industry on the Resources and Infrastructure Industry Skills Council (RIISC).

**MARTIN GREEN FCA**

**Independent  
Non-Executive Director  
Age 67**

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 & Risk and Remuneration Committees.



## 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' 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  | 20                 | 20       | —                        | —        | —                      | —        |
| Phillip Arnall  | 20                 | 20       | 2                        | 2        | 1                      | 1        |
| Genelle Coghlan | 20                 | 19       | 2                        | 2        | —                      | —        |
| Martin Green    | 20                 | 18       | 2                        | 2        | 1                      | 1        |
| Mike McDermott  | 20                 | 20       | —                        | —        | —                      | —        |

## 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 in the shareholder information section 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 in the shareholder information section 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<br>chief executive officer and chairman |
| Phillip Arnall  | Independent<br>non-executive director                   |
| Genelle Coghlan | Independent<br>non-executive director                   |
| Martin Green    | Independent<br>non-executive director                   |
| Mike McDermott  | Non-independent<br>non-executive director               |

Profiles of the directors including details of their qualifications and experience are found in the 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 2012, 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 shareholder information section of the Company's website as is the employee Code of Conduct which is provided to each employee on commencing employment 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 shareholder information 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 in the shareholder information 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 one of the Company's five directors is female.

At present, 10% of our workforce is female. This reflects the nature 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 49% 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.

## 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 shareholder information 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                    | Status                                |
|-------------------------|---------------------------------------|
| Martin Green (Chairman) | Independent<br>non-executive director |
| Phillip Arnall          | Independent<br>non-executive director |
| Genelle Coghlan         | Independent<br>non-executive director |

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 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 in the shareholder information section 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/NZS ISO 3000:2009, developed a risk statement and underlying procedures for the key risk areas of People, Environment, Business and Reputation. The Company has had a number of external audits of particular types of risk during the year.

A copy of the risk statement is available in the shareholder information section 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.

## 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.

## 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.

**ENGINEERING AND CONSTRUCTION:** 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

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.

The following table summarises the results for the year:

|                              | 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>% |
|------------------------------|------------------------|----------------------------|----------------------------|------------------------|------------------------|
| <b>Total revenue</b>         | 504,276                | 238,011                    | 266,265                    | 433,373                | 16.4%                  |
| Reported EBITDA              | (21,517)               | (28,127)                   | 6,610                      | 29,405                 | (173.2%)               |
| <b>EBIT</b>                  | (93,140)               | (86,996)                   | (6,144)                    | 1,327                  | (7,118.8%)             |
| Loss before tax              | (116,579)              | (97,394)                   | (19,185)                   | (21,422)               | 444.2%                 |
| <b>Net loss for the year</b> | (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<br>\$'000 | E&C<br>\$'000  | Oil & Gas<br>\$'000 | Corporate<br>\$'000 | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------------------------|--------------------|----------------|---------------------|---------------------|----------------|----------------|
| <b>Reconciliation:</b>                           |                    |                |                     |                     |                |                |
| <b>Reported EBITDA</b>                           | 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          |
| <b>Underlying EBITDA</b>                         | <b>14,941</b>      | <b>(6,040)</b> | <b>(1,318)</b>      | <b>(4,082)</b>      | <b>3,501</b>   | <b>16,950</b>  |

The non-IFRS financial information presented in this document has not been audited or reviewed in accordance with Australian Auditing Standards.

Difficult market conditions, liquidity issues and balance sheet strain resulting from poor debt markets and the exploration and production 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.

Notwithstanding the financial result, Lucas achieved many positive outcomes during the year. The operating divisions have been reorganised and restructured (substantially lowering the operating cost base), the Oracle ERP has now "gone live", the Cuadrilla strategy has been re-examined and, Lucas activities have been re-orientated to focus on its 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 have 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, following granting of shareholder approval at a meeting of shareholders 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.

## DIVISIONAL PERFORMANCE

Contributions from the business divisions were as follows:

|                            | Revenue<br>\$'000 | Underlying<br>EBITDA<br>\$'000 | Margin<br>% |
|----------------------------|-------------------|--------------------------------|-------------|
| <b>2012</b>                |                   |                                |             |
| Drilling                   | 189,640           | 14,941                         | 7.9         |
| Engineering & construction | 314,636           | (6,040)                        | (1.9)       |
| Oil & gas                  | —                 | (1,318)                        | N/A         |
| <b>2011</b>                |                   |                                |             |
| Drilling                   | 185,936           | 19,114                         | 10.3        |
| Engineering & construction | 247,437           | 6,339                          | 2.6         |
| Oil & gas                  | —                 | (137)                          | N/A         |

## DRILLING

The results of the drilling division are summarised as follows:

|                   | 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 losses 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 goodwill 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 minimise 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.

## ENGINEERING & CONSTRUCTION

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

|                   | <b>2012<br/>Year<br/>\$'000</b> | <b>2012<br/>2nd half<br/>\$'000</b> | <b>2012<br/>1st half<br/>\$'000</b> | <b>2011<br/>Year<br/>\$'000</b> | <b>2011/12<br/>Change<br/>%</b> |
|-------------------|---------------------------------|-------------------------------------|-------------------------------------|---------------------------------|---------------------------------|
| 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 growth opportunities.

## OIL AND GAS INVESTMENTS

Activity throughout the year at Bowland was limited to drilling wells at Grange Hill 1 and Beconsall 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 year, 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.

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.

## LIKELY DEVELOPMENTS

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 the division 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, approved by shareholders at a meeting on 5 September, will significantly strengthen the Group's balance sheet and provide it with increased liquidity to undertake its operations.

Strengthening of management at Cuadrilla, a new business plan and greater emphasis on commercial planning 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 \$40 million recapitalisation recently approved goes a long way to achieving this but the Company recognises that more work is required and a number of strategies are currently being pursued.

## REVIEW OF FINANCIAL CONDITION

### BALANCE SHEET

The balance sheet showed a deficiency in net current assets of \$131.0 million at balance date. The deficiency in net current assets is principally due to the classification of tax liabilities payable to the Australian Tax Office ("ATO"), amounts payable to the ANZ Bank, other lease financiers and a portion of amounts payable to Kerogen Investments No.1 (HK) Limited ("Kerogen") in respect of the mezzanine facility 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.

Shareholder approval on 5 September 2012 of a \$40.0 million recapitalisation has addressed part of this deficiency. In addition, since balance date, the Company has entered into a deferred instalment arrangement with the ATO to pay the amount owing over five years, including \$10.0 million from the proceeds of the September 2012 equity raising. Receipt of the recapitalisation proceeds together with reclassification of the ATO liability reflecting the new payment schedule and other funding adjustments will result in the net current asset deficiency improving by \$75.2 million.

The Group's senior financier has recently accelerated the maturity date of its facilities to 30 November 2012. The majority of these facilities comprise leases over plant and equipment which the Group is confident it will be able to refinance. Discussions are also continuing with the Group's other financiers which could lead to a further strengthening of the Group balance sheet and its liquidity position. 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 \$20.3 million (2011: \$12.1 million).

The improvement reflects the 16.4% increase in revenue.

## IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENT

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.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in the state of affairs of the Group both during the financial year and subsequent to balance date are as described in this report and the financial statements and notes thereto.

## ENVIRONMENTAL REGULATIONS & NATIVE TITLE

As infrastructure engineers, meeting stringent environmental and land use regulations, including native title issues, is 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 will result in a significant recapitalisation of the Company.

These events are:

- Shareholders approved at a meeting held on 5 September 2012 a placement to Kerogen Investments No.1 (HK) Limited ("Kerogen") to raise \$30 million and the exercise of options over shares in the Company by Kerogen for \$10 million, in aggregate raising \$40 million additional equity for the Company.
- The Company has entered into a deferred instalment arrangement with the ATO to pay the amount owing over five years, including \$10 million from the proceeds of the September 2012 equity raising.
- Kerogen has provided additional loan facilities to the Group amounting to \$14.9 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. \$10 million of these borrowings has been repaid through the September 2012 capital raising.
- The Company's senior financier has brought forward the maturity date for its financing facilities to 30 November 2012. The majority of these facilities relate to leases of plant and equipment. The Company is in discussions with various other financiers to refinance these facilities.

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 options or rights:

| Number of shares | Amount paid on each share |
|------------------|---------------------------|
| 444,314          | —                         |
| 7,407,407        | \$1.35                    |

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 and options are:

| Expiry date      | Exercise price | Number of shares |
|------------------|----------------|------------------|
| <b>Rights</b>    |                |                  |
| 23 November 2012 | \$2.11         | 250,000          |
| 30 June 2013     | —              | 93,861           |
| <b>Options</b>   |                |                  |
| 7 December 2015  | \$1.35         | 3,750,000        |
| 22 December 2015 | \$1.35-\$1.70  | 11,159,356       |
| 22 December 2016 | \$2.13         | 1,000,000        |

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 and options do not entitle the holders to participate in any share issue of the Company. 550,000 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  | 10,284,870      | 3,953,861                                  |
| Martin Green    | 350,000         | -                                          |
| 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 2012.

## 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 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 \$286,103 (2011: \$275,935).

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 32 and forms part of the Directors' Report for the financial year ended 30 June 2012.

## 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. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

### NON-EXECUTIVE DIRECTORS' REMUNERATION

The Board's policy for setting fees for non-executive directors is to position them around the middle of market practice for comparable non-executive director roles in companies listed on the Australian Securities Exchange (ASX). Non-executive director fees are expressed as inclusive of superannuation contributions. Retirement benefits other than those funded via superannuation contributions are not provided for non-executive directors.

Options and other forms of equity are not provided for non-executive directors. However, 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.

The remuneration for each of the non-executive directors is currently \$75,000 per annum. In addition, \$5,000 per annum additional remuneration is paid for serving on any sub-committee of the Board. The current aggregate fees limit is \$450,000 and was approved by shareholders in November 2002. The current policy for setting non-executive directors' fees is consistent with ASX Listing Rule 10.17.2 which requires that any fees paid to directors be paid as a fixed sum. Accordingly, the amount payable to non-executive directors is not performance related.

### REMUNERATION OF NON-EXECUTIVE DIRECTORS

The following table presents details of the remuneration of each non-executive director.

| Non-executive director | Year | Board Fees including superannuation | Committee Fees including superannuation | Other Benefits | Total   |
|------------------------|------|-------------------------------------|-----------------------------------------|----------------|---------|
| Martin Green           | 2012 | 75,000                              | 5,000                                   | 28             | 80,028  |
|                        | 2011 | 75,000                              | 5,000                                   | –              | 80,000  |
| Phillip Arnall         | 2012 | 75,000                              | 4,980                                   | –              | 79,980  |
|                        | 2011 | 73,314                              | –                                       | –              | 73,314  |
| Genelle Coghlan        | 2012 | 75,000                              | 5,000                                   | –              | 80,000  |
|                        | 2011 | 73,333                              | –                                       | –              | 73,333  |
| Mike McDermott         | 2012 | 75,000                              | 5,000                                   | –              | 80,000  |
|                        | 2011 | 75,000                              | 5,000                                   | 21,285         | 101,285 |

### EXECUTIVE REMUNERATION

#### POLICY

The key principle of the Company's remuneration policy for executive key management personnel is to set remuneration at a level that will attract and retain appropriately qualified and experienced directors and executives and motivate and reward them to achieve strategic objectives and improve business results. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Group's remuneration strategy.

The over-riding philosophy of the remuneration structure is 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 remuneration and performance-linked compensation.

#### 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.

Remuneration levels are reviewed annually through a process that considers individual and segment performance of the Group. This process includes consultation with external consultants and review of external databases to benchmark remuneration levels with comparable companies.

### PERFORMANCE-LINKED COMPENSATION

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives.

The short-term incentive (STI) is an 'at risk' bonus generally provided in the form of cash, while the long-term incentive (LTI) is provided as options or rights over ordinary shares of the Company under the rules of the Company's various incentive schemes. Only two STI payments were paid in either of the last two financial years.

The long-term incentive (LTI) is only available to be taken in ordinary shares and vests after three years subject to the performance hurdles being met and the recipient still being employed by the Group at that time. No LTI remuneration was granted in either of the last two years.

### 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.

### 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 three 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 in either of the last two years.

### RELATIONSHIP OF REMUNERATION TO COMPANY PERFORMANCE

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

| Year ended                                                   | 30 Jun 2012 | 30 Jun 2011 | 30 Jun 2010 | 30 Jun 2009 | 30 Jun 2008 |
|--------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total revenue (\$'000)                                       | 504,276     | 433,373     | 358,490     | 499,177     | 424,301     |
| Net (loss)/profit after tax attributable to members (\$'000) | (110,237)   | (11,527)    | (7,128)     | 103,253     | 14,027      |
| (Loss)/earnings per share                                    | (133.2)c    | (17.5)c     | (11.0)c     | 156.1c      | 25.5c       |
| Dividend per share                                           | —           | —           | 5.5c        | 9.5c        | 6.0c        |
| Share price at balance date                                  | \$1.06      | \$1.35      | \$2.23      | \$3.18      | \$6.27      |
| Share price (depreciation)/appreciation                      | (21%)       | (40%)       | (30%)       | (49%)       | 314%        |

The overall level of key management personnel compensation has been constrained due to the performance of the Group over a number of years. No new incentive-based remuneration was granted during the year.

With the exception of two modest bonuses paid in Rights, there has been no performance-related remuneration for KMP during the 2011-12 year. These bonuses took account of the performance of the individuals during the year.

Given that company performance has been disappointing, it is considered by the Board to be appropriate that most executives did not receive any bonus and the amounts received by the two executives who did were considered nominal.

