# LUCAS

## 2016 ANNUAL REPORT

# About us

AJ Lucas is a leading provider of pipelines, specialist infrastructure, construction and drilling services to the energy, water and wastewater, resources and public infrastructure sectors. We are the largest supplier of drilling and gas management services to Australia's coal industry, and a proven developer of unconventional hydrocarbon assets. **This year we reached significant milestones with the approval to drill, frac and flow test wells at our jointly held licences in the UK. Read more >**


**CONTENTS**

# Our 3 Areas

| OPERATING BUSINESS UNITS | | INVESTMENT |
|---|---|---|
| **Drilling Services (LDS)** | **Engineering & Construction (LEC)** | **Oil & Gas** |
| The major drilling provider to the coal, CSG coal mine degassing and exploration drilling sectors in Australia | Provides engineering and construction services to the coal, energy, water and wastewater and public utilities sectors | Leverages drilling expertise to source early stage shale gas and oil opportunities and then prove up the relevant reserves |
| **Delivering intelligent and practical solutions to support a sustainable Australia.** | | **Largest acreage position in Europe outside of majors** |
| A focused provider of surface to inseam (SIS) coal mine gas extraction and well field services | A strong pipeline contractor with complementary infrastructure construction capability including Horizontal Directional Drilling | Focused on unlocking value in the untapped unconventional oil and gas resources of the UK and Europe |

# Letter from the Chairman

**"During the year a number of capital management initiatives were implemented as part of a funding strategy developed to support the Group over the medium term and maximise potential returns to shareholders"**

I am pleased to present my report as Chairman of your company. Yet again, it has been a trying year for the two streams of our business. For our UK shale gas investment the year was predominantly consumed with prosecuting an appeal against the decision of the Lancashire County Council to reject our application to test the Bowland asset. In our Drilling and Pipeline operations in Australia, the subdued activity in the markets in which we operate has meant that the focus was on retaining our valuable client base and continuing our focus on strong operating cost control and right sizing the business to match prospective market demand for our services. That said, the Australian businesses performed well with underlying EBITDA increasing by 54.8% to $14.5 million, despite a 13.5% decline in revenue to $125 million, primarily as a result of the above initiatives. This performance ranked ahead of our peers and demonstrates the quality of management and the regard in which we are held with our core customers.

As part of the initiative to right size our cost base and to simplify the management structure the board implemented a change in senior management concurrent with the departure of Russell Eggers as CEO whereby the three core business streams of Drilling, Engineering and Construction and the UK Shale Gas investment report directly to the Board.

During the period your Board implemented a funding strategy by way of an equity raising and debt package that provided funds to settle remaining legacy issues, provide working capital headroom for our Australian businesses and meet the Groups planned investment requirements in UK shale exploration activities over the medium term.

## Funding strategy

A number of capital management initiatives were implemented as part of a funding strategy developed to support the Group over the medium term and maximise potential returns to shareholders.

The entitlement offer completed in April 2016 successfully raised $21 million. This was followed by the launch of the new US$45 million senior secured loan note facility, of which US$20 million remains undrawn. In addition, Kerogen, the major shareholder and debt provider to the Group, agreed to restructure and extend the maturity of its existing debt facilities to December 2019.

Together, these initiatives have substantially improved liquidity, reduced current principal repayment obligations and materially reduced immediate debt servicing requirements with a significant portion of servicing costs able to be deferred until maturity in 2019. Additionally, the funding has allowed AJ Lucas to settle in full the long standing liability to the Australian Taxation Office, provided means to settle the final material outstanding legal matter, and has provided working capital to the Australian Businesses.

Most importantly, however these initiatives underpin AJ Lucas' share of the funding to complete the two well program in the Bowland Basin.

As previously announced the Company intends to recapitalise the business with a further entitlement offer, the proceeds of which will be used to repay at least $US25 million of the Kerogen facility.

## UK Shale Gas

It was pleasing to have announced on 7 October that final planning consent had been received from the UK Government to drill and hydraulically stimulate up to four horizontal wells to test the flow of gas at Cuadrilla's Preston New Road exploration site in Lancashire, UK. The UK Secretary of State for Communities and Local Government (SOS) also advised he is minded to grant consent for a similar application at the Roseacre Wood exploration site pending further consultation on highway conditions. Once planning

**“This [decision] is a watershed for AJ Lucas and allows us to finally test the flow of gas from the highly prospective Bowland exploration licence ahead of commercialism”**

conditions have been discharged and the site constructed at Preston New Road, drilling is expected to commence in the second quarter of calendar year 2017 with an initial two wells drilled, hydraulically fractured and ready to flow test by Q1 of calendar year 2018.

This is a watershed for AJ Lucas and allows us to finally test the flow of gas from the highly prospective Bowland exploration licence ahead of commercialisation. Confirmation of flow will result in Bowland becoming the largest onshore gas field in the UK and a world-class resource. It is encouraging to see that the UK Government supports moving forward with onshore shale gas exploration as a means to provide an indigenous energy source for the UK and reduce its reliance on imports. Our operator Cuadrilla Resources has put together a programme to undertake this exploration efficiently and safely with extensive community consultation. It will indeed be a world-class exploration programme and a precursor to an exciting and important development for the UK economy and our Company.

A J Lucas recently completed a capital raising which along with balance sheet repair and working capital headroom will fund the company’s share of the drilling and testing program. The Bowland license is also subject to a carry from Centrica Plc (Centrica), the UK’s premier gas distribution company. Centrica will fund £30.6 million of the cost of drilling and testing these initial exploration wells and a further £46.7 million on appraisal and development following performance criteria being met in testing the upcoming wells.

In addition to this positive progress with respect to our UK assets, Cuadrilla, in which the Company has a 45% interest, was awarded 18 additional tenements in the 14th Round of grants by the UK government. Whilst these are exciting and prospective assets for the company, no significant investment in their development is planned before calendar year 2018.

## Australian operations

The Australian operations, comprising the Group’s Drilling division (“LDS”) and Engineering and Construction division (“LEC”), performed above expectations under challenging market conditions.

While revenue reduced by $4m, LDS’ underlying EBITDA improved by $5.2m as a result of various productivity initiatives and exiting some contracts that destroyed value. With limited signs of a pick up in activity in the Coal sector, and the conclusion of a key contract in the 4th quarter the division’s priority will be on business development opportunities and controlling costs. To this end the division has already embarked on new services for the commercial gas extraction industry. This business has rebuilt its reputation as a quality service provider with a fundamental commitment to safety that will stand it in good stead in the competitive market ahead.

The completion of the 300km Eastern Goldfields Pipeline project in Western Australia and the award of the pipeline looping contract as part of APA Group’s Northern Interconnect Expansion project with our joint venture partner Spiecapag Australia Pty Limited, contributed significantly to the LEC result for the year. While the division’s underlying EBITDA was lower than the prior year, as a result of lower revenues, it was pleasing to note that underlying EBITDA margin increased to 15.1%.

The division will continue with its business model to partner on tenders for major cross country pipeline projects, as well as in it's own right for small scale infrastructure works. The year ahead will be challenging with little pipeline activity expected however the division has undertaken considerable restructuring to accommodate what is expected to be a quieter year.

## People and Safety

It is pleasing to note that your company's outstanding safety performance has continued during the year under review. There has not been a Lost Time Injury since December 2013. While the Total Recordable Injury Frequency Rate (TRIFR) of 5.8 was a slight increase on the prior year, it continued to be at the leading edge of safety performance in the industry we operate in.

Safety is at the forefront of everything AJ Lucas does. The recognition and mitigation of risk is a primary priority of management with health and safety KPI's embedded in all strategic and project plans. Senior management continually review performance, implement corrective actions where deficiencies are identified and regularly report on performance to the Board.

This commitment and the outstanding performance in keeping our staff safe is valued highly by our existing and potential customers and holds us in good stead to continue winning work with top tier customers.

In summary, your company is looking forward to progressing its strategic world class investments in UK shale gas. The Group's share of funding for the two well program has been secured and substantial improvements made to the Group's liquidity. During the coming year we intend to undertake a further entitlement offer to further reduced our debt as detailed in our ASX announcement on 23 June 2016.

The Australian operations continue to operate in a difficult environment with a leaner workforce positioning the business well to take advantage of opportunities as they arise.

I would like to extend my appreciation to our staff for their dedication and commitment in a trying environment. It is the exceptional service they provide to our customers, in a safe and efficient manner, that has underpinned the performance of the Australian operations. On my part I am grateful to the Board for their energies and experience in guiding management and stepping up to the plate when required.

**Phil Arnall**
**Chairman**

# Oil & Gas

Cuadrilla welcomes the decision by the Secretary of State for Department for Communities and Local Government Sajid Javid to grant planning consent for its applications to drill, hydraulically fracture and test the flow of gas from up to four exploration wells at its Preston New Road site in Lancashire. Regarding a similar application for a proposed site at Roseacre Wood, where the Secretary of State is minded to grant following further consultation on highway conditions, Cuadrilla looks forward to demonstrating that it will meet these requirements.

We are very confident that our operations will be safe and responsible and the and the comprehensive site monitoring programmes planned by ourselves, by regulators and by independent academic institutions will in due course conclusivley demonstrate this. Throughout our operations communication and engagement with the local community will remain a priority for us.

We have now accepted the award of further onshore exploration licences issued by the UK Oil and Gas Authority. These licences total approximatley 1,274$km^2$ in area, and are located in Yorkshire. Whilst our current operational focus remains primarily in Lancashire, we will be undertaking desktop studies for this new exploration acreage. This will give us a very detailed understanding of the geology deep underneath the licence areas, helping to assess where future exploration sites can subsequently be located.

The year ahead will be a pivotal and exciting one for Cuadrilla. Assessing the commercial viability of shale gas production in the UK is a national imperative, as reliance on imported gas to heat our homes, fuel our Industry and generate electricity continues to rapidly grow. We are very pleased that we can now start operations to make production of UK shale gas a reality. I look forward to shareing positive progress with regard to those operations.

**Francis Egan**
**Cuadrilla CEO**


Cuadrilla rig at Anna Road

# Oil & Gas

**Along with our partners, we hold a preeminent position in the developing UK shale gas market.**

## Business highlights

Bowland license (AJL's effective beneficial interest of 46.85%) is the most advance shale gas asset in Europe

- Over 1000m thickness of shale and associated lithologies
- Very close to pipeline infrastructure
- Partnership with Centrica Plc (owns British Gas a residential and business energy and service provider in UK)

Cuadrilla has been awarded 18 exploration licenses under the UK government's 14th round of grants during the year, totalling approximately 1,274km2 in area. Energy company Engie holds 30% of 7 of these licenses.

Globally, shale gas is expected to grow by 5.6% p.a. with the share of shale gas in total production increasing from just over 10% in 2014 to nearly a quarter by 2035.[1]

UK shale gas industry is important to restoring the UK's energy security

- UK domestic supplies are declining[2]
- Norway, a major supplier to the UK, also has declining supplies[2]
- UK is increasingly a net importer of gas[3]

1 BP Energy Outlook 2016 edition;

2 BP Statistical Review of World Energy, 2015;

3 UKCS Oil and Gas Production Projections, DECC, 2015

Cuadrilla rig at Anna Road

## Financials and other key data

| Year ended 30 June | 2013A | 2014A | 2015A | 2016A |
|---|---|---|---|---|
| **Cuadrilla** | | | | |
| AJL interest | 43.7% | 45.0% | 45.0% | 45.1% |
| Carrying value ($m) | 95.8 | 87.6 | 104.0 | 106.2 |
| **Direct exploration asset** | | | | |
| Carrying value ($m) | 6.3 | 10.8 | 16.5 | 18.3 |
| **Total carrying value ($m)** | **102.1** | **98.3** | **120.5** | **124.5** |

## Investment locations


Does not include additional licences awarded to Cuadrilla under the 14th round.

# Engineering & Construction

**Lucas Engineering and Construction is an industry leader in the delivery of projects for major pipelines and facilities for gas, water and petroleum products, horizontal directional drilling (HDD) and civil construction for the water and power industry.**

## Business highlights

- More than 12 months Lost time injury (LTI) and medical treatment incident (MTI) free
- In excess of 1,000,000 man hours MTI and LTI free in our Spiecapag Lucas Joint Venture
- Excellent performance on the construction of APA's Eastern Goldfields Pipeline
- Successful completion to date of part of the Victorian Northern Interconnect expansion gas pipeline project
- Completion of a number of smaller scale infrastructure projects in electrical and fuel distribution networks
- Spiecapag Lucas Joint Venture was awarded the 2015 APGA Environment Award for its Front Foot Package – Fauna Management on APA's Goldfield Pipeline

## Safety focus – from beginning to end

The safety of our people is management's primary concern and focus. With a goal of zero incidents with respect to personnel and the environment our result indicates that our approach of talking safety, thinking safety, acting safely and continuously removing risks from the business is paying dividends. As at the end of September we have been free of recordable injuries across Engineering and Construction for more than 12 months and have exceeded more than 1,000,000 man hours medical treatment incident (MTI) and lost time injury (LTI) free in our joint venture with partner Spiecapag. This achievement has been recognised with the awarding of runner-up for the 2016 IPLOCA Health and Safety Award sponsored by Chevron for commitment in this field.

## Partnering Approach

Our Engineering and Construction business continues to approach opportunities in the market from the perspective of a partner looking to exceed our customers' expectations through the use of innovative and flexible contracting practices. We feel the traditional approach to contracting, with a narrow focus on project "mechanics" and typically a legalistic and win – lose relationship, is value destroying and in our view obsolete.

Our Engineering and Construction business provides a flexible approach to the customer's project requirements and works in collaboration at the front end of the process. It allows for upfront planning and optimisation of the project details, and we believe it facilitates and optimises the project's value for all parties. In our experience it provides a better result than the traditional rigid form of contracting. Our successful execution and delivery of the Jemena QGP looping project and APA's Eastern Goldfields project is a testament to the success of this approach.

## Industry Leader

As a niche-focused specialist engineering and infrastructure construction business, along with our safety, our emphasis is quality. Quality in service execution that is integral in all interactions with staff and customers. Quality that causes us to be the first choice for clients and employees. Reflecting our leading position in the market we participate in the Australian Gas and Pipeline Association and contribute to industry research through several cooperative research centres. Participation in these organisation allows us to voice our views with respect to the interests of pipeline owners, operators and constructors while looking to assist in the commercialisation of innovative advances in the industry body of knowledge

## Pipelines

The company continues to be renowned for its pipeline expertise and construction of related infrastructure works. The company has successfully completed the Eastern Goldfields Pipeline project in Western Australia in partnership with Spiecapag Australia during the first quarter of the year. The project involved approximately 300km of pipeline being trenched and laid in the remote eastern goldfields of Western Australia.

Also during the year the Company, in conjunction with its JV partner Spiecapag Australia, began construction of the Victorian Northern Interconnect Expansion pipeline, joining existing Victorian and New South Wales gas pipelines. The company had completed approximately 93km of pipeline with the remaining 72km or so to be completed during the second half of the 2016 calendar year.

## Horizontal Directional Drilling (HDD)

Lucas remains a leader in horizontal directional drilling requiring the installation of pipeline and conduits under urban environment or natural obstacles such as river and harbours. Lucas was amongst the first to recognise the application of this technology to gas drainage from coal mines (particularly underground long wall mining) and then to commercial gas capture and production.

Lucas has successfully completed many large scale HDD projects throughout Australia, New Zealand and South East Asia. The Company remains a significant competitor in serving the energy, water resources and public utility reactors for complex HDD projects.

## Civil Works

The Company's construction capability continues to be in demand for small scale civil works. The company's highly accredited management systems, quality assurance procedures and strong OH&S record has been instrumental in the award and successful completion of such contracts. Works carried out during the year include the completion of several electricity substations and water pumping stations throughout New South Wales. We have also continued our role as a participant in the Operations and Maintenance phase of the Southern Seawater Desalination Plant in Western Australia.

# Drilling

**In prevailing market conditions our Drilling business has won new work, maintained its strong safety culture and, through its proven delivery cabability and multi disciplined service offering, positioned itself well for the future.**

## Business highlights

Best in class safety performance

- No lost time injuries (LTIs) again in 2016
- Total recordable injury frequency rate (TRIFR) of 4.9
- Successfully engaged with all major coal producers on the east coast
- Continue to be sought out by customers looking for innovative drilling solutions.

## Lucas Drilling Services

Lucas Drilling Services ("LDS") again achieved it's safety targets for the year and has renewed and won new business in its core service offering to the Coal sector, and has re-entered the commercial gas extraction market, on the eastern seaboard. All this was achieved during difficult market conditions throughout the year.

LDS has continued to carve out its niche in the market providing experience, equipment and innovation to deliver successful customer focused project execution. It's drilling service offering covers the entire mine drilling requirement from exploration and production drilling, through to well services and engineering services for well design, and remains unmatched by any other specialist drilling company in Australia.

With Coal prices remaining relatively subdued for most of the year exploration expenditure by coal producers remained significantly down in line with previous years. However, production volumes from our customers remained relatively static throughout the year which translated to ongoing demand for Lucas' directional drilling expertise and service offering.

In the challenging market conditions, Lucas believes its customers want certainty, stability, a proven project delivery history with on time and on budget delivery and a safety culture that translates to zero incidents, and a name that is trusted by the market. We believe this is what LDS is to its customers.

Lucas Drilling Services management is focussed on ensuring all those key elements that contribute to the sustainability of our business and are equally balanced through:

- Ongoing development of safety culture;
- Ongoing focus on cost management and control;
- Continued tuning of lean project and plant management systems;
- Effective resource utilisation of technical and project management experience; and
- Focussed strategic growth initiatives into new markets.

Lucas Drilling Services management are extremely experienced in business and technical operations across its chosen sectors allowing for the creation of a core competency unique to AJ Lucas, proven over many years and unmatched by our competition. Lucas Drilling Services management remains focussed on those core competencies being:

- Solving the surface and sub-surface drilling problems of our targeted customers base no matter how large or small;
- Engineering cost efficient solutions for all those highly technical vertical and horizontal boreholes; and
- Providing a value adding offering, aligning the AJ Lucas Group's capability to the customers challenges.

Focusing on what has been a proven recipe for Lucas Drilling Services over many years, has allowed us to increase market share in our core market in recent times. As such, Lucas Drilling Services has established itself as a preferred drilling services provider to five top tier major coal producers. LSD has re-entered the commercial gas extraction market. Due to it's existing rig capability for this market together with an historical proven experience in contracting methods of working in this sector, LDS expects to be very competitive. Based on this, we believe LDS has a solid platform for strategic growth opportunities.

Our objective is to work with our existing customers to do more on their leases – become more involved upstream and downstream of the borehole – whether it be engineering, planning, civil works or even construction. Lucas Drilling Services has enjoyed long term customer relationships casting back 20+ years and a AJ Lucas Group project CV unmatched by its competitors.

