

Annual Report 2013



LUCAS SPECIALIST ENGINEERING



A reconstructed balance sheet allows us to focus once again on our core specialist engineering capabilities.

We have introduced a world class partner to assist in developing our Bowland asset in the UK.



Letter from the Chairman

Lucas' capabilities and strengths are often overlooked. Few realise Lucas' very significant contribution to economic growth, safety and the environment that Lucas engineering techniques have made. From the early development of horizontal directional drilling, pipeline engineering advancements and trenchless technology techniques to the development of industrial relations and OHS policies for lean management situations, Lucas is consistently innovative.

Concentrating on the energy, resources and water industries, Lucas has played a vital role in the design and construction of many significant infrastructure projects across Australia.

Lucas' expertise does not stop at engineering and drilling services. Applying our knowledge in directional drilling and extraction technologies, Lucas was an early explorer for coal seam gas in Australia and has been at the forefront of shale gas exploration in Europe since 2006 – very much the pioneer in Europe. Lucas' drilling capability has played a vital part in the commercialisation of significant and important new energy sources, whilst allowing a significant reduction in carbon emissions at the same time.

Being a specialist engineering service provider and an innovator is not without risks. However, if the world is to grow in an environmentally sensitive and sustainable manner, this demands innovation to identify alternative methods of delivering infrastructure and addressing our water and energy needs.

We are all aware that the mining services industry in Australia has experienced an incredibly tough year. Lucas, as a leading provider of drilling services to the coal and coal seam gas industries, was not immune to this although, as a leader in directional and production drilling techniques, we have weathered the storm better than some others. Notwithstanding overwhelming negative investor sentiment towards the mining services industry, Lucas' share price actually appreciated by 13% over the financial year, making it one of the best performing companies in this sector.

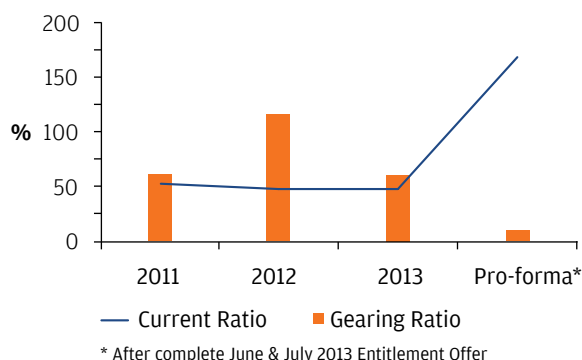
The rapid downturn in the mining industry, coinciding with the continued delays in the commercialisation of our UK oil and gas investments, made the last year particularly challenging. Reduced cash flow made the need to deleverage the business and recapitalise the balance sheet even more urgent; a process which has been occurring throughout the last two years.

With an uncertain financial outlook, sourcing new capital was always going to be difficult. However, the sale of a partial interest in the Bowland shale gas prospect in June 2013 provided third party recognition of the value of this investment. As a consequence, we were able to undertake a \$149 million capital raising, completed just after year end, the effect of which has been to transform our balance sheet.

An additional vital step in the restructuring of our balance sheet is the agreement reached with Kerogen Investments to reschedule the maturity date of our borrowings with Kerogen by three years, to early 2017. Subsequent to shareholder approval of the security for these borrowings, we will have no major loans due for repayment for over three years.

The combined capital raising and debt rescheduling has transformed the strength of our balance sheet. From a working capital deficiency and a high gearing ratio, the Group now has a significant surplus cash balance and a borrowing ratio consistent with or less than many of our peers. We also have the assets.

DEBT TO EQUITY AND CURRENT RATIOS



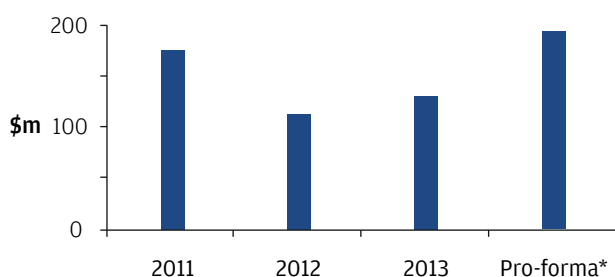
Industry reaction to our strengthened balance sheet has seen the award of \$66 million of new contract work in the last three months. There is no doubt that during the financial year, there was concern amongst our clients as to our financial strength which resulted in the work being awarded elsewhere. Many of these concerns have now been removed and confidence in the Company is much higher.

Lucas' expertise as a specialist engineering contractor is particularly relevant as the standard required of infrastructure works becomes ever more demanding. Increasing requirements for minimal environmental impact, high safety standards, demands for reduced costs and ever more remote and challenging terrain increase the need for innovative solutions and engineering/self performance options. We have the knowledge, the experience and the capability and creativity to provide project enhancing, cost effective solutions – without providing "margin on margin", like a lot of traditional contractors.

Much has been said about the LNG export facilities on Curtis Island being short of gas. The search for the necessary gas is now extending to a much greater distance from the plants bringing with it the need for additional drilling and infrastructure to gather and deliver the gas. Lucas is well positioned to capitalise on this demand and where necessary, will partner with other leading companies to achieve this.

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SHAREHOLDER FUNDS



* After complete June & July 2013 Entitlement Offer

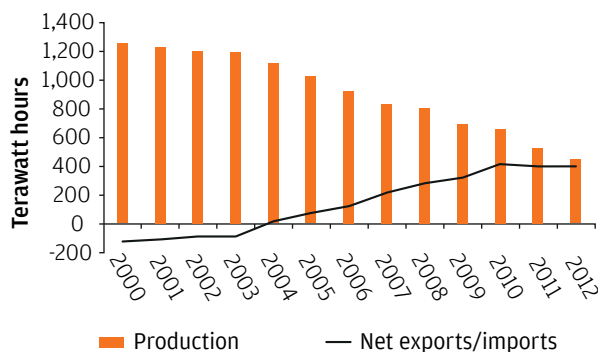
Of course, what many shareholders want is progress in the commercialisation of our oil and gas investments, mainly held through our investment in Cuadrilla Resources but also directly in the Bowland and Bolney Prospects.

Shale gas has strong support from the British central government but still attracts vocal opposition from a minority. Britain is increasingly reliant on overseas sourced natural gas, currently importing more than two thirds of its gas requirements at great cost to the economy. It is therefore disappointing that the permitting and planning requirements and the resistance from lobby groups are causing so much delay to the development of the shale gas industry in the UK. As Mr Cameron, the British Prime Minister, recently said: "...we cannot afford to miss out on fracking." It is unfortunate that others are not listening to this leadership.

Cuadrilla and Lucas have spent a great deal of time listening to the fears and needs of those directly affected by our activities. Much work is being done to address these issues. A lot of the fear and hysteria is being spread by opponents of fossil fuels without any concern whatsoever as to the truth or facts of the matter. Some of the world's foremost scientific bodies have considered shale gas and its commercialisation including The Royal Society, Royal Academy of Engineering and the Institute of Directors, and have all concluded that, with effective regulation, unconventional gas can be safely developed. To that end, they have made a number of recommendations. On all counts, we are in agreement with these scientific bodies.

The delays in the commercialisation of the Bowland prospect unfortunately also extend to the Bolney prospect in the south of England. Exploratory drilling recently undertaken there confirmed the presence of oil. We are not yet in a position to form any firm views on the Balcombe No. 2 well until it is tested in February/March next year, upon receipt of planning consent.

UK GAS PRODUCTION AND NET GAS EXPORTS/IMPORTS



In summary, despite the challenges we have faced, much has been achieved over the last year. The rationalisation of the business, the new management information system and the stronger balance sheet have laid the foundations for renewed growth. The Group's strong reputation for innovative engineering design and project delivery is already leading to increased tender enquiry. Although no significant increase in demand for our drilling services is expected in the short term, the record coal exports currently being experienced in Australia will eventually result in additional exploration drilling being required. In the interim, our directional drilling rigs continue to perform well.

We are reviewing all aspects of the business and returning to our roots. The emphasis is on adding value and concentrating on core areas where we can do this, not growth for growth's sake. We are more interested in investing in intellectual capital than investing in iron. Above all, it is the culture and ethos of Lucas which will drive this business. With a renewed and strengthened balance sheet, we've gone back to our core value systems.

Finally, I wish to thank the members of the Board and our employees for their contribution and efforts. The Board met 27 times during the year as we confronted the many challenges encountered, a testament to the resolve and commitment of my fellow directors to address the many issues facing the Company.

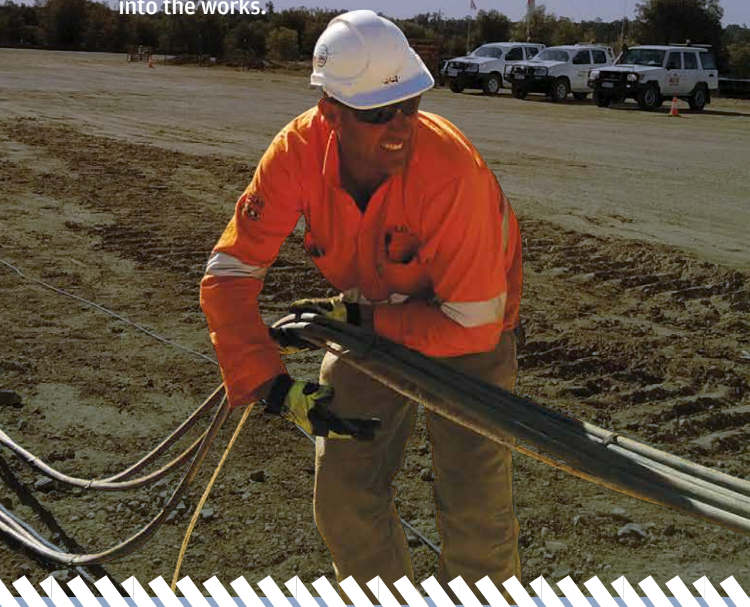
We look forward to the next chapter in Lucas' history with renewed optimism.

Allan Campbell

Specialist Engineering

Lucas recently completed another notable achievement when it completed its works on Stage 2 of the Southern SeaWater desalination Plant south of Perth, expanding its capacity from 50 billion litres to 100 billion per annum. The construction of the plant, which won the award for the 2012 Desalination Plant of the Year from Global Water Intelligence, is another example of Lucas' specialist engineering skills and approach to delivering projects.

Lucas prides itself on its specialist engineering capability. Unlike most contractors, whose focus is predominantly on project management, Lucas' approach is to become much more engaged in planning and engineering the works as well as executing – adding real value to the project design and construction. Involved practically from inception, Lucas consults with the client to understand more than just the works but also the client's objectives. This gives Lucas a special insight into the works.



We are now back. We are concentrating on utilising our special skills in niches such as high pressure cross country pipelines, HDD, capture of coals seam gas using our directional drilling expertise and innovations, and applying our particular user friendly brand of relationship contracting with our customers.

Our 'back to the future' thrust has been almost immediately successful with the recent award of four significant pipeline projects including one with three HDD crossings where we have used our engineering skills to make the crossings less risky and cheaper for our customer.

Customers attracted to our niche skills are recognising the importance of plugging these skills into projects through Early Contractor Involvement (ECI). Application of our niche skills enhances Value Engineering and constructability which are key ingredients of ECI. The premise is that construction people with special skills can often offer better ways of achieving the desired outcome; better in terms of budget and programme, and can be incentivised to do so in a win-win relationship. Without Early Contractor Involvement, projects can get 'cast in stone' by the regulatory requirements, by Environmental Impact Statements, by onerous and hostile contracts before practical construction skills can be applied to the thinking, conceptualisation, planning, and definition for projects. Without Early Contractor Involvement, particularly by niche experts, opportunities for savings are lost due to the inflexibility in processes.

The market place has changed considerably in the last few years. In times gone by, most companies requiring large projects had their own engineering departments which undertook the design and construction of the works. Such companies therefore carried the cost of these departments even if they had no major works requiring their attention. Nowadays however, most of this work is outsourced to specialist consulting and engineering companies. This allows access to specialist firms with the widest array of knowledge and expertise and avoids the expense of carrying the overhead when not required.

This variation in the way of conducting business has raised the standard of engineering excellence required from specialist contractors. No longer can such companies just undertake the works as given to them by the client, with minimal responsibility for the manner in which the work is performed. This abdication of responsibility is no longer acceptable. Instead, the contractor is required to play a vital role in how the project is to be undertaken. It is not a matter of slavishly following drawings. Real input is now required from the contractor to deliver the project to the client in a cost effective and efficient manner. Working with the client rather than for the client is likely to have a much better outcome with reduced scope for surprises. This is Lucas' modus operandi.

NICHES AND EARLY CONTRACTOR INVOLVEMENT

Historically, Lucas operated as a niche engineer and contractor with sustainable competitive advantages, difficult to impregnate franchises, high current and future returns, with honest and capable management focused on long term value industries such as energy, water and infrastructure.

In recent years however, Lucas drifted away from these core principles pursuing projects which were not niche, where the returns have been poor, and the risk strategy was diluted in more highly competitive markets. Management lost its way both on projects and the administration of the business.

Lucas' specialist offerings are clearly differentiated from those of our more generalist competitors.

Lucas' specialist offerings are clearly differentiated from those of our more generalist competitors. While our competitors focus on a broad-servicing, multi-disciplinary approach, limiting client value and service, Lucas offers a genuine specialisation in engineering services and therefore a deeper understanding of challenges and opportunities.

Serving the energy, water, resources and public utility sectors and undertaking projects from river crossings, delivery of pipeline landfalls or construction of leading water infrastructure works, Lucas prides itself on its project execution.

Regardless of the complexity of the project, its remoteness, difficulty of the terrain or the countless other challenges associated with the projects we undertake, Lucas strives to deliver the works in accordance with the specifications, on time and on budget.

Lucas works only with large corporate and government organisations. The repeat award of work by the same clients is testament to their trust in Lucas and confidence in our ability to deliver projects to the required standards and at specification.

The list of Company acknowledgements and awards to Lucas is extensive and is a clear demonstration of the market recognition of the Company's capabilities and expertise.

HORIZONTAL DIRECTIONAL DRILLING

Lucas' specialist engineering capability is embedded in its trenchless technology expertise. A world leader in Horizontal Directional Drilling (HDD), Lucas holds many records for the longest distance drilled or complexity of the work undertaken. Initially applied for civil applications, Lucas was amongst the first to recognise the application of this technology to gas drainage from coal mines and then to gas production. With in-house experts in geology, petroleum engineering and other related disciplines, Lucas has successfully adapted its drilling expertise to lateral drilling up to a distance of 2km. This has revolutionised mine planning, improved mine safety and reduced carbon emissions.

With the largest capacity HDD rigs in Australia, Lucas is proud of the fact that we can drill further, larger diameters and faster than any of our competitors in the country. Lucas has also undertaken the largest HDD project in Australia – the Gorgon Project at Barrow Island on Australia's north-west shelf.

2012 DELSALINATION PLANT OF THE YEAR

Achieving another outstanding acknowledgment during the year, the Southern Seawater Desalination Plant in Western Australia, substantially constructed by Lucas, was awarded the 2012 Desalination Plant of the Year, by Global Water Intelligence.

Western Australia is particularly vulnerable to the effects of drought. This Desalination Plant provides a level of safeguard against this climatic risk, delivering 17% of the water required for the 1.6 million people in the catchment area.

Lucas played a vital role in the planning and construction of the plant. The plant was built to meet detailed specifications, with a firm focus on delivery within strict timeframes. The plant is testament to the innovative and environmentally sustainable approaches utilised by both Lucas and our partners. Construction was undertaken with minimal impact to the surrounding environment, with measures employed to enable noise control, limit impact on coastal dune systems and recreational beach facilities. Of note, 100% renewable energy systems were integrated into the design to power the plant.



THE GORGON PROJECT

Lucas successfully completed the Gorgon HDD Shore Crossings Project on Barrow Island in Western Australia, for the Gorgon Upstream Joint Venture. The Shore Crossings were completed as a part of the greater Gorgon Project, an LNG development of the Gorgon and Jansz gas fields.

The scope of the project consisted of detailed design and the horizontal directional drilling of nine significant boreholes with pipeline installation, supported by an offshore marine spread.

The Gorgon Shore Crossings presented many potential barriers to success that were unique to a project of this nature and in this location, the remote Class A nature reserve. With the final project design including sub-sea gas gathering manifolds, Lucas was also presented with significant environmental challenges. As such, innovative environmentally sustainable approaches were employed to minimise any impact on the surrounding area.

The successful completion of the project can be attributed to the pre-construction planning phase, overall project management and execution on the island. Lucas and its partners were commended several times by representatives of Chevron, the project operator, for presenting the best example of project execution on the island in terms of safety, environment and quality. The Greater Gorgon Project is still under construction with first delivery of LNG expected by early 2015.