## EXECUTIVE DIRECTOR'S AND OFFICERS' REMUNERATION

Details of the nature and amount of each major element of remuneration of each executive director of the Company and other executive key management personnel of the Group are set out below:

|                                                                                           |      | SHORT-TERM BENEFITS                  |                                               |             | POST EMPLOYMENT                  |
|-------------------------------------------------------------------------------------------|------|--------------------------------------|-----------------------------------------------|-------------|----------------------------------|
|                                                                                           |      | Salary/<br>fees <sup>(1)</sup><br>\$ | Non-monetary<br>benefits <sup>(2)</sup><br>\$ | Total<br>\$ | Superannuation<br>benefits<br>\$ |
| <b>EXECUTIVE DIRECTOR</b>                                                                 |      |                                      |                                               |             |                                  |
| Allan Campbell                                                                            | 2012 | 646,276                              | —                                             | 646,276     | 50,000                           |
|                                                                                           | 2011 | 649,957                              | —                                             | 649,957     | 50,000                           |
| <b>EXECUTIVE OFFICERS</b>                                                                 |      |                                      |                                               |             |                                  |
| Kevin Lester (ceased employment 27 July 2012)<br>General Manager, Pipelines               | 2012 | 336,619                              | —                                             | 336,619     | 39,531                           |
|                                                                                           | 2011 | 274,524                              | —                                             | 274,524     | 24,564                           |
| Mark Summergreene<br>Chief Financial Officer                                              | 2012 | 247,925                              | 240                                           | 248,165     | 22,335                           |
|                                                                                           | 2011 | 251,074                              | 240                                           | 251,314     | 24,628                           |
| Brett Tredinnick<br>General Manager, Drilling                                             | 2012 | 390,595                              | —                                             | 390,595     | 27,630                           |
|                                                                                           | 2011 | 284,792                              | —                                             | 284,792     | 27,630                           |
| <b>FORMER</b>                                                                             |      |                                      |                                               |             |                                  |
| Peter Williams (ceased employment 31 August 2011)<br>General Manager, Construction        | 2012 | 100,000                              | 40                                            | 100,040     | 9,000                            |
|                                                                                           | 2011 | 622,764                              | 187                                           | 622,951     | 54,000                           |
| Mark Tonkin (ceased employment 16 September 2011)<br>General Manager, Strategy & Planning | 2012 | 109,748                              | —                                             | 109,748     | 6,813                            |
|                                                                                           | 2011 | 253,939                              | —                                             | 253,939     | 21,509                           |

Amounts disclosed for remuneration of key management persons exclude insurance premiums of \$105,200 (2011: \$75,493) paid 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 issued in previous years has been calculated using a Black-Scholes pricing model and allocated evenly to each reporting 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 value of the rights issued in the current year is calculated at the market price of the Company's shares on the Australian Securities Exchange on the date the rights were exercised after deducting the price paid to exercise the rights.

| Termination benefit<br>\$ | OTHER LONG TERM BENEFITS                      | SHARE BASED PAYMENTS                             | Total<br>\$ | Proportion of remuneration performance related<br>% | Value of options and rights as proportion of remuneration<br>% |
|---------------------------|-----------------------------------------------|--------------------------------------------------|-------------|-----------------------------------------------------|----------------------------------------------------------------|
|                           | Long term benefits (long service leave)<br>\$ | Value of rights and options <sup>(3)</sup><br>\$ |             |                                                     |                                                                |
| —                         | —                                             | —                                                | 696,276     | —                                                   | —                                                              |
| —                         | —                                             | 166,524                                          | 866,481     | —                                                   | 19.2                                                           |
| —                         | 19,517                                        | —                                                | 395,667     | —                                                   | —                                                              |
| —                         | 7,530                                         | 5,134                                            | 311,752     | —                                                   | 1.6                                                            |
| —                         | 3,896                                         | 20,800                                           | 295,196     | —                                                   | 7.0                                                            |
| —                         | 5,230                                         | 4,723                                            | 285,895     | —                                                   | 1.7                                                            |
| —                         | 33,329                                        | 31,200                                           | 482,754     | —                                                   | 6.5                                                            |
| —                         | 16,734                                        | 4,206                                            | 333,362     | —                                                   | 1.3                                                            |
| 28,600                    | —                                             | —                                                | 137,640     | —                                                   | —                                                              |
| —                         | —                                             | —                                                | 676,951     | —                                                   | —                                                              |
| 102,531                   | —                                             | —                                                | 219,092     | —                                                   | —                                                              |
| —                         | 5,734                                         | 4,206                                            | 285,388     | —                                                   | 1.5                                                            |

## OTHER BENEFITS

The remuneration policy provides that key management personnel 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 key management personnel are employed under a standard contract. The service contract outlines the components of remuneration but does not prescribe how remuneration 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.

## STRIKE COMMENTS RESPONSES

At the 2011 AGM, more than 25% of votes cast on the Remuneration Report resolution were "against", which constitutes what is known as a "strike" under the Corporations Act. After consideration of comments made at the AGM on the Remuneration Report resolution, the Board decided not to make any changes to key management personnel remuneration for the 2011-12 year. The reasons for inaction were that business issues needed to take priority and it was considered more appropriate to wait until expert external advice was received before making any changes to key management personnel remuneration practices. However, shareholder approval was sought and obtained at the September 2012 EGM to make grants of options to executive key management personnel so as to reinvigorate the long-term incentive components of executive remuneration. Vesting of the options will be subject to achievement of substantial growth in the Company's share price.

In addition, the Remuneration Committee has engaged Godfrey Remuneration Group Pty Limited (Godfrey) as remuneration consultant to the Board to review the amount and elements of executive key management personnel remuneration and provide recommendations in relation thereto.

The engagement of Godfrey by the Remuneration Committee was based on a set of protocols that would be followed by Godfrey, members of the remuneration committee and members of the key management personnel for the way in which recommendations would be developed by Godfrey and provided to the Board.

The protocols include the prohibition of Godfrey providing advice or recommendations to key management personnel before the advice or recommendations are given to members of the remuneration committee and unless Godfrey has approval to do so from members of the remuneration committee.

These arrangements have been implemented to ensure that Godfrey is able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the key management personnel about whom the recommendations may relate.

## EXTERNAL REMUNERATION CONSULTANT ADVICE

During the 2011-12 year, the Company did not receive advice on key management personnel remuneration from external remuneration consultants.

## RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details of rights granted as compensation to each director of the Company and other key management personnel during the reporting period and details of the rights that vested during the reporting period are as follows:

|                   | Number of rights<br>vested during 2012 |
|-------------------|----------------------------------------|
| <b>Executives</b> |                                        |
| M Summergreene    | 20,000                                 |
| B Tredinnick      | 30,000                                 |

## 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 key management personnel:

|                   | 2012<br>Number<br>of shares | 2012<br>Amount paid<br>\$/share |
|-------------------|-----------------------------|---------------------------------|
| <b>Executives</b> |                             |                                 |
| M Summergreene    | 20,000                      | —                               |
| B Tredinnick      | 30,000                      | —                               |

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 other key management personnel is detailed below:

|                | Rights granted |           | Vested in year % | Lapsed in year <sup>(1)</sup> % | Financial years in which rights vest |
|----------------|----------------|-----------|------------------|---------------------------------|--------------------------------------|
|                | Number         | Date      |                  |                                 |                                      |
| Directors      |                |           |                  |                                 |                                      |
| AS Campbell    | 250,000        | 24-Nov-06 | —                | 100                             | 2010                                 |
|                | 110,000        | 23-Nov-07 | —                | —                               | 2011                                 |
|                | 93,861         | 26-Nov-08 | —                | —                               | 2011                                 |
| Executives     |                |           |                  |                                 |                                      |
| M Summergreene | 20,000         | 3-Jan-12  | 100              | —                               | 2012                                 |
| B Tredinnick   | 30,000         | 3-Jan-12  | 100              | —                               | 2012                                 |

- (1) The % lapsed in the year represents the reduction from the maximum number of rights chosen to be exercised because the market price of the shares was less than the exercise price on their date of expiry. No rights were forfeited in the year due to the performance hurdle not being achieved.

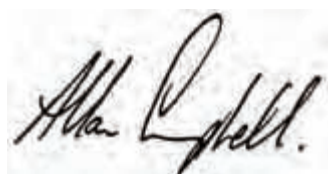
## ANALYSIS OF MOVEMENTS IN RIGHTS

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:

|                   | Granted in year<br>\$ | Value of rights<br>exercised in year <sup>(1)</sup><br>\$ | Lapsed in year <sup>(2)</sup><br>\$ |
|-------------------|-----------------------|-----------------------------------------------------------|-------------------------------------|
| <b>Executives</b> |                       |                                                           |                                     |
| AS Campbell       | —                     | 157,094                                                   | —                                   |
| M Summergreene    | 20,800                | 20,800                                                    | —                                   |
| B Tredinnick      | 31,200                | 31,200                                                    | —                                   |

- (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) No rights lapsed during the year due to the performance hurdles not being achieved. The rights that lapsed during the year had nil value as the market price of the shares was less than the rights exercise price at the date they lapsed.

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, 28 of September 2012



## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

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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 2012 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Tony Nimac'.

Tony Nimac  
Partner

Sydney  
28 September 2012

# AJ Lucas Group Limited and its Controlled Entities

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

|                                                                       | Note | 2012<br>\$'000   | 2011<br>\$'000  |
|-----------------------------------------------------------------------|------|------------------|-----------------|
| Revenue                                                               | 5    | 504,276          | 433,373         |
| <b>Total revenue</b>                                                  |      | <b>504,276</b>   | <b>433,373</b>  |
| Other income                                                          | 6    | —                | 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                                        | 8    | (44,960)         | (301)           |
| Depreciation and amortisation expenses                                | 8    | (24,793)         | (28,078)        |
| Impairment of land and buildings                                      | 8    | (1,870)          | —               |
| Impairment of receivables                                             | 8    | (2,352)          | (3,919)         |
| Impairment of equity accounted investee                               | 8    | —                | (250)           |
| Costs of options granted                                              |      | (627)            | —               |
| Other expenses                                                        |      | (3,312)          | (2,614)         |
| <b>Results from operating activities</b>                              |      | <b>(90,794)</b>  | <b>2,843</b>    |
| Finance income                                                        |      | 2,618            | 891             |
| Finance costs                                                         |      | (26,057)         | (23,640)        |
| <b>Net finance costs</b>                                              | 7    | <b>(23,439)</b>  | <b>(22,749)</b> |
| Share of loss of equity accounted investee                            | 18   | (2,346)          | (1,516)         |
| <b>Loss before income tax</b>                                         |      | <b>(116,579)</b> | <b>(21,422)</b> |
| Income tax benefit                                                    | 10   | 6,342            | 9,895           |
| <b>Loss for the year</b>                                              |      | <b>(110,237)</b> | <b>(11,527)</b> |
| <b>Other comprehensive income</b>                                     |      |                  |                 |
| Effective portion of changes in fair value of hedges                  |      | 638              | 426             |
| Exchange differences on translation of foreign operations             |      | (140)            | (6,372)         |
| <b>Other comprehensive income/(loss) for the year</b>                 |      | <b>498</b>       | <b>(5,946)</b>  |
| <b>Total comprehensive loss for the year</b>                          |      | <b>(109,739)</b> | <b>(17,473)</b> |
| <b>Total comprehensive loss attributable to owners of the company</b> |      | <b>(109,739)</b> | <b>(17,473)</b> |
| <b>Earnings per share:</b>                                            |      |                  |                 |
| Basic (loss)/earnings per share (cents)                               | 11   | <b>(133.2)</b>   | (17.5)          |
| Diluted (loss)/earnings per share (cents)                             | 11   | <b>(133.2)</b>   | (17.5)          |

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
AS AT 30 JUNE 2012

|                                           | <b>Note</b> | <b>2012<br/>\$'000</b> | <b>2011<br/>\$'000</b> |
|-------------------------------------------|-------------|------------------------|------------------------|
| <b>Current assets</b>                     |             |                        |                        |
| Cash and cash equivalents                 | 12          | 4,343                  | 1,348                  |
| Trade and other receivables               | 13          | 57,051                 | 61,193                 |
| Inventories                               | 14          | 55,918                 | 52,946                 |
| Assets classified as held for sale        | 15          | 5,503                  | 11,072                 |
| Other assets                              | 16          | 862                    | 1,899                  |
| <b>Total current assets</b>               |             | <b>123,677</b>         | <b>128,458</b>         |
| <b>Non-current assets</b>                 |             |                        |                        |
| Property, plant and equipment             | 17          | 133,638                | 136,896                |
| Exploration assets                        | 19          | 16,073                 | 7,946                  |
| Intangible development assets             | 20          | 580                    | 647                    |
| Other intangible assets                   | 21          | 67,001                 | 112,283                |
| Deferred tax assets                       | 22          | 782                    | –                      |
| Investments in equity accounted investees | 18          | 73,603                 | 52,687                 |
| <b>Total non-current assets</b>           |             | <b>291,677</b>         | <b>310,459</b>         |
| <b>Total assets</b>                       |             | <b>415,354</b>         | <b>438,917</b>         |
| <b>Current liabilities</b>                |             |                        |                        |
| Trade and other payables                  | 23          | 120,348                | 88,412                 |
| Interest-bearing loans and borrowings     | 24          | 91,171                 | 99,745                 |
| Current tax liabilities                   | 25          | 32,692                 | 47,922                 |
| Derivative liabilities                    | 26          | 2,665                  | –                      |
| Employee benefits                         | 28          | 7,849                  | 7,031                  |
| <b>Total current liabilities</b>          |             | <b>254,725</b>         | <b>243,110</b>         |
| <b>Non-current liabilities</b>            |             |                        |                        |
| Interest-bearing loans and borrowings     | 24          | 41,881                 | 12,718                 |
| Derivative liabilities                    | 26          | 4,015                  | –                      |
| Deferred tax liabilities                  | 22          | –                      | 5,677                  |
| Employee benefits                         | 28          | 1,239                  | 1,529                  |
| <b>Total non-current liabilities</b>      |             | <b>47,135</b>          | <b>19,924</b>          |
| <b>Total liabilities</b>                  |             | <b>301,860</b>         | <b>263,034</b>         |
| <b>Net assets</b>                         |             | <b>113,494</b>         | <b>175,883</b>         |
| <b>Equity</b>                             |             |                        |                        |
| Share capital                             |             | 138,506                | 91,935                 |
| Reserves                                  |             | 467                    | (810)                  |
| (Accumulated losses)/Retained earnings    |             | (25,479)               | 84,758                 |
| <b>Total equity</b>                       | 29          | <b>113,494</b>         | <b>175,883</b>         |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