# Health, safety, environment & quality

AJ Lucas vision is "injury free every day". To achieve this AJ Lucas recognises it must maintain a proactive approach to health and safety; provide visible leadership at all levels, have in place effective management systems that reflect the operating environment and community standards relevant to AJ Lucas service delivery as well as ensure the right culture is embedded in the organisation. AJ Lucas has many years experience in the energy sector and draws on that experience in the development of systems that can deliver its HSE objectives. AJ Lucas management systems are certified by Bureau VERITAS to comply with the requirements of ISO9001, ISO14001, OHSAS18001 and AS/NZS4801. AJ Lucas works closely with a number of external parties, including the certifying body, to continuously improve its systems. Behavioural specialists are regularly engaged to assist in the development of leadership skills and team building programs. This approach had delivered significant performance improvements over the past five years placing AJ Lucas ahead of industry averages in terms of recordable injury rates, currently 4.9, down from 7 in 2013-14. Most importantly, conformance with AJ Lucas and client management systems, implementation and monitoring of risk reduction measures and observed behaviours continue to meet or exceed management expectations.

AJ Lucas project management plans define systems and processes to manage all aspects of the work. Subordinate documents including Safety, Emergency and Environmental Management Plans draw on relevant elements of the AJ Lucas system, to capture critical information arising from project risk assessments and establish a platform to maintain risk at acceptable levels, comply with community standards and conform with client site management systems. These plans identify roles and responsibilities of AJ Lucas personnel, hazards/aspects and control measures unique to the work, as well as define how works shall be conducted.

Established health and safety KPIs are embedded in all project plans, are monitored and performance is evaluated on a monthly basis. Annual analysis of incident and audit data combined with output from management review of system performance and effectiveness provide the foundation for development of improvement initiatives. A HSEQ Leadership Committee provides a leadership role for the achievement of AJ Lucas HSEQ objectives. The committee membership includes the most senior people from operations and support functions across the AJ Lucas business. Evidence of engagement and commitment by line management is tracked and performance reviewed at the quarterly HSEQ Leadership Meetings. Consultative processes are integrated into all levels of the organization, each with communications lines to the HSEQ Leadership Committee.

A risk management framework aligned with ISO31000 supports attainment of AJ Lucas business objectives. Comprehensive risk management processes underpin AJ Lucas activity in all aspects of its operations and governance. Our people are formally trained in hazard identification and risk management at levels appropriate to their roles and responsibilities. Their skills are maintained through daily application of those processes. Well established consultative and communication processes ensure risk is well understood and communicated across the business. AJ Lucas constantly monitors integration of its risk management framework across all of its operations. A targeted observation program provides valuable feedback on integration of and compliance with measures designed to ensure identified fatal hazards are properly managed. There is a significant amount of focus applied to communication and management of these fatal hazards within key processes such as induction, project planning and execution and performance monitoring. Examples of processes which support application of AJ Lucas risk based approach to service delivery include: detailed project planning, hazard and incident reporting and continual improvement, personal risk management programs such as Stop, Look, Assess and Manage (SLAM), Work Method Statements for routine work and tasks with which significant risk is associated, plant management, hazardous chemicals, permitting systems, change management, site inspections/auditing, training, procurement including supplier assessments.

AJ Lucas views monitoring and continuous improvement processes as the keys to ongoing success and as a consequence is about to begin implementation of a comprehensive HSE Information management system that will provide access to a broader range of real time indicators as well as add further transparency and accountability to the corrective and improvement processes.

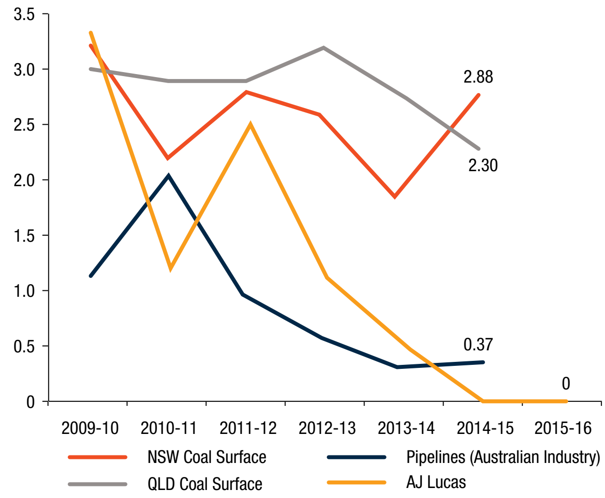


Fig 1 – Lost time injury frequency rate (LTIFR) – Industry Sector (Note: NSW Coal, QLD Coal & Pipelines 2015-16 data not available at the present time.)

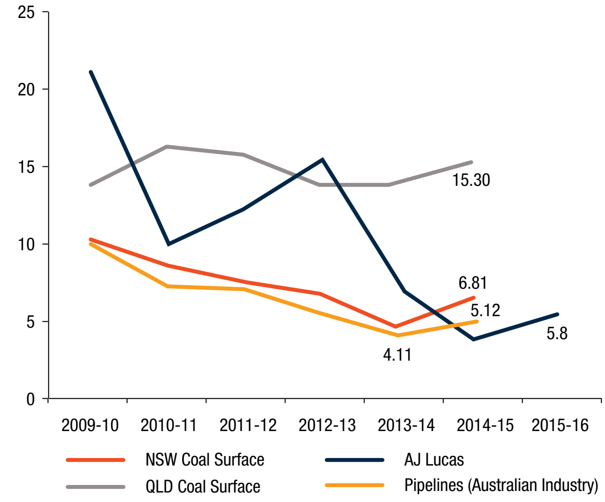


Fig 2 – Total recordable injury frequency rate (TRIFR) – Industry Sector (Note: NSW Coal, QLD Coal & Pipelines 2015-16 data not available at the present time.)

## Risk Management

AJ Lucas is committed to providing a safe and productive workplace and delivering solutions that exceed its customers' expectations. AJ Lucas recognises that this may only be achieved through effective and responsible management of risk.

AJ Lucas' risk objectives are to promote a risk aware culture that encourages all employees and suppliers to take responsibility for risk and to implement effective systems to assess and reduce strategic, operational, governance and financial risks to acceptable levels. AJ Lucas' risk management system is designed to achieve these objectives.

AJ Lucas is committed to ensuring necessary resources are available to implement and maintain the risk management system.

The HSEQ Committee reviews system performance on an annual basis and more frequently when circumstances change. The AJ Lucas Risk Management procedure clearly identifies roles, responsibilities/accountabilities and how risk management is integrated into AJ Lucas processes. It establishes a framework which encompasses a continuous improvement process for identifying, contextualising, analysing, communicating, resourcing and monitoring and reviewing risk.

A project risk assessment is completed and a Project Risk Register is maintained. The Project Risk Register is a key reference point for development, review and maintenance of the Workplace Health and Safety (WHS) and environmental management plans.

AJ Lucas hazard identification and WHS Risk Management procedures establishes processes designed to facilitate the application of risk management tools at operational levels of the business, development of safe methods of work as well as identification, capture and management of improvements and further risk reduction measures.

All AJ Lucas personnel are trained in the aspects of these procedures relevant to their role and responsibilities including, but not limited to, application of tools such as risk assessments, risk registers and hazard reports.

# Financial Report

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**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 2016 and the auditor's report thereon.**

## Directors

The directors of the Company at any time during the financial year and up to the date of this report and their terms of office are as follows.

| NAME | APPOINTMENTS |
|---|---|
| Phillip Arnall | Independent Non-Executive Chairman since 3 June 2014<br>Interim CEO and Executive Chairman 28 January 2014 to 3 June 2014<br>Independent Non-Executive Chairman 29 November 2013 to 28 January 2014<br>Independent Non-Executive Director 10 August 2010 to 29 November 2013 |
| Russell Eggers | CEO and Executive Director 3 June 2014 to 29 February 2016 |
| John O'Neill | Independent Non-Executive Director since 23 June 2015 |
| Julian Ball | Non-Executive Director since 2 August 2013 |
| Ian Meares | Independent Non-Executive Director since 3 June 2014 |
| Andrew Purcell | Independent Non-Executive Director since 3 June 2014 |

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

### Phillip Arnall
B Com

Mr Arnall has had a distinguished thirty year career in the mining and steel industries including senior executive responsibility at Australian National Industries Ltd and Tubemakers of Australia Limited. Mr Arnall was a Non-Executive director of Bradken Limited until November 2015 when he was appointed Chairman. He was previously a director and Chairman of Ludowici Limited 2006-2012 and Chairman of Capral Limited from 2010 to 2011 Mr Arnall is a member of both the Audit and Risk, and the Human Resources and Nominations Committees.

### John O'Neill
B Bus; FCA; FAICD

Mr O'Neill has over 25 years of experience in the upstream oil and gas industry, and was formally Executive Chairman of Pangaea Resources, Australia's most successful private unconventional oil and gas company. In addition, he was previously Chief Executive Officer of the Australian Petroleum Fund, which held a portfolio of exploration and producing oil and gas assets and a pipeline.

Mr O'Neill also has extensive experience in accounting and finance, having commenced his career as a chartered accountant with Coopers & Lybrand (now known as PriceWaterhouseCoopers) and Ernst & Whinney (now known as Ernst & Young) in Sydney and London. Mr O'Neill joined the Board on 23 June 2015 and was appointed a member of the Audit and Risk Committee on that date, and was appointed Chairman of the Audit and Risk Committee on 24 July 2015.

### Julian Ball
BA; FCA

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 JP Morgan primarily covering the energy and natural resources sectors prior to working in private equity. Mr Ball is a member of the Audit and Risk and Human Resources and Nominations Committees.

### Ian Meares
B Eng (Hons); MEngSc; MBA; MAICD

Mr Meares has many years of experience in the global civil infrastructure, mining and energy industries. He brings a deep knowledge of the management and control of complex engineering projects as well as a wide network of industry contacts.

Previous roles include Executive Director, Engineering and Infrastructure, with Brookfield Multiplex where he had responsibility for the delivery of large scale infrastructure projects throughout Australia, responsibility for Mine Infrastructure Delivery at Leighton Contractors, Group Manager Business Development at Clough Limited and Managing Director of Bechtel Australia. Mr Meares is Chairman of the Company's Human Resources and Nominations Committee.

### Andrew Purcell
B Eng; MBA

Mr Purcell founded Teknix Capital in Hong Kong over 10 years ago, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Prior to this, Mr Purcell spent 12 years working in investment banking across the region for Macquarie Bank then Credit Suisse. Mr Purcell also has significant experience as a public company director, both in Australia and across Asia.

Mr Purcell was chairman of the Audit and Risk Committee until 24 July 2015, and has continued to be a member of the committee since. He is currently also Chairman of MEO Australia Ltd.

## COMPANY SECRETARY

Mr Swierkowski B Com, CA, MBA (Exec) joined the company in June 2013, and was appointed to the position of Company Secretary on 23 June 2015. Prior to this he has held both senior finance and company secretarial positions in listed companies across mining, investments and facilities management.

## DIRECTORS' MEETINGS

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

| | Board of Directors | | Audit and Risk Committee | | Human Resources and Nomintions Committee | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| Phillip Arnall | 15 | 15 | 4 | 4 | 5 | 5 |
| Julian Ball | 15 | 13 | 4 | 4 | 5 | 5 |
| Ian Meares | 15 | 15 | - | - | 5 | 5 |
| Andrew Purcell | 15 | 15 | 4 | 4 | - | - |
| Russell Eggers | 11 | 11 | - | - | - | - |
| John O'Neill | 15 | 14 | 4 | 4 | - | - |

From left: Andrew Purcell, Julian Ball, John O'Neill, Ian Meares and Phillip Arnall.

## PRINCIPAL ACTIVITIES

AJ Lucas Group is an investor in the exploration, appraisal and commercialisation of oil and gas prospects. It also has operating units specialising in infrastructure, engineering and construction, and mining services focussed on the energy, water and wastewater, and resources sectors. As a result the Group is structured into three principal operating segments:

**OIL AND GAS**: Commercialisation of unconventional and conventional hydrocarbons in Europe.

**DRILLING**: Drilling services to the coal industries for the degasification of coal mines and associated services and the commercial extraction of gas.

**ENGINEERING & CONSTRUCTION (E&C)**: Pipelines and associated construction and civil services. The Group is a significant market participant in the installation of cross country pipes including the use of horizontal directional drilling techniques.

## STRATEGY

The Group has a successful track record in its oil and gas investments with exceptional historical returns from its investments in the Gloucester and Surat Basins. This strategy continues with the current investment in UK shale gas exploration activities through the Group's direct investment in a number of UK licences and as a joint venture partner in Cuadrilla Resources Holdings Limited ("Cuadrilla"), an unlisted UK Company with interests in the UK and Europe. The current strategic focus for this unit is to achieve a successful drill, fracture and flowtest of the Bowland acreage of which the Company holds and effective 46.85% interest.

With respect to the Australian Engineering and Construction division that provides specialist engineering and drilling services principally to the energy, resources and water industries, the focus is to be the pre-eminent installer of cross country oil and gas pipelines by utilising considerable in house skills in contracting, operations and safety systems and in partnership with our international pipeline installer Spiecapag. This is to be achieved through the application of a highly skilled workforce in combination with specialist equipment, thus allowing the provision of innovative, cost saving solutions. It is an imperative that the provision of these services and solutions occur within excellent safety, quality and information systems so as to ensure the minimum impact to people, assets and the environment.

The Lucas Drilling Unit is 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 from the surface, increasing safety and productivity and lowering cost. The downturn in the coal market has required a relentless focus by this group on the provision of these services and the extension of our skills into CSG extraction and gathering services.

## CORPORATE GOVERNANCE STATEMENT

The Board of directors ("The Board") is responsible for the corporate governance of the Group. The Board considers strong Corporate Governance to be core to ensuring the creation, the enhancement and protection of shareholder value. Accordingly, the Group adopted the 3rd Edition of the ASX Corporate Governance Principles and Recommendations, in 1 July 2014.

The Board believes that a company's corporate governance policies should be tailored to account for the size, complexity and structure of the company and the risks associated with the company's operations. The ASX Corporate Governance Council concurs with this view and allows companies to explain deviations from the Council's recommendations. Areas where the Group has deviated from the Council's recommendations at any time during the financial year are discussed below, however the Board believes the areas of non-conformance do not impact on the Group's ability to operate with the highest standards of Corporate Governance. Any major change in the Group's operations will result in a review of the Group's Corporate Governance policies.

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

### FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### Roles and Responsibilities

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 include the following:

- contributing to and approving the corporate strategy for AJL;
- monitoring the organisation's performance and achievement of its corporate strategy;
- approving and monitoring the progress of significant corporate projects, including acquisitions or divestments;
- reviewing and approving the annual business plan and financial budget;
- monitoring financial performance, including preparation of financial reports and liaison with the auditors;
- appointment and performance assessment of the executive Directors;
- ensuring that significant risks have been identified and appropriate controls put in place;
- overseeing legal compliance and reporting requirements of the law; and
- monitoring capital requirements and initiating capital raisings.

The Board's 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, the roles and responsibilities of the Chairman and the responsibilities delegated to management and executive directors. The Board Charter also gives the Directors the right to seek independent professional advice, at the Group's expense, on matters relevant to carrying out their duties.

The Company Secretary is appointed by the Board with the roles responsibilities detailed in a contract of service of employment. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. Each Director is able to communicate directly with the Company Secretary and vice versa.

### Appointment and Re-Election of Directors

Through periodic reviews of the Board composition and succession planning, the Board seeks to ensure that the skills, knowledge, experience, independence and diversity of the Board are appropriate for the present and future requirements of the Group. The Human Resources and Nominations Committee actively seeks to identify, and recommends to the Board for appointment, directors whose skills and attributes complement and enhance the effective operation of the Board. Following the resignation of the Managing Director, Mr Russell Eggers, in February 2016 the Board determined that the skills and attributes of the existing Directors were sufficient for the effective performance and functioning of the Board at this stage. The resignation followed the appointment of Mr John O'Neill as an independent Non-Executive Director in June 2015, and the more significant Board refresh in the 2013 /2014 financial year which saw the retirement of 3 independent non executive directors and the executive chairman and the appointment of three new non executive Directors, two of whom were independent.

Background checks are conducted prior to appointing any new Director, and external consultants are engaged to assist with the selection process as necessary. In addition, each Board Member has the opportunity to meet with the nominated director.

Directors submitting themselves for re-election at a general meeting are reviewed by the Board. The constitution requires one third of all directors, excluding the managing director, to retire from office at each AGM and can present themselves for re-election. No Director can hold office for more than 3 years without presenting for re-election, and any Director appointed by the Directors during the year is required to also present for election at the first AGM following their initial appointment. All information relevant to a decision on whether or not to elect or re-elect a Director is included in the Notice of AGM.

### Review of Performance

The Board continually assesses its performance, the performance of its committees and individual Directors through a structured annual review process. The Board may at times engage the assistance of external consultants to facilitate formal Board performance reviews.

Where appropriate, the performance of the CEO or the senior executives is reviewed annually by the Human Resources and Nominations Committee.

### Diversity

AJ Lucas is committed to a diverse and inclusive workplace which supports business objectives, delivers competitive advantages and benefits shareholders and customers. The Group is committed to ensuring all employees are treated fairly, equally and with respect no matter what their race, ethnicity, gender, sexual orientation, socio-economic status, culture, age, physical ability, education, skill levels, family status, religious, political and other beliefs and work styles. A copy of the Group's Diversity Policy is available in the shareholder information section of the Company's website.

While the Board is committed to achieving gender diversity it is of the view that imposed targets, in particular considering the current tough market conditions, would not be of benefit and could result in hiring decisions that are contrary to the ultimate goal of 'best fit' for purpose. As such, the Group's Diversity Policy does not at this time require the Company to set measureable objectives for achieving gender diversity.

The number of men and women on the Board, in senior management and other positions as reported in the Group's 2015 and 2016 Gender Equality Report is shown below:

| | 2016 | | |
|---|---|---|---|
| **Level** | **Male** | **Female** | **Total** |
| Board | 5 | – | 5 |
| Executive leadership personnel | 3 | 1 | 4 |
| Other employees | 265 | 26 | 291 |
| **TOTAL** | **273** | **27** | **300** |

| | 2015 | | |
|---|---|---|---|
| **Level** | **Male** | **Female** | **Total** |
| Board | 6 | – | 6 |
| Executive leadership personnel | 3 | 1 | 4 |
| Other employees | 256 | 29 | 285 |
| **TOTAL** | **265** | **30** | **295** |

The Company has a maternity leave scheme where a permanent employee who has been with the company for over 24 months can access paid maternity leave following the birth of a child. The Group has in place various other programs to foster career development including training sessions for line managers, sponsoring attendance at executive management 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 Human Resources and Nominations Committee will monitor the effectiveness of these various initiatives to meet the Group's diversity plan including supporting women's progress into senior management positions.

