

**AJ LUCAS GROUP LIMITED**

**ABN 12 060 309 104**

**PRELIMINARY FINAL FINANCIAL  
REPORT**

**YEAR ENDED 30 JUNE 2017**

**APPENDIX 4E**

## RESULTS FOR ANNOUNCEMENT TO MARKET

FOR THE YEAR ENDED 30 JUNE 2017

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

				Current Period \$A'000	Previous Corresponding Period \$A'000
	Change				
Revenues from ordinary activities	Decrease of	2.8%	to	121,970	125,478
Loss before interest and tax	Improvement of	14.4%	to	(14,858)	(17,350)
Loss from ordinary activities after tax attributable to members	Increase of	100.3%	to	(39,030)	(19,485)
Loss for the period attributable to members	Increase of	100.3%	to	(39,030)	(19,485)
Underlying EBITDA attributable to members <sup>(1)</sup>	Decrease of	126.4%	to	(3,846)	14,556
Reported EBITDA attributable to members <sup>(2)</sup>	Decrease of	253.4%	to	(8,656)	(2,449)
<b>NTA Backing</b>				Current Period	Previous Corresponding period
Net tangible asset backing per ordinary security (cents per share)				16.7	22.8
<b>Dividends</b>				Amount per security	Franked amount per security
Final dividend - current year				0.0¢	N/A
- previous year				0.0¢	N/A
Total dividend - current year				0.0¢	N/A
- previous year				0.0¢	N/A

<sup>(1)</sup> Underlying EBITDA refers to reported EBITDA adjusted for certain non-operating or non-recurring items. A reconciliation of Loss from ordinary activities after tax to underlying EBITDA is provided within the Review and Results of Operations section of the Directors Report.

<sup>(2)</sup> Reported EBITDA refers to earnings before net financing costs, depreciation and amortisation, impairments and tax expense.

### Audit

The preliminary final financial report is based on financial statements which have been audited.

# DIRECTORS' REPORT

The Board of Directors of AJ Lucas Group Limited (AJ Lucas or 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 2017 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
<b>Current Directors</b>	
Phillip Arnall	Independent Non-Executive Chairman since 3 June 2014 Interim CEO and Executive Chairman 28 January 2014 to 3 June 2014 Independent Non-Executive Chairman 29 November 2013 to 28 January 2014 Independent Non-Executive Director 10 August 2010 to 29 November 2013
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, special responsibilities are set out below.

### PHILLIP ARNALL B Com

Mr Arnall 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, a 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.

# DIRECTORS' REPORT

## 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 appointed chairman of Melbana Energy Limited (formerly MEO Australia Limited) on 25 November 2015, and also currently serves as a non-executive Director of Metgasco Limited commencing 26 September 2016. 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.

## 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 are:

	Board of Directors		Audit and Risk Committee		Human Resources and Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended
Phillip Arnall	10	10	4	4	2	2
Julian Ball	10	9	4	4	2	2
Ian Meares	10	10	—	—	2	2
Andrew Purcell	10	10	4	4	—	—
John O'Neill	10	10	4	4	—	—

# DIRECTORS' REPORT

## PRINCIPAL ACTIVITIES

The Group is a leading provider of drilling services in Australia, primarily in the coal sector, but also in the wider energy, water and wastewater and resources sectors. The Group is also a specialist in the provision of engineering design and construction services primarily in cross country pipelines and horizontal drilling and design and management of smaller engineering projects. In addition, The Group is an investor in the exploration, appraisal and commercialisation of oil and gas prospects originally in Australia, but more recently in Europe and the UK. As a result the Group is structured into three principal operating segments:

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

**Engineering and Construction Division:** Pipelines and associated construction and civil services; the Division is a significant market participant in the installation of cross country pipes including the use of horizontal directional drilling techniques.

**Oil and Gas Investments:** Commercialisation of unconventional and conventional hydrocarbons in Europe.

## STRATEGY

The Lucas Drilling Division 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 on the provision of these services.

The AJ Lucas Engineering and Construction Division provides specialist engineering and drilling services principally to the energy, resources and water industries. In particular, 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 in partnership with capable third parties. 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 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 shareholder 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 flow-test of the Bowland acreage of which the Company holds and effective 48.0% interest.

## 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 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.

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:

## DIRECTORS' REPORT

- 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. 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 and 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.

Background checks are conducted prior to appointing any new Director, with each Non-Executive Director being required to specifically acknowledge that they have and will continue to have the time to discharge their responsibilities to the Company.

The constitution requires one third of all directors, to retire from office at each AGM and can present themselves for re-election at which time the Board will provide direction to shareholders of support or otherwise. 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 to fill a casual vacancy 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.

The performance of all 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 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 measurable 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 2017 and 2016 Gender Equality Report is shown below:

# DIRECTORS' REPORT

Level	2017			2016		
	Male	Female	Total	Male	Female	Total
Board	5	-	5	5	-	5
Executive leadership personnel	3	1	4	3	1	4
Other employees	284	18	302	265	26	291
<b>TOTAL</b>	<b>292</b>	<b>19</b>	<b>311</b>	<b>273</b>	<b>27</b>	<b>300</b>

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.