|                                                             | Share<br>capital<br>\$'000 | Translation<br>reserve<br>\$'000 | Option<br>reserve<br>\$'000 | Employee<br>equity<br>benefits<br>reserve<br>\$'000 | Hedging<br>reserve<br>\$'000 | (Accumulated<br>losses)/<br>Retained<br>earnings<br>\$'000 | Total<br>equity<br>\$'000 |
|-------------------------------------------------------------|----------------------------|----------------------------------|-----------------------------|-----------------------------------------------------|------------------------------|------------------------------------------------------------|---------------------------|
| Balance 1 July 2010                                         | 91,935                     | 2,939                            | —                           | 3,209                                               | (1,142)                      | 96,285                                                     | 193,226                   |
| <b>Total comprehensive income</b>                           |                            |                                  |                             |                                                     |                              |                                                            |                           |
| Loss for the period                                         | —                          | —                                | —                           | —                                                   | —                            | (11,527)                                                   | (11,527)                  |
| Other comprehensive income                                  |                            |                                  |                             |                                                     |                              |                                                            |                           |
| Effective portion of changes<br>in fair value of hedges     | —                          | —                                | —                           | —                                                   | 426                          | —                                                          | 426                       |
| Foreign currency<br>translation differences                 | —                          | (6,372)                          | —                           | —                                                   | —                            | —                                                          | (6,372)                   |
| <b>Total comprehensive income/<br/>(loss)</b>               | <b>—</b>                   | <b>(6,372)</b>                   | <b>—</b>                    | <b>—</b>                                            | <b>426</b>                   | <b>(11,527)</b>                                            | <b>(17,473)</b>           |
| <b>Transactions with owners recorded directly in equity</b> |                            |                                  |                             |                                                     |                              |                                                            |                           |
| Share based payment transactions                            | —                          | —                                | —                           | 130                                                 | —                            | —                                                          | 130                       |
| Total contributions<br>by and distributions to owners       | —                          | —                                | —                           | 130                                                 | —                            | —                                                          | 130                       |
| <b>Balance 30 June 2011</b>                                 | <b>91,935</b>              | <b>(3,433)</b>                   | <b>—</b>                    | <b>3,339</b>                                        | <b>(716)</b>                 | <b>84,758</b>                                              | <b>175,883</b>            |
| Balance 1 July 2011                                         | 91,935                     | (3,433)                          | —                           | 3,339                                               | (716)                        | 84,758                                                     | 175,883                   |
| <b>Total comprehensive income</b>                           |                            |                                  |                             |                                                     |                              |                                                            |                           |
| Loss for the period                                         | —                          | —                                | —                           | —                                                   | —                            | (110,237)                                                  | (110,237)                 |
| <b>Other comprehensive income</b>                           |                            |                                  |                             |                                                     |                              |                                                            |                           |
| Effective portion of changes<br>in fair value of hedges     | —                          | —                                | —                           | —                                                   | 638                          | —                                                          | 638                       |
| Foreign currency<br>translation differences                 | —                          | (140)                            | —                           | —                                                   | —                            | —                                                          | (140)                     |
| <b>Total comprehensive income/<br/>(loss)</b>               | <b>—</b>                   | <b>(140)</b>                     | <b>—</b>                    | <b>—</b>                                            | <b>638</b>                   | <b>(110,237)</b>                                           | <b>(109,739)</b>          |
| <b>Transactions with owners recorded directly in equity</b> |                            |                                  |                             |                                                     |                              |                                                            |                           |
| Issue of ordinary shares                                    | 46,571                     | —                                | —                           | —                                                   | —                            | —                                                          | 46,571                    |
| Issue of options                                            | —                          | —                                | 637                         | —                                                   | —                            | —                                                          | 637                       |
| Share based payment transactions                            | —                          | —                                | —                           | 142                                                 | —                            | —                                                          | 142                       |
| Total contributions<br>by and distributions to owners       | 46,571                     | —                                | 637                         | 142                                                 | —                            | —                                                          | 47,350                    |
| <b>Balance 30 June 2012</b>                                 | <b>138,506</b>             | <b>(3,573)</b>                   | <b>637</b>                  | <b>3,481</b>                                        | <b>(78)</b>                  | <b>(25,479)</b>                                            | <b>113,494</b>            |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED 30 JUNE 2012

|                                                             | <b>Note</b> | <b>2012<br/>\$'000</b> | <b>2011<br/>\$'000</b> |
|-------------------------------------------------------------|-------------|------------------------|------------------------|
| <b>Cash flows from operating activities</b>                 |             |                        |                        |
| Cash receipts from customers                                |             | 554,348                | 401,949                |
| Cash payments to suppliers and employees                    |             | (534,081)              | (389,824)              |
| <b>Cash generated from operations</b>                       |             | <b>20,267</b>          | <b>12,125</b>          |
| Interest received                                           |             | —                      | 46                     |
| Income taxes paid                                           |             | (15,229)               | (8,002)                |
| Interest and other costs of finance paid                    |             | (16,296)               | (3,865)                |
| <b>Net cash (used in)/from operating activities</b>         | 35(b)       | <b>(11,258)</b>        | <b>304</b>             |
| <b>Cash flows from investing activities</b>                 |             |                        |                        |
| 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                    |
| <b>Net cash (used in)/from investing activities</b>         |             | <b>(52,198)</b>        | <b>7,016</b>           |
| <b>Cash flows from financing activities</b>                 |             |                        |                        |
| 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)               |
| <b>Net cash from/(used in) financing activities</b>         |             | <b>67,542</b>          | <b>(20,569)</b>        |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |             | <b>4,086</b>           | <b>(13,249)</b>        |
| Cash and cash equivalent at beginning of the year           |             | (6,386)                | 6,863                  |
| <b>Cash and cash equivalents at end of the year</b>         | 35(a)       | <b>(2,300)</b>         | <b>(6,386)</b>         |

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

# Notes to the 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 2012 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 consolidated financial statements are general purpose financial statements which have 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 statements comply 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 28 September 2012.

### (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 income tax of \$110.2 million for the year ended 30 June 2012 (2011: loss after income tax of \$11.5 million) primarily due to the impact of impairment charges of \$46.8 million and restructure fees of \$6.7 million, together with continued operating losses and high finance costs;
- As at 30 June 2012, the Group's current liabilities exceed its current assets by \$131.0 million (2011: \$114.7 million). The deficiency in net current assets is principally due to the classification of tax liabilities payable to the Australian Tax Office ("ATO"), amounts payable to the ANZ Bank, other lease financiers and a portion of amounts payable to Kerogen Investments No.1 (HK) Limited ("Kerogen") in respect of the mezzanine facility 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; and
- Subsequent to year end, the ANZ Bank has accelerated the maturity date of its facilities to 30 November 2012. At 30 June 2012, these facilities relate to leases of plant and equipment, overdraft and secured loans of \$17.2 million, \$6.6 million and \$2.2 million respectively; and
- Significant cash out flows estimated at \$34.3 million are expected in the year ending 30 June 2013 in relation to the Group's Cuadrilla investment.

In light of the above events and conditions, uncertainty exists in relation to the Group's ability to continue as a going concern. As a consequence, the Directors have also had further regard to the following in assessing the appropriateness of using the going concern assumption:

- The Directors' confidence in the continuing support of Kerogen as a substantial shareholder and financier of the Group, both in respect of its existing mezzanine debt facility and the Group's further capital requirements. This is demonstrated by the following:
  - Subsequent to year end, Kerogen has provided additional loan facilities to the Group amounting to \$14.9 million for working capital as well as to allow the Group to meet capital calls to sustain the Group's investment in Cuadrilla. \$10.0 million of these borrowings have been repaid through the September 2012 capital raising noted below;

- Shareholders approved at a meeting held on 5 September 2012, a placement to Kerogen to raise \$30.0 million. Together with the exercise of options over shares in the Company by Kerogen for \$10.0 million, \$40.0 million additional equity has been raised by the Group;
- Positive discussions with Kerogen with respect to a variation of the repayment terms of the mezzanine finance facility. This includes the repayment dates in respect of the \$53.1 million currently due for repayment in the year ending 30 June 2013, and the ability to capitalise interest until such time as the Group has the capacity to repay amounts owing; and
- Positive discussions with Kerogen in relation to the funding of capital cash calls in respect of the Group's Cuadrilla investment estimated at \$34.3 million in the year ending 30 June 2013 and the provision of short term working capital requirements if needed. \$4.8 million of this expected Cuadrilla funding has already been paid.
- The Directors' views on the Group's ability to refinance the ANZ Bank facilities which now mature on 30 November 2012 and also the ability to obtain additional leasing facilities in order to meet the equipment needs associated with the awarding of new contracts;
- The agreement with the ATO on 29 August 2012 of a deferred payment arrangement for tax liabilities payable. The payment arrangement requires the Group to pay \$10 million on or before 22 October 2012 out of the September 2012 capital raising, with stepped monthly instalments payable to June 2017;
- The Directors' view in respect of the reasonableness of the profit and cash flow forecasts of the Group, having regard to Group's order backlog, the status of tenders pending and further cost reduction programs;
- The Directors' views more generally in respect of the value of the Group's investment in Cuadrilla and the direct equity interest in Bowland shale prospect in England; and
- The Group's ability to realise its investments and/or operating businesses, if and when required.

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 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 the 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 28 - Measurement of share-based payments
- Note 30 - Valuation of financial instruments
- Note 33 - 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.

### (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.

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.

Transaction costs, 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.

**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.

### INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (EQUITY ACCOUNTED INVESTEEES):

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 consolidated financial statements include the Group's share of the profit or loss and other comprehensive income 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 that form part thereof, is reduced to zero, 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:**

Intra-group balances and transactions, and any unrealised income and expenses, 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. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. 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.

**FOREIGN OPERATIONS:** The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, 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 in the translation reserve in equity.

## (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 cash and cash equivalents.

**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.

**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.

**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.

**CASH FLOW HEDGES:** When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

**SEPARABLE EMBEDDED DERIVATIVES:** Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

## (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.

## (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 are not recognised on the Group's statement of financial position.

## (F) LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss 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 surveys 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 contract activity.

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, 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.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, foreign currency losses and losses on financial 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 or receivable 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.

The Company and its wholly owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is 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, head office expenses, and income tax assets and liabilities.

#### **(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:

|                            | Years |
|----------------------------|-------|
| Leasehold improvements     | 5     |
| Buildings                  | 33-40 |
| Plant and equipment        | 3-15  |
| Leased plant and equipment | 3-15  |
| Enterprise development     | 6     |

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.

### 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.

**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 2011, 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 2016 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 the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustment for physical deterioration as well as functional and economic obsolescence.

**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.

**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.

**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. 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 an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term 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.

#### 5. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, 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:

|                                                 |                                                                                                                                                                                                                   |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Drilling</b>                                 | 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.                                      |
| <b>Engineering &amp; Construction (E&amp;C)</b> | 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. |
| <b>Oil &amp; Gas</b>                            | Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.                                                                                           |

There are varying levels of integration between the Drilling and Engineering & Construction 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. Performance is assessed based on segment earnings before interest, income tax, depreciation and amortisation (EBITDA) and segment profit before interest and income tax. Inter-segment pricing is determined on an arm's length basis.

|                                                  | Drilling<br>\$'000 | E&C<br>\$'000   | Oil & Gas<br>\$'000 | Reportable<br>Segments<br>\$'000 | Corporate/<br>unallocated<br>\$'000 | Eliminations<br>\$'000 | Total<br>\$'000  |
|--------------------------------------------------|--------------------|-----------------|---------------------|----------------------------------|-------------------------------------|------------------------|------------------|
| <b>2012</b>                                      |                    |                 |                     |                                  |                                     |                        |                  |
| <b>Reportable segment revenue</b>                |                    |                 |                     |                                  |                                     |                        |                  |
| 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)               | —                |
| <b>Total consolidated revenue</b>                | <b>200,943</b>     | <b>314,636</b>  | <b>—</b>            | <b>515,579</b>                   | <b>—</b>                            | <b>(11,303)</b>        | <b>504,276</b>   |
| <b>EBITDA</b>                                    | <b>11,012</b>      | <b>(16,078)</b> | <b>(3,287)</b>      | <b>(8,353)</b>                   | <b>(13,164)</b>                     | <b>—</b>               | <b>(21,517)</b>  |
| Less: Depreciation, amortisation and impairment  | (64,127)           | (4,187)         | —                   | (68,314)                         | (3,309)                             | —                      | (71,263)         |
| <b>Reportable segment loss</b>                   | <b>(53,115)</b>    | <b>(20,265)</b> | <b>(3,287)</b>      | <b>(76,667)</b>                  | <b>(16,473)</b>                     | <b>—</b>               | <b>(93,140)</b>  |
| 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)            |
| <b>Consolidated loss before income tax</b>       |                    |                 |                     |                                  |                                     |                        | <b>(116,579)</b> |

**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)        | —               |
| <b>Total consolidated revenue</b>          | <b>192,542</b> | <b>247,433</b> | <b>—</b>       | <b>439,975</b> | <b>—</b>        | <b>(6,602)</b> | <b>433,373</b>  |
| <b>EBITDA</b>                              | <b>42,800</b>  | <b>(2,557)</b> | <b>(1,721)</b> | <b>38,522</b>  | <b>(9,117)</b>  | <b>—</b>       | <b>29,405</b>   |
| Less: Depreciation and amortisation        | (21,747)       | (3,616)        | —              | (25,363)       | (2,715)         | —              | (28,078)        |
| <b>Reportable segment profit/(loss)</b>    | <b>21,053</b>  | <b>(6,173)</b> | <b>(1,721)</b> | <b>13,159</b>  | <b>(11,832)</b> | <b>—</b>       | <b>1,327</b>    |
| 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             |
| <b>Consolidated loss before income tax</b> |                |                |                |                |                 |                | <b>(21,422)</b> |

## 5. OPERATING SEGMENTS (CONT)

### OTHER SEGMENT INFORMATION

|                                                | Drilling<br>\$'000 | E&C<br>\$'000 | Oil & Gas<br>\$'000 | Reportable<br>Segments<br>\$'000 | Corporate/<br>unallocated<br>\$'000 | Eliminations<br>\$'000 | Total<br>\$'000 |
|------------------------------------------------|--------------------|---------------|---------------------|----------------------------------|-------------------------------------|------------------------|-----------------|
| <b>2012</b>                                    |                    |               |                     |                                  |                                     |                        |                 |
| 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<br>and impairment   | (64,127)           | (4,187)       | —                   | (68,314)                         | (3,309)                             | —                      | (71,623)        |
| Share of loss of equity<br>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<br>of intangible asset              | (44,960)           | —             | —                   | (44,960)                         | —                                   | —                      | (44,960)        |
| Impairment of land<br>and buildings            | (1,870)            | —             | —                   | (1,870)                          | —                                   | —                      | (1,870)         |
| <b>2011</b>                                    |                    |               |                     |                                  |                                     |                        |                 |
| 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<br>amortisation               | (21,747)           | (3,616)       | —                   | (25,363)                         | (2,715)                             | —                      | (28,078)        |
| Share of loss of equity<br>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<br>of intangible asset              | —                  | —             | (301)               | (301)                            | —                                   | —                      | (301)           |
| Impairment of equity<br>accounted investee     | —                  | —             | (250)               | (250)                            | —                                   | —                      | (250)           |

### GEOGRAPHICAL INFORMATION

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

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

## 6. OTHER INCOME

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

## 7. 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             |
| <b>Finance income</b>                                          | <b>2,618</b>    | <b>891</b>      |
| 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)           | —               |
| <b>Finance costs</b>                                           | <b>(26,057)</b> | <b>(23,640)</b> |
| <b>Net finance costs recognised in profit and loss</b>         | <b>(23,439)</b> | <b>(22,749)</b> |

## 8. OTHER EXPENSES

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

|                                               | 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         |
| <b>Total depreciation and amortisation</b>    | <b>24,793</b>  | <b>28,078</b>  |
| Impairment of intangible asset                | 44,960         | 301            |
| Impairment of land and buildings              | 1,870          | —              |
| Impairment of receivables                     | 2,352          | 3,919          |
| Impairment of equity accounted investee       | —              | 250            |