Lucas' HDD expertise is critical for clients requiring implementation of linear infrastructure in a cost effective and environmentally-friendly manner.

The Company's HDD capability is acknowledged as demonstrated by the recent award of several infrastructure projects. These include:

- Construction and installation of a 5.5km high-pressure gas pipeline between Tomago and Hexham. This project includes 2.6km of horizontal directional drilling to cross the Hunter River and industrial area. Importantly, this methodology has minimal impact on the environment or existing services such as telecommunications, gas pipelines and underground pipelines.
- Rectification, completion, testing and pre-commissioning works for a previously uncompleted gas pipeline project including 27km of mainline, four trenchless crossings and approximately 10 tie-in points from uncompleted crossings.



PIPELINES

Lucas also has a long history in the delivery of pipelines and has been responsible for the construction of some of the longest pipelines built in Australia. Lucas' leading pipeline construction capability is recognised by the recent award of a major pipeline contract for the Queensland Curtis LNG project.

The project, being undertaken in conjunction with Spiecapag, the leading French engineering company, requires the construction and installation of gas (53.6km) and water (24.5km) trunklines in Central Queensland.

COLLABORATION

While Lucas prides itself on its capabilities, we recognise there are others also developing and offering alternative methods of installing infrastructure. Lucas actively seeks out such companies with whom to collaborate, so we can offer the best solution to our clients.

We have a long history of joint venture collaboration with several notable companies. In particular, we have partnered with Spiecapag for the construction of pipelines, Marais for micro-trenching and various other companies for water infrastructure, including desalination. These associations allow Lucas to offer the best solution to its clients, while simultaneously expanding the Group's knowledge base. This creates a positive situation for our clients and the Company alike.

ENVIRONMENTAL LEADERSHIP

Lucas has been an advocate for a clean environment long before carbon emissions became topical. The Company long ago recognised the impact of carbon emissions on the environment. The Company's drilling technologies, through capturing much of the gas contained within coal, make a vital contribution to minimising these emissions.

Lucas is pleased its directional drilling capability is now greatly recognised by the emerging shale gas industry, the next fuel source in the progressive transition to a carbon-free energy source. The Company has provided its drilling services to prospective shale gas producers in the Northern Territory and Queensland and is now fielding enquiries for these services in New South Wales and Western Australia.

SAFETY AND CULTURE

The safety of our people, workplaces, and the communities around which we work is of vital importance to Lucas.

Critical to Lucas' success is the Group's culture and our ongoing commitment to safety. Lucas has now been in existence for in excess of 50 years, with several of our employees working for the company for much of that period. This represents a huge pool of experience that we are able to draw on to emphasise the safety culture and promote an incident free environment.

This underlying culture is underpinned by leadership forums, training and strict enforcement of safe work practices.

Safety has always been, and will continue to be, the first priority of the Company.

GULLEN RANGE WIND FARM PROJECT

Located just outside of Crookwell, one of the windiest locations in New South Wales, Lucas is responsible for providing 160km of trenching for underground cabling that will enable 73 wind turbines to deliver electricity to the grid and will support the production of clean energy for the next twenty years.

Constructed over a period of 14 months, Lucas is making a major contribution to this vital energy project, which at its full capability will reduce carbon emissions by 24 million tons per annum, and will produce sufficient green energy to offset the energy that was required for manufacture of the turbines.



Lucas places the utmost priority on the safety of its employees. Our commitment to a safe work environment is fundamental to the conduct of our work.

LUCAS SAFETY ZONE
Injury free. Every day

Whose Gas Is It Anyway? A Fracking Conversation...

We need to talk!

Unconventional gas demands an unconventional conversation – a national conversation about community benefit and safety in relation to our gas resource and its extraction.

At the community level, it is not possible to tell whether shale gas or coal seam gas is a long-term threat, or a long-term benefit. Media opportunists amplify the anxieties of protesters, and unfortunately government and industry present the substantial local and national benefits in a disordered way. There is no consistent story.

Campaigners go door to door and ask, "are you for, or against"? Many people say, there is a third option – "I don't know enough to know whether I am for or against." The issues are unfamiliar, the process uncomfortable, and the polemics are off-putting. But how, apart from the internet, do people learn more?

What is needed is a way for people to engage with actual experts who are not all necessarily in favour, so they can make up their own minds. The "story" needs to be one people are allowed to gather for themselves; and not be harangued in the process.

However, to get regulators and other experts to participate systemically, there needs to be a replicable and scalable means of engagement. It cannot be ad hoc or haphazard. The industry and government need to give people a method or process which allows them to access information sessions in a productive way.

What's needed is:

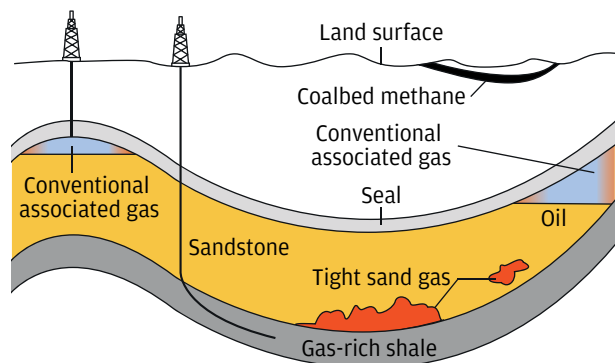
- an independent inquiry-based process,
- allowing people to ask questions and hear the facts from all sides in response to their issues,
- providing opportunity to discuss and debate with each other in this context,
- with quality control of the debate and the facts presented, so that deliberate misinformation is eliminated.

We are talking about learning through properly informed conversation – first to understand how to think about the issues and second, to process the information itself.

This does not mean that all parties walk out in agreement! Good debate means that understanding is improved, that all parties know how others feel about the issues, and that all parties are able to have a reasonable discussion together, even if they don't agree.

Before we discuss how to accomplish this, let's review the technical nature of the subject and the kind of misinformation that needs to be eliminated.

NATURAL GAS



Conventional trapped natural gas is generally trapped in high permeability rocks beneath a low permeability rock layer. The natural gas flows freely to the surface once the well is drilled and punctures the low permeability layer. By contrast, so-called "unconventional" natural gas is more difficult to extract because it is trapped in rock with very low permeability. Unconventional natural gas does not flow freely to the surface once the well is drilled.

Three common types of unconventional gas include:

- (1) Coalbed or coalseam methane, which is sourced from within a coal seam or in the surrounding rock;
- (2) Tight natural gas, which is found in low porosity sandstones and carbonate reservoirs; and
- (3) Shale gas, which is sourced from within the shale and trapped in one nanometre pore space of shale rocks.

Technological advances using precision directional drilling and multi-stage hydraulic fracturing have greatly facilitated the rapid development of unconventional natural gas resources.

"Is this safe?"

"What is in it for us?"

Local communities must be able to answer these questions.



The health, safety and environmental risks associated with hydraulic fracturing as a means to extract shale gas can be managed effectively in the UK as long as operational best practices are implemented and enforced through regulation.



The Royal Society and Royal Academy of Engineering
'Shale gas extraction in the UK: a review of hydraulic fracturing' June 2012

The 'gas from unconventional sources' conversation is ultimately one about regulation. And that requires political leadership...

The terms of reference to The Royal Society and Royal Academy of Engineering were to "carry out an independent review of the scientific and engineering evidence... (regarding) hydraulic fracturing to inform government policy making..." The Report was very detailed and conclusive and was delivered in June 2012. Being uncontroversial, even to those who oppose shale gas for ideological reasons, the press have largely ignored it.

The Report made ten recommendations which formed the basis of their conclusion. These related to issues such as:

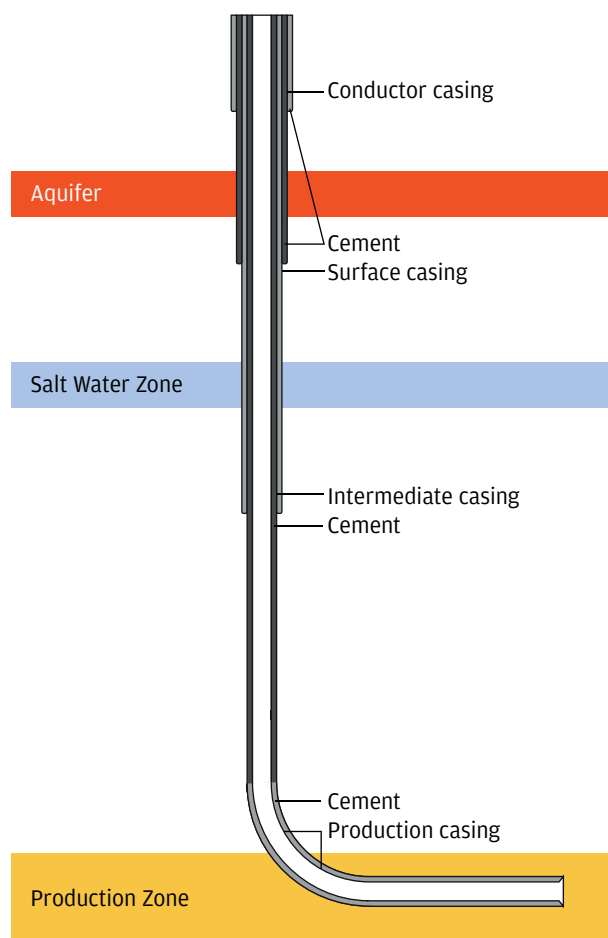
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| 1. Detecting groundwater contamination | 7. Risk management best practice |
| 2. To ensure well integrity | 8. To fully determine regulatory requirements |
| 3. To mitigate induced seismicity | 9. A single body to co-ordinate regulatory responsibilities |
| 4. To detect potential leakages of gas | 10. Further research into shale gas re climate change, energy and the wider economy. |
| 5. Integrated water management | |
| 6. To manage environmental risks | |

Lucas, and its UK affiliate and partner in UK shale gas development, Cuadrilla Resources, agree with and support the recommendations made by The Royal Society and Royal Academy of Engineering.

Mythbusters: Do you know that...?

- The Australian Commonwealth legislation prohibits drilling where there is a possibility for interconnection between the coal seam and the aquifer.
- There is no evidence in Australia, the USA, or the UK of aquifer contamination caused by a well designed and executed to the relevant regulation standard.
- The total number of aquifers found to be polluted by either fracking fluid or methane gas as a result of fracking is – zero.
- The 'flaming tap' shown in Gasland has been shown to have nothing to do with fracking. The methane contamination of the well water was caused by naturally occurring biogenic methane from decaying matter in the aquifer. Naturally occurring methane is a common feature of well water in some parts of the world.
- Shale gas production, done well, does not release more methane to the atmosphere than coal as alleged by a 2011 Cornell University study. A study by the University of Texas and Environmental Defence Fund found that over 99% of potential methane emissions were being captured. Effective in 2015, so-called 'green completions' will be required for all new wells.
- Coal mining vents the methane gas extracted prior to the mining process straight into the atmosphere. Methane is 20.7 times more potent as a greenhouse gas than carbon dioxide.
- In terms of water usage, fracking in Texas uses 1% of the water available; the USA as a whole uses 0.3% for fracking – less than is used by golf courses.
- The biggest user of water is farming.
- Modern fracking fluids are simple and non-hazardous – they do not contain the alleged hundreds of toxic chemicals. Over 99.5% of fracking fluid is sand and water. The additives are designed to lubricate the water and are found in everyday household goods: – shampoo, detergent, de-icer, cosmetics, hair dye, ice-cream, disinfectant and deodorant. Reputable operators disclose the contents of fracking fluids. In the UK this is required.
- It is physically impossible to pump enough energy (whilst fracking) into the earth to cause an earthquake. Induced seismicity can occur on a small scale if a water injection lubricates existing tension in a fault, at most equivalent on the Richter scale to no more than a truck passing a house (approximately 2.4 on the Richter scale).
- Technology to extract natural gas is developing all the time and fracking techniques are currently being developed which require no water or additives.
- In Spain each year between 6 million and 18 million birds are killed by wind turbines (an estimate by a researcher at Oxford University).
- A drilling pad is less than 2 hectares (less than a small shopping centre). The Institute of Directors estimated that development of the 1200 km² Bowland Prospect will require approximately 100 pads with a combined surface area of 2 km². By contrast an average wind farm requires over 500 hectares.

These are just some of the very interesting facts which require context or some level of scientific understanding to be addressed. This is not often provided by the media. There are many, many more facts that can be ventilated at community level in a rational, balanced and thoughtful process. We wish this to take place.



Above is a typical example of a shale gas well. Typically, the aquifer is behind 3 sets of steel pipe, cemented in with the production zone many thousands of feet below the aquifer. In the Bowland shale for instance, the production zone is approximately 3-4 kilometres below the aquifer.

“**Ensuring well integrity must remain the highest priority to prevent contamination. The probability of well failure is low for a single well if it is designed, constructed and abandoned according to best practice.**”

The Royal Society and Royal Academy of Engineering Report, June 2012

“**In our view, the UK’s shale gas resources, if developed in an environmentally and socially responsible way, have the potential to reduce gas imports, generate tax revenues and create jobs in parts of the country that need them most. Shale gas development need not come at the expense of decarbonisation and renewable energy objectives; indeed, it could contribute towards meeting those objectives.**”

”

‘Infrastructure for Business. Getting shale gas working’.
Institute of Directors, 2013

The Institute of Directors sees UK shale gas development as a two stage process firstly, to overcome the exploration hurdle and secondly, to develop a shale gas industry. Their recommendations can be summarised as follows:

1. **Provide guidance to clarify the planning process for exploration wells**
2. **Facilitate further exploration and appraisal of shale gas resources by launching the UK 14th licensing round**
3. **Put in place a financial framework that benefits communities and encourages wider economic development**
4. **Ensure that the planning and permitting regime facilitates production**
5. **Make operations transparent, including operations and fluids, and community benefit payments**
6. **Provide skills and supply chain opportunities**
7. **Provide government leadership, with an emphasis on clarity for the operating framework**
8. **Develop an online shale gas portal which integrates information from different sources, and provides transparency on operations**

At Lucas, we have been studying the science and the engineering of unconventional natural gas extraction for almost two decades. We are of the same opinion as The Royal Society, Royal Academy of Engineering and the Institute of Directors. We agree with their conclusions and recommendations.

Equally, we accept that others have different views and that not everybody has had access to the facts and the body of science available on this subject. They deserve that opportunity. The facts and opinions need to be discussed and understood.

If properly engineered and executed, overseen by best practice regulation, unconventional gas extraction is safe.

WE NEED A NATIONAL CONVERSATION ON THE ISSUES INVOLVED. THIS PROCESS SHOULD BE VIEWED AS ONE OF INDUSTRIAL EDUCATION.

At Lucas, we understand why traditional consultation methods have a justifiably bad rap. First of all, there is an agenda – a developer has a project to put through, and the community participant only hears one point of view. Second, they are often consulted in name only. Third, the formats tend to reduce the perceived equality between the resident and the authority figure. Town Hall meetings put presenters on stage, and the group discussion is subject to hijack. Drop-ins disperse supporters and opponents alike into smaller discussions, but the group-as-a-whole often does not hear an overall presentation. Exhibits can be somewhat passive. Online consultation lacks the learning from live exchange.

What is needed is a forum in which people can improve their understanding of the issues and how they feel, and have a chance for informed debate.

WHAT ABOUT A TRAVELLING WORKSHOP?

Lucas would like to see a nationally travelling workshop that promotes the opportunity for informed local debate about shale and coal seam gas in the context of energy. This could be announced and done at sufficient authority to bring visibility to the process and the issue. These events should also include real consultation about the wishes of individual communities.

It should be done both in Britain and Australia.

The insights and consultation can be systematically gathered, and culminate in a "summary" event which integrates the issues. A documentary could be made of the process and the findings, with interviews from all participants, to reflect and amplify what people are learning.

These workshops are about how to do coal seam gas and shale gas well, and is not a contest between fossil fuels and renewables. That is a separate discussion that, in our opinion, should continue.

“

The weight of evidence so far suggests that unconventional gas can be developed safely with effective regulation...

”

Dan Byles MP, Chair of the All Party Parliamentary Group for Unconventional Oil & Gas, and member of the Energy and Climate Change Select Committee (Foreword to the IOD Report, 2013).

ENERGY OF THE FUTURE

The "gas from unconventional sources" conversation is ultimately one about regulation. And that requires political leadership to formulate and impose effective regulation, to oversee the process, to streamline the planning and permitting, and to look after the interests of the general public.

In conclusion, we are confident that if properly engineered and executed, within a framework of world-class regulation, unconventional gas extraction is safe.

The government (whatever or wherever) should provide that leadership and have the intellectual and moral courage to seek the truth and exercise wisdom in the distribution of the economic and social benefits throughout the community.