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

### Skills Matrix

The Board seeks to ensure that its membership includes an appropriate mix of skills and experience. A summary of the directors' skills and experience relevant to the Group as at the end of the Reporting Period is set out below:

	Phillip Arnall	John O'Neill	Julian Ball	Ian Meares	Andrew Purcell
Executive leadership	✓	✓	✓	✓	✓
Strategy and risk management	✓	✓	✓	✓	✓
Financial acumen	✓	✓	✓	✓	✓
Health and safety	✓	✓		✓	
Former CEO	✓	✓		✓	✓
Mining services	✓	✓	✓	✓	✓
Oil and 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' REPORT

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



# DIRECTORS' REPORT

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 endeavor 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.

# DIRECTORS' 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. Both these reviews took place during the year.

During the year management undertook a detailed review of the company's Business Continuity and Interruption Plans. Management engaged consultants to assist with the review and analyse the material business impacts from disruption for all key functions across the Group; review existing Business Continuity Plans and recommend changes/updates as required and provide training and scenario exercise program for management to test the preparedness and robustness of the Company's Business Continuity Plans. Management expect to complete the program and testing before the end of the calendar year.

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. Both the Chairman and Chief Financial Officer provide representation to the Audit and Risk Committee and the Board that the risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Company has, in accordance with the Australian Standard on risk management AS/NZS ISO 31000:2009, developed a risk statement and underlying procedures for the key risk areas of People, Environment, Business and Reputation. The Company has had a number of external audits of particular types of risk during the year. A copy of the risk statement 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.

# DIRECTORS' REPORT

Material Risk	Risk Management Approach
<b>External Risks</b>	
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 customers' business model.	<p>Client focused organisational design, with a focus on regular communication with key clients addressing various matters including safety, contract performance and clients future work programs. Continual repositioning of the business, and a relentless focus on efficiency and cost reduction to meet current client expectations on existing work programs, whilst anticipating upcoming changes in service demand.</p> <p>Where appropriate the broadening of our portfolio of service offerings, commodity and geographical exposure is considered to reduce the effect of volatility introduced by these external risks where it makes sense to do so.</p>
<b>Business Risks</b>	
Risks include the risk of funding the identification and proving reserves relating to our unconventional assets.	The Company has dedicated financial reserves to apply to the shale gas project in the UK. It is also heartened by the continued policy commitment by the UK Government on establishing sovereign energy sources.
<b>Financial Risks</b>	
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.	The capital raising towards the end of the year and the associated swap from debt to equity for one of the Company's major lenders has improved the gearing of the Company's Balance Sheet and has mitigated some of this risk. We seek to continuously improve our credit rating and key financial ratio analysis to monitor potential volatility in this area. Similarly all customers and key suppliers credit limits are reviewed before services are established.
<b>Operational Risks</b>	
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.	<p>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 competitiveness and margin has yielded tangible results in reducing our controllable costs. This includes initiatives to standardise processes and control systems across the Group.</p> <p>The Lucas Management System (LMS) is an integrated process by which we manage this standardised approach.</p> <p>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.</p> <p>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.</p>
<b>Sustainability Risks</b>	
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.	<p>The LMS puts in place a significant set of requirements to ensure the safe work environment of our employees, and the operation of our assets and equipment. Inclusive in this are the control and governance requirements required of good finance and accounting procedures. A broad range of policies and procedures outline both expected and required actions and behaviours of management and staff to achieve these objectives.</p> <p>Maintenance of a safe working environment is a principal accountability of all levels of management.</p> <p>The Board holds itself to account against the standards outlined in the ASX Corporate Governance Principles and Recommendations 3<sup>rd</sup> edition as an example of good governance and reporting procedures and requirements.</p>

# DIRECTORS' REPORT

## REMUNERATION

The Human Resources and Nominations Committee reviews the remuneration of the non-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. Senior executives are remunerated based on a fixed wage plus incentive payments. The policies and practices for remuneration of Key Management Personnel is disclosed in the remuneration report in the Company's Annual Report.

## 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

It has been a disappointing year for the Australian Businesses. Trading conditions remained very challenging, particularly in the first half of the year. Despite a relative stabilization of revenues year-on-year, both the Drilling and Engineering and Construction Divisions experienced significant margin declines exacerbated by adverse weather conditions throughout the year, in particular those that affected the Engineering and Construction Division.

Commencing in the comparative period, and continuing into the first half of the current year, significant time and resources were allocated to business development activities covering existing and new markets to replenish lost business. While the Group was successful in securing a number of new opportunities, margin declines, impacted by adverse weather, affected performance. This said, both operating Divisions have seen a step-up in activity levels in the second half of the year, which should position each better for the year ahead.

It is pleasing to have seen significant progress being made in relation to the Group's UK investments during the year. Following approval being granted by the Government to drill, fracture and flow test up to 4 wells at the Preston New Road exploration site, site construction activities have now been completed. The drill rig was successfully delivered in July and the first well was spudded on 17 August 2017. The Board looks forward to completion of the planned activities at the site, and to positive results of flow testing in the next calendar year.