## 9. AUDITOR'S REMUNERATION

|                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Audit services                        |                |                |
| Auditors of the Company – KPMG        |                |                |
| Audit and review of financial reports |                |                |
| Australia                             | 520,822        | 407,128        |
| Hong Kong                             | 14,918         | —              |
|                                       | <b>535,739</b> | <b>407,128</b> |

## 9. AUDITOR'S REMUNERATION (CONT)

|                                    |                |                |
|------------------------------------|----------------|----------------|
| Other services                     |                |                |
| Auditors of the Company – KPMG     |                |                |
| Other professional services        | 155,151        | 107,454        |
| Taxation services - Australia      | 130,952        | 138,018        |
| Taxation services - overseas firms | –              | 30,463         |
|                                    | <b>286,103</b> | <b>275,935</b> |

## 10. INCOME TAX

|                                                                            | <b>2012<br/>\$'000</b> | <b>2011<br/>\$'000</b> |
|----------------------------------------------------------------------------|------------------------|------------------------|
| <b>Recognised in profit or loss</b>                                        |                        |                        |
| <b>Current tax benefit</b>                                                 |                        |                        |
| Current year                                                               | (12,187)               | (390)                  |
| Tax losses not recognised in current year                                  | 12,187                 | –                      |
| Prior year adjustments                                                     | –                      | 374                    |
|                                                                            | –                      | (16)                   |
| <b>Deferred tax expense</b>                                                |                        |                        |
| 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                  | –                      |
| <b>Total income tax benefit in profit or loss</b>                          | <b>(6,342)</b>         | <b>(9,895)</b>         |
| 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)                |
| <b>Income tax benefit attributable to operating loss</b>                   | <b>(6,342)</b>         | <b>(9,895)</b>         |

## 11. EARNINGS PER SHARE

### BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2012 was based on the loss after tax attributable to ordinary shareholders of \$110,237,000 (2011: loss after tax of \$11,527,000) and a weighted average number of ordinary shares outstanding of 82,738,345 (2011: 65,958,247) calculated as follows:

|                                                                      | 2012<br>Number    | 2011<br>Number    |
|----------------------------------------------------------------------|-------------------|-------------------|
| <b>Weighted average number of ordinary shares (basic)</b>            |                   |                   |
| Issued ordinary shares at 1 July                                     | 66,117,664        | 65,298,128        |
| Equity placement                                                     | 7,451,786         | —                 |
| Allotment of entitlement shares                                      | 8,994,290         | —                 |
| Effect of exercise of management rights                              | 174,605           | 660,119           |
| <b>Weighted average number of ordinary shares (basic) at 30 June</b> | <b>82,738,345</b> | <b>65,958,247</b> |

### DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share at 30 June 2012 was based on the loss after tax attributable to ordinary shareholders of \$110,237,000 (2011: loss after tax of \$11,527,000) and a weighted average number of shares outstanding of 82,738,345 (2011: 65,958,247) calculated as follows:

|                                                                                                 | 2012<br>\$'000   | 2011<br>\$'000  |
|-------------------------------------------------------------------------------------------------|------------------|-----------------|
| <b>(Loss)/profit attributable to ordinary shareholders (diluted)</b>                            |                  |                 |
| (Loss)/profit attributable to ordinary shareholders                                             | (110,237)        | (11,527)        |
| <b>(Loss)/profit attributable to ordinary shareholders (diluted) for the year ended 30 June</b> | <b>(110,237)</b> | <b>(11,527)</b> |

|                                                                        | 2012<br>Number    | 2011<br>Number    |
|------------------------------------------------------------------------|-------------------|-------------------|
| <b>Weighted average number of ordinary shares (diluted)</b>            |                   |                   |
| Weighted average number of ordinary shares (basic)                     | 82,738,345        | 65,958,247        |
| <b>Weighted average number of ordinary shares (diluted) at 30 June</b> | <b>82,738,345</b> | <b>65,958,247</b> |

At 30 June 2012, 19,910,624 (2011: 1,338,176) rights and options 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

|               | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------|----------------|----------------|
| Bank balances | 4,343          | 1,348          |

## 13. TRADE AND OTHER RECEIVABLES

|                                              | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------|----------------|----------------|
| <b>Current</b>                               |                |                |
| Trade receivables (net of impairment losses) | 51,996         | 51,453         |
| Other receivables                            | 4,057          | 9,038          |
| Other loans (net of impairment losses)       | 998            | 657            |
|                                              | <b>57,051</b>  | <b>61,193</b>  |

### 13. TRADE AND OTHER RECEIVABLES (CONT)

Trade receivables are shown net of impairment losses of \$1,942,000 (2011: \$49,000). Other loans are shown net of impairment losses of \$459,000 (2011: \$nil). Non-current other receivables of \$3,919,000 were impaired in the 2011 financial year (refer note 30). No further impairment losses were incurred during the year.

### 14. INVENTORIES

|                                          | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------|----------------|----------------|
| Materials and consumables                | 4,607          | 7,930          |
| Construction work in progress            | 51,311         | 45,016         |
| <b>Total inventories</b>                 | <b>55,918</b>  | <b>52,946</b>  |
| Construction work in progress comprises: |                |                |
| Contract costs incurred to date          | 1,108,808      | 745,907        |
| Profit recognised to date                | 131,895        | 116,104        |
|                                          | 1,240,703      | 862,011        |
| Less: progress billings                  | (1,189,392)    | (816,995)      |
| <b>Net construction work in progress</b> | <b>51,311</b>  | <b>45,016</b>  |

### 15. ASSETS CLASSIFIED AS HELD FOR SALE

During the 2010 financial year, the Group developed for sale a strata title commercial office building. A number of sales were made during the 2012 financial year relating to this building. The carrying value of this asset at balance date was \$5,503,000 (2011: \$11,072,000).

### 16. OTHER ASSETS

|             | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------|----------------|----------------|
| Prepayments | 862            | 1,899          |

### 17. PROPERTY, PLANT AND EQUIPMENT

|                                          | Leasehold<br>improvements<br>\$'000 | Land &<br>buildings<br>\$'000 | Plant &<br>equipment<br>\$'000 | Leased plant<br>& equipment<br>\$'000 | Enterprise<br>development<br>\$'000 | Capital<br>works in<br>progress<br>\$'000 | Total<br>\$'000 |
|------------------------------------------|-------------------------------------|-------------------------------|--------------------------------|---------------------------------------|-------------------------------------|-------------------------------------------|-----------------|
| <b>30 June 2012</b>                      |                                     |                               |                                |                                       |                                     |                                           |                 |
| At cost                                  | 2,888                               | 3,912                         | 161,735                        | 64,072                                | 9,865                               | —                                         | 242,472         |
| Accumulated<br>depreciation/amortisation | (1,723)                             | (402)                         | (85,604)                       | (20,190)                              | (915)                               | —                                         | (108,834)       |
|                                          | <b>1,165</b>                        | <b>3,510</b>                  | <b>76,131</b>                  | <b>43,882</b>                         | <b>8,950</b>                        | <b>—</b>                                  | <b>133,638</b>  |
| <b>30 June 2011</b>                      |                                     |                               |                                |                                       |                                     |                                           |                 |
| At cost                                  | 2,887                               | 5,850                         | 149,821                        | 61,538                                | 4,419                               | —                                         | 224,515         |
| Accumulated<br>depreciation/amortisation | (1,146)                             | (373)                         | (72,468)                       | (13,632)                              | —                                   | —                                         | (87,619)        |
|                                          | <b>1,741</b>                        | <b>5,477</b>                  | <b>77,353</b>                  | <b>47,906</b>                         | <b>4,419</b>                        | <b>—</b>                                  | <b>136,896</b>  |
| <b>30 June 2010</b>                      |                                     |                               |                                |                                       |                                     |                                           |                 |
| At cost                                  | 2,796                               | 4,411                         | 135,817                        | 58,592                                | —                                   | 4,363                                     | 205,979         |
| Accumulated<br>depreciation/amortisation | (589)                               | (191)                         | (46,862)                       | (17,571)                              | —                                   | —                                         | (65,213)        |
|                                          | <b>2,207</b>                        | <b>4,220</b>                  | <b>88,955</b>                  | <b>41,021</b>                         | <b>—</b>                            | <b>4,363</b>                              | <b>140,766</b>  |

## RECONCILIATIONS

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

|                                       | <b>Leasehold<br/>improvements<br/>\$'000</b> | <b>Land &amp;<br/>buildings<br/>\$'000</b> | <b>Plant &amp;<br/>equipment<br/>\$'000</b> | <b>Leased plant<br/>&amp; equipment<br/>\$'000</b> | <b>Enterprise<br/>development<br/>\$'000</b> | <b>Capital works<br/>in progress<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|---------------------------------------|----------------------------------------------|--------------------------------------------|---------------------------------------------|----------------------------------------------------|----------------------------------------------|-------------------------------------------------|-------------------------|
| <b>2012</b>                           |                                              |                                            |                                             |                                                    |                                              |                                                 |                         |
| 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               | <b>1,165</b>                                 | <b>3,510</b>                               | <b>76,131</b>                               | <b>43,882</b>                                      | <b>8,950</b>                                 | <b>—</b>                                        | <b>133,638</b>          |
| <b>2011</b>                           |                                              |                                            |                                             |                                                    |                                              |                                                 |                         |
| 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<br>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               | <b>1,741</b>                                 | <b>5,477</b>                               | <b>77,353</b>                               | <b>47,906</b>                                      | <b>4,419</b>                                 | <b>—</b>                                        | <b>136,896</b>          |

## 18. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

| <b>Name of investee</b>                                         | <b>Ownership<br/>2012</b> | <b>Ownership<br/>2011</b> | <b>Carrying value<br/>\$'000</b> | <b>Carrying value<br/>\$'000</b> |
|-----------------------------------------------------------------|---------------------------|---------------------------|----------------------------------|----------------------------------|
| 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                              |
|                                                                 |                           |                           | <b>73,603</b>                    | <b>52,687</b>                    |

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

|                          | <b>2012</b>                                                |                                                             |                         | <b>2011</b>                                     |                                                             |                         |
|--------------------------|------------------------------------------------------------|-------------------------------------------------------------|-------------------------|-------------------------------------------------|-------------------------------------------------------------|-------------------------|
|                          | <b>Cuadrilla<br/>Resources<br/>Holdings Ltd<br/>\$'000</b> | <b>Marais-Lucas<br/>Technologies<br/>Pty Ltd<br/>\$'000</b> | <b>Total<br/>\$'000</b> | <b>Cuadrilla<br/>Resources<br/>Holdings Ltd</b> | <b>Marais-Lucas<br/>Technologies<br/>Pty Ltd<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
| 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                  |
| <b>Total assets</b>      | <b>136,723</b>                                             | <b>2,086</b>                                                | <b>138,809</b>          | <b>85,518</b>                                   | <b>1,551</b>                                                | <b>87,069</b>           |
| 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                   |
| <b>Total liabilities</b> | <b>16,345</b>                                              | <b>5,067</b>                                                | <b>21,412</b>           | <b>9,138</b>                                    | <b>3,782</b>                                                | <b>12,920</b>           |
| Income                   | 4,000                                                      | 1,775                                                       | 5,775                   | —                                               | 183                                                         | 183                     |
| Expenses                 | (8,583)                                                    | (2,528)                                                     | (11,111)                | (2,525)                                         | (1,148)                                                     | (3,673)                 |
| <b>Loss</b>              | <b>(4,583)</b>                                             | <b>(753)</b>                                                | <b>(5,336)</b>          | <b>(2,525)</b>                                  | <b>(965)</b>                                                | <b>(3,490)</b>          |

## 18. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES (CONT)

The Group's share of loss of equity accounted investees is \$2,346,000 (2011: \$1,516,000). During both the current and the prior year, the Group did not receive dividends from any of its investments in equity accounted investees.

### CUADRILLA

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

|                                                                                 | 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)        |
| <b>Equity accounted ownership interest at end of the year</b>                   | <b>72,357</b>  | <b>52,268</b>  |

### 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, New Zealand and certain Asian countries. The joint venture company is equally owned by both investors, with neither having control.

## 19. EXPLORATION ASSETS

|                           | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------|----------------|----------------|
| <b>Cost</b>               |                |                |
| Balance at 1 July         | 7,496          | –              |
| Acquisitions              | 8,127          | 7,946          |
| <b>Balance at 30 June</b> | <b>16,073</b>  | <b>7,946</b>   |

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 42.97% shareholding at balance date.

## 20. INTANGIBLE DEVELOPMENT ASSETS

|                                | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------|----------------|----------------|
| <b>Cost</b>                    |                |                |
| Balance at 1 beginning of year | 2,671          | 2,671          |
| Acquisitions                   | –              | –              |
| <b>Balance at end of year</b>  | <b>2,671</b>   | <b>2,671</b>   |
| <b>Amortisation</b>            |                |                |
| Balance at beginning of year   | 2,024          | 1,968          |
| Amortisation for the year      | 67             | 56             |
| <b>Balance at end of year</b>  | <b>2,091</b>   | <b>2,024</b>   |
| <b>Carrying amounts</b>        | <b>580</b>     | <b>647</b>     |

## 21. OTHER INTANGIBLE ASSETS

|                                            | Customer<br>intangibles<br>\$'000 | Goodwill<br>\$'000 | Net profit<br>interest <sup>(1)</sup><br>\$'000 | Total<br>'000  |
|--------------------------------------------|-----------------------------------|--------------------|-------------------------------------------------|----------------|
| <b>Cost</b>                                |                                   |                    |                                                 |                |
| Balance at 1 July 2010                     | 17,851                            | 113,561            | 87,461                                          | 218,873        |
| Acquisitions                               | —                                 | —                  | 301                                             | 301            |
| <b>Balance at 30 June 2011</b>             | <b>17,851</b>                     | <b>113,561</b>     | <b>87,762</b>                                   | <b>219,174</b> |
| Balance at 1 July 2011                     | 17,851                            | 113,561            | 87,762                                          | 219,174        |
| Acquisitions                               | —                                 | —                  | —                                               | —              |
| <b>Balance at 30 June 2012</b>             | <b>17,851</b>                     | <b>113,561</b>     | <b>87,762</b>                                   | <b>219,174</b> |
| <b>Amortisations and impairment losses</b> |                                   |                    |                                                 |                |
| Balance at 1 July 2010                     | 14,740                            | 1,600              | 87,461                                          | 103,801        |
| Amortisations for the year                 | 2,789                             | —                  | —                                               | 2,789          |
| Impairment loss                            | —                                 | —                  | 301                                             | 301            |
| <b>Balance at 30 June 2011</b>             | <b>17,529</b>                     | <b>1,600</b>       | <b>87,762</b>                                   | <b>106,891</b> |
| Balance at 1 July 2011                     | 17,529                            | 1,600              | 87,762                                          | 106,891        |
| Amortisations for the year                 | 322                               | —                  | —                                               | 322            |
| Impairment loss                            | —                                 | 44,960             | —                                               | 44,960         |
| <b>Balance at 30 June 2012</b>             | <b>17,851</b>                     | <b>46,560</b>      | <b>87,762</b>                                   | <b>152,173</b> |
| <b>Carrying amounts</b>                    |                                   |                    |                                                 |                |
| At 1 July 2010                             | 3,111                             | 111,961            | —                                               | 115,072        |
| <b>At 30 June 2011</b>                     | <b>322</b>                        | <b>111,961</b>     | <b>—</b>                                        | <b>112,283</b> |
| At 1 July 2011                             | 322                               | 111,961            | —                                               | 112,283        |
| <b>At 30 June 2012</b>                     | <b>—</b>                          | <b>67,001</b>      | <b>—</b>                                        | <b>67,001</b>  |

- (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. Future exploration and evaluation activity may allow an assessment of future cash flows to be performed and a reassessment made of the carrying value.

## IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

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

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

|                              | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------|----------------|----------------|
| Drilling                     | 63,169         | 108,129        |
| Engineering and Construction | 3,832          | 3,832          |
|                              | <b>67,001</b>  | <b>111,961</b> |

## 21. OTHER INTANGIBLE ASSETS (CONT)

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 operation of the CGUs. The calculations used cash flow projections based on the 2013 business plan, extended over a period of five years based on management's estimates of future growth rates. Cash flows into perpetuity are extrapolated using a terminal growth factor relevant to the sector and business plan. A post-tax discount rate is applied adjusted for the industry in which each CGU operates.

### KEY ASSUMPTIONS USED IN DISCOUNTED CASH FLOW PROJECTIONS

EBITDA growth, capital expenditure, 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, the business plan for 2013 and management's outlook for future years when taking into account forecast industry growth rates.

The 2013 business plan for the Drilling division forecasts an improvement in EBITDA based on an order book which is substantially secured and a return to normal operating activity (for example, wet weather days not significantly exceeding historical levels, greater rig utilisation and reduced overheads) and improved margins through a shift in business mix from exploration to directional drilling. The plan also assumes an improvement in the order book in Engineering and Construction. Forecast capital expenditure in respect of Drilling takes into account the significant investment in drill rigs during the 2012 financial year and as a consequence, reduced forecast repair and maintenance costs as well as lower forecast capital expenditure.

Growth rates are determined after considering factors including the nature of the industry, the overall market including competition, past performance and the economic outlook. A long-term growth rate into perpetuity of 3% has been used. This rate is considered to be within the range of long-term growth rates for the industries in which the CGUs operate.

Post tax discount rates of 13.0% and 14.23% have been applied to Drilling and Engineering and Construction respectively to discount their forecast future post tax cash flows. The discount rates have been calculated after assessing the relevant risks applicable to each CGU, the current risk-free rate of return and the volatility of the Group performance compared to the sectors in which it operates.

Based on these assumptions, the recoverable amount of each CGU exceeds its carrying value. This takes into account the \$45.0 million impairment during the 2012 financial year relating to goodwill allocated to the Drilling CGU. This impairment reflects management's outlook for the resources sector, as factored into the assumptions noted above.

Each of the above assumptions is subject to significant judgement about future economic conditions. Specifically, the Directors note that the extent and duration of the current resource industry and associated infrastructure works downturn is difficult to predict. The Directors have applied their best estimates to each of these variables but cannot warrant their outcome. To assess the impact of this significant uncertainty, and the range of possible outcomes, a sensitivity analysis was conducted as noted below.

### SENSITIVITY TO CHANGES IN ASSUMPTIONS

The estimate 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 0.3%;
- A reduction in EBITDA for 2013 of 22.1%;
- An increase in capital expenditure by 13.7%; and
- A terminal growth rate lower than 2.6%.

For the Engineering and Construction CGU, the base case showed a value in use surplus. The carrying amount exceeded the recoverable amount for each of the scenarios above when applied to this CGU.

## 22. DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

|                                                    | <b>Assets</b> |               | <b>Liabilities</b> |                 | <b>Net</b>    |                |
|----------------------------------------------------|---------------|---------------|--------------------|-----------------|---------------|----------------|
|                                                    | <b>2012</b>   | <b>2011</b>   | <b>2012</b>        | <b>2011</b>     | <b>2012</b>   | <b>2011</b>    |
|                                                    | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>      | <b>\$'000</b>   | <b>\$'000</b> | <b>\$'000</b>  |
| <b>Consolidated</b>                                |               |               |                    |                 |               |                |
| Inventories                                        | —             | —             | (4,479)            | (8,867)         | (4,479)       | (8,867)        |
| Equity accounted investments                       | —             | —             | (2,613)            | (2,613)         | (2,613)       | (2,613)        |
| Intangibles                                        | —             | —             | —                  | (28)            | —             | (28)           |
| Intangible development costs                       | —             | —             | (173)              | (213)           | (173)         | (213)          |
| Exploration evaluation and development expenditure | —             | —             | —                  | —               | —             | —              |
| Capitalised interest and borrowing costs           | —             | —             | (112)              | (135)           | (112)         | (135)          |
| Property, plant and equipment                      | 480           | 123           | —                  | —               | 480           | 123            |
| Impairment of trade debtors                        | 325           | 35            | —                  | —               | 325           | 35             |
| Provisions for employee benefits                   | 3,096         | 2,567         | —                  | —               | 3,096         | 2,567          |
| Trade creditors                                    | 1,265         | 944           | —                  | —               | 1,265         | 944            |
| Other creditors and accruals                       | 2,674         | 1,821         | —                  | —               | 2,674         | 1,821          |
| Unrealised foreign exchange differences            | 319           | 299           | —                  | —               | 319           | 299            |
| Tax value of loss carried forward recognised       | —             | 390           | —                  | —               | —             | 390            |
| <b>Tax assets/(liabilities)</b>                    | <b>8,159</b>  | <b>6,179</b>  | <b>(7,377)</b>     | <b>(11,856)</b> | <b>782</b>    | <b>(5,677)</b> |
| Set off of tax                                     | (7,377)       | (6,179)       | 7,377              | 6,179           | —             | —              |
| <b>Net assets/(liabilities)</b>                    | <b>782</b>    | <b>—</b>      | <b>—</b>           | <b>(5,677)</b>  | <b>782</b>    | <b>(5,677)</b> |

Movement in temporary differences during the year:

|                                                    | <b>Balance</b>   | <b>Recognised</b>  | <b>Recognised in</b>   | <b>Balance</b>   |
|----------------------------------------------------|------------------|--------------------|------------------------|------------------|
|                                                    | <b>01 Jul 11</b> | <b>directly in</b> | <b>profit and loss</b> | <b>30 Jun 12</b> |
|                                                    | <b>\$'000</b>    | <b>equity</b>      | <b>\$'000</b>          | <b>\$'000</b>    |
| <b>2012</b>                                        |                  |                    |                        |                  |
| Inventories                                        | (8,867)          | —                  | 4,388                  | (4,479)          |
| Equity accounted investments                       | (2,613)          | —                  | —                      | (2,613)          |
| Intangibles                                        | (28)             | —                  | 28                     | —                |
| Intangible development costs                       | (213)            | —                  | 40                     | (173)            |
| Exploration evaluation and development expenditure | —                | —                  | —                      | —                |
| Capitalised interest and borrowing costs           | (135)            | 117                | (93)                   | (111)            |
| Property, plant and equipment                      | 123              | —                  | 357                    | 480              |
| Doubtful debts impairment recognised               | 35               | —                  | 290                    | 325              |
| Provisions for employee benefits                   | 2,567            | —                  | 529                    | 3,096            |
| Trade creditors                                    | 944              | —                  | 320                    | 1,264            |
| Other creditors and accruals                       | 1,821            | —                  | 853                    | 2,674            |
| Unrealised foreign exchange differences            | 299              | —                  | 20                     | 319              |
| Tax value of loss carried forward recognised       | 390              | —                  | (390)                  | —                |
|                                                    | <b>(5,677)</b>   | <b>117</b>         | <b>6,342</b>           | <b>782</b>       |

## 22. DEFERRED TAX ASSETS AND LIABILITIES (CONT)

|                                                    | Balance<br>01 Jul 10<br>\$'000 | Recognised in<br>profit and loss<br>\$'000 | Balance<br>30 Jun 11<br>\$'000 |
|----------------------------------------------------|--------------------------------|--------------------------------------------|--------------------------------|
| <b>2011</b>                                        |                                |                                            |                                |
| Inventories                                        | (16,086)                       | 7,219                                      | (8,867)                        |
| 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                            | 1,459                                      | 1,821                          |
| Unrealised foreign exchange differences            | 306                            | (7)                                        | 299                            |
| Tax value of loss carried forward recognised       | –                              | 390                                        | 390                            |
|                                                    | <b>(15,946)</b>                | <b>10,269</b>                              | <b>(5,677)</b>                 |

### UNRECOGNISED DEFERRED TAX ASSETS

As at 30 June 2012, the Group had not recognised deferred tax assets of \$14,151,720 (2011: Nil) in relation to income tax losses. The Group also has an unrecognised deferred tax asset of \$1,158,697 (2011: \$1,158,697) in relation to foreign income tax losses.

## 23. TRADE AND OTHER PAYABLES

|                             | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------|----------------|----------------|
| <b>Current</b>              |                |                |
| Trade payables              | 54,089         | 41,334         |
| Other payables and accruals | 66,148         | 46,445         |
| Hedge liability             | 111            | 633            |
|                             | <b>120,348</b> | <b>88,412</b>  |

## 24. INTEREST-BEARING LOANS AND BORROWINGS

|                                                      | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------------------|----------------|----------------|
| <b>Current</b>                                       |                |                |
| Bank overdraft - secured                             | 6,643          | 7,734          |
| Other borrowings - unsecured <sup>(2)</sup>          | 48,169         | –              |
| Bank loans - secured <sup>(1)</sup>                  | 4,436          | 17,888         |
| Lease liabilities - secured <sup>(1)</sup>           | 31,793         | 29,490         |
| Other borrowings - secured                           | 130            | 173            |
| Redeemable convertible preference shares - unsecured | –              | 44,460         |
|                                                      | <b>91,171</b>  | <b>99,745</b>  |

|                                             | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| <b>Current</b>                              |                |                |
| Lease liabilities - secured <sup>(1)</sup>  | —              | 12,718         |
| Other borrowings - unsecured <sup>(2)</sup> | 41,881         | —              |
|                                             | <b>41,881</b>  | <b>12,718</b>  |

(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. Subsequent to year end, the Group's senior financier varied the maturity date of its financing facilities to 30 November 2012. Refer to note 40 for further details.

(2) This relates to finance facilities provided by Kerogen, including the \$10.0 million bridging facility and the mezzanine facility described on page 62. The mezzanine facility has been measured at amortised cost using the effective interest rate method.

|                                                                                      | 2012<br>\$'000 | 2011<br>\$'000 |
|--------------------------------------------------------------------------------------|----------------|----------------|
| <b>Financing facilities</b>                                                          |                |                |
| <b>(a) The Group has access to the following lines of credit and bank guarantees</b> |                |                |
| 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         |
|                                                                                      | <b>139,993</b> | <b>78,351</b>  |

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        |
|                              | <b>133,052</b> | <b>67,830</b> |

Total facilities utilised at balance date:

|                             |              |               |
|-----------------------------|--------------|---------------|
| Bank overdraft - secured    | 1,857        | 5,766         |
| Lease liabilities - secured | 5,084        | 4,755         |
|                             | <b>6,941</b> | <b>10,521</b> |

**(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             | <b>1,485</b> | <b>3,565</b> |
| Bank indemnity guarantee      | 4,000        | 4,084        |
| Amount utilised               | (2,464)      | (885)        |
| Unused facilities             | <b>1,536</b> | <b>3,199</b> |
| Bank standby letter of credit | 2,900        | 2,900        |
| Amount utilised               | —            | —            |
| Unused facilities             | <b>2,900</b> | <b>2,900</b> |

Of the bonds utilised, \$6,590,697 (2011: \$9,607,982) 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<br>interest rate<br>% | Financial year<br>of maturity | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------------------|-------------------------------|-------------------------------|----------------|----------------|
| Bank overdraft - secured                           | 10.90%                        | 2013                          | 6,643          | 7,734          |
| Secured bank loan <sup>(1)</sup>                   | N/A                           | N/A                           | —              | 3,442          |
| Secured bank loan <sup>(1)</sup>                   | 6.97%                         | 2013                          | 2,150          | 2,750          |
| Secured bank loan <sup>(1)</sup>                   | 9.04%                         | 2013                          | 2,286          | 5,087          |
| Secured bank loan <sup>(1)</sup>                   | N/A                           | N/A                           | —              | 6,609          |
| Other borrowings - unsecured <sup>(2)</sup>        | 8.80%                         | 2013                          | 48,169         | —              |
| Current other borrowings - secured                 | 8.01%                         | 2013                          | 130            | 173            |
| Redeemable convertible preference shares           | N/A                           | N/A                           | —              | 44,460         |
| Non current borrowings - unsecured <sup>(2)</sup>  | 8.80%                         | 2014                          | 41,881         | —              |
| Current lease liabilities - secured <sup>(1)</sup> | Avg 8.30%                     | 2013-2017                     | 31,793         | 42,208         |
|                                                    |                               |                               | <b>133,052</b> | <b>112,463</b> |

(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. Subsequent to year end, the Group's senior financier varied the maturity date of its financing facilities to 30 November 2012. Refer to note 40 for further details.

(2) This relates to finance facilities provided by Kerogen, including the \$10.0 million bridging facility and the mezzanine facility described below. The mezzanine facility has been measured at amortised cost using the effective interest rate method.

### 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.

### MEZZANINE FACILITY

During the year, the Company entered into a mezzanine finance facility ("the Facility") provided by Kerogen. The proceeds of the Facility were applied to the buy back of the Redeemable Convertible Preference Shares and all cumulative dividends thereon, capital contributions to Cuadrilla, fees and for working capital. The principal terms of the Facility are:

|                         |                                                                                                                                                                                                               |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Amount:                 | \$86.5 million                                                                                                                                                                                                |
| Initial Draw Down Date: | 22 December 2011                                                                                                                                                                                              |
| Term:                   | 2 years                                                                                                                                                                                                       |
| Security:               | Initially unsecured but second ranking security to be granted in due course                                                                                                                                   |
| Interest Rate:          | 8.0% per annum for the first 12 months<br>BBSY + 5.0% per annum for months 13 to 18<br>BBSY + 6.5% per annum for months 19 to 24<br>The lender also receives full gross up for any withholding tax applicable |
| Repayment Schedule:     | 25% within 12 months of draw down<br>50% within 18 months of draw down                                                                                                                                        |

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

- (1) At 30 June 2012, certain of the lease liabilities were classified as current due to the breach of borrowing covenants at that date. Subsequent to year end, the Group's senior financier varied the maturity date of its financing facilities to 30 November 2012. Refer to note 40 for further details.