## STRUCTURING THE BOARD TO ADD VALUE

### Composition of the Board

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

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

| Director | Status |
|---|---|
| Phillip Arnall | Chairman and Independent Non-Executive Director |
| John O'Neill | Independent Non-Executive Director |
| Andrew Purcell | Independent Non-Executive Director |
| Ian Meares | Independent Non-Executive Director |
| Julian Ball | Non-Executive Director |

The Director's skills and experience, and the period of their appointments with the Company are disclosed in the Directors Report.

### Skills Matrix

While recognizing that each director will not necessarily have experience in each of the following areas, the Board seeks to ensure that its membership includes an appropriate mix of skills and experience. A summary of the directors' skills and experience as relevant to the Group as at the end of the Reporting Period is set out below:

| | Phil Arnall | John O'Neill | Julian Ball | Ian Meares | Andrew Purcell |
|---|---|---|---|---|---|
| Executive leadership | ✔ | ✔ | ✔ | ✔ | ✔ |
| Strategy & risk management | ✔ | ✔ | ✔ | ✔ | ✔ |
| Financial acumen | ✔ | ✔ | ✔ | ✔ | ✔ |
| Health & safety | ✔ | ✔ | | ✔ | |
| Former CEO | ✔ | ✔ | | ✔ | ✔ |
| Mining services | ✔ | ✔ | ✔ | ✔ | ✔ |
| Oil & gas | | ✔ | ✔ | ✔ | ✔ |

### Induction Program

The Company has induction procedures in place to allow new directors to participate fully and actively in Board decision making at the earliest opportunity. A checklist of information has been prepared for incoming Directors, while Board members are also provided comprehensive information on a regular basis by the Executive Leadership Team so that they can discharge their Director responsibilities effectively. The Company Secretary coordinates the timely completion and dispatch of such material to the Board.

Directors are encouraged, and are given the opportunity, to broaden their knowledge of the Group's business by visiting offices in different locations and engaging with management. They are encouraged to remain abreast of developments impacting their duties and offered external training opportunities on an "as required" basis.

## 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.

The Group operates a zero-tolerance approach to all forms of bribery and corruption, whether direct or indirect. As such the Group has an Anti-Bribery and Corruption policy, also available in the shareholder information section of the Company's website. The policy prevents:

- making or acceptance of facilitation payments or kickbacks of any kind;
- payments to trade unions or their officials;
- Any donations to political parties or charitable donations, for the purpose of gaining commercial advantage; and
- the giving or receipt of any gifts or hospitality if it could in anyway be intended, or reasonably interpreted, as a reward or encouragement for a favour or preferential treatment.

### Human Resources and Nominations Committee

At the beginning of the financial year the Human Resources Committee was re-named the Human Resources and Nominations Committee with its responsibilities expanded as documented in a revised Human Resources and Nominations Committee Charter which is available in the shareholder information section on the Company's website.

The Human Resources and Nominations Committee consists of three members as follows.

| Committee member | Status |
|---|---|
| Ian Meares | Committee Chairman and Independent Non-Executive Director |
| Phillip Arnall | Independent Non-Executive Director |
| Julian Ball | Non-Executive Director |

## 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, all of whom are non-executive directors and the majority of whom are independent. The Committee must be chaired by an independent chair, who is not chair of the board. At least one member must have financial expertise and some members shall have an understanding of the industry in which the Company operates.

Members of the Audit and Risk Committee as at the date of this report and throughout the financial year are set out in the following table. Their qualifications and experience are set out in the Directors' Report.

| Committee member | Status |
|---|---|
| John O'Neill | Committee Chairman and Independent Non-Executive Director |
| Phillip Arnall | Independent Non-Executive Director |
| Andrew Purcell | Independent Non-Executive Director |
| Julian Ball | 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, 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.

## 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 material information that in the opinion of the Board is likely to have an impact on an investment decision in the company or impact on the Company's share price.

The Company has a Continuous Disclosure and Communications Policy, a copy of which is in the shareholder information section of its website.

## COMMUNICATION WITH SECURITY HOLDERS

The Board keeps shareholders informed of all material information relating to the Company by communicating to shareholders through:

- continuous disclosure reporting to the ASX;
- its annual reports; and
- media releases and other investor relations publications on the Group's website.

All company announcements lodged with the ASX are available in the shareholder information section of the Company's website. Shareholders have the option to receive communications from, and send communications to, the Company's Share Registry electronically, including the annual report and the notice of annual general meeting. Additionally shareholders and potential investors are able to post questions to the company through the Company's website or by telephone. The Board and senior management endeavour to respond to queries from shareholders and analysts for information in relation to the Group provided the information requested is not price sensitive or is already publicly available.

The Company provides the Notice of AGM to all shareholders and makes it available on the Company's website. The AGM is the key forum for two-way communication between the Company and its shareholders. At the meeting, the Chairman encourages questions and comments from shareholders and seeks to ensure that shareholders are given ample opportunity to participate. Further, the Company's external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

## RISK IDENTIFICATION AND MANAGEMENT

The Board is committed to embedding risk management practices to support the achievement of business objectives. As such the Board has established the Audit and Risk Committee which is responsible for reviewing and overseeing the risk management strategy of the Group and for ensuring it has an appropriate corporate governance structure. The Audit and Risk Committee discusses with management and the External Auditors, at least annually:

- Internal controls systems;
- Policies and procedures to assess, monitor, and manage business, economic, environmental and social sustainability risks;
- Insurance program having regard to the insurable risks and the cost of this cover; and
- Legal and regulatory compliance programs.

A risk register is maintained and reported to the Audit and Risk Committee periodically and at least annually, detailing likelihood and severity of risks occurring. Management undertakes a review of its insurable risks each year in order to fully consider potential impacts and how they are financed in terms of limits and scope under the Group's insurance program.

Further details of the structure, membership and responsibilities of the Audit and Risk Committee are provided under the "Integrity in Financial Reporting" heading in this Corporate Governance Statement.

Within this framework, management has designed and implemented a risk management and internal control system to manage material business risks. The Chairman, Chief Financial Officer and the rest of the Executive Leadership team 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 and the risk management policy are available in the shareholder information section of the Company's website.

The Group does not currently have an independent internal audit function, the Board being of the view that the size and complexity of the company does not warrant such a function. The Group's operations and facilities are however subjected to regular audits, performed by a mix of internal safety and auditing experts, and external consultants, under an annual program of Health, Safety, Environment and Quality audits. In addition, the Audit and Risk Committee engages external consultants to review areas of the business as it sees fit, with a number of these performed during the year.

The Group's material exposures to risk, and how the Group responds and manages these risks is detailed below.

| Material Risk | Risk Management Approach |
|---|---|
| **External Risks** | |
| Risks may arise from the flow through of commodity demand or pricing from major markets into our customer base as well as foreign exchange, regulatory and political events that may impact the long term sustainability of our customer's business model. | The broadening of our portfolio of businesses, commodity and geographical exposure is our major strategy to reduce the effect of volatility introduced by these external risks. A key component of this strategy is the focus on increasing our exposure to infrastructure development in the engineering and construction business, to "non-discretionary" mining services and the development of our unconventional energy opportunities. |
| **Business Risks** | |
| Risks include the inherent risk of identifying and proving reserves in our unconventional assets. | As a result of the latest round of refinancing, the Company has dedicated financial reserves to apply to the Shale Gas project in the UK. It is also heartened by the policy commitment by the UK Government on establishing sovereign energy sources. |
| **Financial Risks** | |
| Volatility in commodity markets may adversely impact future cash flows and as such our credit rating and ability to source capital from financial markets. In addition our commercial counterparties may as a result of adverse market conditions fail to meet their commercial obligations. | Again, the restructuring of the Company's Balance Sheet during the year has mitigated this risk. We seek to continuously improve our credit rating and use our broadening portfolio, cash flow and key financial ratio analysis to monitor potential volatility in this area. Similarly all customers and key suppliers are subject to credit limits and review processes before services are established. |
| **Operational Risks** | |
| Cost pressures and reduced productivity could negatively impact both operating margins and our market competitiveness. Similarly a significant adverse and unexpected natural or operational event could impact operations in a materially negative manner, as could a breach in IT and other security processes. | We seek to maintain adequate operating margins across our business by monitoring in absolute and relative terms the performance of all assets against both internal and external commercial benchmarks. Our concentrated effort to reduce costs and hence maintain competeveness and margin has yielded tangible results in reducing our controllable costs. This includes initiatives to standardise processes and control systems across the Group.<br><br>The Lucas Management System (LMS) is an integrated process by which we manage this standardised approach.<br><br>Through the regular application of our risk management procedures we identify the potential for significant and or unexpected risks and implement the controls appropriate to remove or mitigate them.<br><br>Business continuity plans are developed for all our IT systems such that the integrity of our systems allows us to recover from a "disaster event" with little impact on the daily operations. |

| Material Risk | Risk Management Approach |
|---|---|
| **Sustainability Risks** | |
| Injuring employees, damaging the environment or having material regulatory or governance failures may put at risk our social licence to operate or significantly impact our reputation such that customers and / or capital markets may shun us. | The LMS puts in place a significant set of requirements to ensure the safe operation of our assets and equipment. Inclusive in this are the control and governance requirements required of good finance and accounting procedures. Sound environmental A broad range of policies and procedures outline both expected and required actions and behaviours of management and staff.<br>Maintenance of a safe working environment is a principal accountability of all levels of management.<br>The Board holds itself to account against the standards outlined in the ASX Corporate Governance Principles and Recommendations 3rd edition as an example of good governance and reporting procedures and requirements. |

## REMUNERATION

The Remuneration Committee was renamed the Human Resources and Nominations Committee with its responsibilities broadened during the year. The Committee reviews the remuneration of the non-executive and executive directors, and senior officers.

Members of the Human Resources and Nominations Committee as at the date of this report and throughout the financial year are set out in the following table. Their qualifications and experience are set out in the Directors' Report.

| Name | Position at date of report |
|---|---|
| Ian Meares (Chairman) | Independent non-executive director |
| Phillip Arnall | Independent non-executive director |
| Julian Ball | Non-executive director |

The Human Resources and Nominations Committee Charter is available in the shareholder section of the Company's website. The number of meetings and who attended those meeting throughout the year is disclosed in the Directors report.

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 or representing the Group in specific matters from time to time.

Executive directors and senior executives are remunerated based on a fixed wage plus incentive payments. The policies and practices for remuneration of executive directors and Key Management Personnel is disclosed in the remuneration report in the Company's Annual Report.

The Company does not have a written policy dealing with executives entering into transactions that limit risk on unvested equity, however there are no unvested equity outstanding to staff at balance date. The Directors will consider such a policy as part of any future options or rights issuance.

### 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.

## REVIEW AND RESULTS OF OPERATIONS

### OVERVIEW OF THE GROUP

Market conditions in the coal mining sector remained subdued during the year with no indication of any material improvement in the near term. Whilst trading conditions remained challenging, customer volumes were relatively consistent in this sector with repeat business won apart from the cessation of a major gas extraction contracts with coal companies during the last quarter due to completion of projects. In addition to relatively static customer volumes, there were some changes in demand for service requirements during the period with the Group undertaking new services for the commercial gas extraction industry. The Group experienced a reduction in activity in the cross country pipeline sector with one major project undertaken in partnership with Spiecapag Australia during the year as well as an ongoing competitive engineering and construction market which had an impact on the Group's trading performance. Consolidated revenue for the year was $125.5 million, down 13.5% on last year.

With these subdued market and trading conditions, the focus again remained on overhead reduction and productivity initiatives with substantial restructuring occurring. This helped contribute to an improved underlying EBITDA of $14.5 million, up $5.2 million or 54.8% on last year. The Group remains well positioned should a market recovery occur.

The following table summarises the results for the year:

| | 2016 Year $'000 | 2016 2nd half $'000 | 2016 1st half $'000 | 2015 Year $'000 | 2015/16 Change % |
|---|---|---|---|---|---|
| **Total revenue** | 125,478 | 69,077 | 56,401 | 145,028 | (13.5%) |
| Underlying EBITDA | 14,556 | 6,126 | 8,430 | 9,405 | 54.8% |
| Reported EBITDA | (2,449) | (5,577) | 3,128 | 5,274 | (146.4%) |
| **EBIT** | (17,350) | (11,821) | (5,529) | (20,936) | 17.1% |
| Loss before tax | (19,485) | (1,540) | (17,945) | (45,216) | 56.9% |
| **Net loss for the year** | (19,485) | (1,540) | (17,945) | (45,216) | 56.9% |
| Total assets | 229,136 | 229,136 | 214,655 | 231,268 | (0.9%) |
| Net assets | 86,790 | 86,790 | 67,991 | 79,493 | 9.2% |
| Basic loss per share (cents) | 6.7 | 0.5 | 6.7 | 16.9 | 60.3% |

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 | 2016 $'000 | 2015 $'000 |
|---|---|---|---|---|---|---|
| **Reconciliation:** | | | | | | |
| **Consolidated loss before income tax** | **(315)** | **3,724** | **(9,571)** | **(13,323)** | **(19,485)** | **(45,216)** |
| Impairment of plant and equipment | - | - | - | - | - | 5,900 |
| Depreciation and amortisation | 11,700 | 3,176 | - | 25 | 14,901 | 20,310 |
| Finance costs | - | - | - | 2,407 | 2,407 | 26,247 |
| Finance income | - | - | - | (272) | (272) | (1,967) |
| **Reported EBITDA** | **11,385** | **6,900** | **(9,571)** | **(11,163)** | **(2,449)** | **5,274** |
| Share of (profit) / loss of equity accounted investees | - | - | 6,751 | - | 6,751 | (1,324) |
| Exploration asset revenue | - | - | - | (522) | (522) | (3,025) |
| Share of overhead – UK investments | - | - | 2,820 | - | 2,820 | 262 |
| Settlement of legal disputes | - | - | - | 7,445 | 7,445 | 3,676 |
| Recovery of receivable from equity accounted investees | - | - | - | (525) | (525) | (804) |
| Redundancy costs | - | - | - | 503 | 503 | 2,413 |
| Net (profit) / loss on sales of assets | - | - | - | 102 | 102 | (143) |
| Corporate advisory fees | - | - | - | (117) | (117) | 2,043 |
| Share based payments expense | - | - | - | 27 | 27 | 171 |
| Other (income) / expense | - | - | - | 521 | 521 | 862 |
| **Underlying EBITDA** | **11,385** | **6,900** | **-** | **(3,729)** | **14,556** | **9,405** |

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

**Allocation of overheads** that can be directly attributed to an individual business segment were re-assessed during the period. This has resulted in changes to the overhead allocations between Corporate, drilling, E&C and Oil & Gas. The historical segment results have been restated to be comparable with the revised allocations as required by AASB 8 Operating Segments.

## DIVISIONAL PERFORMANCE

Contributions from the business divisions were as follows:

| | Revenue $'000 | Underlying EBITDA $'000 | Margin % $'000 |
|---|---|---|---|
| **2016** | | | |
| Drilling | 79,633 | 11,385 | 14.3% |
| Engineering and construction | 45,845 | 6,900 | 15.1% |
| Oil and gas | – | – | N/A |
| **2015** | | | |
| Drilling | 83,545 | 6,222 | 7.4% |
| Engineering and construction | 61,483 | 8,034 | 13.1% |
| Oil and gas | – | (255) | N/A |

### Oil and Gas

The Oil & Gas division encompasses the Group's investments in the United Kingdom and Europe held both directly by the Group and indirectly through our 45.08% shareholding in Cuadrilla. Details of the interests held are shown at Note 18 of the financial statements and comprise the Bowland, Elswick and Bolney prospects located onshore in the United Kingdom. Cuadrilla is the operator of these tenements on behalf of the respective joint venture partners.

The main focus for the Group has been on its Bowland tenements, which Cuadrilla estimates may hold 330 trillion cubic feet of gas in place and in which the Group has an effective 46.85% interest. To date the Bowland joint venture has shot 100 km2 of 3D seismic and drilled 3 wells to assess the prospectivity of the tenements. The Bowland Basin, where these tenements are located, is very close to pipeline infrastructure thereby enabling the timely and cost efficient commercialisation of gas from these tenements.

**Preston New Road site and Roseacre Wood site Appeals**

The Bowland JV ("the JV") proposes to drill and hydraulically stimulate 2 lateral wells to test the flow rate of gas at each of the sites known as Preston New Road and Roseacre Wood. In 2015 Cuadrilla submitted planning applications to Lancashire County Council ("LCC") to develop the two sites with each supported by a comprehensive environmental impact assessment study. Cuadrilla has received all necessary environmental and health and safety permits to drill, hydraulically stimulate, and test the flow rate of gas at each of the two sites.

In June 2015 LCC declined to approve the planning applications for the test wells at Preston New Road, despite a positive recommendation by the Council's Planning Officers and legal advice from LCC's Queen's Council that a decision not to approve the wells would likely be overturned on appeal. LCC also declined to approve the planning applications for the wells at the Roseacre Wood site. As a result Cuadrilla, on behalf of the JV, appealed the LCC's decision with the Secretary of State for Communities and Local Government (SOS).

As part of the appeal process an inspector was appointed by the SOS to hold a public inquiry and to prepare a detailed report with a recommendation to the SOS. The public inquiry was held in Blackpool, Lancashire earlier in 2016 and the inspector's report was sent to the SOS on 4 July 2016. The Directors look forward to a favourable decision by the SOS, expected by 6th October 2016. Cuadrilla, as the operator of the licences, is preparing to commence operations as soon as a decision is made to drill, hydraulically stimulate and test the flow rate of the two wells.

**Grange Hill site Appeal**

In November 2015, Cuadrilla lodged a separate appeal with the SOS against the decision of the LCC's development control committee to refuse planning permission to: retain the existing site compound and access track, install seismic and pressure monitors within the existing well; undertake seismic and pressure monitoring; plugging and abandonment of the existing exploratory well and restoration of the Grange Hill exploration site. The appeal was allowed and planning permission granted for a three-year term subject to the conditions set out by the SOS.

**Bowland Farm-in and Licence Interest Renegotiations**

In June 2013 Centrica Plc, the United Kingdom's leading supplier of gas entered into an agreement to acquire a 25% interest in the Bowland and Elswick tenements in return for a cash payment of £40 million and a further £60 million to be spent in the Bowland JV' as a farm-in commitment. Centrica was also required to pay an additional £60 million following certain commercial milestones being met.

In August 2015 the Centrica agreement was renegotiated in line with prevailing market conditions. Under the revised farm-in agreement the balance of the £60 million farm-in commitment (£30.6 million) is to be deferred and spent on exploration and development on behalf of the JV once planning approval for either of the exploration sites at Preston New Road or Roseacre Wood is obtained. Each joint venture partner will fund their share of JV expenditure to the date of the approval of the wells. The additional £60 million milestone payment has been adjusted to £46.7 million to be paid by Centrica on behalf of the JV for further exploration and development work following certain commercial milestones being met.