# DIRECTORS' REPORT

The following table summarises the results for the year:

	2017 Year \$'000	2017 2nd half \$'000	2017 1st half \$'000	2016 Year \$'000	2016/17 Change %
<b>Total revenue</b>	121,970	70,563	51,407	125,478	(2.8%)
Underlying EBITDA	(3,846)	(3,162)	(684)	14,556	(126.4%)
Reported EBITDA	(8,656)	(2,933)	(5,723)	(2,449)	(253.5%)
<b>EBIT</b>	(14,858)	(6,037)	(8,821)	(17,350)	14.4%
Loss before tax	(39,030)	(13,868)	(25,162)	(19,485)	(100.3%)
<b>Net loss for the year</b>	(39,030)	(13,868)	(25,162)	(19,485)	(100.3%)
Total assets	240,223	240,223	241,092	229,136	4.8%
Net assets	97,771	97,771	66,440	86,790	12.7%
Basic loss per share (cents)	9.7	3.3	6.6	6.7	44.7%

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

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Corporate \$'000	2017 \$'000	2016 \$'000
<b>Reconciliation:</b>						
<b>Consolidated loss before income tax</b>	<b>(2,139)</b>	<b>(3,258)</b>	<b>(4,307)</b>	<b>(29,326)</b>	<b>(39,030)</b>	<b>(19,485)</b>
Depreciation and amortisation	4,817	1,364	—	21	6,202	14,901
Finance costs	—	—	—	24,374	24,374	2,407
Finance income	—	—	—	(202)	(202)	(272)
<b>Reported EBITDA</b>	<b>2,678</b>	<b>(1,894)</b>	<b>(4,307)</b>	<b>(5,133)</b>	<b>(8,656)</b>	<b>(2,449)</b>
Share of loss of equity accounted investees	—	—	2,717	—	2,717	6,751
Exploration asset revenue	—	—	(619)	—	(619)	(522)
UK investment overhead costs	—	—	2,209	—	2,209	2,820
Settlement of legal disputes	—	—	—	252	252	7,445
Recovery of receivable from equity accounted investees	—	—	—	—	—	(525)
Redundancy costs	—	—	—	299	299	503
Net (profit) / loss on sales of assets	—	—	—	(140)	(140)	102
Share based payment expense	—	—	—	—	—	27
Other expense	—	—	—	92	92	404
<b>Underlying EBITDA</b>	<b>2,678</b>	<b>(1,894)</b>	<b>—</b>	<b>(4,630)</b>	<b>(3,846)</b>	<b>14,556</b>

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

# DIRECTORS' REPORT

## DIVISIONAL PERFORMANCE

Contributions from the business Divisions were as follows:

	Revenue \$'000	Underlying EBITDA \$'000	Margin %
<b>2017</b>			
Drilling	73,373	2,678	3.6%
Engineering and construction	48,596	(1,894)	-3.9%
Oil and gas	—	—	N/A
<b>2016</b>			
Drilling	79,633	11,385	14.3%
Engineering and construction	45,845	6,900	15.1%
Oil and gas	—	—	N/A

### Drilling

The results of the Drilling Division are summarised as follows:

	2017 Year \$'000	2017 2nd half \$'000	2017 1st half \$'000	2016 Year \$'000	2016/17 Change %
Revenue	73,373	38,763	34,610	79,633	(7.9%)
Underlying EBITDA	2,678	1,117	1,561	11,385	(76.5%)
EBITDA margin	3.6%	2.9%	4.5%	14.3%	

The Drilling Division's revenue was down 7.9% on the corresponding period, with a recovery evident towards the later part of the year and stronger revenue expected in the next financial year.

First half revenue was impacted by challenging conditions in the coal mining industry; the traditional market for the Division's services; and, the ending of a key long term take or pay contract. This was despite managements' effort in securing new work in adjacent markets to replenish lost revenue that delivered \$10.8 million of the \$34.6 million reported revenue in the first half.

Second half revenue recovered despite adverse weather in the Bowen Basin earlier in the second half impacting some customer operations. The recovery was driven by strengthening demand from the coal mining industry on the back of increasing, albeit still volatile, coal prices. The Division posted \$24.6 million revenue in the last quarter of which over \$22.1 million came from the coal mining sector. The recovery is expected to continue and is reflected in an order book that is stronger in terms of quantum and security than that of last year.

Underlying EBITDA of \$2.7 million was well short of expectations, predominantly driven by soft demand for drilling services from the coal mining industry in the earlier part of the year and the limited success in entering the Coal Seam Gas ("CSG") and water drilling markets. The Division was not successful in winning the level of new work that was expected to be secured in the water market, with a loss incurred on an existing fixed price water well drilling contract that is expected to conclude in the first half of FY 2018. Lower margin business from the re-entry into a more competitive than expected CSG market also contributed to the poor results.

Increasing demand from the coal mining industry, where the Division has traditionally been most successful in recent years, is expected to lead to significant improvements in business performance in the 2018 financial year. The Division's underlying EBITDA has already improved substantially towards the later part of the 2017 financial year, with the Division's last quarter underlying EBITDA being \$2.8 million.

# DIRECTORS' REPORT

## Engineering & Construction

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

	2017 Year \$'000	2017 2nd half \$'000	2017 1st half \$'000	2016 Year \$'000	2016/17 Change %
Revenue	48,596	31,799	16,797	45,845	6.0%
Underlying EBITDA	(1,894)	(1,744)	(150)	6,900	(127.4%)
EBITDA margin	(3.9%)	(5.5%)	(0.9%)	15.1%	

Engineering & Construction revenue recovered in the second half following a subdued first half. The recovery in the second half reflected two new self-perform contracts won in each of Australia and New Zealand which utilize the businesses directional drilling and pipeline expertise. These contracts will continue to contribute to the Division's result in the first half of financial year 2018.

Underlying EBITDA loss of \$1.9 million was well below expectations, largely driven by unseasonal heavy rain and flooding in Northern Victoria in the first half which continued early in the second half, causing delays in the VNIE pipeline contract being completed in joint venture with Spiecapag.