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 \$32,692,000 (2011: \$47,922,000) represents the amount of income tax payable in respect of prior financial periods. Subsequent to year end, 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. Interest is payable on this liability at the general interest charge rate levied by the ATO.

## 26. DERIVATIVE LIABILITY

On 22 December 2011, 18,566,763 options over ordinary shares in the Company were granted as a condition for the provision of the mezzanine facility.

The fair value of the options has been calculated using a Monte Carlo simulation. The valuation method determined a fair value for the options of \$9.3 million.

## 26. DERIVATIVE LIABILITY (CONT)

The following factors and assumptions were used in determining the fair value:

|                                       |         |
|---------------------------------------|---------|
| AJ Lucas share price:                 | \$1.35  |
| Options exercise price:               | (A)     |
| Risk-free rate:                       | 3.9%    |
| Dividend yield:                       | 0.0%    |
| Term:                                 | 4 years |
| Volatility of AJ Lucas shares:        | 60-70%  |
| Weighted probability of cancellation: | 20.3%   |

(A) The exercise price of the options is the lower of:

- a 20% premium to the five day volume weighted average price (VWAP) of the Company's shares ending on the date prior to exercise; and
- \$1.70 per share

Subject to a minimum exercise price of \$1.35 per option.

At 30 June 2012, the fair value of the options was \$6.7m.

## 27. OPERATING LEASES

### LEASES AS LESSEE

|                                                                 | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------------------|----------------|----------------|
| Non-cancellable operating lease rentals are payable as follows: |                |                |
| Less than one year                                              | 4,105          | 4,317          |
| Between one and five years                                      | 3,734          | 3,000          |
|                                                                 | <b>7,839</b>   | <b>7,317</b>   |

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, \$5,933,000 (2011: \$6,534,000) was recognised as an expense in the profit or loss in respect of operating leases.

## 28. EMPLOYEE BENEFITS

|                                                     | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------|----------------|----------------|
| Provision for employee benefits, including on-costs |                |                |
| Current                                             | 7,849          | 7,031          |
| Non-current                                         | 1,239          | 1,529          |
|                                                     | <b>9,088</b>   | <b>8,560</b>   |

### 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 \$7,403,094 (2011: \$6,725,569).

## 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 is satisfied by the issue of shares for no consideration. The exercise of options is satisfied by the exercise price as agreed. No rights or options were issued during the year.

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

|                                        | Weighted average<br>exercise price<br>2012 | Number of rights<br>and options<br>2012 | Weighted average<br>exercise price<br>2011 | Number of rights<br>and options<br>2011 |
|----------------------------------------|--------------------------------------------|-----------------------------------------|--------------------------------------------|-----------------------------------------|
| Outstanding at beginning of the period | \$0.85                                     | 1,338,176                               | \$0.52                                     | 2,196,397                               |
| Exercised during the period            | —                                          | (444,314)                               | —                                          | (819,536)                               |
| Lapsed during the period               | —                                          | (550,000)                               | —                                          | (38,685)                                |
| Outstanding at end of the period       | \$1.53                                     | 343,862                                 | \$0.85                                     | 1,338,176                               |
| Exercisable at end of the period       | <b>\$1.53</b>                              | <b>343,862</b>                          | <b>\$0.85</b>                              | <b>1,338,176</b>                        |

The options outstanding at 30 June 2012 have an exercise price in the range of \$nil to \$2.11 (2011: \$nil to \$2.11) and a weighted average contractual life of 0.6 years (2011: 0.9 years).

During the financial year, 444,314 share options were exercised (2011: 819,536) and 550,000 lapsed (2011: 38,685). The weighted average share price at the dates of exercise was \$1.05 (2011: \$1.76).

During the year, the Group recognised as an expense \$291,824 (2011: \$130,005) in relation to share based payments. The liability at year end for cash settled rights is \$554,418 (2011: \$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<br>on grant<br>date | Exercise<br>price | Expected<br>volatility | Risk free<br>interest rate | Expected<br>dividend<br>yield | Fair value at<br>grant date |
|-------------|-------------|---------------------------------|-------------------|------------------------|----------------------------|-------------------------------|-----------------------------|
| 26-Nov-2008 | 30-Jun-2013 | \$4.60                          | —                 | N/A                    | 3.6%                       | 2.4%                          | \$4.27                      |
| 23-Nov-2007 | 23-Nov-2012 | \$3.40                          | \$2.11            | 51%                    | 6.4%                       | 2.2%                          | \$1.70                      |

**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 three 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.

## 29. CAPITAL AND RESERVES

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

### SHARE CAPITAL – ORDINARY SHARES

|                                  | Company               |                       |
|----------------------------------|-----------------------|-----------------------|
|                                  | 2012<br>No. of Shares | 2011<br>No. of Shares |
| <b>Movements during the year</b> |                       |                       |
| On issue at 1 July               | 66,117,664            | 65,298,128            |
| Exercise of rights               | 444,314               | 819,536               |
| Allotment of entitlement shares  | 26,547,663            | –                     |
| Placement                        | 9,917,650             | –                     |
| On issue at 30 June - fully paid | <b>103,027,291</b>    | <b>66,117,664</b>     |

During the year, 444,314 (2011: 819,536) ordinary shares were issued as a result of the exercise of rights. The rights were exercised at an average price of \$nil. All issued shares are fully paid.

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.

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.

### 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.

### OPTIONS

**FUND OPTIONS:** During the year, the Company bought back the \$45 million Redeemable Convertible Preference Shares (RCPS). As consideration for the holders of the RCPS agreeing not to exercise their early redemption rights, the Company granted the holders 1,000,000 options over ordinary shares in the Company.

The principal terms of these options are:

|                 |                                                |
|-----------------|------------------------------------------------|
| Number:         | 1,000,000                                      |
| Issue Date:     | 22 December 2011                               |
| Expiry Date:    | 22 December 2016                               |
| Exercise Price: | \$2.13 per share                               |
| Issue Price:    | \$0.01 per option, being \$10,000 in aggregate |

The Group recognised as an expense \$637,000 in relation to the grant of these options offset by \$10,000 for their issue price.

**KEROGEN OPTIONS:** As partial consideration for the grant of the mezzanine facility, the Company agreed to grant Kerogen 18,566,763 options over ordinary shares in the Company.

The principal terms of these options are:

|                 |                                                                                                                                                                                                                                     |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Number:         | 18,566,763                                                                                                                                                                                                                          |
| Issue Date:     | 22 December 2011                                                                                                                                                                                                                    |
| Expiry Date:    | 22 December 2015                                                                                                                                                                                                                    |
| Exercise Price: | The lower of: <ul style="list-style-type: none"> <li>• A 20% premium to the five day volume weighted average price (VWAP) of the Company's shares ending on the date prior to exercise; and</li> <li>• \$1.70 per share.</li> </ul> |

Subject to a minimum exercise price of \$1.35 per share.

Subsequent to balance date, the holder exercised 7,407,407 options at \$1.35 per option for a total consideration of \$10 million.

The fair value of the options was calculated using a Monte Carlo simulation. See Note 26 for details of the valuation.

## DIVIDENDS

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No dividends in respect of the 2012 financial year have been declared or paid.

## DIVIDEND FRANKING ACCOUNT

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The balance of franking credits available to shareholders of the Company is \$62,966,276 (2011: \$62,966,276).

## 30. FINANCIAL INSTRUMENTS

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### OVERVIEW

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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

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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 its 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

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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.

### 30. FINANCIAL INSTRUMENTS (CONT)

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 an 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.

**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:

|                                                                                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|-------------------------------------------------------------------------------------------------------|----------------|----------------|
| Trade and other receivables                                                                           | 57,051         | 61,193         |
| Bank balances                                                                                         | 4,343          | 1,348          |
|                                                                                                       | <b>61,394</b>  | <b>62,541</b>  |
| Maximum exposure to credit risk for trade and other receivables at the reporting date by segment was: |                |                |
| Drilling                                                                                              | 27,776         | 20,823         |
| Engineering & Construction                                                                            | 26,752         | 39,713         |
| Unallocated                                                                                           | 2,523          | 657            |
|                                                                                                       | <b>57,051</b>  | <b>61,193</b>  |

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

|                                                                | Gross<br>2012<br>\$'000 | Impairment<br>2012<br>\$'000 | Gross<br>2011<br>\$'000 | Impairment<br>2011<br>\$'000 |
|----------------------------------------------------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| The ageing of loans and receivables at the reporting date was: |                         |                              |                         |                              |
| Not past due                                                   | 49,486                  | (5,236)                      | 50,555                  | (3,919)                      |
| Past due up to 30 days                                         | 9,019                   | —                            | 4,255                   | —                            |
| Past due 31 to 120 days                                        | 3,019                   | (382)                        | 5,448                   | —                            |
| Past due 121 days to one year                                  | 1,172                   | (339)                        | 3,295                   | —                            |
| More than one year                                             | 675                     | (363)                        | 1,608                   | (49)                         |
|                                                                | <b>63,371</b>           | <b>(6,320)</b>               | <b>65,161</b>           | <b>(3,968)</b>               |

**IMPAIRMENT ALLOWANCE:** The impairment allowance is 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 2012, the Group has collective impairments on its trade receivables of \$2,401,000 (2011: \$49,000) and non-current other receivables of \$3,919,000 (2011: \$3,919,000). The impairment of the non-current receivable relates to a provisions held against receivables which the Group do not expect to recover.

## 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.

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

|                                             |                              | CONTRACTUAL CASH FLOWS |                               |                          |                        |                        |                                |
|---------------------------------------------|------------------------------|------------------------|-------------------------------|--------------------------|------------------------|------------------------|--------------------------------|
|                                             | Carrying<br>amount<br>\$'000 | Total<br>\$'000        | 6 months<br>or less<br>\$'000 | 6-12<br>months<br>\$'000 | 1-2<br>years<br>\$'000 | 2-5<br>years<br>\$'000 | More than 5<br>years<br>\$'000 |
| <b>2012</b>                                 |                              |                        |                               |                          |                        |                        |                                |
| <b>Non-derivative financial liabilities</b> |                              |                        |                               |                          |                        |                        |                                |
| Trade and other payables - unsecured        | 120,237                      | (120,237)              | (120,237)                     | —                        | —                      | —                      | —                              |
| Bank overdraft - secured                    | 6,643                        | (6,643)                | (6,643)                       | —                        | —                      | —                      | —                              |
| Bank loans - secured <sup>(1)</sup>         | 4,436                        | (4,883)                | (2,717)                       | (364)                    | (1,620)                | (182)                  | —                              |
| Other loans - secured                       | 130                          | (134)                  | (134)                         | —                        | —                      | —                      | —                              |
| Lease liabilities - secured <sup>(1)</sup>  | 31,793                       | (31,793)               | (11,569)                      | (5,350)                  | (10,691)               | (4,183)                | —                              |
| Other borrowings - unsecured                | 90,050                       | (110,350)              | (39,099)                      | (24,501)                 | (46,750)               | —                      | —                              |
| <b>Derivative financial liabilities</b>     |                              |                        |                               |                          |                        |                        |                                |
| Derivative liability                        | 6,680                        | (6,680)                | —                             | —                        | —                      | (6,680)                | —                              |
| Interest rate swaps used for hedging        | 111                          | (111)                  | (111)                         | —                        | —                      | —                      | —                              |
|                                             | <b>260,080</b>               | <b>(280,831)</b>       | <b>(180,510)</b>              | <b>(30,215)</b>          | <b>(59,061)</b>        | <b>(11,045)</b>        |                                |

- (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. The contractual cash flows do not take into account that subsequent to year end, the Group's senior financier varied the maturity date of its financing facilities to 30 November 2012.

|                                                         |                              | CONTRACTUAL CASH FLOWS |                               |                          |                        |                        |                                |
|---------------------------------------------------------|------------------------------|------------------------|-------------------------------|--------------------------|------------------------|------------------------|--------------------------------|
|                                                         | Carrying<br>amount<br>\$'000 | Total<br>\$'000        | 6 months<br>or less<br>\$'000 | 6-12<br>months<br>\$'000 | 1-2<br>years<br>\$'000 | 2-5<br>years<br>\$'000 | More than 5<br>years<br>\$'000 |
| <b>2012</b>                                             |                              |                        |                               |                          |                        |                        |                                |
| <b>Non-derivative financial liabilities</b>             |                              |                        |                               |                          |                        |                        |                                |
| Trade and other payables - unsecured                    | 87,779                       | (87,779)               | (87,779)                      | —                        | —                      | —                      | —                              |
| Bank overdraft - secured                                | 7,734                        | (7,734)                | (7,734)                       | —                        | —                      | —                      | —                              |
| Bank loans - secured                                    | 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<br>shares - unsecured | 44,460                       | (57,986)               | (57,986)                      | —                        | —                      | —                      | —                              |
| <b>Derivative financial liabilities</b>                 |                              |                        |                               |                          |                        |                        |                                |
| Interest rate swaps used for hedging                    | 633                          | (633)                  | (349)                         | (284)                    | —                      | —                      | —                              |
|                                                         | <b>200,875</b>               | <b>(220,951)</b>       | <b>(188,894)</b>              | <b>(16,877)</b>          | <b>(9,301)</b>         | <b>(5,879)</b>         |                                |

### 30. FINANCIAL INSTRUMENTS (CONT)

#### 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.

**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):

|                             | <b>Euro</b>  | <b>USD</b>     | <b>XPF</b>  | <b>NZD</b>  | <b>HKD</b> | <b>GBP</b> | <b>CAD</b>  |
|-----------------------------|--------------|----------------|-------------|-------------|------------|------------|-------------|
| <b>2012</b>                 |              |                |             |             |            |            |             |
| Trade payables              | (59)         | (3,119)        | (13)        | (2)         | (0)        | (8)        | (13)        |
| Net balance sheet exposure  | <b>(59)</b>  | <b>(3,119)</b> | <b>(13)</b> | <b>(2)</b>  | <b>(0)</b> | <b>(8)</b> | <b>(13)</b> |
| <b>2011</b>                 |              |                |             |             |            |            |             |
| Trade and other receivables | —            | —              | —           | —           | —          | 438        | —           |
| Trade payables              | (953)        | (1,161)        | (1)         | (18)        | (6)        | —          | —           |
|                             | <b>(953)</b> | <b>(1,161)</b> | <b>(1)</b>  | <b>(18)</b> | <b>(6)</b> | <b>438</b> | <b>—</b>    |

#### SENSITIVITY ANALYSIS

At 30 June 2012, 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 \$321,000 lower/\$321,000 higher.