Concurrent with the revision of the Centrica farm-in terms, Lucas agreed to increase its interest in the Bowland JV by 5.00% to 23.75% and Cuadrilla had reduced its interest from 56.25% to 51.25% whilst maintaining majority ownership and operatorship.

The Company's share of the Centrica farm-in commitment together with the funding committed by the new senior loan note facility is expected to adequately fund the financial obligations for drilling and hydraulic stimulation of the 2 Bowland wells.

**14th Round Licence Awards**

During the year Cuadrilla was successful in its application for 18 exploration licenses in Yorkshire as part of the 14th round of onshore oil and gas licenses offered by the United Kingdom government. These licences are grouped into 8 blocks, with each block covering approximately 100 km2 in size. Four of the blocks will be held by Cuadrilla 100% with the other 4 held as a joint venture with GDF Suez E&P UK Ltd (a subsidiary of the ENGIE Group) and with Cuadrilla as operator owning 70% and GDF Suez 30%. The work program for initial period will include desktop studies and the acquisition and reprocessing of seismic, and consequently the financial obligation of the Group in these early years will be minimal.

**UK Shale Wealth Fund**

In November 2015, the United Kingdom government reaffirmed its support for the development of the shale gas industry by announcing in the Chancellor's Autumn Statement, plans for a Shale Wealth Fund, whereby up to 10% of taxes arising from shale gas development would be used to the benefit of people who live in areas that host shale gas development. In August 2016, the new Prime Minster, Theresa May, announced a further proposal that those people who live near sites used for shale gas exploration be given cash payments directly to benefit them from such shale gas developments. The Directors see these as two very positive developments.

A more detailed synopsis of the Company's oil and gas investments can be found on the Lucas website.

## Drilling

The results of the drilling division are summarised as follows:

| | 2016 Year $'000 | 2016 2nd half $'000 | 2016 1st half $'000 | 2015 Year $'000 | 2015/16 Change % |
|---|---|---|---|---|---|
| Revenue | 79,633 | 41,573 | 38,060 | 83,545 | (4.7%) |
| Underlying EBITDA | 11,385 | 6,335 | 5,050 | 6,222 | 83.0% |
| EBITDA margin | 14.3% | 15.2% | 13.3% | 7.4% | |

Continued difficult market conditions in the mining and materials sector contributed to Lucas' revenue for the year of $79.6 million down 4.7% on last year. The Company has embarked on new services for the commercial gas extraction industry and demonstrated a continued market confidence in the Group's drilling services, particularly around highly technical projects concerning gas drainage and extraction. The conclusion of a key contract in the 4th quarter has been partly replaced by these initiatives.

The underlying EBITDA margin improved by 6.9% partly as a result of measures previously and more recently taken to reduce costs and re-focus on the Group's core strength of directional drilling as well as re-enter the commercial gas extraction market. This is particularly pleasing when viewed in the context of a market place that until recently has been experiencing depressed coal prices and where a number of Australian coal mining assets are up for sale. The performance this year reflects the value our customers place on the Group's experience. The Group's proven delivery capability and multi-disciplined technical based service offering positions the Group well to grow when the market starts to recover.

## Engineering & Construction

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

| | 2016 Year $'000 | 2016 2nd half $'000 | 2016 1st half $'000 | 2015 Year $'000 | 2015/16 Change % |
|---|---|---|---|---|---|
| Revenue | 45,845 | 27,504 | 18,341 | 61,483 | (25.4%) |
| Underlying EBITDA | 6,900 | 1,576 | 5,324 | 8,034 | (14.1%) |
| EBITDA margin | 15.1% | 5.7% | 29.0% | 13.1% | |

Engineering & Construction revenue decreased by 25.4% to $45.9 million, reflecting the completion of the Eastern Goldfields Pipeline in Western Australia in partnership with Spiecapag Australia during the early part of the year and only one new additional major cross country pipeline contract undertaken during the year. The focus towards smaller non joint venture engineering and construction projects, whilst valuable contributors, were insufficient to replace this revenue loss.

The underlying EBITDA margin of 15.1% was an improvement on the comparative period of 13.1%, reflecting the positive impact of a restructure of the division, greater focus on the division's core skill capability of pipeline construction and well managed joint venture projects from a continued emphasis on project execution and cost control.

## OUTLOOK

The company expects to progress the appraisal of its oil and gas investments despite recent setbacks on planning approvals in the UK. The UK Joint Venture has appealed the Lancashire County Council decision to refuse it planning consent and now awaits the decision of the Secretary of State for Communities and Local Government on or before 6th October 2016.

The drilling market showed limited signs of picking up during the year, in line with the subdued coal sector. Lucas' drilling business has been successful during the year in winning repeat business and some new tenders for large customers however with global demand for coal remaining constant on cyclically low prices, exports are expected to remain flat and no sign of a recovery for exploration drilling services despite recent coal price increases. Lucas' drilling business however re-entered the commercial gas extraction industry in the latter part of the year and remains cautiously optimistic about sustainable opportunities going forward.

The Engineering and Construction division continues to tender in partnership with Spiecapag Australia for major cross country pipeline projects and is short listed for the few major projects on offer. The company's expertise in pipeline and directional drilling work continues to be recognised in the market. The division will tender for small scale infrastructure works within its capability matrix.

## REVIEW OF FINANCIAL CONDITION

During the year the company undertook a $21.1 million accelerated non-renounceable rights issue in March 2016 to provide funds for the partial repayment of amounts due and payable under the Kerogen Investments No.1 (HK) Limited ("Kerogen") senior secured facility and to provide funds for short term general working capital purposes, including ongoing funding of the Company's UK investments and scheduled payments to the ATO.

In June 2016 the company entered into a new US$ 45 million three year senior secured loan note facility with entities managed by OCP (Asia) Hong Kong Limited with the facility to be drawn in two tranches. The first tranche for US$25 million was drawn in June 2016 and used in part to discharge outstanding liabilities with the ATO which had weighed on the Group's balance sheet for more than 5 years, to provide the capacity to settle in full the final material outstanding legal matter relating to a four year dispute on a civil contract and to fund working capital requirements. The ATO debt of $30.5 million was settled in full, including a partial remission of interest, in exchange for AJ Lucas prepaying A$12.9 million in cash and the partial forgoing of carried forward tax losses.

The second tranche of US$20 million secures funding to advance the aforementioned Lancashire exploration assets. Drawdown of the second tranche will occur following a successful appeal against Lancashire County's decisions to reject applications to drill, stimulate and test the flow of gas at either the Preston New Road or Roseacre Wood appraisal sites in which AJ Lucas has a 46.85% interest. As mentioned above a decision on the appeals is currently expected on or before 6th October 2016. In the event that a successful appeal is not announced within one year, the noteholders have the right to require AJ Lucas to repay the notes within 12 months of the first tranche being drawn down.

In conjunction with the senior secured loan note facility, the Company renegotiated a restructure and extension of its existing facility with Kerogen. The restructuring agreement with Kerogen provides for an extension on its debt to December 2019 the facility structured into two tranches, and for early repayment under certain circumstances, including early repayment of the senior secured loan note facility. The restructuring agreement requires that AJ Lucas raise a minimum of US$30 million of new equity, via a pro rata entitlements offer, the proceeds of which will be used in part to repay a minimum of US$25 million of the Kerogen Tranche 1 facility. The entitlements offer must occur within three months following a successful UK appeal for the Bowland appraisal sites or within 9 months of the refinancing, whichever is the earlier. Kerogen has agreed to participate for its full pro rata full entitlement, as well to as provide sub-underwriting support should the Company choose to accept, in aggregate of not less than US$25 million.

Gross interest bearing loans and borrowings have increased by $26.9 million to $105.7 million predominantly as a result of the new senior loan note facility for $30.2 million, a reduction in the interest bearing portion of the ATO debt of $5.3 million and a net increase in the Kerogen facility of $2.0 million. Interest is charged at 18% of the drawn amount under the senior loan note facility, with 12% payable quarterly in arrears and the remaining 6% accruing until termination of the facility. Under the Kerogen refinanced facility, interest is initially charged at 20% on the first tranche of US$26.2 million, increasing to 21% from June 2018 and interest is initially charged at 16% on the second tranche of US$30.0 million, increasing to 18% from June 2018. As a result of the arrangements there was a benefit of $17.6m recognised as a reduction to finance costs during the year.

The Group's liquidity has marginally deteriorated largely due to the inclusion of Kerogen's current interest bearing liability of $34.5 million. The current ratio has gone from 1.07:1 last year to 0.93:1 at 30 June 2016. It is expected that following a successful UK appeal of the Lancashire County Council decision to refuse planning consent and execution of the entitlements offer of a minimum US$30 million and repayment of a minimum US$25 million of the Kerogen Tranche 1 facility, this current ratio will improve significantly.

Cash, cash equivalents and cash in trust are $22.5 million at 30 June 2016. Of this $4.7 million represents the Group's share of joint venture cash balances (these cash balances are available to be utilised within the joint venture until such time as the Joint Venture resolves to distribute the cash to joint venture partners), $15.6 million represents cash drawn under the senior loan notes facility that remains committed but un-utilised at balance date and is available to be utilised in accordance with the senior loan note facility primarily for the purpose of furthering the Group's investments in the Bowland tenement, settlement of a legacy legal dispute which has been provided for at balance date and general working capital purposes. Cash used in operations during the year was $24.6 million primarily as a result of payments made to the ATO of $21.7 million, which included the final settlement of the remaining ATO liability.

## 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.

## ENVIRONMENTAL REGULATIONS & NATIVE TITLE

Lucas is committed to 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. The Group works closely with all levels of government, landholders, and other bodies to ensure its activities have minimal or no effect on land use and areas of environmental and 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.

## 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.

## EVENTS SUBSEQUENT TO REPORTING DATE

There are no items, transactions or events of a material or unusual nature that have arisen in the interval between the end of the financial year and the date of this report, 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

### UNISSUED SHARES UNDER OPTIONS

All options were granted in previous financial years. There were no options exercised, and 15,869,356 options lapsed, during the financial year. At the date of this report, unissued shares of the Company under rights and options are:

| Expiry date | Exercise price | Number of shares |
|---|---|---|
| 22 December 2016 | $1.97 | 1,000,000 |

3,750,000 former CEO options expired on 7 December 2015.

## DIRECTORS' SHAREHOLDINGS AND OTHER INTERESTS

The relevant interest of each person who held the position of director during the year, 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 |
|---|---|---|
| **Current Directors** | | |
| Phillip Arnall | 175,000 | - |
| John O'Neill | 10,317,940 | - |
| Andrew Purcell | 54,898 | - |
| **Former Directors** | | |
| Russell Eggers | 79,828 | - |

Russell Eggers resigned as Director on 29 February 2016 having notified the Australian Securities Exchange of his interest on that date.

## 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.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst and Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst and Young during or since the financial year.

### 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 2017.

## NON-AUDIT SERVICES

During the year, Ernst and Young, the Company's auditor, has performed certain other services in addition to the audit and review of the financial statements.

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 $174,337 (2015 $247,010).

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 33 and forms part of the Directors' Report for the financial year ended 30 June 2016.

## 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

The Directors present the Remuneration Report ("the report") for the Company and its controlled entities for the year ended 30 June 2016. The report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001. The report outlines the remuneration policy for key management personnel comprising

1. The Non-executive directors (NEDs)
2. Executive directors and senior executives (the Executives)

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 directors do not receive performance related remuneration and are not provided with retirement benefit apart from statutory superannuation. Options and other forms of equity are not provided for non-executive directors.

Total remuneration for all non-executive directors, last voted upon at the 2013 Annual General Meeting, is not to exceed $750,000 per annum. The remuneration for each other non-executive director is currently $90,000 per annum.

The remuneration for the Chairman was increased effective 1 July 2016 to $225,000 to reflect the ongoing additional time commitment required as a result of the resignation of the Chief Executive Officer. Prior to the increase the Chairman's remuneration was $135,000 per annum.

In addition, $5,000 per annum is paid to directors for serving on any committee of the Board. Where directors perform consulting services to the Group outside of their director duties, additional fees are paid based on commercial terms and are disclosed as related party transactions in Note 33 of the financial report.

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 $ | Total $ |
|---|---|---|---|---|
| Phillip Arnall | 2016 | 135,000 | 10,000 | 145,000 |
| Phillip Arnall | 2015 | 135,000 | 10,000 | 145,000 |
| Julian Ball | 2016 | 90,000 | 10,000 | 100,000 |
| Julian Ball | 2015 | 90,000 | 10,000 | 100,000 |
| Ian Meares | 2016 | 90,000 | 5,000 | 95,000 |
| Ian Meares | 2015 | 90,000 | 5,000 | 95,000 |
| Andrew Purcell | 2016 | 90,000 | 5,000 | 95,000 |
| Andrew Purcell | 2015 | 90,000 | 5,000 | 95,000 |
| John O'Neill | 2016 | 90,000 | 5,000 | 95,000 |
| John O'Neill (1) | 2015 | - | - | - |

(1) John O'Neill was appointed to the Board on 23 June 2015.

## EXECUTIVE REMUNERATION

### Policy

The key principle of the Company's remuneration policy for key management personnel is to set remuneration at a level that will attract and retain appropriately skilled and motivated executives, including executive directors, and motivate and reward them to achieve strategic objectives and improve business results. The Remuneration Committee obtains independent advice from time to time 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 performance-based incentives.

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

### Fixed remuneration

Fixed remuneration consists of base remuneration which is calculated on a total cost basis and includes any allowances and 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 may include 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. Executives have the ability to earn an STI of up to 60% of their fixed annual remuneration, based on achievement certain criteria. The criteria include a mix of:

1. Corporate performance targets, measured mainly in reference to a mix of Group and Divisional underlying EBITDA performance depending on the employee's role;
2. Corporate sustainability and safety performance; and
3. Individual key performance indicators.

All remaining options outstanding under a previous long-term incentive (LTI) plan expired in December 2015.

### Management rights and options plan

The management rights and options plan was available to employees and other persons at the discretion of the Board. Nominated persons were granted options to acquire shares in the Company. The exercise of options was subject to vesting conditions being met. There are no options outstanding at the date of this report.

### 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 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Total revenue ($'000) | **125,478** | 145,028 | 227,894 | 294,791 | 504,276 |
| Underlying EBITDA | **14,556** | 9,405 | 204 | 3,332 | 3,501 |
| Net loss after tax attributable to members ($'000) | **(19,485)** | (45,216) | (91,693) | (126,996) | (110,237) |
| Loss per share (cents) | **(6.7)** | (16.9) | (34.6) | (97.6) | (133.2) |
| Dividend per share (cents) | **-** | - | - | - | - |
| Share price at balance date | **$0.18** | $0.39 | $0.93 | $1.20 | $1.06 |
| Share price appreciation/(depreciation) | **(54%)** | (58%) | (23%) | 13% | (21%) |
| STI to KMP in relation to the year's performance ($'000) | **482** | 54 | - | - | - |

During the year the non-executive directors approved a bonus to key staff in recognition of the improved business performance in the 2015 financial year. The total amount of the bonus to key management personnel was $54,000 and was paid in cash during the year.

The further improvement in business performance, as measured by underlying EBITDA, in the 2016 financial year has exceeded the annual targets set under the Groups STI plan. Additionally, individual key performance indicators have been achieved triggering an STI benefit to certain management staff. These benefits have been provided for at balance date in the financial report, with payment to be made in the 2017 financial year. Amounts accrued to key management personnel, based on the financial results achieved, totals $482,000. Both these bonuses have been included in the table of Executive directors' and officers' remuneration table below.

The Group has in the past provided loans to key management personnel. All such loans were 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 and no loans remain outstanding to any key management personnel.

**Executive director's and officers' remuneration**

Details of the nature and amount of each element of remuneration of each executive director of the Company and other key management personnel (KMP) of the Group are:

| | | Short-term | | | | Post employment | | Other long term | Share based payments | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary/ fees (1) $ | FY 2015 Incentive paid (2) $ | FY 2016 Incentive accrued (3) $ | Total $ | Super-annuation benefits $ | Termination benefit $ | Long term benefits (long service leave) $ | Rights and options (4) $ | Total $ | Proportion of remuneration performance related % | Value of options and rights as proportion of remun-eration % |
| **Executive directors** | | | | | | | | | | | | |
| Russell Eggers | 2016 | 330,198 | 16,000 | 72,520 | 418,718 | 14,350 | 259,000 | (9,018) | - | 683,050 | 0.13 | - |
| CEO (resigned 29 Feb 16) | 2015 | 517,202 | | - | 517,202 | 18,783 | - | 8,333 | - | 544,318 | 0.00 | - |
| **Executive officers** | | | | | | | | | | | | |
| Austen Perrin | 2016 | 385,082 | 8,000 | 142,936 | 536,018 | 25,000 | - | 6,518 | - | 567,536 | 0.27 | - |
| CFO (appointed 15 Dec 14) | 2015 | 226,644 | | - | 226,644 | 10,078 | - | 3,526 | - | 240,248 | 0.00 | |
| Brett Tredinnick | 2016 | 398,466 | 15,000 | 150,346 | 563,812 | 19,177 | - | 6,299 | 1,333 | 590,621 | 0.28 | 0.2 |
| EGM Drilling | 2015 | 375,484 | - | - | 375,484 | 18,783 | - | 6,265 | 9,551 | 410,083 | 0.00 | 2.3 |
| John Stuart-Robertson | 2016 | 337,407 | 15,000 | 116,533 | 468,940 | 19,177 | - | 5,552 | - | 493,669 | 0.27 | - |
| EGM – Pipelines | 2015 | 336,059 | | - | 336,059 | 18,783 | - | 5,522 | - | 360,364 | 0.00 | - |

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 termination.

(2) The FY 2015 incentive was a discretionary incentive approved and paid by the Board during the year.

(3) The FY 2016 incentive was accrued during the year based on achievement of certain operating targets and individual Key Performance Indicators

(4) The fair value of the options issued has been calculated using a Monte Carlo 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 options allocated to the reporting period shown.

### Service agreements

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

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 financial year, an external consultant benchmarked the Group's key management personnel remuneration. Given the results of the external consultants benchmarking exercise, and the Group's financial performance.

### Options over equity instruments granted as compensation

No options over ordinary shares in the Company were granted as compensation to key management person during the reporting period. All options outstanding to key management personnel at the beginning of the financial year lapsed during the reporting period.

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

| 2016 | Held at 1 July 2015 | Lapsed | Held at 30 June 2016 | Vested and exercisable at 30 June 2016 |
|---|---|---|---|---|
| **Executives** | – | | | |
| Brett Tredinnick | 250,000 | 250,000 | - | - |

### Analysis of movements in shares

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:

| 2016 | Held at 1 July 2015 | Purchased | Pro rata rights issue (1) | Net other changes (2) | Held at 30 June 2016 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Phillip Arnall | 100,000 | - | 75,000 | - | 175,000 |
| Russell Eggers | 9,800 | 70,028 | - | (79,828) | - |
| Andrew Purcell | 28,514 | 5,000 | 21,384 | - | 54,898 |
| John O'Neill | 7,503,957 | - | 2,813,983 | - | 10,317,940 |
| **Executives** | | - | | | |
| Brett Tredinnick | 345,722 | - | - | - | 345,722 |
| John Stuart-Robertson | 33,972 | - | - | - | 33,972 |

(1) Pro rata rights issue represents entitlement shares subscribed for under the 3 for 8 accelerated non-renounceable entitlement offer announced by the Company on 17 March 2016.