On a positive note the business is currently short listed for several key opportunities that will be awarded and executed during the 2018 financial year in both the pipeline and horizontal directional drilling markets. The Division is tendering on several of these opportunities in its own right as well as jointly with other parties.

## Oil and Gas

The Oil & Gas Division comprises the Company's investments in hydrocarbons in the United Kingdom. This includes the Company's direct equity interest in the respective Bowland, Elswick and Bolney licences ("the licences"), represented by Exploration and Evaluation assets, and its 47.4% shareholding in the equity accounted investee, Cuadrilla Resources Holdings Limited ("Cuadrilla"). Cuadrilla is the operator of licences in the highly prospective Bowland basin totalling 2,391km<sup>2</sup>, including the licences, and a further 1,274km<sup>2</sup> in Yorkshire in the UK.

The focus of the Group has been on the Bowland Licence in Lancashire, in which it has an effective 48.0% interest, and which encompasses the Preston New Road ("PNR") and Roseacre Wood ("RW") exploration sites. The Bowland joint venture has shot and processed 100 km<sup>2</sup> of 3D seismic and drilled 3 wells in this exploration licence area. The PNR and RW exploration sites are located in close proximity to gas pipeline infrastructure, thereby enabling the timely and cost efficient commercialisation of natural gas produced from the shale rock underlying from these exploration sites.

Site construction activities at PNR have been completed and drilling commenced in August with the first well spudded on 17 August 2017. Cuadrilla, as operator of the Bowland Licence, plans to drill at least two of the four consented horizontal wells at depths of between 2,000m and 3,500m. These will be the first horizontal wells of their type drilled into UK shale rock, and are expected to be completed before the end of this calendar year. Following completion of drilling activities, the wells will be hydraulically fractured and the flow of gas tested. Gas is expected to flow into the low pressure grid and be delivered to local consumers within the next 12 months.

Planning consent for the four wells at PNR was received on 6 October 2016 from the UK government. The UK Secretary of State for Communities and Local Government ("SOS") advised that he was also minded to grant planning consent for a similar application at the Roseacre Wood ("RW") exploration site, pending receipt of further evidence on highway safety. Following this announcement, a planning inquiry has been set for April 2018 focusing solely on transport safety issues associated with RW. Cuadrilla is looking forward to making a strong case for approval of planning for that site.

In April, several applications challenging the UK Government's planning permission in respect of the PNR were dismissed by the UK High Court. Two applicants were granted leave to appeal by the Court of Appeals, with appeals hearing dates set for the end of August 2017. The Company remains confident that the Court of Appeals will uphold the positive recommendation of the Planning Inspector, the subsequent decision to grant planning consent by the Secretary of State and the subsequent ruling by the High Court in respect of the PNR site.

A legal challenge to the Government's decision to allow the Public Inquiry in relation to transport issues at RW has been dismissed by the High Court, and the deadline for an appeal to the Court of Appeal in respect of RW has passed.

As at 30 June 2017, Centrica Plc ("Centrica"), the UK's premier supplier of gas is obligated to fund a further £20.8 million of exploration costs, which will be expended over the drilling and hydraulic stimulation of the initial two exploration



## DIRECTORS' REPORT

wells at PNR. Subject to the appraisal of the PNR exploration wells and certain milestones being met, Centrica is then required to fund a further £46.7 million for appraisal and development in the Bowland Licence to maintain its 25% interest.

In addition to the licences, AJ Lucas also has an interest, through its shareholding in Cuadrilla, in four blocks of exploration licences held exclusively by Cuadrilla, and 4 blocks of exploration licences held jointly as joint venture with INEOS, with Cuadrilla being the operator and owning 70% and INEOS 30. These eight blocks are located in Yorkshire, target the same Bowland Shale as the Lancashire licences and were awarded as part of the 14th round of onshore oil and gas licences previously offered by the United Kingdom Government.

### OUTLOOK

The Company expects to progress the appraisal of its oil and gas investments through the completion of the currently planned two well drilling, fracturing and gas flow testing program. These wells are a significant step towards appraising and ultimately realising value from this investment.

The drilling market has shown signs of picking up driven by a recovering, albeit still volatile coal sector. The Drilling Division's performance has improved significantly in the last quarter of the financial year driven by demand from the coal mining industry, where the Division has historically been most successful. With a strong order book in terms of value of work and work security, the Division is expected to deliver improved performance during the next financial year. It will continue to focus on cost control, overhead reduction and cash generation to assist in funding the Group's UK investments.

The Engineering and Construction Division continues to tender for major cross country pipeline projects in joint venture with various parties, and is short listed for the few major projects on offer. The Division also continues to tender in its own right for smaller projects that utilize the Division's expertise in pipeline, directional drilling and infrastructure works.

### REVIEW OF FINANCIAL CONDITION

In November 2016 the Company drew down the US\$20 million second and final tranche of the senior loan note facility ("OCPT2") which was agreed in June 2016. 9 million shares were issued in accordance with the conditions of the facility at the time of draw down. The senior loan note facility accrues 12% p.a. interest on the outstanding principal balance which is payable quarterly, with a further 6% p.a. interest payable on termination of the facility in June 2019.

In May 2017 the Company launched a combined 1 for 2 accelerated non-renounceable rights issue and \$5 million placement which together could have raised up to \$58.7 million ("equity raise"). The equity raise completed on 8 June 2017 raising a total of \$53.2 million, of which \$37.2 million was raised from Kerogen and settled by the part conversion of tranche 1 of the related party loan facility including outstanding interest, as disclosed in Note 21, including outstanding interest. This satisfied a condition of the restructure of the related party loan notes agreed in June 2016 which required a minimum of US\$25 million to be repaid through an entitlement offer. There are no further material interest or principal repayment obligations on the remaining related party loan facility, with interest able to be deferred until final maturity in December 2019.