The following significant exchange rates applied during the year:

|      | <b>Average rate</b> |             | <b>Reporting date spot rate</b> |             |
|------|---------------------|-------------|---------------------------------|-------------|
|      | <b>2012</b>         | <b>2011</b> | <b>2012</b>                     | <b>2011</b> |
| Euro | 0.7707              | 0.7245      | 0.8092                          | 0.7405      |
| USD  | 1.0319              | 0.9881      | 1.0191                          | 1.0739      |
| XPF  | 88.4956             | 86.9226     | 96.7100                         | 89.0617     |
| HKD  | 8.0221              | 7.6826      | 7.9040                          | 8.3581      |
| NZD  | 1.2831              | 1.3044      | 1.2771                          | 1.2953      |
| GBP  | 0.6514              | 0.6208      | 0.6529                          | 0.6667      |
| CAD  | 1.0349              | 0.9887      | 1.0454                          | 1.0389      |

**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.

|                                  | 2012<br>\$'000  | 2011<br>\$'000  |
|----------------------------------|-----------------|-----------------|
| <b>Fixed rate instruments</b>    |                 |                 |
| Financial liabilities            | (36,359)        | (86,842)        |
|                                  | <b>(36,359)</b> | <b>(86,842)</b> |
| <b>Variable rate instruments</b> |                 |                 |
| Financial assets                 | 4,343           | 1,348           |
| Financial liabilities            | (96,693)        | (25,622)        |
|                                  | <b>(92,350)</b> | <b>(24,274)</b> |

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

|                                              | 30 June 2012                           |                   | 30 June 2011                           |                   |
|----------------------------------------------|----------------------------------------|-------------------|----------------------------------------|-------------------|
|                                              | Weighted average<br>interest rate<br>% | Balance<br>\$'000 | Weighted average<br>interest rate<br>% | Balance<br>\$'000 |
| Other Borrowings - unsecured                 | 8.93                                   | (80,050)          | —                                      | —                 |
| Bank overdraft - secured                     | 10.90                                  | (6,643)           | 12.61                                  | (7,734)           |
| Bank loans                                   | 8.04                                   | (4,436)           | 8.04                                   | (17,888)          |
| Net exposure to cash flow interest rate risk |                                        | <b>(91,129)</b>   |                                        | <b>(25,622)</b>   |

#### 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 \$2,990,865 for the Group (2011: \$1,619,092). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed consistently from year to year.

#### 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<br>\$'000 | Fair value<br>\$'000 |
|------------------------------|---------------------------|----------------------|
| <b>2012</b>                  |                           |                      |
| Bank balances                | 4,343                     | 4,343                |
| Trade and other receivables  | 57,051                    | 57,051               |
| Trade and other payables     | (120,238)                 | (120,238)            |
| Bank overdraft - secured     | (6,643)                   | (6,643)              |
| Bank loans - secured         | (4,436)                   | (4,436)              |
| Lease liabilities - secured  | (31,793)                  | (31,793)             |
| Derivative liability         | (6,791)                   | (6,791)              |
| Other borrowings - unsecured | (90,050)                  | (90,050)             |
|                              | <b>(198,557)</b>          | <b>(198,557)</b>     |

## 30. FINANCIAL INSTRUMENTS (CONT)

|                                          | Carrying amount<br>\$'000 | Fair value<br>\$'000 |
|------------------------------------------|---------------------------|----------------------|
| <b>2011</b>                              |                           |                      |
| 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)             |
| Derivative liability                     | (633)                     | (633)                |
| Redeemable convertible preference shares | (44,460)                  | (44,460)             |
|                                          | <b>(138,794)</b>          | <b>(138,794)</b>     |

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 8.76% (2011: 10.6%).

The Board's target is for employees (excluding directors) of the Group to hold 4% of the Company's ordinary shares by 2014. 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.

Subsequent to balance date, shareholders have approved a placement of shares to Kerogen to raise \$30 million and the exercise of options over shares in the Company by Kerogen for a further \$10 million, in aggregate raising \$40 million in new equity for the Company. Refer to note 40 for further details.

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

|                                                                  | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------------------------------|----------------|----------------|
| Total liabilities                                                | 301,860        | 263,034        |
| Less: cash and cash equivalents                                  | (4,343)        | (1,348)        |
| <b>Net debt</b>                                                  | 297,517        | 261,686        |
| Total equity                                                     | 113,494        | 175,883        |
| Less: amounts accumulated in equity relating to cash flow hedges | (111)          | (633)          |
| Adjusted capital                                                 | 113,383        | 175,250        |
| <b>Debt to adjusted capital ratio at 30 June</b>                 | 2.62           | 1.49           |

**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: quoted 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<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|----------------------------------|-------------------|-------------------|-------------------|-----------------|
| <b>30 June 2012</b>              |                   |                   |                   |                 |
| Derivative financial liabilities | –                 | 6,791             | –                 | 6,791           |
|                                  | –                 | <b>6,791</b>      | –                 | <b>6,791</b>    |
| <b>30 June 2011</b>              |                   |                   |                   |                 |
| Derivative financial liabilities | –                 | 633               | –                 | 633             |
|                                  | –                 | <b>633</b>        | –                 | <b>633</b>      |

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.

### 31. INTERESTS IN JOINT VENTURES

| Joint venture name         | Principal activities                             | Participation interest |           | Contribution to Operating results of the Group profit/(loss) |                |
|----------------------------|--------------------------------------------------|------------------------|-----------|--------------------------------------------------------------|----------------|
|                            |                                                  | 2012<br>%              | 2011<br>% | 2012<br>\$'000                                               | 2011<br>\$'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<br>\$'000 | 2011<br>\$'000 |
|-------------------------------|----------------|----------------|
| <b>Assets</b>                 |                |                |
| <b>Current assets</b>         |                |                |
| 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          |
| <b>Total assets</b>           | <b>14,272</b>  | <b>4,524</b>   |
| <b>Liabilities</b>            |                |                |
| <b>Current liabilities</b>    |                |                |
| Trade and other payables      | 11,795         | 3,341          |
| <b>Total liabilities</b>      | <b>11,795</b>  | <b>3,341</b>   |

## 32. CONSOLIDATED ENTITIES

The financial statements at 30 June 2012 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 |        |
|-----------------------------------------------------|--------------------------|--------------------|--------|
|                                                     |                          | 2012 %             | 2011 % |
| Parent entity                                       |                          |                    |        |
| AJ Lucas Group Limited                              |                          |                    |        |
| Controlled entities                                 |                          |                    |        |
| Australian Water Engineering Pty Limited            | Australia                | 100                | 100    |
| Water Balance Australia Pty Limited                 | Australia                | 50                 | 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                   | Australia                | 100                | 100    |
| AJ Lucas Testing Pty Limited                        | Australia                | 100                | 100    |
| Lucas Operations (WA) Pty Limited <sup>(i)</sup>    | Australia                | 100                | 100    |
| AJ Lucas Joint Ventures Pty Limited                 | Australia                | 100                | 100    |
| AJ Lucas (Hong Kong) Limited                        | Hong Kong                | 100                | 100    |
| Lucas Drilling Pty Limited <sup>(ii)</sup>          | Australia                | 100                | 100    |
| Subsidiaries of Lucas Drilling Pty Limited          |                          |                    |        |
| Mitchell Drilling Corporation Pty Limited           | Australia                | 100                | 100    |
| Lucas Xtreme Drilling Pty Limited                   | Australia                | 50                 | 50     |
| Lucas Contract Drilling Pty Limited                 | Australia                | 100                | 100    |
| Subsidiary of Lucas Contract Drilling Pty Limited   |                          |                    |        |
| McDermott Drilling Pty Limited                      | Australia                | 100                | 100    |
| Lucas Stuart Pty Limited                            | Australia                | 100                | 100    |
| 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    |
| 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 Smart Electrical & Power Services Pty Limited to Lucas Operations (WA) Pty Limited on 12 September 2011.

(ii) Name changed from AJ Lucas Coal Technologies Pty Limited to Lucas Drilling Pty Limited on 19 July 2012.

### 33. 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 31), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint ventures. As at 30 June 2012, 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 \$11,795,000 (2011: \$3,341,000).
- (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 38, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

#### COMMITMENTS

At 30 June 2012, the Group had commitments contracted but not provided for and payable within one year of \$3,942,732 (2011: \$nil) for the purchase of new plant and equipment under finance leases.

### 34. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial years ended 30 June 2012 and 2011, the parent entity of the Group was AJ Lucas Group Limited.

|                                                            | 2012<br>\$'000   | 2011<br>\$'000  |
|------------------------------------------------------------|------------------|-----------------|
| <b>Results of the parent entity</b>                        |                  |                 |
| Loss for the year                                          | (109,739)        | (17,474)        |
| <b>Total comprehensive income for the year</b>             | <b>(109,739)</b> | <b>(17,474)</b> |
| <b>Financial position of the parent entity at year end</b> |                  |                 |
| Current assets                                             | 57,025           | 771             |
| Total assets                                               | 259,975          | 247,106         |
| Current liabilities                                        | 101,283          | 65,048          |
| Total liabilities                                          | 146,481          | 71,223          |
| <b>Total equity of the parent entity comprises:</b>        |                  |                 |
| Share capital                                              | 138,506          | 91,935          |
| Employee equity benefit reserve                            | 4,118            | 3,339           |
| (Accumulated losses)/Retained earnings                     | (29,130)         | 80,609          |
| <b>Total equity</b>                                        | <b>113,494</b>   | <b>175,883</b>  |

#### 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 38.

## 35. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

|                                                                                                                                                                                                                                                                                       | Note | 2012<br>\$'000  | 2011<br>\$'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------------|----------------|
| <b>(a) Reconciliation of cash</b>                                                                                                                                                                                                                                                     |      |                 |                |
| 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                                                                                                                                                                                                                                                                        | 24   | (6,643)         | (7,734)        |
| <b>Total cash</b>                                                                                                                                                                                                                                                                     |      | <b>(2,300)</b>  | <b>(6,386)</b> |
| <b>(b) Reconciliation of cash flows from operating activities</b>                                                                                                                                                                                                                     |      |                 |                |
| 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          |
| <b>Operating (loss)/profit before changes in working capital and provisions</b>                                                                                                                                                                                                       |      | <b>(24,009)</b> | <b>4,656</b>   |

**(b) Reconciliation of cash flows from operating activities (cont)**

|                                                     | Note | 2012<br>\$'000  | 2011<br>\$'000 |
|-----------------------------------------------------|------|-----------------|----------------|
| 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            |
| <b>Net cash (used in)/from operating activities</b> |      | <b>(11,258)</b> | <b>304</b>     |

**(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 note 24.

**36. 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

**NON-EXECUTIVE DIRECTORS**

- Martin Green
- Mike McDermott
- Phillip Arnall
- Genelle Coghlan

**EXECUTIVES**

|                               |                                      |
|-------------------------------|--------------------------------------|
| Kevin Lester <sup>(1)</sup>   | General Manager, Pipelines           |
| Mark Summergreene             | Chief Financial Officer              |
| Brett Tredinnick              | General Manager, Drilling            |
| Mark Tonkin <sup>(2)</sup>    | General Manager, Strategy & Planning |
| Peter Williams <sup>(3)</sup> | General Manager, Construction        |

(1) Ceased employment on 27 July 2012.

(2) Ceased employment on 16 September 2011.

(3) Ceased employment on 31 August 2011.

## 36. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT)

### KEY MANAGEMENT PERSONNEL COMPENSATION

|                                               | 2012<br>\$       | 2011<br>\$       |
|-----------------------------------------------|------------------|------------------|
| The key management personnel compensation is: |                  |                  |
| Short-term employee benefits                  | 2,151,451        | 2,737,398        |
| Other long-term benefits                      | 56,742           | 35,504           |
| Post-employment benefits                      | 155,309          | 214,006          |
| Termination benefits                          | 131,131          | 47,835           |
| Share-based payments                          | 52,000           | 223,020          |
|                                               | <b>2,546,633</b> | <b>3,257,763</b> |

### 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 arms-length basis.

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 | 2012<br>\$ | 2011<br>\$ |
|------------------------|---------------------------|---------------------------------|------|------------|------------|
| Phillip Arnall         | Felix Ventures Pty Ltd    | Non-executive director services | (i)  | 79,980     | 73,314     |
| Genelle Coghlan        | Dunblane Pty Ltd          | Non-executive director services | (i)  | 80,000     | 73,333     |
| Martin Green           | BRI Ferrier (NSW) Pty Ltd | Non-executive director services | (i)  | 80,028     | 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. The amount payable for these services is shown in the Remuneration Report.