In the 1970's, NSW and Queensland were confronted by the introduction of irrigation, water licences and new farming techniques. At the time, these were threatening to the status quo. Where would agriculture and farmers be today had it not been for new technologies in water and farming introduced 40 years ago?

Directional drilling and hydraulic fracturing are analogous to what confronted farmers in the 1970's. Coal seam gas and shale gas are no different.

Under English and Australian law, the gas in situ belongs to the Crown; who can only grant rights to explore and release that gas. Before it is severed, that gas belongs to us: the people. This is part of the challenge: we need to create sufficient vested interests across the community.

We, the community, should be the beneficiaries of its commercial exploitation. At the very least, we should be protected from exploitation by those to whom the government has granted the right to explore and release that gas.

**Let us have the fracking conversation!
Whose gas is it anyway?**



AJ LUCAS GROUP LIMITED
FINANCIAL REPORT
Year Ended 30 June 2013

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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 2013 and the auditor's report thereon.

The Directors of the Company at any time during the financial year and up to the date of this report are as set out on the following page:



MIKE MCDERMOTT

Independent Non-Executive Director

Age 68

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 companies 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). He is also a member of the Remuneration Committee.

GENELLE COGHLAN BCom LLB, LLM

Independent Non-Executive Director

Age 57

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.

JULIAN BALL

Non-Independent Non-Executive Director

Age 51

Mr Ball is a managing director of Kerogen Capital (Asia) Limited, based in Hong Kong, with more than 25 years of experience in investment banking and private equity.

Mr Ball trained as a chartered accountant at Ernst & Young in London before relocating to Hong Kong. He worked for many years as an investment banker at JPMorgan primarily covering the energy and natural resources sectors prior to working in private equity.

Director	Date of appointment	Director	Date of appointment
Allan Campbell	Appointed 6 March 1995	Martin Green	Appointed 28 May 1999
Phillip Arnall	Appointed 10 August 2010	Mike McDermott	Appointed 4 February 2010
Genelle Coghlan	Appointed 10 August 2010	Julian Ball	Appointed 2 August 2013

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

MARTIN GREEN FCA

Independent Non-Executive Director
Age 68

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 38 years, mainly specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels.

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

Mr Green also serves as chairman of the Company's Audit and Risk and Remuneration committees.

ALLAN CAMPBELL BCom LLB

Executive Chairman and CEO
Age 57

After qualifying as a lawyer, Mr Campbell worked as an investment banker for many years before acquiring the Company in 1995 and listing 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.

PHILLIP ARNALL BCom

Independent Non-Executive Director
Age 68

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: Ludowici Limited 2006-2012. Mr Arnall is a member of the Company's Audit and 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 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 the 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	27	27	–	–	–	–
Phillip Arnall	27	25	3	3	1	1
Genelle Coghlan	27	22	3	3	–	–
Martin Green	27	26	3	3	1	1
Mike McDermott	27	27	–	–	1	1

CORPORATE GOVERNANCE STATEMENT

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

BOARD OF DIRECTORS

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

The key responsibilities of the Board are to:

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

The Board's role and responsibilities are documented in a written Board charter which is available 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 six directors, five of whom are non-executive, of whom four are independent.

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

Director	Status
Allan Campbell	Non-independent chief executive officer and chairman
Phillip Arnall	Independent non-executive director
Genelle Coghlan	Independent non-executive director
Martin Green	Independent non-executive director
Mike McDermott	Independent non-executive director
Julian Ball	Non-independent 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 significant 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 2013, 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. 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 six directors is female.

At present, 10% of the Company's 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 68% (2012: 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.

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

Name	Status
Martin Green (Chairman)	Independent non-executive director
Phillip Arnall	Independent non-executive director
Genelle Coghlan	Independent 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 misstatement 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 31000:2009, 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 Board 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 500 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 (E&C): Construction and civil engineering services. 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.

STRATEGY

The Group's business is to provide specialist engineering and drilling services primarily to the energy, resources and water industries. This is to be achieved through a highly skilled workforce, specialist equipment, excellent safety performance, quality management and information systems, and the provision of innovative, cost saving solutions.

The Group seeks to increase shareholder returns through application of its skills to enable early identification and subsequent exploration of oil and gas prospects, particularly for unconventional hydrocarbons, derived from its expertise and knowledge of directional drilling.

The Group is already a leader in horizontal directional drilling, with a long history of successful project delivery. This expertise has been leveraged through directional drilling to degas coal mines, of particular application in a high carbon cost economy. The Group also has a successful track record in its oil and gas investments with exceptional returns from its investments at Gloucester Basin and in ATP651 in Queensland's Surat Basin. The recent partial monetisation of the Group's investments in Cuadrilla Resources and directly in the Bowland Basin in the UK continues this trend.

REVIEW AND RESULTS OF OPERATIONS

OVERVIEW OF THE GROUP

Difficult trading conditions, principally due to weak commodity prices and client focus on cost reduction, resulted in the Group recording an underlying earnings before interest tax, depreciation and amortisation (EBITDA) profit of \$3.3m. A reluctance to award work to the Company whilst its balance sheet remained under strain also contributed to the poor performance, with revenue declining by 41.5% from \$504.3 million to \$294.8 million. The balance sheet was recapitalised around year end completing in July, which substantially strengthens the Company's financial position and removes many of these concerns.

Offsetting the poor operating result however, the Company's investment in its European shale gas portfolio continued to mature. Lucas and its 43.7% owned associate, Cuadrilla Resources Holdings Limited (Cuadrilla), each sold 25% of their interest in the Bowland Prospect for an upfront payment of £40 million, of which Lucas' share was £10 million. The purchaser has also committed to fund the next £60 million of expenditure on Bowland, of which £15 million must be incurred by the purchaser before the purchaser has the option to put the acquired interest back to Lucas and Cuadrilla without an obligation to incur additional expenditure. In the event this option is not put to Lucas and Cuadrilla, subject to certain appraisal or operational milestones occurring, future additional payments will be made by the purchaser of up to £45 million to Cuadrilla and £15 million to Lucas.

The following table summarises the results for the year:

	2013 Year \$'000	2013 2nd half \$'000	2013 1st half \$'000	2012 Year \$'000	2012/13 Change %
Total revenue	294,791	118,591	176,200	504,276	(41.5%)
Reported EBITDA	(19,306)	(11,706)	(7,600)	(21,517)	10.3%
EBIT	(85,739)	(52,839)	(32,900)	(93,140)	7.9%
Loss before tax	(124,438)	(82,938)	(41,500)	(116,579)	(6.7%)
Net loss for the year	(126,996)	(84,396)	(42,600)	(110,237)	(15.2%)
Total assets	333,376	333,376	379,096	415,354	(19.7%)
Net assets	131,640	131,640	149,510	113,494	16.0%
Basic loss per share (cents)	(97.6)	(61.6)	(36.0)	(133.2)	26.7%

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

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Corporate \$'000	2013 \$'000	2012 \$'000
Reconciliation:						
Reported EBITDA	21,776	(29,064)	(4,678)	(7,340)	(19,306)	(21,517)
Share of loss of equity accounted investees	—	607	3,251	—	3,858	2,346
Share of overhead – Lucas Energy UK	—	—	1,427	—	1,427	1,319
Provisions and settlement of historical projects	—	13,114	—	—	13,114	9,623
Redundancy costs	1,163	622	—	334	2,119	420
Net loss on sales of assets	552	136	—	419	1,107	365
Advisory fees on balance sheet restructure	—	—	—	836	836	6,677
Cost of options granted	—	—	—	177	177	627
Closure of asset services business	—	—	—	—	—	3,436
Prior year insurance claim	—	—	—	—	—	(435)
Make good costs on lease termination	—	—	—	—	—	181
Loan write off	—	—	—	—	—	459
Underlying EBITDA	23,491	(14,585)	—	(5,574)	3,332	3,501

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

In response to the challenging market conditions, the Company undertook a significant number of rationalisation initiatives during the year to restructure the business and cut costs. These included centralisation of the Company's administration functions at its Brisbane offices, closure of other offices and facilities and significant redundancies. The Company also made impairment charges totalling \$45.7 million. Provisions totalling \$13.1 million were also made to resolve legacy contracts.

The effect of these measures however, together with the recently completed recapitalisation, is to position the company for future growth. The cost base has been substantially reduced and a more efficient operating platform established.

DIVISIONAL PERFORMANCE

Contributions from the business divisions were as follows:

	Revenue \$'000	Underlying EBITDA \$'000	Margin %
2013			
Drilling	163,359	23,491	14.4
Engineering & construction	131,432	(14,585)	(11.1)
Oil & gas	—	—	N/A
2012			
Drilling	189,640	14,941	7.9
Engineering & construction	314,636	(6,040)	(1.9)
Oil & gas	—	(1,318)	N/A

DRILLING

The results of the drilling division are summarised as follows:

	2013 Year \$'000	2013 2nd half \$'000	2013 1st half \$'000	2012 Year \$'000	2012/13 Change %
Revenue	163,359	77,371	85,988	189,640	(13.9%)
Underlying EBITDA	23,491	18,193	5,298	14,941	57.2%
EBITDA margin	14.4%	23.5%	6.2%	7.9%	

Despite the challenging business environment, the Drilling Division performed satisfactorily reflecting the diversity of the rig fleet to respond to customer requirements. Drilling revenue declined by 13.9% to \$163.4 million but underlying EBITDA increased by \$8.6 million to \$23.5 million or a margin of 14.4% (2012: 7.9%). The Division was able to maintain its margins through cost cutting and business rationalisation.

Many of the Group's exploration rigs were 'parked' during the year but the directional drilling and production rigs were in higher demand as the coal industry switched its focus away from new resource discovery to production and the Queensland CSG projects progressed towards commercialisation. Generally favourable weather conditions throughout the year also minimised any business interruption, in contrast to the experience of the business in recent years.

ENGINEERING & CONSTRUCTION

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

	2013 Year \$'000	2013 2nd half \$'000	2013 1st half \$'000	2012 Year \$'000	2012/13 Change %
Revenue	131,432	41,238	90,194	314,636	(58.2%)
Underlying EBITDA	(14,585)	(8,218)	(6,367)	(6,040)	141.5%
EBITDA margin	(11.1%)	(19.9%)	(7.1%)	(1.9%)	

Divisional operating revenue declined by 58.2% to \$131.4 million reflecting the adverse market conditions and the reluctance to award work to Lucas prior to the recapitalisation of the balance sheet.

Accordingly, the Divisional result was very disappointing with an underlying EBITDA loss of \$14.6 million, a deterioration of \$8.5 million compared to the prior year. The poorer result was principally due to a weak outcome on two water projects, both of which are now substantially complete. The Company has now exited general contracting activities and resumed its focus on specialist engineering activities, specifically pipelines and related infrastructure, gathering systems, horizontal directional drilling and trenchless technology. These activities have traditionally been the Group's strongest area of engineering expertise. New contracts in these activities totalling \$66 million have been awarded to the Company in the last three months and will be immediately commenced.

Stage 2 of the Perth Desalination Plant was undertaken with success with this contract now also substantially complete.

OIL AND GAS INVESTMENTS

The Company's shareholding in Cuadrilla increased during the year from 42.97% of its issued share capital to 43.7% at year end. Subsequent to balance date, the Company has purchased additional shares in Cuadrilla increasing its shareholding to 45.0%.

During the year, Lucas and Cuadrilla sold 25% of their respective interests in the Bowland Prospect, located in the north west of England, to a wholly-owned subsidiary of Centrica PLC. The initial consideration was £40 million of which Lucas' direct share was £10 million (A\$16.3 million).

Under the Sale Agreement, Centrica has committed to fund £60 million of expenditure on the Bowland Prospect, however, £15 million must be incurred by the purchaser before the purchaser has the option to put the acquired interest back to Lucas and Cuadrilla without an obligation to incur additional expenditure. In the event this option is not put to Lucas and Cuadrilla, subject to certain appraisal or operational milestones, Centrica will then pay a further £60 million for its interest of which Lucas' direct share is £15 million.

Currently, an Environmental Impact Assessment is being conducted on the Bowland Prospect and drilling consents are being sought.

More recently, exploratory drilling was undertaken at Balcombe in the Bolney Prospect in the south of England, this time looking for oil. This drilling confirmed the presence of hydrocarbons but further testing will be required to determine flow rates.

LIKELY DEVELOPMENTS

The strengthening of the balance sheet is already resulting in improved market confidence in the Company. Engineering work awarded in the last three months already amounts to \$66 million. In addition, the Group is tendering a significant amount of work, both individually and in joint venture with other companies. Notably, the Group is engaged

in the early stage engineering and design of a major long distance pipeline, as well as tendering for a number of other significant engineering projects which management believes the Group is well positioned to secure.

The engineering business has been rationalised to focus on its core competencies in pipelines and HDD. Operations have been largely relocated to Brisbane to focus on the Queensland energy business where short term growth prospects appear to be strongest. This strategy has already proved successful as shown by the recent contract awards and the level of tender work being undertaken. The Group has been actively strengthening its specialist engineering expertise with a number of high quality personnel recently recruited. Existing and prospective clients have already responded favourably to these appointments.

The drilling business is also showing signs of stabilising. Coal volumes remain strong and commodity prices appear to be holding steady. Within the business, pressure on margins continues, but with the Group's rationalised cost base, the drilling business is able to deliver a competitive service offering.

The reduced level of borrowings and the significant reduction in funding expected to be required to develop the Bowland Prospect in the immediate future, are also reducing the forecast demands on the Group's cash flow. Additional financial flexibility allows the Group to consider and be involved in a wider range of contracts although the benefit of this is not expected until the second half.

Further progress is expected over the next year in the commercialisation of the Group's oil and gas investments with the results of the Bolney drilling known in the next few months and a plan developed to prove up the shale gas resource in the Bowland Prospect.

REVIEW OF FINANCIAL CONDITION

BALANCE SHEET

The Company undertook a number of capital raisings throughout the financial year as it continued to pay down its debt and to sustain its investments in oil and gas as well as funding the Drilling and Engineering & Construction Divisions.

Just prior to year end, the Company launched a \$148.8 million recapitalisation of which \$81.8 million was subscribed in June and the balance of \$67 million just after year end. The Company's Senior Lender was repaid in full out of the first tranche of the subscription proceeds and its first ranking security released. The effect of this capital raising was to substantially strengthen the balance sheet, significantly reduce borrowings and debt service costs and increase liquidity. Because the recapitalisation was not completed until after balance date, the benefit of the capital raising is not reflected in full in the balance sheet at year end. Further, the balance sheet at year end shows the majority of interest bearing loans and borrowings, principally owed to Kerogen Investments, as a current liability. Therefore, at year end, the balance sheet still shows a deficiency of working capital although a substantial reduction in gearing level compared with the prior year.

Following the completion of the capital raising, the interest bearing debt has been reduced by a further \$35 million. In addition, Kerogen has agreed, subject to Lucas shareholder approval, to reschedule the maturity date of its loan facilities to January and February 2017. A resolution will be put to shareholders at the Annual General Meeting to be held in November 2013 to approve the change in borrowing terms. Subject to shareholder approval being granted, no material borrowings will then fall due for repayment for over three years. The effect of the additional equity raised in July, the additional debt repayment and the proposed rescheduling of the maturity date of the Kerogen borrowings is to restore the Company to a surplus working capital position and reduce its gearing ratio to 23.9% (excluding income tax liability).

Furthermore, since balance date, the Group has received \$13.1 million in cash net of costs and an additional 1% subscription for ordinary shares in Cuadrilla through redemption of Cuadrilla's A class preference shares. The pro-forma balance sheet of the Group as at 30 June 2013, including these events, is as follows:

	Reported as at June 2013 \$'000	Entitlement Offer less fees and Kerogen loan repayment \$'000	Other loan repayments \$'000	Working capital movement \$'000	Cuadrilla preference share redemption less additional investment after costs \$'000	Kerogen loan rescheduling \$'000	Pro-forma June 2013 \$'000
Total current assets	81,850	32,231	(5,406)	(20,269)	13,100	(1,000)	100,506
Total non-current assets	251,526	—	—	—	(13,100)	—	238,426
Total assets	333,376	32,231	(5,406)	(20,269)	—	(1,000)	338,932
Total current liabilities	170,127	(33,200)	(5,406)	(20,269)	—	(50,889)	60,363
Total non-current liabilities	31,609	—	—	—	—	51,889	83,498
Total liabilities	201,736	(33,200)	(5,406)	(20,269)	—	1,000	143,861
Net assets	131,640	65,431	—	—	—	(2,000)	195,071
Equity	131,640	65,431	—	—	—	(2,000)	195,071

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

Whilst the reduction in gearing ratio is pleasing, the objective of the Board is to further strengthen the balance sheet through additional debt reduction. Various options are under consideration to achieve this. The need to maintain adequate liquidity for the Group's oil and gas investments is however, the main priority in respect to the Group's cash flow management.