(2) Russell Eggers resigned from the office of Director effective 29 February 2016, having lodged his final Directors Interest notification with the Australian Stock Exchange, advising of his shareholding of 79,828 shares at that date.

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

**Phillip Arnall,**
**Chairman**

Dated at Sydney, this 19th day of August 2016

Building a better
working world

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## Auditor's Independence Declaration to the Directors of AJ Lucas Group Limited

As lead auditor for the audit of AJ Lucas Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of AJ Lucas Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ryan Fisk
Partner
19 August 2016

# Consolidated statement of comprehensive income

for the year ended 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| Revenue | 6 | 125,478 | 145,028 |
| **Total revenue** | | **125,478** | **145,028** |
| Other income | | 522 | 3,025 |
| Operating costs of Australian operations | | (104,746) | (127,051) |
| Central and corporate costs | | (6,176) | (8,317) |
| Depreciation, amortisation and impairment | 8 | (14,901) | (26,210) |
| Non operating expenses | 8 | (10,776) | (8,735) |
| **Results from operations** | | **(10,599)** | **(22,260)** |
| Net finance costs | 7 | (2,135) | **(24,280)** |
| Share of profit / (loss) of equity accounted investees | 17 | **(6,751)** | 1,324 |
| **Loss before income tax** | | **(19,485)** | **(45,216)** |
| Income tax expense | 10 | – | - |
| **Loss for the period** | | **(19,485)** | **(45,216)** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit and loss** | | | |
| Exchange differences on translation of foreign operations | | 4,392 | 17,056 |
| Total items that may be reclassified subsequently to profit and loss | | 4,392 | 17,056 |
| **Other comprehensive income for the period** | | **4,392** | **17,056** |
| **Total comprehensive loss for the period** | | **(15,093)** | **(28,160)** |
| **Total comprehensive loss attributable to owners of the Company** | | **(15,093)** | **(28,160)** |
| **Earnings per share:** | | | |
| Basic (loss)/earnings per share (cents) | 11 | (6.7) | (16.9) |
| Diluted (loss)/earnings per share (cents) | 11 | (6.7) | (16.9) |

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

# Consolidated statement of financial position

as at 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 12 | 6,866 | 15,955 |
| Cash in trust | 12 | 15,634 | - |
| Trade and other receivables | 13 | 25,754 | 26,866 |
| Inventories | 14 | 16,047 | 13,445 |
| Other assets | 15 | 1,288 | 1,269 |
| **Total current assets** | | **65,589** | **57,535** |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 39,024 | 53,193 |
| Exploration assets | 18 | 18,314 | 16,543 |
| Investments in equity accounted investees | 17 | 106,209 | 103,997 |
| **Total non-current assets** | | **163,547** | **173,733** |
| **Total assets** | | **229,136** | **231,268** |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 30,923 | 37,408 |
| Interest-bearing loans and borrowings | 21 | 34,743 | 3,927 |
| Current tax liabilities | 22 | – | 8,247 |
| Derivative liabilities | 23 | – | 31 |
| Employee benefits | 25 | 4,759 | 4,159 |
| **Total current liabilities** | | **70,425** | **53,772** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 21 | 70,984 | 74,937 |
| Non-current tax liabilities | 22 | – | 22,234 |
| Employee benefits | 25 | 937 | 832 |
| **Total non-current liabilities** | | **71,921** | **98,003** |
| **Total liabilities** | | **142,346** | **151,775** |
| **Net assets** | | **86,790** | **79,493** |
| **EQUITY** | | | |
| Share capital | 26 | 362,034 | 339,670 |
| Reserves | | 33,625 | 29,207 |
| Accumulated losses | | (308,869) | (289,384) |
| **Total equity** | | **86,790** | **79,493** |

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

# Consolidated statement of changes in equity

for the year ended 30 June 2016

| | Share capital $'000 | Translation reserve $'000 | Option reserve $'000 | Employee equity benefits reserve $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| Balance 1 July 2015 | 339,670 | 24,563 | 637 | 4,007 | (289,384) | 79,493 |
| **Total comprehensive income** | | | | | | |
| Loss for the period | – | – | – | – | (19,485) | (19,485) |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation differences | – | 4,392 | – | – | – | 4,392 |
| Total comprehensive income/(loss) | – | 4,392 | – | – | (19,485) | (15,093) |
| **Transactions with owners recorded directly in equity** | | | | | | |
| Issue of ordinary shares, net of transaction costs | 22,364 | – | – | – | – | 22,364 |
| Share based payment transactions | – | – | – | 26 | – | 26 |
| Total contributions by and distributions to owners | 22,364 | – | – | 26 | – | 22,390 |
| **Balance 30 June 2016** | **362,034** | **28,955** | **637** | **4,033** | **(308,869)** | **86,790** |
| | | | | | | |
| Balance 1 July 2014 | 339,670 | 7,507 | 637 | 3,836 | (244,168) | 107,482 |
| **Total comprehensive income** | | | | | | |
| Loss for the period | – | – | – | – | (45,216) | (45,216) |
| **Other comprehensive income** | | | | | | |
| Foreign currency translation differences | – | 17,056 | – | – | – | 17,056 |
| Total comprehensive income/(loss) | – | 17,056 | – | – | (45,216) | (28,160) |
| **Transactions with owners recorded directly in equity** | | | | | | |
| Share based payment transactions | – | – | – | 171 | – | 171 |
| Total contributions by and distributions to owners | – | – | – | 171 | – | 171 |
| **Balance 30 June 2015** | **339,670** | **24,563** | **637** | **4,007** | **(289,384)** | **79,493** |

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

# Consolidated statement of cash flows

for the year ended 30 June 2016

| | Note | 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 135,121 | 169,516 |
| Cash paid to suppliers and employees | | (138,201) | (169,963) |
| **Cash used in operations** | | **(3,080)** | **(447)** |
| Interest received | | 241 | 233 |
| Income taxes paid | | (21,742) | (5,914) |
| Interest and other costs of finance paid | | (13) | (6,780) |
| **Net cash used in operating activities** | 32(b) | **(24,594)** | **(12,908)** |
| **Cash flows from investing activities** | | | |
| Recovery of receivables from equity accounted investees | | 525 | 804 |
| Proceeds from sale of plant and equipment | | 136 | 834 |
| Acquisition of plant and equipment | | (969) | (1,095) |
| Payments for interest in exploration assets | | (856) | (500) |
| Payments for equity accounted investees | | (5,480) | - |
| **Net cash from / (used in) investing activities** | | **(6,644)** | **43** |
| **Cash flows from financing activities** | | | |
| Corporate advisory fees | | (1,547) | (379) |
| Payment of finance lease liabilities | | (93) | (51) |
| Proceeds from borrowings | | 32,459 | - |
| Transaction costs on borrowings | | (2,420) | - |
| Proceeds from issue of shares | | 10,314 | - |
| Transaction costs on share issue | | (1,068) | - |
| **Net cash from financing activities** | | **37,645** | **(430)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **6,407** | (13,295) |
| Net foreign exchange difference | | 138 | - |
| Cash and cash equivalents at beginning of the period | | 15,955 | 29,250 |
| **Cash and cash equivalents at end of the period** | 32(a) | **22,500** | **15,955** |

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

# 1. REPORTING ENTITY

AJ Lucas Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 1 Elizabeth Plaza, North Sydney, NSW, 2060. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually referred to as 'Group 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. It also holds investments in unconventional and conventional hydrocarbons in Europe and Australia.

# 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 19 August 2016.

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

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

## (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 period of $19.5 million primarily as a result of non-cash depreciation and amortisation charges of $14.9 million, non-operating expenses of $10.8 million, net finance costs of $2.1 million and share of loss of equity accounted investee of $6.7 million;
- The Group achieving a 54.8% improvement in underlying EBITDA of $14.6 million;
- The Group has a current asset deficiency of $4.8 million.
- The Group used net cash of $24.6 million in its operating activities during the year primarily as a result of payments made to the ATO of $21.7 million, which included the final settlement of the remaining ATO liability. The Group had cash, cash equivalents and cash in trust of $22.5 million at balance date;
- The Group's core markets in Australia have remained depressed throughout the period. The Group's near term future financial performance will be driven by demand for its drilling, engineering and construction services, which in turn will be impacted by various factors which are outside its control. As such, forecasting carries an inherent degree of uncertainty;
- The Group re-entering the market to lease rigs for the drilling for commercial gas extraction;
- The company has a 46.85% in an oil and gas tenement located in Bowland UK. The Lancashire County Council ("LCC") has declined approval to drill 2 exploration wells in the tenement, despite Council's planning officers recommending approval and Council's Queens Council advising Council that they would likely lose any appeal for the approval. Cuadrilla, on behalf of the joint venture has lodged an appeal against LCC's decision. If approval is not received by June 2017 the company may be required to repay its senior secured loan notes and the related party loans as disclosed in Note 21; and
- The ongoing exposure to contingent liabilities as disclosed in Note 30.

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

- The ability of the Group to raise additional debt and/or equity, as demonstrated during the year through the accelerated non renounceable entitlement offer launched in March 2016 and the debt refinancing completed in June 2016;
- The amount of cash in trust at balance date, as described in note 12;
- The reasonableness of the profitability and cash flow forecasts of the Group, which have been prepared by management on the basis of past experience, guidance and commentary provided by customers and competitors together with macroeconomic indicators;
- The arrangement summarised at Note 18 under which Centrica Plc ("Centrica") has provided certain commitments to fund exploration expenditure in respect of the Bowland and Elswick prospects;
- The arrangements summarised at Note 21 under which the second tranche US$20 million of senior term loan notes may be drawn to support the Australian Businesses and fund future investment requirements in respect of the Bowland and Elswick prospects, subject to certain conditions; and, whereby a minimum of US$ 30 million in new equity will be raised through an entitlements offer and a minimum of US$25 million of Tranche1 of the Kerogen facility is to be repaid;

- The continuing support of Kerogen Investments No. 1 (HK) Limited ("Kerogen"), both as a substantial debtholder and shareholder of the Company;
- The implied value of the Group's investment in both Cuadrilla and also its direct holding in the Bowland and Elswick prospects, as evidenced by the partial sale of the Group's direct and indirect interests in the Prospects to Centrica in June 2013;
- Announcements made by the United Kingdom Government in support of the shale gas industry to provide the indigenous security of supply of energy in the United Kingdom; and
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla;

In light of the above, if the entity is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business at amounts different from those stated in the statement of financial position.

### (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 3(f) – Estimation of percentage completion in relation to revenue recognition
- Note 14 – Inventories;
- Note 19 – Recognition of deferred tax asset;
- Note 27 – Valuation of financial instruments; and
- Note 30 – Contingencies.
- Note 17 – Carrying value of equity accounted investments
- Note 18 – Carrying value of exploration assets

### (F) CHANGES IN 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.

During the financial year ended 30 June 2016, the Group voluntarily change the presentation of the consolidated statement of comprehensive income. Materials, Sub-contractor costs, employee expenses and plant and other construction costs have been presented together as either Operating Costs of Australia Operations or Central and administration costs. The Group has determined that presentation of is financial information in this manner will enhance the readability of the financial statements for its users.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (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. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over the fair value of net assets acquired is recognised as goodwill and is tested annually for impairment. 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.

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

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

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is determined in relation to rights that give the Group the current ability to direct the activities that significantly affect returns from the Group's investment. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### Investments in equity accounted investees

The Group's interest in equity accounted investees comprise interests in joint ventures and an associate.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Jointly ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, 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. A partial redemption of equity interests is accounted for as a reduction in the investment value equal to the cash redemption.

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.

### Joint operations

An operation is a joint arrangement whereby the parties that jointly control the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated financial statements include the Group's share of assets and liabilities held jointly and the Group's share of expenses incurred and income earned jointly.

### 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 translated to the functional currency at the exchange rate at reporting date.

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 not retranslated. 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. 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 an associate or joint venture 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

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit and loss, held to maturity financial assets, loans and receivables and available for sale financial assets.

### Non-derivative financial assets and financial liabilities – recognition and de-recognition

The Group initially recognises loans and receivables and debt securities on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date.

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.

The Group derecognises a financial liabilities when its contractual obligations are discharged, 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.

### Non-derivative financial assets and financial liabilities – measurement

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They comprise trade and other receivables.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

#### Cash and cash equivalents

Comprise cash balances and call deposits with original maturities of three months or less.

#### Cash in trust

Comprises cash balances held in trust under the terms of the senior term loan notes.

#### Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

#### 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 certain criteria are met.

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 generally recognised in profit and loss.

## (D) SHARE CAPITAL

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 are recognised as a liability in the period in which they are declared.

## (E) LEASES

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

### Leased assets

Leases where 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.

### 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.

## (F) 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.

## (G) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested and gains on hedging instruments 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. Borrowing costs that are not directly attributable to the acquisition,

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

## (H) 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

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

Deferred tax is recognised in respect of deductible 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;
- relating to investments in subsidiaries and associates and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future; and
- 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.

### Tax consolidation

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.

## (I) 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.

## (J) SEGMENT REPORTING

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 Executive Leadership Team ("ELT") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The ELT is the primary decision making body responsible for the day to day management of the business and comprises the Groups Executive General Managers, the Human Resources Executive, Chief Financial Officer and is chaired by the Chairman of the Board.

Segment results that are reported to the ELT 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.

## (K) 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 where 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.

## (L) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition are included in the cost of inventory. Net realisable value is the estimated selling price in the ordinary course of business.

## (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 cost of materials and direct labour, the costs of dismantling and removing the items and restoring the site on which they are located and any other costs attributable to bringing the assets to a working condition for their intended use. Cost may also 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. 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. 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.

### 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 capitalised 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 to write off the cost of items of property, plant and equipment, less their estimated residual value, using the straight line method over the estimated useful life. 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. Depreciation is recognised in the profit and loss.

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

| | Years |
|---|---|
| Leasehold improvements | 5 |
| Buildings | 20-40 |
| 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 adjusted if appropriate at least annually.

## (N) INTANGIBLE ASSETS

### 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

## (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:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- 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 sufficient data exists to determine technical feasibility and commercial viability, and 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.

In applying the exploration and evaluation asset recognition policy, and in determining recoverable amount management are required to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available.

Where the Group is party to a farm-in arrangement any proceeds or non-cancellable expenditure funded by the purchaser is recognised as disposal proceeds. The non-cancellable expenditure to be funded by the purchaser is recognised as a receivable carry asset within exploration assets in accordance with the Group's interest percentage. 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.

The cancellable portion of deferred consideration, and consideration contingent on a future event is disclosed as a contingent asset and is not recognised by the Group until it has actually been incurred or becomes non-cancellable, at which point, additional profit will be recognised in the profit and loss 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, or 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 as 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.

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

## (R) EMPLOYEE BENEFITS

### Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

### 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 and related on costs. Benefits are discounted to determine their present value, using the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

### Termination benefits

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

### Short-term benefits

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

### Share-based payment transactions

The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that 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.

### Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

## 4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 July 2015, but have not been applied in preparing this financial report.

### AASB 9 FINANCIAL INSTRUMENTS

AASB 9 *Financial Instruments* replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets and the new general ledger hedge accounting requirements. It also carries forward the guidance and recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods on or after 1 July 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

### AASB 15 REVENUE FROM CONTRACTS

AASB 15 *Revenue from Contracts* with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated interpretations. The new standard will be applicable for the Group for the reporting period commencing 1 July 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

### AASB 16 LEASES

AASB 16 *Leases* requires the recognition of a right of use asset and a lease liability for all leases with a term of more than 12 months. The assets and liability will initially be measured on a present value of future cash flows basis. Currently the company only recognises a lease liability and asset in relation to finance leases, while lease payments in relation to operating leases are expensed on a straight line basis. The new standard will be effective from 1 July 2019. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the Group's financial performance or financial position.

## 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. Current replacement cost estimates reflect adjustment for physical deterioration as well as functional and economic obsolescence.

### INVENTORIES

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

### TRADE AND OTHER RECEIVABLES

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

### DERIVATIVES

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate. Further disclosures relating to the fair value of derivatives with reference to Level 2 inputs are disclosed in Note 27.

### 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 Monte Carlo pricing model. 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 ELT 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 industries for degasification of coal mines and associated services and commercial extraction of gas. |
| Engineering & construction (E&C) | Pipelines and associated construction and civil services. The Group is also the market leader in the installation of pipes including using horizontal directional drilling techniques. |
| Oil & gas | Commercialisation of unconventional and conventional hydrocarbons in Europe and Australia. |

There are varying levels of integration between the Drilling and Engineering & Construction reportable segments. The accounting policies of the reportable segments are the same as described in Note 3.

Information regarding the results of each reportable segment is included below. Performance is assessed based on segment earnings before interest, income tax, depreciation and amortisation (EBITDA) and segment profit before interest and income tax. Inter-segment pricing is determined on an arm's length basis.

During the period, management reassessed the allocation of overheads that can be directly attributed to an individual business segment. This has resulted in changes to the overhead allocations between Corporate, drilling, E&C and Oil & Gas. The historical segment results for the financial year ended 30 June 2015 have been restated to be comparable with the revised allocations as required by AASB 8 Operating Segments.