Gross interest bearing loans and borrowings have increased by \$1.5 million to \$107.3 million. The drawdown of OCPT2 loan and interest costs of \$24.5 million have in part been offset by the payment of cash interest obligations of \$6.1 million on the senior loan note facility and the partial repayment of \$37.2 million of the related party facility from the proceeds of the equity raising, and favorable exchange differences of \$3.2 million.

The Group's net current asset position has improved significantly, increasing to \$41.1 million compared to deficiency of \$4.8 million in the comparative period, predominantly driven by the partial repayment of the related party loan facility. Cash, cash equivalents and cash in trust were \$22.2 million at 30 June 2017, which includes \$11.8 million cash in trust representing drawn but as yet un-utilised cash under the senior loan note facility and is available to be spent on furthering the Group's investments in the Bowland Licence. A further \$1.3 million of cash representing the Group's share of joint venture cash balances available to be utilized in the joint venture until such time as the joint venture resolves to distribute the cash to joint venture partners.

Cash used in operations, excluding finance costs paid, was \$21.3 million, of which \$4.6 million represents the final settlement of a long term legacy dispute. Contributing to cash used in operations was a significant short term working capital requirement resulting from a significant ramp up of work in the final quarter of the financial year. Improved business conditions in the coal mining industry, and a reduction in working capital requirements in Engineering and



# DIRECTORS' REPORT

Construction Division are expected to result in a significant improvement in the Australian businesses cash generation performance, which are expected to contribute positively in financial year 2018.

## 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

AJ Lucas is committed to meeting stringent environmental and land use regulations, including native title issues, are an important element of our work. AJ Lucas is committed to identifying environmental risks and engineering solutions to avoid, minimise or mitigate such risks. 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.

## 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
<b>Current Directors</b>		
Phillip Arnall	262,500	—
John O'Neill	13,917,940	—
Andrew Purcell	82,347	—

Kerogen Investment No 1 (HK) Limited ("Kerogen") holds 342,807,985 ordinary shares in the Company (equivalent to 58.58% of issued shares). Julian Ball is a Managing Director and representative of Kerogen and is also a Director of AJ Lucas.

## 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.

# DIRECTORS' REPORT

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 end.

## 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 2018.

## 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 due 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 \$70,000 (2016: \$174,337).

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 23 and forms part of the Directors' Report for the financial year ended 30 June 2017.

## ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) issued by the Australian Securities and Investments Commission. Unless otherwise expressly stated, amounts in the condensed consolidated interim financial report and the directors' report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

## REMUNERATION REPORT – AUDITED

The Directors present the Remuneration Report ("the Report") for the Company and its controlled entities for the year ended 30 June 2017. 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. 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 non-executive director is currently \$90,000 per annum, and

## DIRECTORS' REPORT

\$225,000 for the Chairman which reflect in part the ongoing additional commitment required as a result of the resignation of the Chief Executive Officer in the prior reporting period. Prior to 1 July 2016 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 31 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	2017	225,000	10,000	235,000
Phillip Arnall	2016	135,000	10,000	145,000
Julian Ball	2017	90,000	10,000	100,000
Julian Ball	2016	90,000	10,000	100,000
Ian Meares	2017	90,000	5,000	95,000
Ian Meares	2016	90,000	5,000	95,000
Andrew Purcell	2017	90,000	5,000	95,000
Andrew Purcell	2016	90,000	5,000	95,000
John O'Neill	2017	90,000	5,000	95,000
John O'Neill	2016	90,000	5,000	95,000

### EXECUTIVE REMUNERATION

#### Policy

The key principle of the Company's remuneration policy for key management personnel ("KMP") 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.

# DIRECTORS' REPORT

## Performance linked compensation

Performance linked remuneration may include short-term incentives that 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 of certain criteria. Any portion of an STI over 20% of a KMP's fixed annual remuneration will be held over and paid in 12 months provided the KMP continues to be employed by the Group. The criteria include a mix of:

1. Corporate performance targets, measured mainly in reference to a mix of Group and Divisional underlying EBITDA performance weighted commensurate with the employee's role;
2. Corporate sustainability and safety performance; and
3. Individual key performance indicators agreed annually between the Company and the individual.

## Relationship of remuneration to Company performance

In considering the Group's performance and benefits for shareholder value, 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	2017	2016	2015	2014	2013
Total revenue (\$'000)	121,970	125,478	145,028	227,894	294,791
Underlying EBITDA	(3,846)	14,556	9,405	204	3,332
Net loss after tax attributable to members (\$'000)	(39,030)	(19,485)	(45,216)	(91,693)	(126,996)
Loss per share (cents)	(9.7)	(6.7)	(16.9)	(34.6)	(97.6)
Dividend per share (cents)	—	—	—	—	—
Share price at balance date	\$0.22	\$0.18	\$0.39	\$0.93	\$1.20
Share price appreciation/(depreciation)	22%	(54%)	(58%)	(23%)	13%
STI to KMP in relation to the year's performance (\$'000)	0	482	54	—	—

The corporate performance targets set by the Board were not achieved during the financial year and as such there were no bonuses accrued or otherwise approved to key management personnel during the year.