The strengthening of the Group's balance sheet and improvement in its liquidity, the recent contract awards, and the interest shown in the Group's investments in oil and gas, substantiates the Board's confidence in the outlook for the business and its status as a going concern.

CASH FLOWS FROM OPERATIONS

There was a net cash outflow from operations during the year of \$9.8 million (2012: \$20.3 million inflow). The deterioration was due to a catch up in the arrears of supplier payments, brought forward from the previous year, following the recapitalisation of the Group and the poor operating result from the Engineering and Construction Division.

IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

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

DIVIDENDS

No dividends have been declared by the Company since the end of the previous year. Subject to the Group's working capital requirements and the cash required to sustain the Company's oil and gas investments, it is the intention of the Board to resume payment of dividends as soon as cash flow allows and it is deemed prudent to do so.

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

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

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

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date:

- The Company issued 55,855,543 ordinary shares at \$1.20 per share through an equity entitlement offer raising \$63.7 million after costs, which has been applied as follows:
 - Partial repayment of the loan from Kerogen of US\$32 million (A\$35 million) reducing the amount owing to Kerogen to US\$47.6 million (A\$50.7 million);
 - Repayment of US\$5.4 million (A\$5.7 million) in borrowings including interest secured against 10.075% of the Company's shareholding, on a fully diluted basis, in its indirectly wholly-owned subsidiary, Lucas Bowland (UK) Limited; and
 - Reduction in trade payables of approximately \$20.3 million, with surplus cash available for the future working capital requirements of the Group;
- A term sheet was executed on 30 August 2013 with Kerogen which extends the maturity date of the Kerogen debt facilities to early 2017. The proposed security detailed in the term sheet is subject to shareholder approval, which is the only remaining impediment outside the Company's control to the extension being granted. The directors are confident of this approval being received at the Annual General Meeting in November 2013;
- The Group has received US\$13.1 million (A\$14 million) in cash net of costs and an additional 1% subscription for ordinary shares in Cuadrilla Resources Holdings Limited ('Cuadrilla'), through redemption of Cuadrilla's A class preference shares.

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

OPTIONS GRANTED TO DIRECTORS AND EXECUTIVES OF THE COMPANY

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

	Number of options granted
Directors	
Allan Campbell	3,750,000
Executive	
Brett Tredennick	250,000
Mark Summergreene	105,000
Matthew Baker	65,000

SHARES ISSUED ON EXERCISE OF RIGHTS AND OPTIONS

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

Number of shares	Amount paid on each share
93,861	—
7,407,407	\$1.35

There were no amounts unpaid on the shares issued.

UNISSUED SHARES UNDER OPTIONS

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

Expiry date	Exercise price	Number of shares
7 December 2015	\$1.19	5,000,000
22 December 2015	\$1.19-\$1.54	11,159,356
22 December 2016	\$1.97	1,000,000

All options expire on the earliest of their expiry date, termination of the employee's employment and cessation of the officer's service. In addition, the options granted to directors and management are exercisable only upon the vesting conditions being met. Further details are provided in the Remuneration Report.

The options do not entitle the holders to participate in any share issue of the Company. During the year, 250,000 unexercised rights lapsed.

DIRECTORS' SHAREHOLDINGS AND OTHER INTERESTS

The relevant interest of each director and their director-related entities in the shares and options 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	Options
Allan Campbell	10,378,731	3,750,000
Martin Green	350,000	—
Mike McDermott	—	—
Phillip Arnall	—	—
Genelle Coghlan	—	—
Julian Ball	—	—

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 31 May 2014.

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 \$150,696 (2012: \$286,103).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 34 and forms part of the Directors' Report for the financial year ended 30 June 2013.

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 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	2013	75,000	10,000	—	85,000
	2012	75,000	5,000	28	80,028
Phillip Arnall	2013	75,000	10,000	—	85,000
	2012	75,000	4,980	—	79,980
Genelle Coghlan	2013	75,000	5,000	—	80,000
	2012	75,000	5,000	—	80,000
Mike McDermott	2013	75,000	5,000	—	80,000
	2012	75,000	5,000	—	80,000

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 overriding 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. The company aims to provide incentives to enable top performers to be remunerated at the upper end of the market range, 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. No STI payments were paid in the last financial year.

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 vesting time.

MANAGEMENT RIGHTS AND OPTIONS 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 and options to acquire shares in the Company. The exercise of rights can be satisfied by either the issue of shares for no consideration or by the monetary equivalent of the underlying shares on the date of grant of the rights. The exercise of options is subject to the vesting conditions being met.

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 such 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 such 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 June	2013	2012	2011	2010	2009
Total revenue (\$'000)	294,791	504,276	433,373	358,490	499,177
Net (loss)/profit after tax attributable to members (\$'000)	(126,966)	(110,237)	(11,527)	(7,128)	103,253
(Loss)/earnings per share (cents)	(97.6)	(133.2)	(17.5)	(11.0)	156.1
Dividend per share (cents)	—	—	—	5.5	9.5
Share price at balance date	\$1.20	\$1.06	\$1.35	\$2.23	\$3.18
Share price appreciation/(depreciation)	13%	(21%)	(40%)	(30%)	(49%)

The overall level of key management personnel compensation has been constrained due to the performance of the Group over a number of years. Selected senior management, including all the Group's key management personnel, agreed to a 10% reduction in their monetary remuneration commencing January 2013.

These persons, as well as other selected employees, were awarded options to acquire shares in the Company at \$1.35 subject to the vesting conditions being met. These included that the Company's share price must close at in excess of \$2.50 per share for at least 10 business days over a 20 day trading period that occurs at least 12 months after the grant of the options. The exercise price was reduced to \$1.19 per share, and the hurdle price to \$2.34 per share, in accordance with the Option Deed, following the undertaking of the Entitlement Offer carried out in June and July 2013.

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 key management personnel of the Group are set out below:

		SHORT-TERM BENEFITS			POST EMPLOYMENT
		Salary/ fees ⁽¹⁾ \$	Non-monetary benefits ⁽²⁾ \$	Total \$	Superannuation benefits \$
Executive directors					
Allan Campbell	2013	631,458	—	631,458	4,167
	2012	646,276	—	646,276	50,000
Executive officers					
Mark Summergreene Chief Financial Officer	2013	336,017	240	336,257	24,556
	2012	247,925	240	248,165	22,335
Brett Tredinnick Chief Operating Officer	2013	361,606	—	361,606	25,225
	2012	390,595	—	390,595	27,630
Former					
Kevin Lester (ceased employment 27 July 2012) General Manager, Pipelines	2013	66,604	—	66,604	2,036
	2012	336,619	—	336,619	39,531

Amounts disclosed for remuneration of key management persons exclude insurance premiums 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. Details of the nature of the liabilities or the amount of the premium paid have not been shown as such disclosure is prohibited under the terms of the policy contract.

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

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

(3) The fair value of the rights and options issued 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 and options allocated to the reporting period shown. The value of the rights issued in the previous year is calculated as 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.

		OTHER LONG-TERM BENEFITS	SHARE-BASED PAYMENTS			
Termination benefit	Long term benefits (long service leave)	Rights and options ⁽³⁾	Total	Proportion of remuneration performance related	Value of options and rights as proportion of remuneration	
\$	\$	\$	\$	%	%	
—	—	98,996	734,621	—	13.5	
—	—	—	696,276	—	—	
—	18,958	2,560	382,332	—	0.7	
—	3,896	20,800	295,196	—	7.0	
—	(5,518)	6,095	387,409	—	1.6	
—	33,329	31,200	482,754	—	6.5	
100,328	—	—	168,968	—	—	
—	19,517	—	395,667	—	—	

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 loans were made at any time during the year.

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.

EXTERNAL REMUNERATION CONSULTANT ADVICE

During the 2012-13 year, the Company did not receive advice on key management personnel remuneration from external remuneration consultants. As noted previously, selected senior management, including all the Group's key management personnel, agreed to a 10% reduction in their monetary remuneration commencing January 2013.

OPTIONS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details of options over ordinary shares in the Company granted as compensation to each key management person during the reporting period and details of the options that vested during the reporting period are as follows:

	Number of options granted during 2013	Grant date	Fair value per option at grant date \$	Exercise price per option \$	Expiry date	Number of options vested during 2013
Directors						
Allan Campbell	3,750,000	5 September 2012	0.106	1.35	7 December 2015	—
Executives						
Brett Tredinnick	250,000	29 November 2012	0.125	1.35	7 December 2015	—
Mark Summergreene	105,000	29 November 2012	0.125	1.35	7 December 2015	—

MODIFICATION OF TERMS OF EQUITY-SETTLED SHARE BASED PAYMENT TRANSACTIONS

The exercise price of the options granted during the year was reduced from \$1.35 per share to \$1.19 per share, in accordance with the Option Deed, following the undertaking of the Entitlement Offer carried out in June and July 2013. At the same time, the hurdle price at which the Company's share price must close for at least 10 business days over a 20-day trading period that occurs at least 12 months after the grant of the options was reduced from \$2.50 to \$2.34 per share.

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.

	2013 Number of shares	2013 Amount paid \$/share
Directors		
Allan Campbell	93,861	—

There are no amounts unpaid on the shares issued as a result of the exercise of the rights in the 2013 financial year.

ANALYSIS OF RIGHTS AND OPTIONS OVER EQUITY INSTRUMENTS

Details of the vesting profile of the rights and options granted as compensation to each key management person of the Group are detailed below:

	Rights/options granted		Vested in year %	Lapsed in year ⁽¹⁾ %	Financial years in which grant vests ⁽²⁾
	Number	Date			
Directors					
Allan Campbell	110,000	23 November 2007	—	100	2011
	3,750,000	5 September 2012	—	—	2014
Executives					
Mark Summergreene	105,000	29 November 2012	—	—	2015
Brett Tredinnick	250,000	29 November 2012	—	—	2015

(1) The percentage lapsed in the year represents the reduction from the number of rights available 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.

(2) In order for the options to vest:

- **Price hurdle**

The Company's share price must close at in excess of \$2.34 for at least 10 days within a 20-day trading period that occurs at least 12 months after grant date; and

- **Service conditions**

The options granted to AS Campbell vest only after 31 December 2013. The options issued to management vest as to 50% after two years of service and 100% after three years of service from grant date.

ANALYSIS OF MOVEMENTS IN RIGHTS AND OPTIONS

The movement during the reporting period, by value, of rights and options over ordinary shares of the Company held by each key management person is detailed below:

	Granted in year ⁽¹⁾ \$	Value of rights exercised in year ⁽²⁾ \$	Lapsed in year ⁽³⁾ \$
Directors			
Allan Campbell	394,657	127,651	—
Executives			
Mark Summergreene	13,160	—	—
Brett Tredinnick	31,334	—	—

(1) The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes option pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

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

(3) No rights or options 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

Sydney
27 September 2013





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

To the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 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 stylized, handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

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

Tony Nimac
Partner

Sydney
27 September 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$'000	2012 \$'000
Revenue	6	294,791	504,276
Total revenue		294,791	504,276
Material costs		(83,264)	(146,113)
Sub-contractor costs		(75,641)	(177,923)
Employee expenses		(104,055)	(125,352)
Plant and other construction costs		(39,857)	(61,091)
Advisory fees on balance sheet restructure		(836)	(6,677)
Depreciation and amortisation expenses	8	(22,852)	(24,793)
Impairment of intangible asset	8	(27,529)	(44,960)
Impairment of equity accounted investees	8	(2,437)	—
Impairment of land and buildings	8	—	(1,870)
Impairment of plant and equipment	8	(13,615)	—
Impairment of receivables	8	(2,144)	(2,352)
Costs of options granted		(177)	(627)
Loss on sale of assets		(1,107)	—
Redundancy costs		(2,119)	—
Other expenses		(1,039)	(3,312)
Results from operating activities		(81,881)	(90,794)
Finance income		707	2,618
Finance costs		(39,406)	(26,057)
Net financing costs	7	(38,699)	(23,439)
Share of loss of equity accounted investees	18	(3,858)	(2,346)
Loss before income tax		(124,438)	(116,579)
Income tax (expense)/benefit	10	(2,558)	6,342
Loss for the year		(126,996)	(110,237)
Other comprehensive income			
Items that will not be reclassified to profit and loss			
Effective portion of changes in fair value of hedges		78	638
Total items that will not be reclassified to profit and loss		78	638
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		7,756	(140)
Total items that may be reclassified subsequently to profit and loss		7,756	(140)
Other comprehensive income for the year		7,834	498
Total comprehensive loss for the year		(119,162)	(109,739)
Total comprehensive loss attributable to owners of the company		(119,162)	(109,739)
Earnings per share:			
Basic (loss)/earnings per share		(97.6)	(133.2)
Diluted (loss)/earnings per share		(97.6)	(133.2)

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	2013 \$'000	2012 \$'000
Current assets			
Cash and cash equivalents	12	9,675	4,343
Trade and other receivables	13	39,430	57,051
Inventories	14	29,410	55,918
Assets classified as held for sale	15	1,357	5,503
Other assets	16	1,978	862
Total current assets		81,850	123,677
Non-current assets			
Property, plant and equipment	17	109,972	133,638
Exploration assets	19	6,320	16,073
Intangible development assets		—	580
Other intangible assets	20	39,472	67,001
Deferred tax assets	21	—	782
Investments in equity accounted investees	18	95,762	73,603
Total non-current assets		251,526	291,677
Total assets		333,376	415,354
Current liabilities			
Trade and other payables	22	61,743	120,348
Interest-bearing loans and borrowings	23	88,921	91,171
Income tax liabilities	24	9,020	32,692
Derivative liabilities	25	4,916	2,665
Employee benefits	27	5,527	7,849
Total current liabilities		170,127	254,725
Non-current liabilities			
Interest-bearing loans and borrowings	23	5,948	41,881
Derivative liabilities	25	—	4,015
Income tax liabilities	24	24,655	—
Employee benefits	27	1,006	1,239
Total non-current liabilities		31,609	47,135
Total liabilities		201,736	301,860
Net assets		131,640	113,494
Equity			
Share capital		275,637	138,506
Reserves		8,478	467
Accumulated losses		(152,475)	(25,479)
Total equity	28	131,640	113,494

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Share capital \$'000	Translation reserve \$'000	Option reserve \$'000	Employee equity benefits reserve \$'000	Hedging reserve \$'000	Retained earnings/ (accumulated losses) \$'000	Total equity \$'000
Balance 1 July 2011	91,935	(3,433)	—	3,339	(716)	84,758	175,883
Total comprehensive income							
Loss for the year	—	—	—	—	—	(110,237)	(110,237)
Other comprehensive income							
Effective portion of changes in fair value of hedges	—	—	—	—	638	—	638
Foreign currency translation differences	—	(140)	—	—	—	—	(140)
Total comprehensive income/(loss)	—	(140)	—	—	638	(110,237)	(109,739)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	46,571	—	—	—	—	—	46,571
Issue of options	—	—	637	—	—	—	637
Dividends to shareholders	—	—	—	—	—	—	—
Share-based payment transactions	—	—	—	142	—	—	142
Total contributions by and distributions to owners	46,571	—	637	142	—	—	47,350
Balance 30 June 2012	138,506	(3,573)	637	3,481	(78)	(25,479)	113,494
Balance 1 July 2012	138,506	(3,573)	637	3,481	(78)	(25,479)	113,494
Total comprehensive income							
Loss for the year	—	—	—	—	—	(126,996)	(126,996)
Other comprehensive income							
Effective portion of changes in fair value of hedges	—	—	—	—	78	—	78
Foreign currency translation differences	—	7,756	—	—	—	—	7,756
Total comprehensive income/(loss)	—	7,756	—	—	78	(126,996)	(119,162)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	137,131	—	—	—	—	—	137,131
Issue of options	—	—	—	—	—	—	—
Share-based payment transactions	—	—	—	177	—	—	177
Total contributions by and distributions to owners	137,131	—	—	177	—	—	137,308
Balance 30 June 2013	275,637	4,183	637	3,658	—	(152,475)	131,640

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Cash receipts from customers		365,638	554,348
Cash payments to suppliers and employees		(375,397)	(534,081)
Cash (used)/generated from operations		(9,759)	20,267
Interest received		634	—
Income taxes paid		(11,466)	(15,229)
Interest and other costs of finance paid		(1,273)	(16,296)
Net cash used in operating activities	34(b)	(21,864)	(11,258)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		1,891	4,717
Net proceeds from sale of assets held for sale		5,433	3,679
Payments for equity accounted investees		(20,689)	(23,309)
Advisory fees on balance sheet restructure		(1,450)	(5,252)
Acquisition of plant and equipment		(15,241)	(22,631)
Payments for evaluation expenditure		(5,618)	(8,670)
Net proceeds from sale of exploration assets		14,397	—
Loans to other entities		(51)	(732)
Net cash used in investing activities		(21,328)	(52,198)
Cash flows from financing activities			
Proceeds of borrowings		19,244	97,179
Net proceeds from issue of shares		83,489	46,571
Proceeds from issue of options		—	10
Repayment of borrowings		(14,436)	(14,851)
Repayment of redeemable convertible preference shares		—	(45,000)
Repayment of finance lease liabilities		(33,130)	(16,367)
Net cash from financing activities		55,167	67,542
Net increase in cash and cash equivalents		11,975	4,086
Cash and cash equivalents at beginning of the year		(2,300)	(6,386)
Cash and cash equivalents at end of the year	34(a)	9,675	(2,300)

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 2013 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 for-profit 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 27 September 2013.