## 6. OPERATING SEGMENTS (continued)

| June 2016 | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Reportable segment revenue** | | | | | | | |
| Revenue – services rendered | 79,633 | - | - | 79,633 | - | - | 79,633 |
| Revenue – construction contracts | - | 45,845 | - | 45,845 | - | - | 45,845 |
| Inter-segment revenue (1) | 6,014 | 5,046 | - | 11,060 | - | (11,060) | - |
| **Total consolidated revenue** | **85,647** | **50,891** | **-** | **136,538** | **-** | **(11,060)** | **125,478** |
| **EBITDA** | **11,385** | **6,900** | **(9,571)** | **8,714** | **(11,163)** | **-** | **(2,449)** |
| Depreciation, amortisation and impairment | (11,700) | (3,176) | - | (14,876) | (25) | - | (14,901) |
| Finance income | - | - | - | - | 272 | - | 272 |
| Finance cost | - | - | - | - | (2,407) | - | (2,407) |
| **Reportable segment profit / (loss)** | **(315)** | **3,724** | **(9,571)** | **(6,162)** | **(13,323)** | **-** | **(19,485)** |

| June 2015 | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Reportable segment revenue** | | | | | | | |
| Revenue – services rendered | 83,545 | - | - | 83,545 | - | - | 83,545 |
| Revenue – construction contracts | - | 61,483 | - | 61,483 | - | - | 61,483 |
| Inter-segment revenue(1) | 6,343 | - | - | 6,343 | - | (6,343) | - |
| **Total consolidated revenue** | **89,888** | **61,483** | **-** | **151,371** | **-** | **(6,343)** | **145,028** |
| **EBITDA** | **4,004** | **6,719** | **4,071** | **14,794** | **(9,520)** | **-** | **5,274** |
| Depreciation, amortisation and impairment | (16,247) | (3,032) | - | (19,279) | (6,931) | - | (26,210) |
| Finance income | - | - | - | - | 1,967 | - | 1,967 |
| Finance cost | - | - | - | - | (26,247) | - | (26,247) |
| **Reportable segment profit / (loss)** | **(12,243)** | **3,687** | **4,071** | **(4,485)** | **(40,731)** | **-** | **(45,216)** |

(1) Inter-segment revenue represents internal charges for services performed between different business units and recharges to joint operations, which are eliminated on consolidation to the extent of the Groups interest.

| June 2016 | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Segment assets | 60,257 | 27,590 | 125,038 | 212,885 | 16,251 | **229,136** |
| Segment liabilities | (7,988) | (13,482) | (5,028) | (26,498) | (115,848) | **(142,346)** |
| Depreciation and amortisation | (11,700) | (3,176) | - | (14,876) | (25) | **(14,901)** |
| Share of loss of equity accounted investees | - | - | (6,751) | (6,751) | - | **(6,751)** |
| Equity accounted investments | - | - | 106,209 | 106,209 | - | **106,209** |
| Capital expenditure | 792 | 115 | - | 907 | 62 | **969** |
| Recovery of receivables from equity accounted investees | - | - | - | - | 525 | **525** |

| June 2015 | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Segment assets | 68,663 | 34,710 | 125,356 | 228,729 | 2,539 | **231,268** |
| Segment liabilities | (31,736) | (12,604) | (5,039) | (49,379) | (102,396) | **(151,775)** |
| Depreciation and amortisation | (15,461) | (3,032) | - | (18,493) | (1,817) | **(20,310)** |
| Share of profit of equity accounted investees | - | - | 1,324 | 1,324 | - | **1,324** |
| Equity accounted investments | - | - | 103,997 | 103,997 | - | **103,997** |
| Capital expenditure | 1,051 | 36 | - | 1,087 | 8 | **1,095** |
| Impairment of plant and equipment | (786) | - | - | (786) | (5,114) | **(5,900)** |
| Recovery of receivables from equity accounted investees | - | 804 | - | 804 | - | **804** |

## GEOGRAPHICAL INFORMATION

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

| | Revenues | | Non-current assets | |
|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| Australia | 124,989 | 144,848 | 39,024 | 53,193 |
| Europe | - | - | 124,523 | 120,540 |
| Asia/Pacific | 489 | 180 | - | - |
| | **125,478** | **145,028** | **163,547** | **173,733** |

## 7. FINANCE INCOME AND FINANCE COSTS

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Interest income** | **241** | **233** |
| Net change in fair value of derivative liability | 31 | 1,734 |
| **Finance income** | **272** | **1,967** |
| Interest expense | (16,604) | (14,762) |
| Remission of interest | 17,663 | - |
| Amortisation of options and fees on debt facilities | (1,422) | (915) |
| Net foreign exchange loss | (2,044) | (10,570) |
| **Finance costs** | **(2,407)** | **(26,247)** |
| **Net finance costs recognised in profit and loss** | **(2,135)** | **(24,280)** |

## 8. OTHER EXPENSES

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Depreciation and amortisation of property, plant and equipment | 14,901 | 20,310 |
| Impairment of plant and equipment | – | 5,900 |
| **Total depreciation, amortisation and impairment** | **14,901** | **26,210** |
| UK investment overhead costs | 2,820 | 517 |
| Settlement of historical legal disputes | 7,445 | 3,676 |
| Recovery of receivable from equity accounted investees | (525) | (804) |
| Redundancy costs | 503 | 2,413 |
| Net (profit) / loss on sales of assets | 102 | (143) |
| Corporate advisory fees | (117) | 2,043 |
| Share based payment expense | 27 | 171 |
| Other (income) / expense | 521 | 862 |
| **Total non-operating costs** | **10,776** | **8,735** |

## 9. AUDITOR'S REMUNERATION

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Audit services | | |
| Auditors of the Company – EY Australia and other network firms | | |
| Audit and review of financial reports | 293 | 280 |
| Other professional services | 174 | 247 |
| | **467** | **527** |

Other professional services related to tax advisory services.

## 10. INCOME TAX

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Recognised in profit or loss** | | |
| **Current tax benefit** | | |
| Current year | (4,149) | (8,883) |
| Tax losses (utilised) / not recognised and temporary differences derecognised in current year | (596) | 12,813 |
| | **(4,745)** | **3,930** |
| **Deferred tax expense recognised in profit or loss** | | |
| Origination and reversal of temporary differences | 4,745 | (3,930) |
| Prior year adjustment | (336) | 199 |
| Prior year tax losses not recognised | 336 | (199) |
| Total income tax expense / (benefit) in profit or loss | – | – |
| Numerical reconciliation between tax benefit and pre-tax net profit/(loss) | | |
| Accounting loss before income tax | (19,485) | (45,216) |
| Prima facie income tax benefit calculated at 30% | (5,846) | (13,565) |
| Adjustment for: | | |
| Equity settled share based payments | – | – |
| Equity accounted (gain)/loss | 1,927 | (1,126) |
| Non-deductible expenses | 241 | 74 |
| Non-deductible option expense | 435 | 326 |
| Effect of tax rate in foreign jurisdictions | 173 | (785) |
| Non-deductible finance cost | 3,278 | 2,124 |
| Impairment expenses | – | 659 |
| Fair value – derivative option (gain)/loss non-assessable | (9) | (520) |
| Prior year tax losses not recognised | 336 | (199) |
| Current year tax losses not recognised | 4,546 | 8,883 |
| Current year temporary differences not recognised | (4,745) | 3,930 |
| Income tax over-provided in prior year | 336 | (200) |
| **Income tax expense / (benefit) attributable to operating loss** | **–** | **–** |

## 11. EARNINGS PER SHARE

### BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2016 was based on the loss after tax attributable to ordinary shareholders of 2016 $19,485,000 (2015: loss after tax $45,216,000) and a weighted average number of ordinary shares outstanding of 290,031,908 (2015: 267,383,816) calculated as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| **Weighted average number of ordinary shares (basic)** | | |
| Issued ordinary shares at 1 July | 267,383,816 | 267,383,816 |
| Accelerated rights offer | 22,459,518 | – |
| Entitlement shares | 188,574 | – |
| **Weighted average number of ordinary shares (basic) at 30 June** | **290,031,908** | **267,383,816** |

### DILUTED EARNINGS PER SHARE

There were no dilutive potential ordinary shares outstanding at 30 June 2016 or 30 June 2015, therefore no adjustments have been made to basic earnings per share to arrive at diluted earnings per share. At 30 June 2016, 1,000,000 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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Bank balances | 2,197 | 11,541 |
| Share of Joint Venture cash | 4,669 | 4,414 |
| **Total cash and cash equivalents** | **6,866** | 15,955 |
| | | |
| Cash in trust | 15,634 | – |
| **Total cash in trust** | **15,634** | – |

### Share of Joint Venture cash

Represents the Groups share of joint operation cash balances. These cash balances are available to be utilised within the joint venture until such time as the Joint venture resolves to distribute the cash to joint venture partners.

### Cash in trust

Represents cash drawn under the senior loan notes facility disclosed in note 21 that remains un-utilised at balance date. These cash balances are available to be utilised in accordance with the senior loan note facility primarily for the purpose of furthering the Groups investments in the Bowland tenement, working capital requirements and settlement of a legacy legal dispute which has been provided for at balance date (see note 18 for further information on Bowland).

## 13. TRADE AND OTHER RECEIVABLES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables (net of impairment losses) | 25,754 | 24,952 |
| Other receivables | – | 1,914 |
| **Total** | **25,754** | **26,866** |

No new impairment provisions were recognised against trade receivables and other receivables at 30 June 2016 or 30 June 2015.

## 14. INVENTORIES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Materials and consumables | 2,582 | 3,629 |
| Construction work in progress | 13,465 | 9,816 |
| **Total inventories** | **16,047** | **13,445** |

## 15. OTHER ASSETS

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Prepayments** | **1,288** | **1,269** |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements $'000 | Land & buildings $'000 | Plant & equipment $'000 | Enterprise development $'000 | Total $'000 |
|---|---|---|---|---|---|
| **30 June 2016** | | | | | |
| At cost | 7 | 3,912 | 143,253 | 11,315 | 158,487 |
| Accumulated depreciation/amortisation/impairment | (7) | (792) | (107,400) | (11,264) | (119,463) |
| **Carrying amount at 30 Jun 2016** | **–** | **3,120** | **35,853** | **51** | **39,024** |
| **30 June 2015** | | | | | |
| At cost | 7 | 3,977 | 142,889 | 11,254 | 158,127 |
| Accumulated depreciation/amortisation/impairment | (6) | (707) | (92,967) | (11,254) | (104,934) |
| **Carrying amount at 30 Jun 2015** | **1** | **3,270** | **49,922** | **–** | **53,193** |

### 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 |
|---|---|---|---|---|---|
| Carrying amount at 1 July 2015 | 1 | 3,270 | 49,922 | – | 53,193 |
| Additions | – | – | 907 | 62 | 969 |
| Disposals | – | (40) | (197) | – | (237) |
| Impairment | – | – | – | – | – |
| Depreciation and amortisation | (1) | (110) | (14,779) | (11) | (14,901) |
| **Carrying amount at 30 June 2016** | **–** | **3,120** | **35,853** | **51** | **39,024** |

### 16. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Leasehold improvements $'000 | Land & buildings $'000 | Plant & equipment $'000 | Enterprise development $'000 | Total $'000 |
|---|---|---|---|---|---|
| Carrying amount at 1 July 2014 | 2 | 3,315 | 68,985 | 6,772 | 79,074 |
| Additions | – | 65 | 938 | 92 | 1,095 |
| Disposals | – | – | (766) | – | (766) |
| Impairment | – | – | (786) | (5,114) | (5,900) |
| Depreciation and amortisation | (1) | (110) | (18,449) | (1,750) | (20,310) |
| **Carrying amount at 30 June 2015** | **1** | **3,270** | **49,922** | **–** | **53,193** |

An independent expert was engaged to perform an independent valuation of the Group's plant and equipment as at 30 June 2016. No impairment charge was recognised as a result of this process. An impairment charge of $5.9m was recognised in the prior year based on management's assessment of recoverable amount reflecting the reduced demand for the Group's drilling services and the value of enterprise development to the Group.

## 17. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Balance at 1 July | 103,997 | 87,573 |
| Purchase of additional ownership interest | 5,480 | – |
| Foreign currency translation movement recognised in equity | 3,483 | 15,100 |
| Share of equity accounted profits / (losses) during the year | (6,751) | 1,324 |
| **Balance at 30 June** | **106,209** | **103,997** |

The Group's share of loss of equity accounted investees is $6,751,000 (2015 share of profit: $1,324,000). During both the current and the prior year, the Group did not receive dividends from any of its investments in equity accounted investees.

At 30 June 2016 balance date, the liabilities of Marais-Lucas Technologies Pty Limited exceeded its assets. As a result the Group investment in Marais-Lucas Technologies Pty Limited is fully impaired. The Group does not have any obligation to settle the liabilities of the investee.

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

| | Ownership | | Carrying value | |
|---|---|---|---|---|
| | 2016 % | 2015 % | 2016 $'000 | 2015 $'000 |
| Cuadrilla Resources Holdings Limited (associate) | 45.08% | 45.08% | 106,209 | 103,997 |
| Marais-Lucas Technologies Pty Limited (joint controlled entity) | 50.00% | 50.00% | – | – |
| | | | **106,209** | **103,997** |

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

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | 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 | 6,977 | 631 | 7,608 | 10,944 | 1,246 | 12,190 |
| Non-currant assets | 239,790 | 250 | 240,040 | 237,660 | 400 | 238,060 |
| **Total assets** | **246,767** | **881** | **247,648** | **248,604** | **1,646** | **250,250** |
| Current liabilities | 3,547 | 6,344 | 9,891 | 5,386 | 6,939 | 12,325 |
| Non-current liabilities | 7,619 | – | 7,619 | 7,666 | – | 7,666 |
| **Total liabilities** | **11,166** | **6,344** | **17,510** | **13,052** | **6,939** | **19,991** |
| Income | 2,148 | – | 2,148 | 3,767 | – | 3,767 |
| Expenses | (17,124) | (103) | (17,227) | (9,890) | (384) | (10,275) |
| **Loss** | **(14,976)** | **(103)** | **(15,079)** | **(6,123)** | **(384)** | **(6,508)** |

## 18. EXPLORATION ASSETS

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Cost** | | |
| Bowland exploration asset | 9,884 | 8,734 |
| Elswick exploration asset | 5,201 | 4,688 |
| Bolney exploration asset | 3,229 | 3,122 |
| | **18,314** | **16,543** |

The exploration assets comprise the Group's equity interest ("direct interest") in the above prospects and represents expenditure incurred. The Group is beneficially entitled to an additional interest ("indirect interest") in these prospects through its shareholding in the equity accounted associate, Cuadrilla Resources Holding Limited ("Cuadrilla") as shown below:

| | Indirect Interest % | Direct Interest % | 2016 % | 2015 % |
|---|---|---|---|---|
| **Beneficial interest** | | | | |
| Bowland tenement | 23.10 | 23.75 | 46.85 | 44.06 |
| Elswick tenement | 22.63 | 22.06 | 44.69 | 41.89 |
| Bolney tenement | 33.81 | 25.00 | 58.81 | 58.75 |

The indirect interest comprises Cuadrilla's equity interest in the respective prospect multiplied by the Group's equity interest in Cuadrilla as shown in Note 17.

### Relinquishment requirements

Exploration licenses contain conditions relating to achieving certain milestones on agreed deadlines. Where milestones are not achieved within agreed deadlines, the terms of the license may require partial relinquishment of the license area or be withdrawn. Applications can be made to alter or extend exploration license conditions.

### Future Expenditure on the Bowland and Elswick tenements

In June 2013 the existing owners, Cuadrilla and the Group, each sold 25% of their interest in the Bowland and Elswick prospects to Centrica Plc ("Centrica"). Consideration for the interest included a farm-in arrangement and consideration that was contingent upon certain appraisal and operational milestones being achieved.

In August 2015 a revised arrangement was agreed between Centrica, Cuadrilla and the Company with respect to the outstanding farm in arrangement (Carry) and Contingent Consideration. The remaining portion of Centrica's farm in funding is £30.6 million has been

**18. EXPLORATION ASSETS (continued)**

deferred until planning approval for either of the exploration sites at Preston New Road or Roseacre Wood is obtained. In the interim, until determination of the planning appeal, the Bowland Joint Venture partners will fund Cuadrilla's operations in proportion to their respective equity interests. The contingent consideration payable by Centrica of £60 million was renegotiated into a £46.7 million Contingent farm in ("Carry") to be applied against various appraisal and development activities. The Contingent Carry is subject to the same appraisal and operational milestones previously agreed in respect of the original Contingent Consideration.

Concurrently, the Company agreed to increase its interest in the Bowland Joint Venture by 5.00% from 18.75% to 23.75% and Cuadrilla to would reduce its interest from 56.25% to 51.25% whilst maintaining majority ownership and operatorship. Correspondingly, the Company's entitlement to the Carry and Contingent Carry has been reduced proportionately.

Cuadrilla has submitted appeals in respect of Lancashire County Council's Development Control Committee's decisions to refuse planning consent for the exploration sites at Preston New Road and Roseacre Wood. A public hearing was held with the Planning Inspector having issued her recommendation to the Secretary of State for Communities and Local Government, who will determine the appeal.

### Monument prospect

In 2009 and 2010 the Company acquired from a 10% net profit interest ("NPI") over certain oil and gas leasehold interests in East Texas totalling $87 million. The NPI was fully impaired by the Company in the year of acquisition. The Company is concluding a review as to whether there is any value recoverable either from the NPI or the monies paid for the NPI.

## 19. DEFERRED TAX ASSETS AND LIABILITIES

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | Tax Assets | | Tax Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **Consolidated** | | | | | | |
| Inventories | – | – | (774) | (1,104) | (774) | (1,104) |
| Equity accounted investments | – | – | (2,613) | (2,613) | (2,613) | (2,613) |
| Property, plant and equipment | 11,088 | 10,553 | – | – | 11,088 | 10,553 |
| Provisions for employee benefits | 1,823 | 1,561 | – | – | 1,823 | 1,561 |
| Trade creditors | 89 | 361 | – | – | 89 | 361 |
| Share raising costs | 1,055 | 1,305 | – | – | 1,055 | 1,305 |
| Other creditors and accruals | 1,401 | 4,049 | – | – | 1,401 | 4,049 |
| Unrealised foreign exchange differences | 227 | 2,051 | – | – | 227 | 2,051 |
| Deferred tax asset write down | (12,296) | (16,163) | – | – | (12,296) | (16,163) |
| **Tax assets/(liabilities)** | **3,387** | **3,717** | **(3,387)** | **(3,717)** | **–** | **–** |
| Set off of tax | (3,387) | (3,717) | 3,387 | 3,717 | – | – |
| **Net assets/(liabilities)** | **–** | **–** | **–** | **–** | **–** | **–** |

Movement in temporary differences during the year:

| 2016 | Balance 01 Jul 2015 $'000 | Recognised directly in equity $'000 | Recognised in profit or loss $'000 | Balance 30 Jun 2016 $'000 |
|---|---|---|---|---|
| Inventories | (1,104) | - | 330 | (774) |
| Equity accounted investments | (2,613) | - | - | (2,613) |
| Property, plant and equipment | 10,553 | - | 535 | 11,088 |
| Provisions for employee benefits | 1,561 | - | 262 | 1,823 |
| Trade creditors | 361 | - | (272) | 89 |
| Share raising costs | 1,305 | - | (250) | 1,055 |
| Other creditors and accruals | 4,049 | - | (2,648) | 1,401 |
| Unrealised foreign exchange differences | 2,051 | - | (1,824) | 227 |
| Deferred tax asset written off | (16,163) | - | 3,867 | (12,296) |
| | - | - | - | - |

| 2015 | Balance 01 Jul 2014 $'000 | Recognised directly in equity $'000 | Recognised in profit or loss $'000 | Balance 30 Jun 2015 $'000 |
|---|---|---|---|---|
| Inventories | (1,238) | - | 134 | (1,104) |
| Equity accounted investments | (2,613) | - | - | (2,613) |
| Property, plant and equipment | 7,990 | - | 2,563 | 10,553 |
| Doubtful debts impairment recognised | 462 | - | (462) | - |
| Provisions for employee benefits | 1,703 | - | (142) | 1,561 |
| Trade creditors | 423 | - | (62) | 361 |
| Share raising costs | 1,688 | - | (383) | 1,305 |
| Other creditors and accruals | 1,530 | - | 2,519 | 4,049 |
| Unrealised foreign exchange differences | 4,097 | - | (2,046) | 2,051 |
| Deferred tax asset written off | (14,042) | - | (2,121) | (16,163) |
| | - | - | - | - |

### UNRECOGNISED DEFERRED TAX ASSETS

As at 30 June 2016, the Group had not recognised deferred tax assets of $42,428,374 (2015: $51,811,249) in relation to income tax losses. During the period the Company agreed to forgo the right to certain carry forward tax losses as part of its settlement with the tax office, which also included the remission of interest.