Bonuses accrued in financial year 2016, which totaled \$482,000 to KMP, were paid in financial year 2017. These were triggered by business performance, as measured by underlying EBITDA, having exceeded annual targets, as well as the achievement of individual key performance indicators.

No loans were made at any time during the year and no loans remain outstanding to any key management personnel.

# DIRECTORS' REPORT

## 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 <sup>(1)</sup>	FY 2015 Incentive paid <sup>(2)</sup>	FY 2016 Incentive accrued <sup>(3)</sup>	Total	Superannuation benefits	Termination benefit	Long term benefits (long service leave)	Rights and options <sup>(4)</sup>	Total	Proportion of remuneration performance related	Value of options and rights as proportion of remuneration
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Executive officers												
Austen Perrin	2017	397,714	–	–	397,714	25,000	–	6,566	–	429,280	–	–
CFO	2016	385,082	8,000	142,936	536,018	25,000	–	6,518	–	567,536	27	–
Brett Tredinnick	2017	432,408	–	–	432,408	19,199	–	6,346	–	457,953	–	–
EGM Drilling	2016	398,466	15,000	150,346	563,812	19,177	–	6,299	1,333	590,621	28	0.2
John Stuart-Robertson	2017	341,652	–	–	341,652	19,199	–	5,394	–	366,245	–	–
EGM - Pipelines	2016	337,407	15,000	116,533	468,940	19,177	–	5,552	–	493,669	27	–

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 earned including any allowances and accrued annual leave.

(2) The FY 2015 incentive was a discretionary incentive that was approved by the Board and paid during the 2016 financial year.

(3) The FY 2016 incentive was accrued during the 2016 financial year based on achievement of certain operating targets and individual Key Performance Indicators, and was paid in the 2017 financial year.

(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. The options shown lapsed in December 2015.

# DIRECTORS' REPORT

## 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 with Executive officers can be terminated with up to 6 months notice by the Company. The Company can choose to forfeit the notice period with an equivalent amount of compensation payable to the employee.

## External remuneration consultant advice

During the financial year, an external consultant benchmarked the Group's key management personnel remuneration.

## 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. There were no outstanding options at the beginning of the financial year.

## 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:

2017	Held at 1 July 2016	Purchased	Pro rata rights issue (1)	Net other changes	Held at 30 June 2017
<b>Director</b>					
Phillip Arnall	175,000	—	87,500	—	262,500
Andrew Purcell	54,898	—	27,449	—	82,347
John O'Neill	10,317,940	—	3,600,000	—	13,917,940
<b>Executives</b>					
Brett Tredinnick	345,722	—	—	—	345,722
John Stuart-Robertson	33,972	—	—	—	33,972
Austen Perrin	100,000	—	50,000	—	150,000

(1) Pro rata rights issue represents entitlement shares subscribed for under the 1 for 2 accelerated non-renounceable entitlement offer announced by the Company on 22 May 2017.

Kerogen increased its holdings in ordinary shares in the Company from 207,443,135 (54.43% of the then issued shares) to 342,807,985 (58.58% of issued shares). Julian Ball is a Managing Director and representative of Kerogen and is also a Director of AJ Lucas.

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



Phillip Arnall,  
Chairman

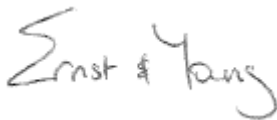
Dated at Sydney, this 31<sup>st</sup> day of August 2017

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

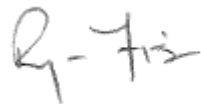
As lead auditor for the audit of AJ Lucas Group Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- 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  
31 August 2017

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Revenue	6	121,970	125,478
<b>Total revenue</b>		<b>121,970</b>	<b>125,478</b>
Other income		619	522
Operating costs of Australian operations		(121,185)	(104,746)
Central and corporate costs		(4,631)	(6,176)
Depreciation and amortisation	8	(6,202)	(14,901)
Non operating expenses	8	(2,712)	(10,776)
<b>Results from operations</b>		<b>(12,141)</b>	<b>(10,599)</b>
Net finance costs	7	(24,172)	(2,135)
Share of loss of equity accounted investees	17	(2,717)	(6,751)
<b>Loss before income tax</b>		<b>(39,030)</b>	<b>(19,485)</b>
Income tax expense	10	–	–
<b>Loss for the period</b>		<b>(39,030)</b>	<b>(19,485)</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences on translation of foreign operations		(4,398)	4,392
Total items that may be reclassified subsequently to profit and loss		(4,398)	4,392
<b>Other comprehensive income for the period</b>		<b>(4,398)</b>	<b>4,392</b>
<b>Total comprehensive loss for the period</b>		<b>(43,428)</b>	<b>(15,093)</b>
<b>Total comprehensive loss attributable to owners of the Company</b>		<b>(43,428)</b>	<b>(15,093)</b>
<b>Earnings per share:</b>			
Basic (loss)/earnings per share (cents)	11	(9.7)	(6.7)
Diluted (loss)/earnings per share (cents)	11	(9.7)	(6.7)