(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; and
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed in note 5.

2. BASIS OF PREPARATION (CONT)

(C) GOING CONCERN

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

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

- The Group generated a loss after tax for the year of \$127 million primarily as a result of non-cash impairment charges of \$43.5 million and high financing costs of \$39.4 million, together with continued operating losses and restructuring expenses; and
- As at balance date, the Group's current liabilities exceeded its current assets by \$88.3 million. The deficit in net current assets includes \$84.6 million payable to Kerogen Investments ('Kerogen') under loan facilities which expire in January 2014 and \$4.9 million of derivative liabilities in relation to Kerogen share options.

In considering the impact of these factors on the appropriateness of the use of the going concern assumption, the directors have had regard to the fact that subsequent to 30 June 2013:

- The Company issued 55,855,543 ordinary shares at \$1.20 per share through an equity entitlement offer raising \$63.7 million after costs which has been applied as follows:
 - Partial repayment of the loan from Kerogen of US\$32 million (A\$35 million) reducing the amount owing to Kerogen to US\$47.6 million (A\$50.7 million);
 - Repayment of US\$5.4 million (A\$5.7 million) in borrowings including interest secured against 10.075% of the Company's shareholding, on a fully diluted basis, in its indirectly wholly-owned subsidiary, Lucas Bowland (UK) Limited; and
 - Reduction in trade payables of approximately \$20.3 million, with surplus cash available for the future working capital requirements of the Group;
- A term sheet was executed with Kerogen on 30 August 2013 which extends the maturity date of the Kerogen debt facilities to early 2017. The proposed security detailed in the term sheet is subject to shareholder approval, which is the only remaining impediment outside the Company's control to the extension being granted. The directors are confident of this approval being received at the Annual General Meeting in November 2013;
- The Group has received US\$13.1 million (A\$14 million) in cash net of costs and an additional 1% subscription for ordinary shares in Cuadrilla Resources Holdings Limited ('Cuadrilla'), through redemption of Cuadrilla's A class preference shares.

In assessing the appropriateness of using the going concern assumption, the directors have also had regard to:

- The directors' confidence in the continuing support of Kerogen, both as a substantial debt holder and shareholder of the Company, as evidenced by the proposed extension of the maturity date of its remaining debt facilities as noted above and its participation in equity raisings made both during the financial year and subsequent to year end;
- The reasonableness of the profit and cash flow forecasts of the Group, having regard to the value of the contracts awarded to the Group since mid-June 2013 and their working capital requirements, the order backlog, the status of tenders pending and the ongoing restructuring programme;
- On 13 June 2013, the Company together with Cuadrilla sold a 25% interest in the shale gas exploration licence in the Bowland Prospect through a farm-in arrangement to a wholly-owned subsidiary of Centrica Plc ('Centrica'). This resulted in £10 million (A\$16.5 million) cash being received by the Group during the year, and Centrica committing to pay the next £15 million (A\$24.8 million) of exploration expenditure on the Bowland Prospect, with a further £45 million (A\$74.3 million) payable if it does not exercise a put option on the tenement to put it back to the Group and Cuadrilla (refer note 19). As a result of the transaction, the directors have had regard to:
 - Their confidence that Centrica will not exercise its option to put its interest in the Bowland Prospect back to the Group and Cuadrilla, and will continue to fund the exploration activities at the Bowland Prospect up to the additional £45 million (A\$74.3 million) as described above;
 - The expectation that, based upon cash flow forecasts developed by Cuadrilla, and Centrica continuing with the farm-in arrangement described above, the Group will not be requested to invest additional cash for the development of the Bowland Prospect and other exploration activities in Cuadrilla until early in the 2015 calendar year at the earliest;
 - That should Centrica exercise its put option and cease its funding as described above, the Group has the option to determine the extent of its future contributions to Cuadrilla; and
 - The implied value of the Group's investment in Cuadrilla and its remaining direct holding in the Bowland Prospect following the farm-in arrangement with Centrica, and the ability to utilise these assets to raise additional funding if necessary; and
 - The ability of the Group to raise additional debt and/or equity, 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 statements.

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

(F) CHANGES IN ACCOUNTING POLICIES

PRESENTATION OF TRANSACTIONS RECOGNISED IN OTHER COMPREHENSIVE INCOME

From 1 July 2012 the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share of net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. These changes are included in the statement of profit or loss and other comprehensive income.

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, it 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(A) BASIS OF CONSOLIDATION (CONT)

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% 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 classifies non-derivative financial liabilities into the other financial liabilities category. 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 may from time to time hold derivative financial instruments. 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%. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(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. Current tax unpaid at the end of the year is recognised as an income tax liability. Also included in income tax liability is outstanding current tax liabilities in relation to prior periods where contractually agreed payment plans have been put in place.

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 share rights and options granted to employees and the options over the Company's ordinary shares.

(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 segment 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(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 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.

Where the Group is party to a farm-in arrangement in the role as the farmor, any proceeds or non-cancellable future expenditure to be funded by the farmee are recognised as disposal proceeds, with the non-cancellable expenditure to be funded by the farmee recognised as a carry asset within exploration assets in proportion to the Group's continuing interest in the farmed-out project. The assets disposed per the terms of the farm-in arrangement are treated as costs of disposal, alongside any other costs incurred, with the net profit or loss recognised in the income statement as incurred.

Future expenditure and deferred consideration that is contingent on a future event is not recognised by the Group until it has actually been incurred or becomes non-cancellable under the terms of the farm-in arrangement.

These amounts are considered to be contingent assets until such time that they are not contingent in nature, at which point, additional profit will be recognised in the income statement for these amounts.

(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 each year at the same time.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(P) IMPAIRMENT (CONT)

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 post-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 is 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 remeasurement 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 an 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, 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.

4. 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 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

(A) AASB 9 FINANCIAL INSTRUMENTS (2009), AASB 9 FINANCIAL INSTRUMENTS (2010)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

AASB 9 (2009 and 2010) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. Any impact the adoption of AASB 9 (2010) may have on the Group's financial assets has not yet been quantified, but no impact is expected on the Group's financial liabilities.

(B) AASB 10 CONSOLIDATED FINANCIAL STATEMENTS, AASB 11 JOINT ARRANGEMENTS, AASB 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES (2011)

AASB 10 introduces a single control model to determine whether an investee should be consolidated. Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

The Group does not expect any material impact to the current accounting for these interests.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONT)

(C) AASB 13 FAIR VALUE MEASUREMENT (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. The Group is currently reviewing its methodologies in determining fair values (see note 5). AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

5. 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 counter-party 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 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.

6. 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:

Drilling	Drilling services to the coal and coal seam gas industries for degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.
Engineering & Construction (E&C)	Construction and civil engineering services. The Group is also the market leader in the trenchless installation of pipes and conduits using horizontal directional drilling.
Oil & Gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, 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(K).

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 \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
June 2013							
Reportable segment revenue							
Revenue – services rendered	163,359	–	–	163,359	–	–	163,359
Revenue – construction contracts	–	131,432	–	131,432	–	–	131,432
Inter-segment revenue	8,879	–	–	8,879	–	(8,879)	–
Total consolidated revenue	172,238	131,432	–	303,670	–	(8,879)	294,791
EBITDA	21,776	(29,064)	(4,678)	(11,966)	(7,340)	–	(19,306)
Less: Depreciation, amortisation and impairment	(54,733)	(8,698)	–	(63,431)	(3,002)	–	(66,433)
Reportable segment loss	(32,957)	(37,762)	(4,678)	(75,397)	(10,342)	–	(85,739)
Reconciliation:							
Finance income	–	618	–	618	89	–	707
Finance costs	(2,169)	(3,748)	–	(5,917)	(33,489)	–	(39,406)
Consolidated loss before income tax							(124,438)
June 2012							
Reportable segment revenue							
Revenue – services rendered	189,640	–	–	189,640	–	–	189,640
Revenue – construction contracts	–	314,636	–	314,636	–	–	314,636
Inter-segment revenue	11,303	–	–	11,303	–	(11,303)	–
Total consolidated revenue	200,943	314,636	–	515,579	–	(11,303)	504,276
EBITDA	11,012	(16,078)	(3,287)	(8,353)	(13,164)	–	(21,517)
Less: Depreciation, amortisation and impairment	(64,127)	(4,187)	–	(68,314)	(3,309)	–	(71,623)
Reportable segment loss	(53,115)	(20,265)	(3,287)	76,667	(16,473)	–	(93,140)
Reconciliation:							
Finance income	–	–	–	–	2,618	–	2,618
Finance costs	(8,196)	(2,493)	–	(10,689)	(15,368)	–	(26,057)
Consolidated loss before income tax							(116,579)

6. OPERATING SEGMENTS (CONT)

OTHER SEGMENT INFORMATION

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Total \$'000
June 2013						
Segment assets	164,706	39,288	102,082	306,076	27,300	333,376
Segment liabilities	(82,566)	(38,097)	(54,356)	(175,019)	(26,717)	(201,736)
Depreciation and amortisation	(16,714)	(3,136)	–	(19,850)	(3,002)	(22,852)
Share of loss of equity accounted investees	–	(607)	(3,251)	(3,858)	–	(3,858)
Equity accounted investments	–	–	95,762	95,762	–	95,762
Capital expenditure	13,825	269	–	14,094	1,147	15,241
Impairment of intangible asset	(27,529)	–	–	(27,529)	–	(27,529)
Impairment of plant and equipment	(10,490)	(3,125)	–	(13,615)	–	(13,615)
Impairment of equity accounted investee	–	(2,437)	–	(2,437)	–	(2,437)
June 2012						
Segment assets	231,459	76,570	88,430	396,459	18,895	415,354
Segment liabilities	(122,346)	(75,464)	(68,047)	(265,857)	(36,003)	(301,860)
Depreciation and amortisation	(17,297)	(4,187)	–	(21,484)	(3,309)	(24,793)
Share of loss of equity accounted investees	–	(377)	(1,969)	(2,346)	–	(2,346)
Equity accounted investments	–	1,246	72,357	73,603	–	73,603
Capital expenditure	19,664	199	–	19,863	5,648	25,511
Impairment of intangible asset	(44,960)	–	–	(44,960)	–	(44,960)
Impairment of land and buildings	(1,870)	–	–	(1,870)	–	(1,870)

GEOGRAPHICAL INFORMATION

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

	Revenues		Non-current assets	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Australia	294,791	504,276	149,444	203,163
Europe	–	–	102,082	88,430
Asia/Pacific	–	–	–	84
	294,791	504,276	251,526	291,677

7. FINANCE INCOME AND FINANCE COSTS

	2013 \$'000	2012 \$'000
Interest income	707	46
Net change in fair value of derivative liability	–	2,572
Finance income	707	2,618
Interest expense	(20,432)	(23,805)
Net change in fair value of derivative liability	(901)	–
Redeemable convertible preference share – redemption fees	–	(1,158)
Amortisation of options and fees on mezzanine finance facility	(6,144)	(952)
Net foreign exchange loss	(11,929)	(142)
Finance costs	(39,406)	(26,057)
Net finance costs recognised in profit and loss	(38,699)	(23,439)

8. OTHER EXPENSES

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

	2013 \$'000	2012 \$'000
Depreciation of property, plant and equipment	15,197	16,533
Amortisation of:		
Leased plant and equipment	7,515	7,870
Contracts and customer relationships	–	322
Development expenditure	140	68
Total amortisation	7,655	8,260
Total depreciation and amortisation	22,852	24,793
Impairment of intangible asset	27,529	44,960
Impairment of land and buildings	–	1,870
Impairment of plant and equipment	13,615	–
Impairment of equity accounted investees	2,437	–
Impairment of receivables	2,144	2,352
Total impairments	45,725	49,182

9. AUDITOR'S REMUNERATION

	2013 \$	2012 \$
Audit services		
Auditors of the Company – KPMG		
Audit and review of financial reports		
Australia	600,701	520,822
Hong Kong	–	14,918
	600,701	535,739

9. AUDITOR'S REMUNERATION (CONT)

Other services		
Auditors of the Company – KPMG		
Other professional services	150,696	155,151
Taxation services – Australia	–	130,952
	150,696	286,103

10. INCOME TAX

	2013 \$'000	2012 \$'000
Current tax benefit recognised in profit or loss		
Current year	(14,264)	(12,187)
Tax losses not recognised and temporary differences derecognised in current year	26,240	12,187
Prior year adjustments	187	–
	12,163	–
Deferred tax expense recognised in profit or loss		
Origination and reversal of temporary differences	(10,469)	(6,883)
Prior year adjustment	(222)	(1,424)
Prior year tax losses previously recognised not carried forward	–	390
Prior year tax losses not recognised	1,086	1,575
Total income tax expense/(benefit) in profit or loss	2,558	(6,342)
Current tax benefit recognised in the statement of changes in equity		
Current year	1,589	–
Total income tax benefit in equity	1,589	–
Numerical reconciliation between tax benefit and pre-tax net profit/(loss)		
Accounting loss before income tax	(124,438)	(116,579)
Prima facie income tax benefit calculated at 30% (2012: 30%)	(37,331)	(34,974)
Adjustment for:		
Equity settled share-based payments	(166)	88
Equity accounted loss	1,167	704
Non-deductible expenses	487	567
Non-deductible option expense	1,639	1,027
Amortisation of customer contracts	–	97
Effect of tax rate in foreign jurisdictions	(15)	5
Non-deductible finance cost	230	–
Impairment expenses	8,990	14,187
Fair value derivative option gain non-assessable	270	(771)
Prior year tax losses not recognised	1,271	1,965
Current year tax losses not recognised	14,264	12,187
Derecognition of prior year deferred tax asset	782	–
Current year temporary differences not recognised	11,191	–
	2,779	(4,918)
Income tax over-provided in prior year	(221)	(1,424)
Income tax expense/(benefit) attributable to operating loss	2,558	(6,342)

11. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2013 was based on the loss after tax attributable to ordinary shareholders of \$126,996,000 (2012: loss after tax of \$110,237,000) and a weighted average number of ordinary shares outstanding of 130,079,181 (2012: 82,738,345) calculated as follows:

	2013 Number	2012 Number
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 July	103,027,291	66,117,664
Effect of exercise of options issued to lender	5,601,217	—
Equity placements	20,792,206	7,451,786
Entitlement shares	645,095	8,994,290
Effect of exercise of management rights	13,372	174,605
Weighted average number of ordinary shares (basic) at 30 June	130,079,181	82,738,345

DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share at 30 June 2013 was based on the loss after tax attributable to ordinary shareholders of \$126,996,000 (2012: loss after tax of \$110,237,000) and a weighted average number of shares outstanding of 130,079,181 (2012: 82,738,345) calculated as follows:

	2013 \$'000	2012 \$'000
Loss attributable to ordinary shareholders (diluted)		
Loss attributable to ordinary shareholders	126,996	110,237
Loss attributable to ordinary shareholders (diluted) for the year ended 30 June	126,996	110,237

	2013 Number	2012 Number
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares (basic)	130,079,181	82,738,345
Weighted average number of ordinary shares (diluted) at 30 June	130,079,181	82,738,345

At 30 June 2013, 17,159,356 (2012: 19,910,624) 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

	2013 \$'000	2012 \$'000
Bank balances	9,675	4,343

13. TRADE AND OTHER RECEIVABLES

	2013 \$'000	2012 \$'000
Current		
Trade receivables (net of impairment losses)	36,747	51,996
Other receivables	1,562	4,057
Other loans (net of impairment losses)	1,121	998
	39,430	57,051

Trade receivables are shown net of impairment losses of \$4,086,000 (2012: \$1,942,000). Other loans are shown net of impairment losses of \$459,000 (2012: \$459,000).



14. INVENTORIES

	2013 \$'000	2012 \$'000
Materials and consumables	5,176	4,607
Construction work in progress	24,234	51,311
Total inventories	29,410	55,918
Construction work in progress comprises:		
Contract costs incurred to date	1,120,288	1,108,808
Profit recognised to date	127,070	131,895
	1,247,358	1,240,703
Less: progress billings	(1,223,124)	(1,189,392)
Net construction work in progress	24,234	51,311

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 2013 financial year relating to this building. The carrying value of this asset at balance date was \$1,357,000 (2012: \$5,503,000). This asset was sold subsequent to year end.