## 20. TRADE AND OTHER PAYABLES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | 9,908 | 10,199 |
| Trade payables | 21,015 | 27,209 |
| | **30,923** | 37,408 |

## 21. INTEREST-BEARING LOANS AND BORROWINGS

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Lease liabilities | 90 | 164 |
| Senior term loan notes | 101 | - |
| Loans from related party | 34,552 | 3,763 |
| | **34,743** | **3,927** |
| **Non-current** | | |
| Lease liabilities | 37 | 56 |
| Senior term loan notes | 30,121 | - |
| Other borrowings | - | 5,269 |
| Loans from related party | 40,826 | 69,612 |
| | **70,984** | **74,937** |

### (A) LOANS AND BORROWING TERMS AND MATURITIES

#### Senior term loan notes

In June 2016 the Company launched the issue of US$45 million of fully underwritten senior secured loan notes. The loan notes are secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries.

At balance date US$20 million remains available to be drawn following either a resumption of the Centrica farm-in that was deferred as disclosed in Note 18, or the grant of satisfactory planning permission in relation to at least one of Preston New Road or Roseacre Wood ("Successful Appeal"). Funds drawn are placed in trust bank deposits to be utilised in accordance with the senior loan note facility; primarily for the purpose of furthering the Group's investments in the Bowland licence as well as the settlement of a legacy legal dispute which has been provided for at balance date (see note 18 for further information on Bowland).

Interest is charged at 18% of the drawn amount, with 12% payable quarterly in arrears and 6% accruing until termination or repayment of the facility. The loan notes terminate in June 2019, but can be terminated by note holders and become payable in the event that a Successful Appeal is not announced by June 2017.

As part consideration of the facility, the Company has agreed to issue a total of 20 million ordinary shares to note holders in two tranches. The first tranche of 11 million ordinary shares was issued on launch date as disclosed in Note 26, with the second tranche to be issued at the time of draw-down of the remaining $20 million. The costs of the shares, together with other prepaid transaction costs incurred are being amortised over the life of the loan notes.

#### Loans from related party

Concurrent to the launch of the senior term loan notes, the Company's major shareholder, Kerogen Investments No.1 (HK) Limited ("Kerogen") agreed to extend and restructure its existing facility. The term of the Kerogen facility has been extended to December 2019, with interest payable able to be deferred until maturity at the discretion of the Company. In addition, Kerogen has agreed that its debt be subordinated with its fixed and floating security now ranking behind the senior term loan notes. Interest charged on the facility is as follows and compounds quarterly if unpaid:

| | Tranch 1 | Tranche 2 |
|---|---|---|
| Principal | US$26.2m | US$30m |
| Interest rate | 20% initially | 16% initially |
| | increasing to 21% from June 2018 | increasing to 18% from June 2018 |

Additional transaction costs, including restructure fees payable to Kerogen, are amortised over the expected term of the loan facility.

A condition of the restructured facility is that a minimum of a US$25 million of tranche1 is to be repaid within the earlier of March 2017 or 3 months following a Successful Appeal. The repayment is to be financed by an equity issue to raise a minimum of US$30 million to be conducted via an entitlements offer. Kerogen has agreed to participate for its full pro rata full entitlement, as well to as provide sub-underwriting support should the Company choose to accept, in aggregate of not less than US$25 million.

### Other borrowings

Relates to an interest bearing PAYG liability with the Australian Taxation Office (ATO) that formed part of the payment arrangement described in Note 22 Income Tax Liabilities. This liability was fully extinguished during the year.

## (B) FINANCING FACILITIES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **(i) The Group has access to the following lines of credit** | | |
| Other borrowings | – | 5,269 |
| Lease liabilities | 127 | 220 |
| Senior term loan notes | 57,154 | - |
| Loans from related party | 75,378 | 75,375 |
| | **132,659** | **80,864** |
| Total facilities utilised at balance date: | | |
| Other borrowings | – | 5,269 |
| Lease liabilities | 127 | 220 |
| Senior term loan notes | 30,222 | - |
| Loans from related party | 75,378 | 73,375 |
| | **105,727** | **78,864** |
| Total facilities not utilised at balance date: | | |
| Senior term loan notes | 26,932 | - |
| Loans from related party | – | 2,000 |
| **Total facilities not utilised at balance data** | **26,932** | **2,000** |
| **(ii) The Group has access to the following Bond and facilities provided by surety entities** | | |
| Bond facilities in aggregate | 3,500 | 4,209 |
| Amount utilised | (3,500) | (4,209) |
| Unused bond facilities | – | - |
| Bank indemnity guarantee | 10,566 | 104 |
| Amount utilised | (10,566) | (104) |
| **Unused facilities** | **–** | **–** |

**21. INTEREST-BEARING LOANS AND BORROWINGS (continued)**

## (C) FINANCING LEASE LIABILITIES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Finance lease liabilities** | | |
| Payments | | |
| Within one year | 96 | 169 |
| Between one and five years | 40 | 58 |
| | **136** | **227** |
| Less: interest | | |
| Within one year | (6) | (5) |
| Between one and five years | (3) | (2) |
| | **(9)** | **(7)** |
| **Total lease liabilities** | **127** | **220** |
| Lease liabilities provided for in the financial statements: | | |
| Current | 90 | 164 |
| Non-current | 37 | 56 |
| **Total lease liabilities** | **127** | **220** |

## 22. INCOME TAX LIABILITIES

The tax liability was fully extinguished during the current financial period. It represented income tax obligations from prior years covered by a deferred instalment arrangement with the Australian Taxation Office (ATO).

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Income tax payable | – | 8,247 |
| **Current Liabilities** | **–** | **8,247** |
| Interest Bearing – Other borrowings | – | 5,269 |
| Income Tax liabilities | – | 22,234 |
| **Non Current Liabilities** | **–** | **27,503** |
| **Total Tax Liabilities** | **–** | **35,750** |

## 23. DERIVATIVE LIABILITY

The options outstanding at 30 June 2015 representing the derivative liability expired during the year. The derivative liability represented the fair value of these options, which were granted over ordinary shares in the Company as a condition of a finance facility provided to the Company in December 2011. The movement in the fair value of these options during the year was as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of Options | Carrying amount $'000 | Number of Options | Carrying amount $'000 |
| **As at 1 July** | 11,159,356 | 31 | 11,159,356 | 1,765 |
| Expiry of options | (11,159,356) | (31) | – | – |
| Change in valuation | – | – | – | (1,734) |
| **As at 30 June** | **–** | **–** | **11,159,356** | **31** |

## 24. OPERATING LEASES

### OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group has entered into commercial leases on certain facilities, motor vehicles, office equipment and project based equipment. The Group has the option, under some of its leases, to lease the additional assets for additional terms. Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Non-cancellable operating lease rentals are payable as follows: | | |
| Less than one year | 611 | 978 |
| Between one and five years | 609 | 273 |
| | **1,220** | **1,251** |

During the financial year, $915,000 (2015: $1,503,000) was recognised as an expense in the profit and loss in respect of the operating leases.

## 25. EMPLOYEE BENEFITS

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Provision for employee benefits, including on-costs: | | |
| Current | 4,759 | 4,159 |
| Non-current | 937 | 832 |
| | **5,696** | **4,991** |

### SUPERANNUATION PLANS

Benefits provided under the superannuation funds to which the Group contributes are based on accumulated contributions and earnings for each employee in accordance with the Superannuation Guarantee Charge legislation. The amount recognised as an expense for the financial year was $3,289,000 (2015: $3,409,000).

## 26. CAPITAL AND RESERVES

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

### SHARE CAPITAL – ORDINARY SHARES

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

| 2016 | Issue Price Per Share $ | No. of Shares | $'000 |
|---|---|---|---|
| On issue at 1 July 2015 | | 267,383,816 | 339,670 |
| April 2016 placement | 0.21 | 100,268,337 | 21,056 |
| June 2016 placement | N/A | 1,955,012 | - |
| Entitlement offer | 0.21 | 11,503,000 | 2,376 |
| Transaction costs incurred | N/A | | (1,068) |
| **On issue at 30 June 2016** | | **381,110,165** | **362,034** |

| 2015 | No. of Shares | $'000 |
|---|---|---|
| On issue at 1 July 2014 | 267,383,816 | 339,670 |
| **On issue at 30 June 2015** | **267,383,816** | **339,670** |

**26. CAPITAL AND RESERVES (continued)**

The entitlement shares were allotted under a 3 for 8 pro rata accelerated entitlement offer at an issue price of $0.21. The pro rata entitlements not subscribed were underwritten, with certain sub-underwriters, excluding Kerogen, entitled to a bonus share for each 6 shares allocated under the underwriting arrangements. These bonus shares were issued under a placement in April 2016.

Kerogen's subscription under the entitlement offer and sub-underwriting arrangement was satisfied by the conversion of interest due and payable under the Kerogen senior debt facility of $13,011,727, with the remainder of Kerogen's subscription paid in cash.

Separately shares were issued in June 2016 to satisfy obligations under the Senior Term Loan Notes (Note 21) and as part consideration for corporate advisory work in relation to the facility.

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 have been paid in full.

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 incentive plans.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations into Australian dollars.

### Hedging reserve

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

## OPTIONS

| Allottee | Former Chief Executive Officer | Perpetual Nominees | Kerogen | Management |
|---|---|---|---|---|
| Number | 3,750,000 | 1,000,000 | 11,159,356 | 960,000 |
| Grant date | 5-Sep-12 | 22-Dec-11 | 22-Dec-11 | 29-Nov-12 |
| Expiry date | Expired | 22-Dec-16 | Expired | Expired |
| Exercise price | | $1.97 | | |

The fair value of options was calculated using a Monte Carlo simulation. The Perpetual Nominees options have been fully expensed in prior periods.

## DIVIDENDS

No dividends in respect of the 2016 or 2015 financial years have been declared or paid.

## DIVIDEND FRANKING ACCOUNT

The balance of franking credits available to shareholders of the Company as at 30 June 2016 $47,445,516 (2015: $69,637,549).

## 27. 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 principally major corporations and State and local governments. 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.

#### 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:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Trade and other receivables | 25,754 | 26,866 |
| Bank balances | 22,500 | 15,955 |
| | **48,254** | **42,821** |

Maximum exposure to credit risk for loans and receivables at the reporting date by business segment was:

**27. FINANCIAL INSTRUMENTS (continued)**

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Drilling | 12,250 | 6,598 |
| Engineering and construction | 13,442 | 17,850 |
| Oil and gas | 4 | 273 |
| Unallocated | 58 | 2,145 |
| | **25,754** | **28,866** |

### Impairment

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

| | Gross 2016 $'000 | Impairment 2016 $'000 | Gross 2015 $'000 | Impairment 2015 $'000 |
|---|---|---|---|---|
| Not past due | 24,891 | – | 25,910 | – |
| Past due up to 30 days | – | – | 52 | – |
| Past due 31 to 120 days | 863 | – | 595 | – |
| Past due 121 days to one year | – | – | 309 | – |
| Past due more than one year | – | – | 1,122 | (1,122) |
| | **25,754** | **–** | **27,988** | **(1,122)** |

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.

## 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

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

| | | | Total | | | | |
|---|---|---|---|---|---|---|---|
| **2016** | 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 |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 30,923 | (30,923) | (30,923) | – | – | – | – |
| Senior term loan notes | 30,222 | (51,845) | (2,020) | (2,020) | (4,040) | (43,765) | – |
| Loans from related party | 75,378 | (121,059) | - | (34,581) | (643) | (85,835) | – |
| Lease liabilities | 127 | (135) | (54) | (42) | (39) | – | – |
| | **136,650** | **(203,962)** | **(32,997)** | **(36,643)** | **(4,722)** | **(129,600)** | **–** |

| 2015 | Carrying amount $'000 | Total $'000 | Total: 6 months or less $'000 | Total: 6-12 months $'000 | Total: 1-2 years $'000 | Total: 2-5 years $'000 | Total: More than 5 years $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 37,408 | (37,408) | (37,408) | - | - | - | - |
| Loans from related party | 73,375 | (92,087) | (8,285) | (5,108) | (78,694) | - | - |
| Lease liabilities | 220 | (227) | (136) | (34) | (57) | - | - |
| Other borrowings | 5,269 | (8,419) | - | - | - | (4,219) | (4,200) |
| Income tax liability | 30,481 | (37,500) | (4,125) | (4,122) | (8,253) | (21,000) | - |
| **Derivative financial liabilities** | | | | | | | |
| Derivative liability | 31 | (31) | (31) | - | - | - | - |
| | **146,784** | **(175,672)** | **(49,985)** | **(9,264)** | **(87,004)** | **(25,219)** | **(4,200)** |

## 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, and trust bank deposits denominated in US dollars. This net US dollar borrowing position 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 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.

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

| In thousands of AUD | 2016 USD $'000 | 2015 USD $'000 |
|---|---|---|
| Cash balances | 5,844 | 2,663 |
| Trade and other receivables | - | 273 |
| Trade payables | (4,815) | (5,039) |
| Interest-bearing liabilities | (105,600) | (72,875) |
| **Net Financial Instrument exposure** | **(104,571)** | **(74,978)** |
| Value of investment in Cuadrilla Resource Holdings Limited | 106,209 | 103,996 |
| Value of Exploration assets | 18,314 | 16,543 |
| **Net balance sheet exposure** | **19,952** | **45,561** |

At 30 June balance date, had the Australian dollar weakened/strengthened by 10% against the respective foreign currencies with all other variables held constant, the impact on Group post-tax loss and equity would have been:

| | 10% strengthened 2016 | 10% strengthened 2015 | 10% weakened 2016 | 10% weakened 2015 |
|---|---|---|---|---|
| AUD/USD | **0.8169** | 0.8448 | **0.6683** | 0.6912 |
| Post-tax loss (higher) / lower | **9,506** | 6,816 | **(11,619)** | (8,331) |
| Net equity higher / (lower) | **(1,814)** | (4,142) | **2,217** | 5,062 |

**27. FINANCIAL INSTRUMENTS (continued)**

The following significant exchange rates applied during the year:

| | Average Rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| USD | **0.7316** | 0.8343 | **0.7426** | 0.7680 |

## INTEREST RATE RISK

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The majority of the Group's borrowings are at fixed rates. 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.

Interest rate exposure is detailed as follows:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial liabilities | (105,727) | (73,595) |
| | **(105,727)** | **(73,595)** |
| **Variable rate instruments** | | |
| Financial assets | 22,500 | 15,955 |
| Financial liabilities | - | (5,269) |
| | **22,500** | **10,686** |

At reporting date, the Group did not have any variable interest rate borrowings. Variable interest rate borrowings in the prior year were represented by other borrowings, incurred a weighted average interest rate of 9.56% but were repaid during the current year.

## FAIR VALUES

### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

| 2016 | Carrying Amount $'000 | Fair value $'000 |
|---|---|---|
| Bank balances | 22,500 | 22,500 |
| Trade and other receivables | 25,754 | 25,754 |
| Trade and other payables | (30,923) | (30,923) |
| Lease Liabilities | (127) | (127) |
| Senior term loan notes (1) | (30,222) | (33,817) |
| Loans from related party (1) | (75,378) | (76,567) |
| | **(88,396)** | **(93,180)** |

| 2015 | Carrying Amount $'000 | Fair value $'000 |
|---|---|---|
| Bank balances | 15,955 | 15,955 |
| Trade and other receivables | 26,866 | 26,866 |
| Trade and other payables | (37,408) | (37,408) |
| Lease Liabilities | (220) | (220) |
| Other borrowings | (5,269) | (5,269) |
| Loans from related party | (73,375) | (73,375) |
| Derivative liability | (31) | (31) |
| | **(73,482)** | **(73,482)** |

(1) The terms and conditions of the Senior term loan notes and loans from related party were negotiated in June 2016 following a competitive process in which a number of term sheets were received from various parties. However in accordance with accounting standards the loans are accounted for using the amortised costs basis under which certain prepaid transactions costs are recognised as an offset to the carrying amount of the liability and are amortised over the life of the loan. As such the carrying value differs from the fair value.

Management have assessed that the fair values of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these assets and liabilities.

The fair value of the financial assets and liabilities is included at the amount which could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of assets and liabilities are derived with reference to Note 5.

### Fair value hierarchy

Management have analysed the financial instruments carried at fair value, by valuation method (as discussed in Note 5). 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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In order to determine the fair value of derivative financial liabilities, management used a valuation technique (as discussed in Note 5) in which all significant inputs were based on observable market data.

The following methods and assumptions were 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; and
- 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 provide sufficient financial strength and flexibility to conduct its business and progress it's investments in UK shale gas whilst maximising shareholder returns. The Board therefore seeks to have a moderate level of indebtedness to leverage return on capital having regard to the Company's cash flow and the ability to service these borrowings.