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents	12	10,324	6,866
Cash in trust	12	11,847	15,634
Trade and other receivables	13	22,494	25,754
Inventories	14	30,853	16,047
Other assets	15	1,098	1,288
<b>Total current assets</b>		<b>76,616</b>	<b>65,589</b>
<b>Non-current assets</b>			
Property, plant and equipment	16	37,850	39,024
Exploration assets	18	20,982	18,314
Investments in equity accounted investees	17	104,775	106,209
<b>Total non-current assets</b>		<b>163,607</b>	<b>163,547</b>
<b>Total assets</b>		<b>240,223</b>	<b>229,136</b>
<b>Current liabilities</b>			
Trade and other payables	20	29,457	30,923
Interest-bearing loans and borrowings	21	1,126	34,743
Employee benefits	23	4,884	4,759
<b>Total current liabilities</b>		<b>35,467</b>	<b>70,425</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	21	106,149	70,984
Employee benefits	23	836	937
<b>Total non-current liabilities</b>		<b>106,985</b>	<b>71,921</b>
<b>Total liabilities</b>		<b>142,452</b>	<b>142,346</b>
<b>Net assets</b>		<b>97,771</b>	<b>86,790</b>
<b>Equity</b>			
Share capital	24	416,443	362,034
Reserves	24	29,227	33,625
Accumulated losses		(347,899)	(308,869)
<b>Total equity</b>		<b>97,771</b>	<b>86,790</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Share capital \$'000	Translation reserve \$'000	Option reserve \$'000	Employee equity benefits reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance 1 July 2016	362,034	28,955	637	4,033	(308,869)	86,790
<b>Total comprehensive income</b>						
Loss for the period	—	—	—	—	(39,030)	(39,030)
<b>Other comprehensive income</b>						
Foreign currency translation differences	—	(4,398)	—	—	—	(4,398)
Total comprehensive income/(loss)	—	(4,398)	—	—	(39,030)	(43,428)
<b>Transactions with owners recorded directly in equity</b>						
Issue of ordinary shares, net of transaction costs	54,409	—	—	—	—	54,409
Total contributions by and distributions to owners	54,409	—	—	—	—	54,409
<b>Balance 30 June 2017</b>	<b>416,443</b>	<b>24,557</b>	<b>637</b>	<b>4,033</b>	<b>(347,899)</b>	<b>97,771</b>
Balance 1 July 2015	339,670	24,563	637	4,007	(289,384)	79,493
<b>Total comprehensive income</b>						
Loss for the period	—	—	—	—	(19,485)	(19,485)
<b>Other comprehensive income</b>						
Foreign currency translation differences	—	4,392	—	—	—	4,392
Total comprehensive income/(loss)	—	4,392	—	—	(19,485)	(15,093)
<b>Transactions with owners recorded directly in equity</b>						
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
<b>Balance 30 June 2016</b>	<b>362,034</b>	<b>28,955</b>	<b>637</b>	<b>4,033</b>	<b>(308,869)</b>	<b>86,790</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		123,198	135,121
Cash paid to suppliers and employees		(144,478)	(138,201)
<b>Cash used in operations</b>		<b>(21,280)</b>	<b>(3,080)</b>
Interest received		202	241
Income taxes paid		–	(21,742)
Interest and other costs of finance paid		(6,108)	(13)
<b>Net cash used in operating activities</b>	30(b)	<b>(27,186)</b>	<b>(24,594)</b>
<b>Cash flows from investing activities</b>			
Payments for equity accounted investees	17	(5,153)	(5,480)
Payments for interest in exploration assets		(2,732)	(856)
Acquisition of plant and equipment		(5,116)	(969)
Recovery of receivables from equity accounted investees		–	525
Proceeds from sale of plant and equipment		228	136
<b>Net cash used in investing activities</b>		<b>(12,773)</b>	<b>(6,644)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		24,381	32,459
Transaction costs on borrowings		(1,630)	(2,420)
Proceeds from issue of shares		18,201	10,314
Transaction costs on issue of shares		(1,101)	(1,068)
Payment of finance lease liabilities		(90)	(93)
Corporate advisory fees		–	(1,547)
<b>Net cash from financing activities</b>		<b>39,761</b>	<b>37,645</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(198)</b>	<b>6,407</b>
Net foreign exchange difference		(131)	138
Cash and cash equivalents at beginning of the period		22,500	15,955
<b>Cash and cash equivalents at end of the period</b>	30(a)	<b>22,171</b>	<b>22,500</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

AJ Lucas Group Limited (“AJ Lucas” or “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 2017 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 31 August 2017.

### (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 \$39.0 million, primarily as a result of: non-cash depreciation and amortisation charges of \$6.2 million; net finance costs of \$24.2 million; share of loss of equity accounted investee of \$2.7 million; and, non-operating expenses of \$2.7 million;
- The Group has a current asset surplus of \$41.1 million.
- The Group used net cash of \$27.2 million in its operating activities during the year with cash, cash equivalents and cash in trust of \$22.2 million at balance date;
- 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. The Group’s core markets in Australia have remained depressed over recent year. However, the price of coal has recovered significantly during the year, although prices remained volatile. While the Drilling Division has experienced a significantly strengthening in its order book driven by increased demand for drilling services to the coal sector, forecasting business performance carries an inherent degree of uncertainty;
- The Company has a 47.4% interest in Cuadrilla, which in turn has a 51.25% interest in an oil and gas licence (PEDL 165) located in Bowland UK. Separately, the Company has a direct interest of 23.75% in PEDL 165, thus giving an effective 48% interest in PEDL 165 (see Note 18). Approval to drill and fracture 2 exploration wells in the licence was received from the UK Government and drilling activity has commenced. Appeals against the Secretary of State’s decision approval was upheld in the High Court in April 2017. Further appeals are due to be heard by the Court of Appeals in late August 2017 with work continuing onsite; and
- The ongoing exposure to contingent liabilities as disclosed in Note 28.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PREPARATION (CONT.)