16. OTHER ASSETS

	2013 \$'000	2012 \$'000
Prepayments	1,978	862

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
30 June 2013					
At cost	2,888	3,912	145,346	10,568	162,714
Accumulated depreciation/amortisation	(2,299)	(499)	(47,307)	(2,637)	(52,742)
	589	3,413	98,039	7,931	109,972
30 June 2012					
At cost	2,888	3,912	225,807	9,865	242,472
Accumulated depreciation/amortisation	(1,723)	(402)	(105,794)	(915)	(108,834)
	1,165	3,510	120,013	8,950	133,638

RECONCILIATIONS

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

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
2013					
Balance at 1 July 2012	1,165	3,510	120,013	8,950	133,638
Additions	—	—	14,537	704	15,241
Disposals	—	—	(2,580)	—	(2,580)
Impairment	—	—	(13,615)	—	(13,615)
Depreciation	(576)	(97)	(14,524)	—	(15,197)
Amortisation	—	—	(5,792)	(1,723)	(7,515)
Balance at 30 June 2013	589	3,413	98,039	7,931	109,972
	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
2012					
Balance at 1 July 2011	1,741	5,477	125,259	4,419	136,896
Additions	1	—	20,064	5,446	25,511
Disposals	—	—	(2,496)	—	(2,496)
Impairment	—	(1,870)	—	—	(1,870)
Depreciation	(577)	(97)	(15,859)	—	(16,533)
Amortisation	—	—	(6,955)	(915)	(7,870)
Balance at 30 June 2012	1,165	3,510	120,013	8,950	133,638

18. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

Name of investee	Ownership		Carrying value	
	2013 %	2012 %	2013 \$'000	2012 \$'000
Cuadrilla Resources Holdings Limited (associate)	43.7	43.0	95,762	72,357
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50.0	50.0	—	1,246
			95,762	73,603

The Group's share of loss of equity accounted investees is \$3,858,000 (2012: \$2,346,000). During both the current and the prior year, the Group did not receive dividends from any of its investments in equity accounted investees.

At balance date, the liabilities of Marais-Lucas Technologies Pty Limited exceeded its assets. As a result the Group has fully impaired its investment in Marais-Lucas Technologies Pty Limited. The Group does not have any obligation to settle the liabilities of the investee.

18. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES (CONT)

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

	2013 \$'000	2012 \$'000
Balance at 1 July 2012	73,603	52,687
Purchase of additional ownership interest	20,689	23,395
Impairment	(2,437)	–
Movement of foreign currency translation recognised in equity	7,765	(133)
Share of equity accounted losses during the year	(3,858)	(2,346)
Balance at 30 June 2013	95,762	73,603

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

	2013			2012		
	Cuadrilla Resources Holdings Ltd \$'000	Marais-Lucas Technologies Pty Ltd \$'000	Total \$'000	Cuadrilla Resources Holdings Ltd \$'000	Marais-Lucas Technologies Pty Ltd \$'000	Total \$'000
Current assets	71,093	1,923	73,016	11,524	774	12,298
Non-current assets	108,632	1,205	109,837	125,199	1,312	126,511
Total assets	179,725	3,128	182,853	136,723	2,086	138,809
Current liabilities	6,644	7,514	14,158	14,941	5,067	20,008
Non-current liabilities	1,525	–	1,525	1,404	–	1,404
Total liabilities	8,169	7,514	15,683	16,345	5,067	21,412
Income	694	3,747	4,441	4,000	1,775	5,775
Expenses	(8,436)	(5,152)	(13,588)	(8,583)	(2,528)	(11,111)
Loss	(7,742)	(1,405)	(9,147)	(4,583)	(753)	(5,336)

19. EXPLORATION ASSETS

	2013 \$'000	2012 \$'000
Cost		
Balance at 1 July 2012	16,073	7,496
Acquisitions	4,463	8,127
Disposals	(14,216)	–
Balance at 30 June 2013	6,320	16,073

The exploration assets comprise the Company's direct equity interest in respectively 18.75% (2012: 25.0%) of the Bowland and 25% of the Bolney prospects in England. Cuadrilla Resources Holdings Limited, in which Lucas held a 43.7% shareholding at balance date, owns 56.25% (2012: 75.0%) of the Bowland Prospect and the other 75% of the Bolney Prospect. The reduction in carrying value during the year represents Lucas' direct expenditure on these prospects, less the sale of a 6.25% interest in the Bowland Prospect during the year. The Company's shareholding in Cuadrilla increased after balance date to 45.0%.

The purchaser of the 6.25% of the Company's direct interest in the Bowland Prospect has a non-cancellable obligation to spend at least the next £15 million of the Bowland prospect expenditure, ensuring the Company continues to receive the benefit of this expenditure. As such, the Company has recognised its beneficial interest in this as a 'carry asset' which will revert to 'capitalised exploration expenditure' once the expenditure has been incurred by the purchaser. A further £45 million exploration expenditure is also required to be spent by the purchaser provided it does not exercise a put option it holds, entitling it to put its equity interest in the Bowland Prospect back to AJ Lucas and Cuadrilla Resources Holdings Limited. The expiry date of the put option depends on the occurrence of either certain events or lapse of time relating to defined appraisal or operational milestones. Based on current planning, it is not expected that the deferred consideration would become payable for at least two years.

At year end, \$5,127,081 was attributable to the 'carry asset' as defined above, with the remainder being capitalised exploration expenditure. Also at year end, £8.4 million (\$13.8 million) of carry assets and £15.0 million (\$24.8 million) of deferred consideration have not been recognised by the Group, representing the amounts receivable by the Group for its share of the cancellable terms of the sale, which are subject to the put option described above. Should the purchaser decide to exercise its put option, this would cancel any remaining exploration expenditure payable by the purchaser and the liability for the deferred consideration.

20. OTHER INTANGIBLE ASSETS

	Customer intangibles \$'000	Goodwill \$'000	Net profit interest ⁽¹⁾ \$'000	Total '000
Cost				
Balance at 1 July 2011	17,851	113,561	87,762	219,174
Balance at 30 June 2012	17,851	113,561	87,762	219,174
Balance at 1 July 2012	17,851	113,561	87,762	219,174
Balance at 30 June 2013	17,851	113,561	87,762	219,174
Amortisation and impairment losses				
Balance at 1 July 2011	17,529	1,600	87,762	106,891
Amortisation for the year	322	—	—	322
Impairment loss	—	44,960	—	44,960
Balance at 30 June 2012	17,851	46,560	87,762	152,173
Balance at 1 July 2012	17,851	46,560	87,762	152,173
Impairment loss	—	27,529	—	27,529
Balance at 30 June 2013	17,851	74,089	87,762	179,702
Carrying amounts				
At 30 June 2012	—	67,001	—	67,001
At 30 June 2013	—	39,472	—	39,472

- (1) Lucas has a 10% net profit interest (NPI) in oil and gas leasehold interests in the Monument Prospect ('the Prospect') located in Trinity County, 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.

20. OTHER INTANGIBLE ASSETS (CONT)

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

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

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

	2013 \$'000	2012 \$'000
Drilling	35,640	63,169
Engineering & Construction	3,832	3,832
	39,472	67,001

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 2014 budget, 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 2014 and management's outlook for future years when taking into account forecast industry growth rates.

The 2014 business plan assumes an improvement in the order book in Engineering and Construction. It also forecasts a reduction in the Drilling Division EBITDA consistent with management's views of continuing difficult trading conditions, followed by a recovery to more normal operating conditions in 2015.

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 12.75% and 13.98% have been applied to the Drilling and Engineering and Construction cash generating units respectively to discount the forecast future attributable post-tax cash flows. The discount 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 \$27.5 million impairment during the 2013 financial year (2012: \$45 million) 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 0.4%;
- A reduction in EBITDA for 2014 of 22.8%;
- An increase in capital expenditure by 7.7%; 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 recoverable amount exceeded the carrying amount for each of the scenarios above when applied to this CGU.

21. DEFERRED TAX ASSETS AND LIABILITIES

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Consolidated						
Inventories	–	–	(1,553)	(4,479)	(1,553)	(4,479)
Equity accounted investments	–	–	(2,613)	(2,613)	(2,613)	(2,613)
Intangible development costs	–	–	–	(173)	–	(173)
Capitalised interest and borrowing costs	–	–	(36)	(112)	(36)	(112)
Property, plant and equipment	4,548	480	–	–	4,548	480
Impairment of trade debtors	968	325	–	–	968	325
Provisions for employee benefits	2,335	3,096	–	–	2,335	3,096
Trade creditors	1,094	1,265	–	–	1,094	1,265
Share raising costs	1,301	–	–	–	1,301	–
Other creditors and accruals	2,246	2,674	–	–	2,246	2,674
Unrealised foreign exchange differences	3,689	319	–	–	3,689	319
Deferred tax asset write down	(11,979)	–	–	–	(11,979)	–
Tax assets/(liabilities)	4,202	8,159	(4,202)	(7,377)	–	782
Set off of tax	(4,202)	(7,377)	4,202	7,377	–	–
Net assets/(liabilities)	–	782	–	–	–	782

Movement in temporary differences during the year:

	Balance 01 Jul 12 \$'000	Recognised directly in equity \$'000	Recognised in profit and loss \$'000	Balance 30 Jun 13 \$'000
2013				
Inventories	(4,479)	–	2,926	(1,553)
Equity accounted investments	(2,613)	–	–	(2,613)
Intangible development costs	(173)	–	173	–
Capitalised interest and borrowing costs	(111)	(35)	110	(36)
Property, plant and equipment	480	–	4,068	4,548
Doubtful debts impairment recognised	325	–	643	968
Provisions for employee benefits	3,096	–	(761)	2,335
Trade creditors	1,264	–	(170)	1,094
Share raising costs	–	1,301	–	1,301
Other creditors and accruals	2,674	–	(428)	2,246
Interest-bearing loans and borrowings	–	–	3,370	3,370
Unrealised foreign exchange differences	319	–	–	319
Deferred tax asset written off	–	–	(11,979)	(11,979)
	782	1,266	(2,048)	–

21. DEFERRED TAX ASSETS AND LIABILITIES (CONT)

	Balance 01 Jul 11 \$'000	Recognised directly in equity \$'000	Recognised in profit and loss \$'000	Balance 30 Jun 12 \$'000
2012				
Inventories	(8,867)	—	4,388	(4,479)
Equity accounted investments	(2,613)	—	—	(2,613)
Intangibles	(28)	—	28	—
Intangible development costs	(213)	—	40	(173)
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)	—
	(5,677)	117	6,342	782

UNRECOGNISED DEFERRED TAX ASSETS

As at 30 June 2013, the Group had not recognised deferred tax assets of \$26,314,720 (2012: \$14,151,720) in relation to income tax losses. The Group also has an unrecognised deferred tax asset of \$1,158,697 (2012: \$1,158,697) in relation to foreign income tax losses.

22. TRADE AND OTHER PAYABLES

	2013 \$'000	2012 \$'000
Current		
Trade payables	34,408	54,089
Other payables and accruals	27,335	66,148
Hedge liability	—	111
	61,743	120,348

23. INTEREST-BEARING LOANS AND BORROWINGS

	2013 \$'000	2012 \$'000
Current		
Bank overdraft – secured	—	6,643
Other borrowings – unsecured	310	48,169
Bank loans – secured	—	4,436
Lease liabilities – secured	1,406	31,793
Other borrowings – secured	87,205	130
	88,921	91,171
Non-current		
Lease liabilities – secured	148	—
Other borrowings – secured	5,800	—
Other borrowings – unsecured	—	41,881
	5,948	41,881

(a) Loans and borrowings terms and maturities

	Financial year of maturity	2013 \$'000	2012 \$'000
Current other borrowings – secured ⁽¹⁾	2014	82,778	–
Non-current other borrowings – secured ⁽²⁾	2020 – 2021	5,800	–
Current other borrowings – secured	N/A	–	130
Current other borrowings – secured ⁽³⁾	2013	4,427	–
Other borrowings – unsecured	N/A	–	48,169
Other borrowings – unsecured	2014	310	–
Bank overdraft – secured	N/A	–	6,643
Secured bank loan	N/A	–	2,150
Secured bank loan	N/A	–	2,286
Non-current borrowings – unsecured	N/A	–	41,881
Current lease liability – secured	2014 – 2015	1,406	31,793
Non-current lease liability – secured	2014 – 2015	148	–

(1) Relates to finance facilities provided by Kerogen. The principal terms of the facilities are:

	Tranche 1	Tranche 2
Principal amount ('000)	US\$53,651	US\$24,280
Repayment date	31 January 2014	22 January 2014
Interest rate per annum	15%	10%

Both tranches 1 and 2 are secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries.

Subsequent to balance date, the Company has repaid US\$30.3 million (A\$33.2 million) to Kerogen through the issue of 27,640,845 ordinary shares in the Company at \$1.20 per share under the Entitlement Offer commenced in June 2013. This has reduced the principal amount outstanding to Kerogen to US\$47.6 million (A\$50.7 million).

Further, Kerogen has agreed, subject to Lucas shareholder approval, to reschedule the maturity date of tranche 1 to January 2017 and tranche 2 to February 2017. A resolution will be put to shareholders at the Annual General Meeting to be held in November 2013 to approve the variation in maturity date.

- (2) Relates to a non-current PAYG liability to the Australian Taxation Office (ATO) that forms part of the payment arrangement agreed with the ATO as described in note 24, Income Tax Liabilities.
- (3) Includes a secured loan for US\$2.4 million (A\$2.6 million) used for capital calls made by Cuadrilla Resources Holdings Limited. This loan was made under a Subscription Deed entitling the lender to subscribe for 10.075% of the shares issued by the Company's indirectly held wholly-owned subsidiary, Lucas Bowland (UK) Limited, which in turn owns a 10% interest in the Bowland Prospect, unless repaid before 3 November 2013. The loan was repaid on 29 July 2013 together with all accrued interest and the Subscription Deed cancelled.

23. INTEREST-BEARING LOANS AND BORROWINGS (CONT)

(b) Financing facilities

	2013 \$'000	2012 \$'000
(i) The Group has access to the following lines of credit and bank guarantees		
Bank overdraft – secured	–	8,500
Other borrowings – secured	93,005	130
Other borrowings – unsecured	310	90,050
Lease liabilities – secured	1,554	36,877
Bank loans – secured	–	4,436
	94,869	139,993
Total facilities utilised at balance date:		
Bank overdraft – secured	–	6,643
Other borrowings – secured	93,005	130
Other borrowings – unsecured	310	90,050
Lease liabilities – secured	1,554	31,793
Bank loans – secured	–	4,436
	94,869	133,052
Total facilities not utilised at balance date:		
Bank overdraft – secured	–	1,857
Lease liabilities – secured	–	5,084
	–	6,941
	2013 \$'000	2012 \$'000
(ii) Bond and other facilities provided by surety entities		
Bond facilities in aggregate	10,609	16,529
Amount utilised	(10,609)	(15,044)
Unused bond facilities	–	1,485
Bank indemnity guarantee	1,869	4,000
Amount utilised	(1,869)	(2,464)
Unused facilities	–	1,536
Bank standby letter of credit	–	2,900
Amount utilised	–	–
Unused facilities	–	2,900

BANK FACILITIES

Of the bonds utilised, \$8,023,705 (2012: \$6,590,697) are on projects which are yet to achieve practical completion. At 30 June 2013, bank indemnity guarantees are fully cash collateralised, represented by a balance of \$1.87 million included in current trade and other receivables.

(c) Finance lease liabilities

	2013 \$'000	2012 \$'000
Finance lease liabilities		
Payments		
Within one year	1,462	18,695
Between one and five years	159	15,867
	1,621	34,562
Less: interest		
Within one year	(56)	(1,777)
Between one and five years	(11)	(992)
	(67)	(2,769)
Total lease liabilities	1,554	31,793
Lease liabilities provided for in the financial statements		
Current	1,406	31,793
Non-current	148	—
Total lease liabilities	1,554	31,793

The majority of the finance leases outstanding at the beginning of the financial year were repaid during the year when the previous Senior Lender was repaid all its facilities in June 2013. Pursuant to repayment of these facilities, the previous lender's first ranking security was released. The Group's lease liabilities are secured by the leased assets which, in the event of default, revert to the lessor.