### 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:

| 2012                                              | Held at<br>1 July 2011 | Received on<br>exercise of rights | Net other<br>change | Held at<br>30 June 2012 |
|---------------------------------------------------|------------------------|-----------------------------------|---------------------|-------------------------|
| <b>Directors</b>                                  |                        |                                   |                     |                         |
| Allan Campbell                                    | 10,140,083             | 144,787                           | —                   | 10,284,870              |
| Martin Green                                      | 200,00                 | —                                 | 150,000             | 350,000                 |
| <b>Executives</b>                                 |                        |                                   |                     |                         |
| Kevin Lester (ceased employment 27 July 2012)     | 226,368                | —                                 | (35,000)            | 191,368                 |
| Mark Summergreene                                 | 82,209                 | 20,000                            | —                   | 102,209                 |
| Brett Tredinnick                                  | 140,772                | 30,000                            | 174,950             | 345,722                 |
| Mark Tonkin (ceased employment 16 September 2011) | 56,943                 | —                                 | (56,373)            | 570                     |

| <b>2011</b>                                   | <b>Held at<br/>1 July 2010</b> | <b>Received on<br/>exercise of rights</b> | <b>Net other<br/>change</b> | <b>Held at<br/>30 June 2011</b> |
|-----------------------------------------------|--------------------------------|-------------------------------------------|-----------------------------|---------------------------------|
| <b>Directors</b>                              |                                |                                           |                             |                                 |
| 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                      | 200,00                          |
|                                               |                                | —                                         |                             |                                 |
| <b>Executives</b>                             |                                |                                           |                             |                                 |
| Ian Redfern (ceased employment 30 July 2010)  | 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                                    | 174,950                     | 315,722                         |
| Mark Tonkin                                   | 17,399                         | 39,544                                    | —                           | 56,943                          |

### 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:

| <b>2012</b>       | <b>Held at<br/>1 July<br/>2011</b> | <b>Awarded</b> | <b>Cancelled</b> | <b>Exercised</b> | <b>Held at<br/>30 June<br/>2012</b> | <b>Vested<br/>during the<br/>year</b> | <b>Vested and<br/>exercisable<br/>at 30 June<br/>2012</b> |
|-------------------|------------------------------------|----------------|------------------|------------------|-------------------------------------|---------------------------------------|-----------------------------------------------------------|
| <b>Directors</b>  |                                    |                |                  |                  |                                     |                                       |                                                           |
| Allan Campbell    | 598,648                            | —              | (250,000)        | (144,787)        | 203,861                             | —                                     | 203,861                                                   |
| <b>Executives</b> |                                    |                |                  |                  |                                     |                                       |                                                           |
| Mark Summergreene | —                                  | 20,000         | —                | (20,000)         | —                                   | 20,000                                | —                                                         |
| Brett Tredinnick  | —                                  | 30,000         | —                | (30,000)         | —                                   | 30,000                                | —                                                         |

| <b>2011</b>                                      | <b>Held at<br/>1 July<br/>2010</b> | <b>Awarded</b> | <b>Cancelled</b> | <b>Exercised</b> | <b>Held at<br/>30 June<br/>2011</b> | <b>Vested<br/>during the<br/>year</b> | <b>Vested and<br/>exercisable<br/>at 30 June<br/>2011</b> |
|--------------------------------------------------|------------------------------------|----------------|------------------|------------------|-------------------------------------|---------------------------------------|-----------------------------------------------------------|
| <b>Directors</b>                                 |                                    |                |                  |                  |                                     |                                       |                                                           |
| Allan Campbell                                   | 598,648                            | —              | —                | —                | 598,648                             | 203,861                               | 598,648                                                   |
| Ian Stuart-Robertson<br>(retired 10 August 2010) | 220,000                            | —              | —                | —                | 220,000                             | 70,000                                | 220,000                                                   |
| Andrew Lukas<br>(retired 10 August 2010)         | 220,000                            | —              | —                | —                | 220,000                             | 70,000                                | 220,000                                                   |
| <b>Executives</b>                                |                                    |                |                  |                  |                                     |                                       |                                                           |
| Ian Redfern<br>(ceased employment 30 July 2010)  | 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                                | —                                                         |

### 37. NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The Group has a related party relationship with its subsidiaries (see note 32) and joint ventures (see note 31). 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:

|                                                                        | 2012<br>\$'000 | 2011<br>\$'000 |
|------------------------------------------------------------------------|----------------|----------------|
| <b>Receivables:</b>                                                    |                |                |
| Aggregate amount receivable from wholly owned entities of the Company: |                |                |
| AJ Lucas (Hong Kong) Limited                                           | 20             | 20             |
| AJ Lucas Operations Pty Limited                                        | 166,956        | 93,006         |
| Lucas Drilling Pty Limited                                             | 223,230        | 175,709        |
| Lucas Cuadrilla Pty Limited                                            | 54,424         | 54,424         |
|                                                                        | <b>444,630</b> | <b>323,159</b> |
| <b>Payables:</b>                                                       |                |                |
| 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         |
|                                                                        | <b>30,302</b>  | <b>30,302</b>  |

### 38. 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.

The subsidiaries subject to the Deed are:

| Name of entity                         |                                           |
|----------------------------------------|-------------------------------------------|
| AJ Lucas Operations Pty Limited        | Ketrim Pty Limited                        |
| AJ Lucas Plant & Equipment Pty Limited | Stuart Painting Services Pty Limited      |
| AJ Lucas Drilling Pty Limited          | Lucas Stuart Projects Pty Limited         |
| Lucas Shared Services Pty Limited      | Jaceco Drilling Pty Limited               |
| AJ Lucas Testing Pty Limited           | Geosearch Drilling Service Pty Limited    |
| Lucas Operations (WA) Pty Limited      | Lucas Energy Holdings Pty Limited         |
| AJ Lucas Joint Ventures Pty Limited    | Lucas Energy (WA) Pty Limited             |
| Lucas Drilling Pty Limited             | Lucas (Arawn) Pty Limited                 |
| Lucas Contract Drilling Pty Limited    | Lucas Power Holdings Pty Limited          |
| McDermott Drilling Pty Limited         | Mitchell Drilling Corporation Pty Limited |
| Lucas Stuart Pty Limited               | Marais Lucas Technologies 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 2012 are set out as follows:

### SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

|                                                     | 2012<br>\$'000 | 2011<br>\$'000 |
|-----------------------------------------------------|----------------|----------------|
| Loss before tax                                     | (116,559)      | (21,385)       |
| Income tax benefit                                  | 6,342          | 9,962          |
| Loss after tax                                      | (110,217)      | (11,423)       |
| Retained profit at beginning of the year            | 83,671         | 95,094         |
| Dividends recognised during the year                | –              | –              |
| (Accumulated losses)/Retained profit at end of year | (26,546)       | 83,671         |

### STATEMENT OF FINANCIAL POSITION

|                                       | 2012<br>\$'000 | 2011<br>\$'000 |
|---------------------------------------|----------------|----------------|
| <b>Current assets</b>                 |                |                |
| Cash and cash equivalents             | 4,343          | 1,347          |
| Trade and other receivables           | 57,051         | 61,316         |
| Construction work in progress         | 55,918         | 52,946         |
| Assets classified as held for sale    | 5,503          | 11,072         |
| Other assets                          | 862            | 1,899          |
| <b>Total current assets</b>           | <b>123,677</b> | <b>128,580</b> |
| <b>Non-current assets</b>             |                |                |
| Trade and other receivables           | 146            | –              |
| Development assets                    | 580            | 647            |
| Exploration assets                    | 16,073         | 7,946          |
| Deferred tax assets                   | 698            | –              |
| Equity accounted investees            | 73,603         | 52,687         |
| Intangible assets                     | 67,001         | 112,283        |
| Property, plant and equipment         | 133,638        | 136,896        |
| <b>Total non-current assets</b>       | <b>291,739</b> | <b>310,459</b> |
| <b>Total assets</b>                   | <b>415,416</b> | <b>439,039</b> |
| <b>Current liabilities</b>            |                |                |
| Trade and other payables              | 120,348        | 88,413         |
| Interest-bearing loans and borrowings | 91,171         | 99,745         |
| Income tax payable                    | 32,692         | 47,922         |
| Derivative liability                  | 2,665          | –              |
| Provisions                            | 7,849          | 7,031          |
| <b>Total current liabilities</b>      | <b>254,725</b> | <b>243,111</b> |

## 38. DEED OF CROSS GUARANTEE (CONT)

|                                        | 2012<br>\$'000 | 2011<br>\$'000 |
|----------------------------------------|----------------|----------------|
| <b>Non-current liabilities</b>         |                |                |
| Interest-bearing loans and borrowings  | 41,881         | 12,718         |
| Derivative liability                   | 4,015          | –              |
| Deferred tax liabilities               | –              | 5,761          |
| Provisions                             | 1,239          | 1,529          |
| <b>Total non-current liabilities</b>   | <b>47,135</b>  | <b>20,008</b>  |
| <b>Total liabilities</b>               | <b>301,860</b> | <b>263,119</b> |
| <b>Net assets</b>                      | <b>113,556</b> | <b>175,920</b> |
| <b>Equity</b>                          |                |                |
| Issued capital                         | 138,506        | 91,935         |
| Reserves                               | 1,596          | 314            |
| (Accumulated losses)/Retained earnings | (26,546)       | 83,671         |
| <b>Total equity</b>                    | <b>113,556</b> | <b>175,920</b> |

## 39. ECONOMIC DEPENDENCY

Kerogen has provided substantial financial support to the Group through the subscription of equity, the provision of a mezzanine finance facility and other short-term loans. These funds have been applied to refinance the Group, provide working capital and to sustain the Group's investment in Cuadrilla and the Bowland and Bolney basins. The Group continues to rely on Kerogen for financial support most particularly to be able to meet capital calls to maintain its interest in its oil and gas investments. Refer to Note 2(c) for further details.

## 40. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Company has entered into a number of financial arrangements which will result in a significant recapitalisation of the Company. These events are:

- Shareholders approved at a meeting held on 5 September 2012 a placement to Kerogen Investments No.1 (HK) Limited ("Kerogen") to raise \$30 million and the exercise of options over shares in the Company by Kerogen for \$10 million, in aggregate raising \$40 million additional equity for the Company.

- The Company has entered into a deferred instalment arrangement with the ATO to pay the amount owing over five years, including \$10 million from the proceeds of the September 2012 equity raising.
- Kerogen has provided additional loan facilities to the Group amounting to \$14.9 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. \$10 million of these borrowings has been repaid through the September 2012 capital raising.
- The Company's senior financier has brought forward the maturity date for its financing facilities to 30 November 2012. The majority of these facilities relate to leases of plant and equipment. The Company is in discussions with various other financiers to refinance these facilities.

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

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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 33 to 82 and the Remuneration Report included in the Directors' Report, set out on pages 26 to 31, 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 2012 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 38 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 2012.
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:

A handwritten signature in black ink, appearing to read "Allan Campbell". The signature is written in a cursive, flowing style.

Allan Campbell  
Director  
28 September 2012



## 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 2012, 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 40 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.

### 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 2012 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).

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## EMPHASIS OF MATTER REGARDING CONTINUATION AS A GOING CONCERN

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Without qualifying our opinion, we draw attention to Note 2 (C) in the financial report which indicates that the Group incurred a loss after income tax of \$110.2 million during the year ended 30 June 2012, and, as of that date, the Group's current liabilities exceeded its current assets by \$131.0 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 and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business without the ongoing financial support of Kerogen as a substantial shareholder and financier, the successful refinancing of the Group's ANZ financing facility, the achievement of forecast profits and cash flows and the ability to access sufficient financing and/or dispose of assets, if and when required.

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## REPORT ON THE REMUNERATION REPORT

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We have audited the Remuneration Report included on pages 26 to 31 of the Directors' Report for the year ended 30 June 2012. 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.

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## AUDITOR'S OPINION

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In our opinion, the remuneration report of AJ Lucas Group Limited for the year ended 30 June 2012, complies with Section 300A of the Corporations Act 2001.



KPMG



Tony Nimac  
Partner

Sydney  
28 September 2012

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# Australian Securities Exchange

## Additional Information

### DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 AUGUST 2012)

| Securities held  | Number of Security Holders |         |        |
|------------------|----------------------------|---------|--------|
|                  | Ordinary shares            | Options | Rights |
| 1 - 1000         | 882                        | —       | —      |
| 1,001 - 5,000    | 1,216                      | —       | —      |
| 5,001 - 10,000   | 473                        | —       | —      |
| 10,001 - 100,000 | 505                        | —       | —      |
| 100,001 and over | 49                         | 3       | 3      |
| Total            | 3,125                      | 3       | 3      |

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

### TWENTY LARGEST ORDINARY SHAREHOLDERS

| Name                                                                      | Number of ordinary shares held | % of Issued shares |
|---------------------------------------------------------------------------|--------------------------------|--------------------|
| Kerogen Investments No 1 (HK) Limited                                     | 33,885,303                     | 32.89              |
| Andial Holdings Pty Limited                                               | 11,990,000                     | 11.64              |
| JP Morgan Nominees Australia Limited <Cash Income A/C>                    | 7,188,724                      | 6.98               |
| National Nominees Limited                                                 | 3,869,732                      | 3.76               |
| HSBC Custody Nominees (Australia) Limited - A/C 2                         | 3,246,469                      | 3.15               |
| JP Morgan Nominees Australia Limited                                      | 2,502,639                      | 2.43               |
| Amalgamated Dairies Limited                                               | 2,333,000                      | 2.26               |
| Citicorp Nominees Pty Limited                                             | 2,101,814                      | 2.04               |
| HSBC Custody Nominees (Australia) Limited-GSCO ECA                        | 1,834,985                      | 1.78               |
| Forty Traders Limited                                                     | 1,566,348                      | 1.52               |
| HSBC Custody Nominees (Australia) Limited                                 | 1,209,779                      | 1.17               |
| UBS Nominees Pty Ltd                                                      | 1,164,165                      | 1.13               |
| Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee>                    | 517,367                        | 0.5                |
| ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>                 | 467,032                        | 0.45               |
| Stirling Bridge Ltd                                                       | 370,000                        | 0.36               |
| Millefleurs Pty Ltd <Green Family S/Fund A/C>                             | 350,000                        | 0.34               |
| Ross Alexander Macpherson                                                 | 300,000                        | 0.29               |
| Simon Seng Plok Soon + Melanie Gim Lian Soon <The Soon Family S/Fund A/C> | 300,000                        | 0.29               |
| NZ Guardian Trust Company Ltd <01035700 A/C>                              | 290,950                        | 0.28               |
| David John Lauritz                                                        | 288,000                        | 0.28               |
|                                                                           | <b>75,776,307</b>              | <b>73.54</b>       |

**SUBSTANTIAL SHAREHOLDERS**

| <b>Name</b>                                          | <b>Number of ordinary shares held</b> | <b>% of Issued shares</b> |
|------------------------------------------------------|---------------------------------------|---------------------------|
| Kerogen Investments No 1 (HK) Limited <sup>(1)</sup> | 33,885,303                            | 32.89                     |
| Andial Holdings Pty Limited                          | 17,490,000                            | 16.98                     |
| Coupland Cardiff Asset Management LLP                | 7,236,435                             | 7.02                      |

(1) In addition, Kerogen owns 14,694,403 options over an equivalent number of ordinary shares in the Company. Subject to Foreign Investment Review Board approval, it also has a right expiring on 28 February 2014 to acquire 3,872,360 options over an equivalent number of shares in the Company from Gleneagle Securities (Aust) Pty Limited.

**ON-MARKET BUY BACK:**

There is no current on-market buy back.

**UNQUOTED EQUITY SECURITIES:**

There are no unquoted equity securities.

**VOTING RIGHTS**

Ordinary shares - Refer to note 29 of the financial statements.

Rights and options - There are no voting rights attached to the rights or options.

# Directory

**COMPANY SECRETARY**

Nicholas Swan MA, MBA

**REGISTERED OFFICE**

394 Lane Cove Road  
MACQUARIE PARK NSW 2113  
Tel +61 2 9490 4000  
Fax +61 2 9490 4200

**SHARE REGISTRY**

Computershare Investor Services Pty Limited  
Level 5, 115 Grenfell Street  
ADELAIDE SA 5000  
GPO Box 1903  
ADELAIDE SA 5001  
Enquiries within Australia: 1300 556 161  
Enquiries outside Australia: +61 3 9615 5970  
Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)  
Website: [www.computershare.com](http://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 9001:2008)**

Bureau Veritas Australia Pty Limited

**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.



[www.lucas.com.au](http://www.lucas.com.au)

## **SYDNEY**

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## **BRISBANE**

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Level 1, 217 George Street  
Brisbane QLD 4000

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## **DRILLING SERVICES**

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616 Boundary Road  
Richlands QLD 4077

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## **PERTH**

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