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Total liabilities | 142,346 | 151,775 |
| Less: cash and cash equivalents | (6,865) | (15,955) |
| **Net debt** | **135,481** | **135,820** |
| Total equity | 86,790 | 79,493 |
| **Net debt to equity ratio at 30 June** | **1.56** | **1.71** |

## 28. INTERESTS IN JOINT OPERATIONS

All joint operations above are domiciled in Australia.

| | Principal activities | Principal place of business | Participation interest 2016 % | Participation interest 2015 % | Contribution to operating results 2016 $'000 | Contribution to operating results 2015 $'000 |
|---|---|---|---|---|---|---|
| Southern SeaWater Alliance | Construction and operation of desalination plant | Level 2, 1 Adelaide Terrace, East Perth 6004 | 19 | 19 | 1,972 | 1,174 |
| VSL Australia – AJ Lucas Operations Joint Venture | Construction of water related infrastructure | 6 Pioneer Avenue, Thornleigh 2120 | 50 | 50 | – | 267 |
| AJ Lucas – Spiecapag Project 1 | Construction of gas infrastructure | 616 Boundary Road, Richlands 4077 | 50 | 50 | 1,081 | 3,274 |
| AJ Lucas – Spiecapag Project 2 | Construction of gas infrastructure | 616 Boundary Road, Richlands 4077 | 40 | 40 | 5,512 | 3,769 |
| AJ Lucas – Spiecapag Project 3 | Construction of gas infrastructure | 616 Boundary Road, Richlands 4077 | 40 | - | 1,100 | - |

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

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 4,669 | 4,293 |
| Trade and other receivables | 2,021 | 8,608 |
| Construction work in progress | 2,356 | - |
| Other | 4 | 9 |
| **Total assets** | **9,050** | **12,910** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 5,937 | 8,176 |
| **Total liabilities** | **5,937** | **8,176** |

## 29. CONSOLIDATED ENTITIES

The financial statements at 30 June 2016 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

| | | Ownership interest | |
|---|---|---|---|
| | Country of incorporation | 2016 % | 2015 % |
| **Parent entity** | | | |
| AJ Lucas Group Limited | | | |
| **Controlled entities** | | | |
| Australian Water Engineering Pty Limited | Australia | 100 | 100 |
| 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 | 100 |
| AJ Lucas Joint Ventures Pty Limited | Australia | 100 | 100 |
| AJ Lucas (Hong Kong) Limited | Hong Kong | 100 | 100 |
| Lucas Drilling Pty Limited | Australia | 100 | 100 |
| Subsidiaries of Lucas Drilling Pty Limited | | | |
| Mitchell Drilling Corporation Pty Limited | Australia | 100 | 100 |
| Lucas Contract Drilling Pty Limited | Australia | 100 | 100 |
| Subsidiary of Lucas Contract Drilling Pty Limited | | | |
| McDermott Drilling Pty Limited | Australia | 100 | 100 |
| Jaceco Drilling Pty Limited | Australia | 100 | 100 |
| Geosearch Drilling Service Pty Limited | Australia | 100 | 100 |
| 257 Clarence Street Pty Limited | Australia | 100 | 100 |
| Lucas SARL | New Caledonia | 100 | 100 |
| Lucas Energy (Holdings) Pty Limited | Australia | 100 | 100 |
| Subsidiaries of Lucas Energy (Holdings) Pty Limited | | | |
| Lucas (Arawn) Pty Limited | Australia | 100 | 100 |
| Lucas Energy (WA) Pty Limited | Australia | 100 | 100 |
| Lucas Power Holdings Pty Limited | Australia | 100 | 100 |
| Lucas Cuadrilla Pty Limited | Australia | 100 | 100 |
| Lucas Holdings (Bowland) Limited | England | 100 | 100 |
| Subsidiaries of Lucas Holdings (Bowland) Limited | | | |
| Lucas Bowland (UK) Limited | England | 100 | 100 |
| Lucas Bowland (No. 2) Limited | England | 100 | 100 |
| Elswick Power Limited | England | 100 | 100 |
| Lucas Holdings (Bolney) Limited | England | 100 | 100 |
| Subsidiaries of Lucas Holdings (Bolney) Limited | | | |
| Lucas Bolney Limited | England | 100 | 100 |

## 30. 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 various joint operations (see note 28), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint operation. As at 30 June 2016, the assets of the joint operation were sufficient to meet such liabilities. The liabilities of the joint ventures not included in the consolidated financial statements amounted to $12,573,000 (2015 $12,268,000).

(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.

(iii) Under the terms of the Class Order described in note 34, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

(iv) Under a purchase agreement for the Group's interest in the Elswick tenement, the company has a further contingent liability to pay the seller US$1,900,000 ($2,473,958) provided the buyer of the Bowland interest does not exercise its options as disclosed in note 18.

### COMMITMENTS

At 30 June 2016, the Group had no commitments contracted but not provided for and payable within one year (2015: nil) for the purchase of new plant and equipment.

## 31. PARENT ENTITY DISCLOSURES

As at 30 June 2016 and 2015, and throughout the financial years then ended, the parent entity of the Group was AJ Lucas Group

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Results of the parent entity** | | |
| Loss for the year | (15,091) | (39,317) |
| **Total loss for the year** | **(15,091)** | **(39,317)** |
| **Financial position of the parent entity at year end** | | |
| Current assets | 15,634 | – |
| Total assets | 193,294 | 183,733 |
| Current liabilities | 35,557 | 12,379 |
| Total liabilities | 106,504 | 104,241 |
| **Total equity of the parent entity comprises:** | | |
| Share capital | 362,031 | 339,670 |
| Employee equity benefit reserve | 4,670 | 4,643 |
| Accumulated losses | (279,911) | (264,820) |
| **Total equity** | **86,790** | **79,493** |

**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, as disclosed in note 34, with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.

## 32. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **(a) Reconciliation of cash** | | |
| For the purposes of the consolidated statement of cash flows, cash includes cash at bank, cash on hand and bank overdrafts. | | |
| Cash and cash equivalents | 6,866 | 15,955 |
| Cash in trust | 15,634 | - |
| **Total cash** | **22,500** | **15,955** |
| **(b) Reconciliation of cash flows from operating activities** | | |
| Loss for the year | (19,485) | (45,216) |
| Adjustments for: | | |
| Interest on capitalised leases | 13 | 50 |
| Interest payable settled through equity raising | 11,441 | - |
| Accrued interest capitalised into borrowings | 2,524 | 3,616 |
| Increase / (decrease) in accrued interest | (6,923) | 1,776 |
| (Profit) / loss on sale of non-current assets | 102 | (143) |
| Share based payment expense | 27 | 171 |
| Loss on foreign currency loans | 2,085 | 10,570 |
| Exchange rate changes on the balance of cash held in foreign currencies | (138) | - |
| Fair value adjustment in derivative liability | (31) | (1,734) |
| Share of profit of equity accounted investees | 6,751 | (1,324) |
| Revenue recognised on farm-in | (227) | (3,025) |
| Impairment of property, plant and equipment | - | 5,900 |
| Recovery of receivable from equity accounted investees | (525) | (804) |
| Corporate advisory fees | 1,547 | 379 |
| Decommissioning liability on exploration assets | (307) | (1,500) |
| Depreciation and amortisation | 14,901 | 20,310 |
| Amortisation of borrowing costs (included in interest-bearing liabilities) | 1,422 | 915 |
| Commitment fees paid | - | (610) |
| **Operating loss before changes in working capital and provisions** | **13,177** | **(10,669)** |
| Change in receivables | 1,112 | (8,051) |
| Change in other current assets | (19) | 117 |
| Change in inventories | (2,602) | 16,185 |
| Change in payables | (6,486) | (7,647) |
| Change in provisions for employee benefits | 705 | (429) |
| Change in tax balances | (30,481) | (2,414) |
| **Net cash used in operating activities** | **(24,594)** | **(12,908)** |

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

Kerogen's subscription under the entitlement offer, as disclosed in note 26, and sub-underwriting arrangement was satisfied partly in cash and the conversion of interest due and payable under the Kerogen senior debt facility of $13,012,000. The amount converted is not show in the cash flow statements.

As a result of the extension and restructure of the related party loans, as described in Note 21, US$1,868,000 interest that was due and payable under the previous facility was capitalised into the principal balance under the restructured facility.

During the year the company issued advisor shares, as disclosed in an Appendix 3B lodged with the Australian Stock Exchange on 24 June 2016. These shares were issued in part satisfaction of advisory fees incurred. The amount satisfied by the shares issued was $105,000 and is not presented in the cash flow statements.

**32. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (continued)**

### (d) Financing arrangements

Refer to Note 21.

## 33. RELATED PARTIES

### ENTITY WITH CONTROL

Kerogen Investments No. 1 Limited (Kerogen) participated in the accelerated entitlement offer announced by the company on 17 March 2016, by subscribing for its pro rata entitlement and providing sub underwriting support. In total $13,811,727 was raised from Kerogen, of which $13,011,727 was settled by the conversion of interest due and payable under the Kerogen senior debt facility.

Kerogen has provided financing facilities throughout the year as described in note 21. Interest and borrowing costs incurred on those loans totaled $13,486,000 (2015: $11,837,000) with $1,173,000 (2015: $6,573,000) being paid in cash. Balances outstanding at balance date are disclosed in Note 21.

Julian Ball is a representative of Kerogen and a Director of the Company.

### KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation comprised:

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Short-term employee benefits | 2,517,488 | 2,272,221 |
| Other long-term benefits | 9,351 | 27,269 |
| Post-employment benefits | 77,704 | 78,238 |
| Termination benefits | 259,000 | - |
| Share based payments | 1,333 | 11,891 |
| | **2,864,876** | **2,389,619** |

Information regarding individual director and executives compensation disclosures and some equity instrument disclosure, as required by the Corporations Act chapter 2M, is provided in the Remuneration Report section of the Director's 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 or held 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.

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.

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

| Key Management person | Contracting entity | Transaction | 2016 $'000 | 2015 $'000 |
|---|---|---|---|---|
| Phillip Arnall | Felix Ventures Pty Ltd | Non-Executive director services | 145,000 | 145,000 |
| Julian Ball | Kerogen Capital Limited | Non-Executive director services | 100,000 | 100,000 |
| Ian Meares (1) | Autonome Pty Ltd | Non-Executive director services | 95,000 | 95,000 |
| | Autonome Pty Ltd | Other consulting services | – | 42,000 |
| Andrew Purcell (2) | Lawndale Group | Non-Executive director services | 95,000 | 95,000 |
| | Lawndale Group | Other consulting services | 84,098 | 68,875 |

(1) In 2015 Ian Meares provided the company with consulting advice in addition to his director's duties, and was remunerated on commercial terms.

(2) See below for further details of transactions with Lawndale Group.

### Transactions with Lawndale Group

The company entered into an agreement with Lawndale Group, a company controlled by Andrew Purcell, for the provision of project management and consulting services which were considered to be arm's length and below market rates. During the year $84,098 (2015: $68,875) was paid to Lawndale Group for these services.

In the 2015 financial year the company entered into a separate agreement with Lawndale Group, to purchase three Petroleum Exploration Licences (the PEL's) in New South Wales as well as an interest in drilling and exploration equipment for $2.5 million, which Mr Purcell had agreed to purchase from Dart Energy Limited. Under the agreement if the Group decided by 31 December 2015 that it did not want to proceed with the purchase in which has Kerogen would acquire the PEL's. The Group has paid a deposit of $500,000 directly to Dart Energy Limited. As part of the agreement Mr Purcell has committed to providing certain geological advice at his cost for a period up to 3 years, in order to continue to maintain and develop the licenses.

In September 2015 the Company reviewed its investment in the PEL's and decided that these were not in the strategic interest of the Group at the time. As such the company has informed Lawndale and Kerogen that it would not be taking up the interest in the PEL's and that under the agreement the PEL's should be transferred to Kerogen in full satisfaction of the loan.

The purchase was funded by a loan facility provided by Kerogen No.1 Limited as disclosed in note 21.

## OTHER RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see note 29) and joint operations (see note 28). These entities trade with each other from time to time on normal commercial terms. No interest is payable on inter-company balances.

## 34. 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 | Jaceco Drilling Pty Limited |
| Lucas Engineering & Construction Pty Limited | Geosearch Drilling Service Pty Limited |
| AJ Lucas Plant & Equipment Pty Limited | Lucas Energy Holdings Pty Limited |
| AJ Lucas Drilling Pty Limited | Lucas Energy (WA) Pty Limited |
| Lucas Shared Services Pty Limited | Lucas (Arawn) Pty Limited |
| AJ Lucas Testing Pty Limited | Lucas Power Holdings Pty Limited |
| Lucas Operations (WA) Pty Limited | Mitchell Drilling Corporation Pty Limited |
| AJ Lucas Joint Ventures Pty Limited | McDermott Drilling Pty Limited |
| Lucas Drilling Pty Limited | Lucas Contract Drilling 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 2016 are set out on the following page:

### SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Loss before income tax | (10,605) | (49,422) |
| Income tax expense | – | – |
| Loss after tax | (10,605) | (49,422) |
| Accumulated losses at the beginning of the year | (297,909) | (248,487) |
| **Accumulated losses at end of the year** | **(308,514)** | **(297,909)** |

### SUMMARISED STATEMENT OF FINANCIAL POSITION

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | 6,841 | 11,902 |
| Cash in trust | 15,634 | - |
| Trade and other receivables | 25,749 | 26,593 |
| Inventories | 16,047 | 13,424 |
| Other assets | 1,288 | 1,269 |
| **Total Current Assets** | **65,559** | **53,188** |
| **NON-CURRENT ASSETS** | | |
| Trade and Other Receivables | 90,886 | 84,328 |
| Property, plant and equipment | 39,024 | 53,193 |
| **Total Non-Current assets** | **129,910** | **137,521** |
| **Total Assets** | **195,469** | **190,709** |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | 25,860 | 29,936 |
| Interest bearing loans and borrowings | 34,743 | 3,927 |
| Income tax liabilities | - | 8,247 |
| Derivative liabilities | - | 31 |
| Employee benefits | 4,759 | 4,159 |
| **Total Current Liabilities** | **65,362** | **46,300** |
| **NON-CURRENT LIABILITIES** | | |
| Interest bearing loans and borrowings | 70,979 | 74,937 |
| Income tax liability | - | 22,235 |
| Employee benefits | 937 | 832 |
| **Total non-current liabilities** | **71,916** | **98,004** |
| **Total liabilities** | **137,278** | **144,304** |
| **Net assets** | **58,191** | **46,405** |
| **EQUITY** | | |
| Share capital | 362,034 | 339,670 |
| Reserves | 4,671 | 4,644 |
| Retained earnings | (308,514) | (297,909) |
| **Total Equity** | **58,191** | **46,405** |

## 35. EVENTS SUBSEQUENT TO BALANCE DATE

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.

# 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 34 to 75 and the Remuneration Report included in the Directors' Report, set out on pages 28 to 32, 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 2016 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 29 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 Chairman and Chief Financial Officer, for the financial year ended 30 June 2016.

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:

Phillip Arnall,
Chairman

Dated at Sydney, this 19th day of August 2016

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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# 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, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity 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 controls as the directors determine are 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 Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

**Opinion**

In our opinion:

a. the financial report of AJ Lucas Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

## Emphasis of matter regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 2C in the financial report that notes that the Company entered into financing arrangements during the year to fund its operations and future develop exploration tenements. The timing of the repayment of the initial tranche drawn down and the ability to draw additional tranches is contingent on the successful outcome of the appeal in respect of Lancashire County Council's refusal to provide planning consent for the exploration sites at Preston New Road and Roseacre Wood, which is expected by 6 October 2016. Given the uncertainty of the outcome of the appeal and the consequential impact of an adverse finding, as outlined in Note 2C, there is an uncertainty that may cast doubt about the entity's ability to continue as a going concern, and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business without the ongoing financial support of its financiers, or by securing alternative finance or equity.

## Report on the remuneration report

We have audited the Remuneration Report included on pages 28 to 32 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of AJ Lucas Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ryan Fisk
Partner
Sydney
19 August 2016

# Australian Securities Exchange Additional Information

## DISTRIBUTION OF ORDINARY SHARES (AS AT 31 AUGUST 2016)

| Securities held | Ordinary shares | Perpetual Nominees options |
|---|---|---|
| 1 – 1,000 | 637 | – |
| 1,001 – 5,000 | 827 | – |
| 5,001 – 10,000 | 309 | – |
| 10,001 – 100,000 | 462 | – |
| 100,001 and over | 97 | 2 |
| **Total** | **2,332** | **2** |

## TWENTY LARGEST ORDINARY SHAREHOLDERS

| Name | Number of ordinary shares held | % of Issued shares |
|---|---|---|
| Kerogen Investments No. 1 (HK) Limited | 207,443,134 | 54.43 |
| Mr Paul Fudge | 46,115,863 | 12.11 |
| HSBC Custody Nominees (Australia) Limited - A/C 3 | 14,116,521 | 3.70 |
| Amalgamated Dairies Investments NO 2 Limited | 11,990,000 | 3.15 |
| HSBC Custody Nominees (Australia) Limited - A/C 2 | 9,734,954 | 2.55 |
| CS Fourth Nominees PTY Limited <HSBC CUST NOM AU LTD 11 A/C> | 8,431,244 | 2.21 |
| Toolebuc Investments PTY LTD <BURRAN SUPER FUND A/C> | 6,333,442 | 1.66 |
| Morgan Stanley Australia Securities (NOMINEE) PTY Limited <NO 1 ACCOUNT> | 5,879,058 | 1.54 |
| Brispot Nominees PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C> | 5,510,299 | 1.45 |
| Amalgamated Dairies Limited | 5,129,348 | 1.35 |
| Citicorp Nominees PTY Limited | 4,284,598 | 1.12 |
| Milson Investments PTY Limited <O'NEILL SUPER FUND A/C> | 3,723,248 | 0.98 |
| HSBC Custody Nominees (AUSTRALIA) Limited-GSCO ECA | 3,588,444 | 0.94 |
| HSBC Custody Nominees (AUSTRALIA) Limited | 2,235,798 | 0.59 |
| J P Morgan Nominees Australia Limited | 2,061,368 | 0.54 |
| ADEMSA PTY LTD | 1,933,417 | 0.51 |
| Forsyth Barr Custodians LTD <FORSYTH BARR LTD-NOMINEE A/C> | 1,312,938 | 0.34 |
| ABN AMRO Clearing Sydney Nominees PTY LTD <CUSTODIAN A/C> | 1,093,145 | 0.29 |
| Mr Ross Alexander Macpherson | 962,500 | 0.25 |
| Ingrid Miriam Seton | 860,603 | 0.23 |
| | **342,739,922** | **89.94** |

## SUBSTANTIAL SHAREHOLDERS

| Name | Number of ordinary shares held | % of issued shares |
|---|---|---|
| Kerogen Investments No. 1(HK) Limited | 207,443,134 | 54.43 |
| Mr Paul Fudge | 46,115,863 | 12.11 |

## UNQUOTED EQUITY SECURITIES

**Perpetual Nominees Options**

| Perpetual Nominees Options | No. of Options | % of that class of options |
|---|---|---|
| Perpetual Nominees Limited as custodian for TTPE 07 No. 3 Limited | 496,665 | 50.0 |
| Perpetual Nominees Limited as custodian for Goldman Sachs Australia Private Equity (A Units) Pty Limited as trustee for the Goldman Sachs Trans-Tasman Private Equity Fund 07 Trust D | 503,335 | 50.0 |
| **TOTAL** | **1,000,000** | **100.0** |

### VOTING RIGHTS

Ordinary shares – Refer to note 26 of the financial statements.

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

# Directory

### COMPANY SECRETARY

Marcin Swierkowski – BA Com, CA, MBA (exec)

### CHIEF FINANCIAL OFFICER

Austen Perrin

**Registered office:**

1 Elizabeth Plaza
NORTH SYDNEY NSW 2060
Tel +61 2 9490 4000
Fax +61 2 9490 4200

### SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
ADELAIDE SA 5000
GPO Box 1903
ADELAIDE SA 5001

Enquiries within Australia: 1300 556 161
Enquiries outside Australia: +61 3 9615 5970
Email: web.queries@computershare.com.au
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

Ernst & Young
200 George 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.

www.lucas.com.au