24. INCOME TAX LIABILITIES

The tax liabilities represent the amount of income tax payable in respect of prior financial periods. The Company has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over five years. The payment arrangement also covers a PAYG liability disclosed in interest bearing liabilities described in note 23. The ATO has a second ranking fixed and floating charge over the Group's assets. Interest is payable on this liability at the General Interest Charge (GIC), levied by the ATO. As part of the agreement, the ATO agreed a partial remission of GIC amounting to \$6.1 million in the current financial year. The residual tax payable has been classified according to the period in which it is due for payment in accordance with the deferred instalment arrangement. Repayment of the income tax liabilities is expected to be completed during the 2016/17 financial year.

25. DERIVATIVE LIABILITY

The derivative liability represents the fair value of the options granted over ordinary shares in the Company as a condition of the mezzanine facility provided to the Company in December 2011. The movement in the fair value of these options during the year was as follows:

	Number of Options	Current derivative liability \$'000	Non-current derivative liability \$'000	Total derivative liability \$'000
As at 1 July 2012	18,566,763	2,665	4,015	6,680
Options exercised	(7,407,407)	(2,665)	—	(2,665)
Change in valuation	—	—	901	901
Reclassification due to lapse of time	—	4,916	(4,916)	—
As at 30 June 2013	11,159,356	(4,916)	—	4,916

25. DERIVATIVE LIABILITY (CONT)

The fair value of the options was calculated at balance date using a Monte Carlo pricing model. The following factors and assumptions were used in determining the fair value at 30 June 2013:

AJ Lucas share price on valuation date	\$1.20
Options exercise price	\$1.54*
Risk-free interest rate	2.66%
Dividend yield	0.0%
Expiry date	22 December 2015
Volatility of AJ Lucas shares	70% - 80%

- * 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 \$1.54 per share subject to a minimum exercise price of \$1.19 per share. The exercise price was varied, in accordance with the terms of the Option Deed, from the initial exercise price of \$1.70 per share on the grant of the options, pursuant to the 1 for 1.25 Share Entitlement Offer commenced in June 2013 and completing in July 2013. As a rational investor would only exercise the options provided the exercise price is below the share price at exercise date, the exercise price is assumed to be \$1.54 per share.

26. OPERATING LEASES

LEASES AS LESSEE

	2013 \$'000	2012 \$'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	2,315	4,105
Between one and five years	2,019	3,734
	4,334	7,839

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, \$4,615,000 (2012: \$5,933,000) was recognised as an expense in the profit or loss in respect of operating leases.

27. EMPLOYEE BENEFITS

	2013 \$'000	2012 \$'000
Provision for employee benefits, including on-costs:		
Current	5,527	7,849
Non-current	1,006	1,239
	6,533	9,088

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 \$4,969,234 (2012: \$7,403,094).

EMPLOYEE SHARE PLAN

The Group has three employee incentive schemes 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 and options 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.

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

	Weighted average exercise price 2013	Number of rights and options 2013	Weighted average exercise price 2012	Number of rights and options 2012
Outstanding at 1 July	\$1.53	343,861	\$0.85	1,338,175
Exercised	—	(93,861)	—	(444,314)
Lapsed	—	(250,000)	—	(550,000)
Issued during the year	\$1.19	5,000,000	—	—
Outstanding at 30 June	\$1.19	5,000,000	\$1.53	343,861
Exercisable at 30 June	—	—	\$1.53	343,861

The options outstanding at 30 June 2013 have an exercise price of \$1.19 (2012: \$nil to \$2.11) and a weighted average contractual life of 2.4 years (2012: 0.6 years).

During the financial year, 93,861 share options were exercised (2012: 444,314) and 250,000 lapsed (2012: 550,000). The weighted average share price at the dates of exercise was \$1.36 (2012: \$1.05).

During the year, the Group recognised as an expense \$176,911 (2012: \$291,824) in relation to share-based payments. There is no liability at year end for cash settled rights (2012: \$554,418). 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 options granted during the year were valued using a Black Scholes pricing model. The following factors and assumptions were used in determining the fair value of the options on their grant date.

Terms	Management	Chief Executive Officer
Grant date	29 November 2012	5 September 2012
AJ Lucas share price	\$0.77	\$0.65
Option exercise price	\$1.35 ⁽¹⁾	\$1.35 ⁽¹⁾
Risk-free interest rate	2.68%	2.59%
Dividend yield	0.00%	0.00%
Term	2.5 years ⁽²⁾	3.25 years
Volatility of Lucas shares	55% - 65%	55% - 65%
Fair value at grant date (cents per option)	0.125	0.106

(1) In accordance with the terms of the Option Deed, following the 1 for 1.25 Entitlement Offer commenced in June 2013 and completed in July 2013, the option exercise price was reduced from \$1.35 per share applying on the initial grant of the options to \$1.19. Similarly, the hurdle price at which the Company's shares must trade for at least 10 days in order for the options to vest was reduced from \$2.50 applying on the grant of the options to \$2.34.

(2) The management options vest as to 50% after two years of service and 100% after three years of service from grant date.

The fair value of the options granted are allocated to each reporting period evenly over the period from grant date to vesting date.

27. EMPLOYEE BENEFITS (CONT)

EMPLOYEE SHARE PLAN (CONT)

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.

28. CAPITAL AND RESERVES

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

SHARE CAPITAL – ORDINARY SHARES

	2013 No. of Shares	2012 No. of Shares
Movements during the year		
On issue at 1 July	103,027,291	66,117,664
Exercise of rights	–	444,314
Exercise of options	7,501,268	–
Entitlement shares	58,864,875	26,547,663
Placements	42,134,839	9,917,650
On issue at 30 June – Fully paid	211,528,273	103,027,291

Details of the share placements, entitlements, exercise of options and associated costs recognised directly in equity are as follows:

Date Placements	No. of Shares	Issue Price Per Share \$	Amount Raised \$'000
September 2012	22,222,222	1.35	30,000
February 2013	10,650,000	1.55	16,507
June 2013	9,262,617	1.20	11,116
Total	42,134,839		57,623
Entitlements			
June 2013	58,864,875	1.20	70,638
Total	58,864,875		70,638
Exercise of options			
September 2012	7,407,407	1.35	10,000
Total	7,407,407		10,000
Less debt for equity conversion			
June 2013			(49,680)
Total			(49,680)
Less share raising costs			
Share raising costs			(5,092)
Total			(5,092)
Total cash received from equity issue of shares			83,489

The entitlement shares were allotted under a 1 for 1.25 Share Entitlement Offer commenced in June 2013 at an issue price of \$1.20 per share. Kerogen's subscription (\$11,116,000) in the June 2013 placement and the Entitlement Offer (\$38,564,000) were satisfied by the conversion of loans owing to Kerogen to ordinary shares in the Company at their respective offer prices.

The Entitlement Offer was completed in July 2013 with the allotment of a further 55,855,543 ordinary shares at \$1.20 per share. Kerogen's subscription (\$33,169,000) under the Entitlement Offer completed in July 2013 was also satisfied by the conversion of loans owing to Kerogen to ordinary shares in the Company.

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.

28. CAPITAL AND RESERVES (CONT)

OPTIONS

Allottee	Perpetual Nominees	Kerogen	Management	Chief executive officer
Number	1,000,000	11,159,356	1,250,000	3,750,000
Grant date	22 December 2011	22 December 2011	29 November 2012	5 September 2012
Expiry date	22 December 2016	22 December 2015	7 December 2015	7 December 2015
Exercise price	\$1.97	\$1.54	\$1.19	\$1.19

The fair value of the above Kerogen options was calculated using a Monte Carlo simulation. See note 25 for details of the valuation. The management and chief executive officer options were valued using the Black-Scholes methodology. See note 27 for details of the valuation. The Perpetual Nominees options have been fully expensed in prior periods.

DIVIDENDS

No dividends in respect of the 2013 financial year have been declared or paid.

DIVIDEND FRANKING ACCOUNT

The balance of franking credits available to shareholders of the Company is \$62,966,276 (2012: \$62,966,276).

29. FINANCIAL INSTRUMENTS

OVERVIEW

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

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

RISK MANAGEMENT FRAMEWORK

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

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through 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

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

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

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

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

A provision for impairment is recognised when there is objective evidence that 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:

	2013 \$'000	2012 \$'000
Trade and other receivables	39,430	57,051
Bank balances	9,675	4,343
	49,105	61,394
Maximum exposure to credit risk for loans and receivables at the reporting date by business segment was:		
Drilling	24,153	27,776
Engineering & Construction	11,904	26,752
Unallocated	3,373	2,523
	39,430	57,051

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

	Gross 2013 \$'000	Impairment 2013 \$'000	Gross 2012 \$'000	Impairment 2012 \$'000
Not past due	27,004	(907)	49,486	(5,236)
Past due up to 30 days	5,626	—	9,019	—
Past due 31 to 120 days	3,610	—	3,019	(382)
Past due 121 days to one year	6,626	(1,471)	1,172	(339)
Past due more than one year	4,957	(6,015)	675	(363)
	47,823	(8,393)	63,371	(6,320)

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 2013, the Group has collective impairments on its trade receivables of \$8,393,000 (2012: \$6,320,000).

29. FINANCIAL INSTRUMENTS (CONT)

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:

	Carrying amount \$'000	Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
2013							
Consolidated							
Non-derivative financial liabilities							
Trade and other payables – unsecured	61,743	(61,743)	(61,743)	–	–	–	–
Other borrowings – secured ⁽¹⁾	93,005	(105,398)	(5,038)	(87,847)	–	–	(12,513)
Lease liabilities – secured	1,554	(1,621)	(1,039)	(423)	(159)	–	–
Other borrowings – unsecured	310	(310)	(310)	–	–	–	–
Income tax liability	33,675	(48,548)	(1,290)	(2,730)	(5,480)	(24,900)	(14,148)
Derivative financial liabilities							
Derivative liability	4,916	(4,916)	(4,916)	–	–	–	–
	195,203	(222,536)	(74,336)	(91,000)	(5,639)	(24,900)	(26,661)
	Carrying amount \$'000	Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
2012							
Consolidated							
Non-derivative financial liabilities							
Trade and other payables – unsecured	120,237	(120,237)	(120,237)	–	–	–	–
Bank overdraft – secured	6,643	(6,643)	(6,643)	–	–	–	–
Bank loans – secured	4,436	(4,883)	(2,717)	(364)	(1,620)	(182)	–
Other loans – secured	130	(134)	(134)	–	–	–	–
Lease liabilities – secured	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)	–	–
Derivative financial liabilities							
Derivative liability	6,680	(6,680)	–	–	–	(6,680)	–
Interest rate swaps used for hedging	111	(111)	(111)	–	–	–	–
	260,080	(280,831)	(180,510)	(30,215)	(59,061)	(11,045)	–

(1) At 30 June 2013, the payable to Kerogen were classified as current liabilities. The contractual cash flows do not take into account that on 30 August 2013, a term sheet was executed with Kerogen which, subject to the approval of the Company's shareholders, varies the maturity date on its residual facilities, after repayment of US \$32.0 million (A\$35.0 million) made after balance date, to January 2017 and February 2017.

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 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 foreign currency exposure primarily relates to borrowings, denominated in US dollars. This currency borrowing is substantially offset by the Group's investment in its equity accounted investee, Cuadrilla Resource Holdings Limited, whose functional currency is US dollars, and the directly owned exploration assets in oil and gas in England, held through subsidiaries whose functional currency is US dollars. However, while exchange gains or losses on borrowings are accounted for through the profit and loss account, translation gains or losses on the Cuadrilla investment and exploration assets are recorded through the translation reserve in equity until sold. Therefore, although the Group's investments provide a natural hedge on the US dollar borrowings, this is not reflected in the accounts due to the manner in which the investments are held.

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):

	EUR	USD	XPF	NZD	HKD	GBP	CAD
2013							
Consolidated							
Trade and other receivable	—	—	—	—	—	—	—
Trade payables	(101)	(1,184)	(5)	(2)	(8)	(252)	(3)
Interest bearing liabilities	—	(87,205)	—	—	—	—	—
Net balance sheet exposure	(101)	(88,389)	(5)	(2)	(8)	(252)	(3)
2012							
Consolidated							
Trade and other receivable	—	—	—	—	—	—	—
Trade payables	(59)	(3,119)	(13)	(2)	(0)	(8)	(13)
Net balance sheet exposure	(59)	(3,119)	(13)	(2)	(0)	(8)	(13)

SENSITIVITY ANALYSIS: At 30 June 2013, 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 \$8,876,000 lower/\$8,876,000 higher.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
EUR	0.7603	0.7707	0.7082	0.8092
USD	0.9914	1.0319	0.9385	1.0191
XPF	88.10	88.50	87.19	96.71
HKD	7.6545	8.0221	7.2470	7.9040
SGD	1.2176	1.2992	1.1650	1.2940
NZD	1.2046	1.2831	1.1571	1.2771
GBP	0.6246	0.6514	0.6057	0.6529
CAD	0.9875	1.0349	0.9566	1.0454

29. FINANCIAL INSTRUMENTS (CONT)

INTEREST RATE RISK: The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. Under the Group's facility with its previous Senior Lender, the Group entered into interest rate swaps to hedge its interest rate risk. Following repayment of this lender just prior to balance date, and assuming shareholders approve the variation in terms of the revised loan facilities offered by Kerogen at the next shareholder meeting, all of the Group's borrowings will be at fixed rates and the Group will therefore have no interest rate exposure.

	2013 \$'000	2012 \$'000
Fixed rate instruments		
Financial assets	—	—
Financial liabilities	(87,515)	(36,359)
	(87,515)	(36,359)
Variable rate instruments		
Financial assets	10,746	4,343
Financial liabilities	(7,354)	(96,693)
	3,392	(92,350)

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

	30 June 2013		30 June 2012	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Other borrowings – secured	10.67	(5,800)	—	—
Bank overdraft – secured	—	—	10.90	(6,643)
Other borrowings – unsecured	—	—	8.93	(80,050)
Bank loans	—	—	8.04	(4,436)
Net exposure to cash flow interest rate risk		(5,800)		(91,129)

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: At 30 June 2013, had interest rates increased/decreased by 100 basis points with all other variables held constant, the Group post-tax loss and equity would have been \$4,092,580 higher/lower (2012: \$2,990,865 higher/lower). 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 \$'000	Fair value \$'000
2013		
Bank balances	9,675	9,675
Trade and other receivables	39,430	39,430
Trade and other payables	(61,743)	(61,743)
Other borrowings – secured	(93,005)	(93,005)
Other borrowings – unsecured	(310)	(310)
Lease liabilities – secured	(1,554)	(1,554)
Derivative liability	(4,916)	(4,916)
	(112,423)	(112,423)
	Carrying amount \$'000	Fair value \$'000
2012		
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)
	(198,557)	(198,557)

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 13.27% (2012: 8.76%).

The Board's target is for employees (excluding directors) of the Group to hold 1% of the Company's ordinary shares by 2014. At present, employees hold approximately 0.5% of the Company's ordinary shares, or just under 1% assuming that all outstanding share options vest and are exercised. Management is considering structures for extending the Group's employee share schemes beyond key management and other senior employees.

29. FINANCIAL INSTRUMENTS (CONT)

FAIR VALUES (CONT)

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

	2013 \$'000	2012 \$'000
Total liabilities	201,736	301,860
Less: cash and cash equivalents	(9,675)	(4,343)
Net debt	192,061	297,517
Total equity	131,640	113,494
Less: amounts accumulated in equity relating to cash flow hedges	—	(111)
Adjusted capital	131,640	113,383
Debt to adjusted capital ratio at 30 June	1.46	2.62

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2013				
Derivative financial liability	—	4,916	—	4,916
	—	4,916	—	4,916
30 June 2012				
Derivative financial liability	—	6,791	—	6,791
	—	6,791	—	6,791

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

30. INTERESTS IN JOINT VENTURES

		Participation interest		Contribution to operating results of the Group profit/(loss)	
Principal activities		2013 %	2012 %	2013 \$'000	2012 \$'000
Southern SeaWater Alliance	Construction and operation of desalination plant	19	19	1,919	6,397
VSL Australia – AJ Lucas Operations Joint Venture	Construction of water related infrastructure	50	—	985	—

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

	2013 \$'000	2012 \$'000
Assets		
Current assets		
Cash and cash equivalents	3,497	3,688
Trade and other receivables	1,185	7,367
Other	20	24
Construction work in progress	303	3,193
Total assets	5,005	14,272
Liabilities		
Current liabilities		
Trade and other payables	4,495	11,795
Total liabilities	4,495	11,795

31. CONSOLIDATED ENTITIES

The financial statements at 30 June 2013 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	
		2013 %	2012 %
Parent entity			
AJ Lucas Group Limited			
Controlled entities			
Australian Water Engineering Pty Limited	Australia	100	100
Water Balance Australia Pty Limited	Australia	—	50
AJ Lucas Operations Pty Limited	Australia	100	100
AJ Lucas Plant & Equipment Pty Limited	Australia	100	100
AJ Lucas Drilling Pty Limited	Australia	100	100
Lucas Shared Services Pty Limited	Australia	100	100
AJ Lucas Testing Pty Limited	Australia	100	100
Lucas Operations (WA) Pty Limited	Australia	100	100
Lucas Engineering and Construction Pty Limited	Australia	100	—
AJ Lucas Joint Ventures Pty Limited	Australia	100	100
AJ Lucas (Hong Kong) Limited	Hong Kong	100	100
Lucas Contract Drilling Pty Limited	Australia	100	100
Subsidiary of Lucas Contract Drilling Pty Limited			
McDermott Drilling Pty Limited	Australia	100	100

31. CONSOLIDATED ENTITIES (CONT)

Name of entity	Country of incorporation	Ownership interest	
		2013 %	2012 %
Controlled entities (cont)			
Lucas Drilling Pty Limited ⁽¹⁾	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 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
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
Lucas Holdings (Bowland) Limited	England	100	—
Subsidiaries of Lucas Holdings (Bowland) Limited			
Lucas Bowland (UK) Limited	England	100	—
Lucas Bowland (No. 2) Limited	England	100	—
Lucas Holdings (Bolney) Limited	England	100	—
Subsidiaries of Lucas Holdings (Bolney) Limited			
Lucas Bolney Limited	England	100	—

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

32. CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

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

- (i) Under the joint venture agreements (see note 30), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint ventures. As at 30 June 2013, 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 \$14,545,000 (2012: \$11,795,000).

- (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. Certain claims and counterclaims are outstanding but not detailed on the basis that further disclosure may seriously prejudice the Group's position in regards to these matters. Provisions have been made for such claims to the extent required under Australian Accounting Standards.
- (iii) Under the terms of the Class Order described in note 36, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

COMMITMENTS

At 30 June 2013, the Group had no commitments contracted but not provided for and payable within one year (2012: \$3,942,732) for the purchase of new plant and equipment.

33. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial years ended 30 June 2013 and 2012, the parent entity of the Group was AJ Lucas Group Limited.

	2013 \$'000	2012 \$'000
Results of the parent entity		
Loss for the year	(119,162)	(109,739)
Total loss for the year	(119,162)	(109,739)
Financial position of the parent entity at year end		
Current assets	2,967	57,025
Total assets	301,035	259,975
Current liabilities	144,740	101,283
Total liabilities	169,395	146,481
Total equity of the parent entity comprises:		
Share capital	275,637	138,506
Employee equity benefit reserve	4,295	4,118
Accumulated losses	(148,292)	(29,130)
Total equity	131,640	113,494

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 36.

34. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2013 \$'000	2012 \$'000
(a) Reconciliation of cash		
For the purposes of the statement of cash flows, cash includes cash at bank, cash on hand and bank overdrafts. Cash as at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:		
Cash assets	9,675	4,343
Bank overdraft	–	(6,643)
Total cash	9,675	(2,300)
(b) Reconciliation of cash flows from operating		
Loss for the year	(126,996)	(110,237)
Adjustments for:		
Interest on capitalised leases	2,891	3,073
Accrued interest converted into borrowings	25,198	–
Loss on sale of non-current assets	689	276
Interest income receivable	(73)	(47)
Cost of issue of options	177	627
Loss on sale of assets held for sale	237	365
Loss on sale of exploration assets	181	–
Loss on foreign currency loan	12,296	63
Fair value adjustment in derivative liability	901	(2,572)
Foreign exchange gain on restatement of equity accounted investee	–	140
Net foreign exchange loss on other loans	–	(23)
Net foreign exchange loss on restatement of exploration assets	(65)	440
Share of prior year overhead expenses exploration assets	–	343
Share of overhead expenses exploration assets	1,427	–
Share of loss of equity accounted investees	3,858	2,253
Advisory fees on balance sheet restructure	1,450	5,252
Impairment of intangible asset	27,529	44,960
Impairment of property, plant and equipment	13,615	–
Impairment of equity accounted investees	2,437	–
Impairment of other receivables	–	459
Impairment of land and buildings	–	1,870
Depreciation and amortisation	22,852	24,793
Amortisation of borrowing costs (included in interest-bearing liabilities)	857	717
Accounting interest and fees on mezzanine debt	5,287	3,239
Unrecognised tax loss	1,295	–
Operating loss before changes in working capital and provisions	(3,957)	(24,009)

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

	2013 \$'000	2012 \$'000
Change in receivables	16,096	(542)
Change in other current assets	(1,116)	6,097
Change in inventories	26,508	(2,972)
Change in payables	(58,605)	30,689
Change in provisions for employee benefits	(2,555)	528
Change in tax balances	1,765	(21,689)
Change in employee equity benefit reserve	—	142
Change in reserves	—	498
Net cash used in operating activities	(21,864)	(11,258)

(c) Non-cash financing and investment activities

During the year, the Group did not acquire any plant and equipment (2012: \$3,477,000) by means of finance leases. These purchases are not reflected in the statement of cash flows.

As part of the 1 for 1.25 share Entitlement Offer commenced in June 2013 and associated placement, Kerogen entered into a debt for equity swap of \$49,680,000, including accrued interest, disclosed in note 28. This swap transaction is not reflected in the statement of cash flows.

(d) Financing arrangements

Refer note 23.

35. RELATED PARTIES**ENTITY WITH SIGNIFICANT INFLUENCE**

During the financial year, Kerogen Investments No. 1 Limited (Kerogen), participated in various equity raisings made by the Company, increasing its shareholding at balance date to 49.6% of the Company's issued share capital. Further, at various times during the financial year, Kerogen either provided or arranged the provision of short-term loan facilities to the Company. Total interest incurred during the financial year on loans provided by Kerogen was \$15,570,090, with no amounts being paid in cash. Additionally the Group paid \$160,000 in borrowing costs to Kerogen during the year. Further details of loans provided by Kerogen are disclosed in note 23 (a), and details of the amount of debt and interest converted to ordinary shares during the year is provided in note 28. Under the terms of the mezzanine facility provided by Kerogen to the Company, Kerogen also has the right to appoint two directors. Kerogen partially exercised this right post balance date with the nomination of Julian Ball who was subsequently appointed a director on 2 August 2013. Kerogen is therefore considered to be a related party of the Company. The Lucas Group continues to rely on Kerogen for financial support, refer to note 2 (c) for further details.

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation comprised:

	2013 \$	2012 \$
The key management personnel compensation is:		
Short-term employee benefits	1,659,321	1,941,644
Other long-term benefits	13,441	56,742
Post-employment benefits	55,983	139,498
Termination benefits	99,960	—
Share-based payments	107,651	52,000
	1,936,356	2,189,884

35. RELATED PARTIES (CONT)

INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

Information regarding individual directors and executives compensation and some equity instruments disclosure, as required by Corporations Regulation 2M.3.03, is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

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

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	2013 \$	2012 \$
Allan Campbell	Argyll Capital Partners Pty Ltd	Executive director services	514,583	–
Phillip Arnall	Felix Ventures Pty Ltd	Non-executive director services	85,000	79,980
Genelle Coghlan	Dunblane Pty Ltd	Non-executive director services	80,000	80,000
Martin Green	BRI Ferrier (NSW) Pty Ltd	Non-executive director services	85,000	80,028

Services were provided through the contracting entity. Such services were provided in the ordinary course of business and on normal terms and conditions in all instances. The amount payable for these services is included in the amounts disclosed 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:

2013	Held at 1 July 2012	Received on exercise of rights	Net other change	Held at 30 June 2013
Directors				
Allan Campbell	10,284,870	93,861	–	10,378,731
Martin Green	350,000	–	–	350,000
Executives				
Kevin Lester (ceased employment 27 July 2012)	191,368	–	–	191,368
Mark Summergreene	102,209	–	–	102,209
Brett Tredinnick	345,722	–	–	345,722

2012	Held at 1 July 2011	Received on exercise of rights	Net other change	Held at 30 June 2012
Directors				
Allan Campbell	10,140,083	144,787	—	10,284,870
Martin Green	200,000	—	150,000	350,000
Executives				
Kevin Lester	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

RIGHTS AND OPTIONS 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:

2013	Held at 1 July 2012	Granted as compensation	Cancelled	Exercised	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2012
Directors							
Allan Campbell	203,861	3,750,000	(110,000)	(93,861)	3,750,000	—	—
Executives							
Mark Summergreene	—	105,000	—	—	105,000	—	—
Brett Tredinnick	—	250,000	—	—	250,000	—	—

2012	Held at 1 July 2011	Granted as compensation	Cancelled	Exercised	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
Directors							
Allan Campbell	598,648	—	(250,000)	(144,787)	203,861	—	203,861
Executives							
Mark Summergreene	—	20,000	—	(20,000)	—	20,000	—
Brett Tredinnick	—	30,000	—	(30,000)	—	30,000	—

OTHER RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see note 31) and joint ventures (see note 30). These entities trade with each other from time to time on normal commercial terms. No interest is payable on inter-company balances.

36. 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
Lucas Engineering & Construction Pty Limited	Stuart Painting Services Pty Limited
AJ Lucas Plant & Equipment Pty Limited	Lucas Stuart Projects Pty Limited
AJ Lucas Drilling Pty Limited	Jaceco Drilling Pty Limited
Lucas Shared Services Pty Limited	Geosearch Drilling Service Pty Limited
AJ Lucas Testing Pty Limited	Lucas Energy Holdings Pty Limited
Lucas Operations (WA) Pty Limited	Lucas Energy (WA) Pty Limited
AJ Lucas Joint Ventures Pty Limited	Lucas (Arawn) Pty Limited
Lucas Drilling Pty Limited	Lucas Power Holdings Pty Limited
Lucas Contract Drilling Pty Limited	Mitchell Drilling Corporation Pty Limited
McDermott Drilling Pty Limited	Marais Lucas Technologies Pty Limited
Lucas Stuart 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 2013 are set out on the following page:

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	2013 \$'000	2012 \$'000
Loss before tax	(122,966)	(116,559)
Income tax (expense)/benefit	(2,478)	6,342
Loss after tax	(125,444)	(110,217)
(Accumulated losses)/retained profit at beginning of the year	(26,546)	83,671
Accumulated losses at end of year	(151,990)	(26,546)

STATEMENT OF FINANCIAL POSITION

	2013 \$'000	2012 \$'000
Current assets		
Cash and cash equivalents	9,675	4,343
Trade and other receivables	39,430	57,051
Inventories	29,410	55,918
Assets classified as held for sale	1,357	5,503
Other assets	1,978	862
Total current assets	81,850	123,677
Non-current assets		
Trade and other receivables	95,906	89,822
Development assets	—	580
Deferred tax assets	—	698
Intangible assets	39,472	67,001
Property, plant and equipment	109,972	133,638
Total non-current assets	245,350	291,739
Total assets	327,200	415,416
Current liabilities		
Trade and other payables	61,706	120,348
Interest-bearing loans and borrowings	88,921	91,171
Income tax payable	9,020	32,692
Derivative liability	4,916	2,665
Provisions	5,527	7,849
Total current liabilities	170,090	254,725

36. DEED OF CROSS GUARANTEE (CONT)

	2012 \$'000	2011 \$'000
Non-current liabilities		
Interest-bearing loans and borrowings	5,948	41,881
Derivative liability	—	4,015
Income tax liability	24,655	—
Provisions	1,006	1,239
Total non-current liabilities	31,609	47,135
Total liabilities	201,699	301,860
Net assets	125,501	113,556
Equity		
Issued capital	275,637	138,506
Reserves	1,854	1,596
Accumulated losses	(151,990)	(26,546)
Total equity	125,501	113,556

37. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date:

- The Company issued 55,855,543 ordinary shares at \$1.20 per share through an Equity Entitlement Offer raising \$63.7 million after costs which has been applied as follows:
 - Partial repayment of the loan from Kerogen of US\$32 million (A\$35 million) reducing the amount owing to Kerogen to US\$47.6 million (A\$50.7 million);
 - Repayment of US\$5.4 million (A\$5.7 million) in borrowings including interest secured against 10.075% of the Company's shareholding, on a fully diluted basis, in its indirectly wholly-owned subsidiary, Lucas Bowland (UK) Limited; and
 - Reduction in trade payables of approximately \$20.3 million, with surplus cash available for the future working capital requirements of the Group;

- A term sheet was executed on 30 August 2013 with Kerogen which extends the maturity date of the Kerogen debt facilities to early 2017. The proposed security detailed in the term sheet is subject to shareholder approval, which is the only remaining impediment outside the Company's control to the extension being granted. The directors are confident of this approval being received at the Annual General Meeting in November 2013;
- The Group has received US\$13.1 million (A\$14.0 million) in cash, net of costs and an additional 1% subscription for ordinary shares in Cuadrilla Resources Holdings Limited ('Cuadrilla'), through redemption of Cuadrilla's A class preference shares.

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



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DIRECTORS' DECLARATION

- 1 In the opinion of the directors of AJ Lucas Group Limited (the Company):
 - (a) the consolidated financial statements and notes, that are contained in pages 35 to 86 and the Remuneration Report included in the Directors' Report, set out on pages 27 to 33, 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 2013 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 36 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 2013.
- 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".

Allan Campbell
Director
27 September 2013





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 2013, 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 37 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 2013 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).

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 27 to 33 of the Directors' Report for the year ended 30 June 2013. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

AUDITOR'S OPINION

In our opinion, the remuneration report of AJ Lucas Group Limited for the year ended 30 June 2013, complies with Section 300A of the *Corporations Act 2001*.



KPMG



Tony Nimac
Partner

Sydney
27 September 2013

Australian Securities Exchange Additional Information

DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 AUGUST 2013)

Securities held	Ordinary shares	Number of Security Holders		
		Employee incentive scheme options	Perpetual Nominees options	Kerogen options
1 – 1000	799	–	–	–
1,001 – 5,000	1,103	–	–	–
5,001 – 10,000	418	–	2	–
10,001 – 100,000	497	15	2	–
100,001 and over	62	4	1	1
Total	2,879	19	5	1

358 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	132,558,851	49.58
Belbay Investments Pty Ltd	26,700,000	9.99
JP Morgan Nominees Australia Limited <Cash income A/C>	21,017,044	7.86
Andial Holdings Pty Limited	11,990,000	4.48
HSBC Custody Nominees (Australia) Limited – A/C 2	8,623,110	3.22
National Nominees Limited	8,483,982	3.17
HSBC Custody Nominees (Australia) Limited	4,478,352	1.67
Toolebuc Investments Pty Limited	4,423,140	1.65
Citicorp Nominees Pty Limited	3,447,161	1.29
HSBC Custody Nominees (Australia) Limited-GSCO ECA	3,195,640	1.20
Milson Investments Pty Ltd O'Neill Superannuation Fund	2,653,925	0.99
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	2,524,831	0.94
Amalgamated Dairies Limited	2,333,000	0.87
JP Morgan Nominees Australia Limited	1,818,172	0.68
Forty Traders Limited	1,566,348	0.59
Ademsa Pty Ltd	710,259	0.27
Mr Ross Alexander Macpherson	700,000	0.26
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	494,691	0.19
Mr James Donald Bruce Cochrane + Mrs Joan Elizabeth Cochrane <Bruce & Joan Cochrane A/C>	360,000	0.13
Millefleurs Pty Limited <The Green Family S/F A/C>	350,000	0.13
	238,428,506	89.16

SUBSTANTIAL SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Kerogen Investments No. 1 (HK) Limited ⁽¹⁾	104,918,006	49.60
Belbay Investments Pty Ltd	26,700,000	9.99
Coupland Cardiff Asset Management LLP	25,300,615	9.46
Andial Holdings Pty Limited	17,490,000	6.54
Amalgamated Dairies Limited	16,220,348	6.07

(1) Subsequent to filing its substantial shareholding notice, Kerogen has acquired an additional 27,640,845 ordinary shares, increasing its shareholding to 132,558,851 ordinary shares. However, its ownership entitlement did not vary by more than 1% and no change in substantial shareholding notice was therefore required to be filed.

UNQUOTED EQUITY SECURITIES

KEROGEN OPTIONS

Kerogen Investments No. 1 (HK) Limited holds 11,153,356 Kerogen options representing 100% of that class of options.

PERPETUAL NOMINEES OPTIONS

Perpetual Nominees Limited as custodian for TTPE 07 No.4 Limited as trustee for the TTPE4 Investment Trust holds 496,665 Perpetual Nominees Options representing 49.67% of that class of options.

VOTING RIGHTS

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

Options – These are no voting rights attached to the options.

Directory

COMPANY SECRETARY

Nicholas Swan MA, MBA

REGISTERED OFFICE

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Email: web.queries@computershare.com.au
Website: www.computershare.com

STOCK EXCHANGE

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

AUDITORS

KPMG
10 Shelley Street
Sydney NSW 2000

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.

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