### GOING CONCERN (CONT.)

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 May 2017 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 licences;
- 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 licences, as evidenced by the partial sale of the Group's direct and indirect interests in the licences to Centrica in June 2013;
- The significant increase in the value of the Bowland licence should the 2 wells that are currently being drilled be successful;
- 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 Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) issued by the Australian Securities and Investments Commission. Unless otherwise expressly stated, amounts in these financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

### (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:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## BASIS OF PREPARATION (CONT.)

- Note 3(f) – Estimation of percentage completion in relation to revenue recognition
- Note 14 – Inventories;
- Note 17 - Carrying value of equity accounted investments
- Note 18 – Carrying value of exploration assets
- Note 19 – Recognition of deferred tax asset;
- Note 25 – Valuation of financial instruments; and
- Note 28 – Contingencies.

## (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.

## 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.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### **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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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, 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;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

- 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (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 Group's Executive General Managers, the Human Resources Executive, The 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### 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.

During the year the Company has re-evaluated the useful life of plant and equipment, following an external review. This has resulted in an increase in the assessed useful life of some plant and equipment thereby reducing depreciation expense. The decrease for the period as a result of increased useful life is estimated at \$8 million.

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

	Years
Leasehold improvements	5
Buildings	10-40
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.

### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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) 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (R) 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. Based on an initial impact assessment, the new standard is not expected to significantly impact revenue recognition, however a full analytical review has not at this stage been completed.

### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 as described below. 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 25.

#### **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 is 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 Board reviews internal management reports on 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 Division 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 the United Kingdom.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## OPERATING SEGMENTS (CONT.)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>June 2017</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	73,373	—	—	73,373	—	—	73,373
Revenue - construction contracts	—	48,596	—	48,596	—	—	48,596
<b>Total consolidated revenue</b>	<b>73,373</b>	<b>48,596</b>	<b>—</b>	<b>121,970</b>	<b>—</b>	<b>—</b>	<b>121,970</b>
<b>EBITDA</b>	<b>2,678</b>	<b>(1,894)</b>	<b>(4,307)</b>	<b>(3,523)</b>	<b>(5,133)</b>	<b>—</b>	<b>(8,656)</b>
Depreciation, amortisation and impairment	(4,817)	(1,364)	—	(6,181)	(21)	—	(6,202)
Finance income	—	—	—	—	202	—	202
Finance cost	—	—	—	—	(24,374)	—	(24,374)
<b>Reportable segment profit / (loss)</b>	<b>(2,139)</b>	<b>(3,258)</b>	<b>(4,307)</b>	<b>(9,704)</b>	<b>(29,326)</b>	<b>—</b>	<b>(39,030)</b>
	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>June 2016</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	79,633	—	—	79,633	—	—	79,633
Revenue - construction contracts	—	45,845	—	45,845	—	—	45,845
<b>Total consolidated revenue</b>	<b>79,633</b>	<b>45,845</b>	<b>—</b>	<b>125,478</b>	<b>—</b>	<b>—</b>	<b>125,478</b>
<b>EBITDA</b>	<b>11,385</b>	<b>6,900</b>	<b>(9,571)</b>	<b>8,714</b>	<b>(11,163)</b>	<b>—</b>	<b>(2,449)</b>
Depreciation, amortisation and impairment	(11,700)	(3,176)	—	(14,876)	(25)	—	(14,901)
Finance income	—	—	—	—	272	—	272
Finance cost	—	—	—	—	(2,407)	—	(2,407)
<b>Reportable segment profit / (loss)</b>	<b>(315)</b>	<b>3,724</b>	<b>(9,571)</b>	<b>(6,162)</b>	<b>(13,323)</b>	<b>—</b>	<b>(19,485)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### OPERATING SEGMENTS (CONT.)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Total \$'000
<b>June 2017</b>						
Segment assets	66,631	33,259	127,002	226,892	13,331	240,223
Segment liabilities	(13,465)	(12,379)	(5,393)	(31,237)	(111,215)	(142,452)
Depreciation and amortisation	(4,817)	(1,364)	–	(6,181)	(21)	(6,202)
Share of loss of equity accounted investees	–	–	(2,717)	(2,717)	–	(2,717)
Equity accounted investments	–	–	104,775	104,775	–	104,775
Capital expenditure	3,067	1,425	–	4,492	624	5,116
<b>June 2016</b>						
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 profit 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

### GEOGRAPHICAL INFORMATION

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

	Revenues		Non-current assets	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Australia	121,970	124,989	37,849	39,024
Europe	–	–	125,758	124,523
Asia/Pacific	–	489	–	–
	<b>121,970</b>	<b>125,478</b>	<b>163,607</b>	<b>163,547</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. FINANCE INCOME AND FINANCE COSTS

	2017 \$'000	2016 \$'000
Interest income	202	241
Net change in fair value of derivative liability	–	31
<b>Finance income</b>	<b>202</b>	<b>272</b>
Interest expense	(24,533)	(16,604)
Remission of interest	–	17,663
Amortisation of prepaid fees on debt facilities	(3,070)	(1,422)
Net foreign exchange gain / (loss)	3,229	(2,044)
<b>Finance costs</b>	<b>(24,374)</b>	<b>(2,407)</b>
<b>Net finance costs recognised in profit and loss</b>	<b>(24,172)</b>	<b>(2,135)</b>

### 8. OTHER EXPENSES

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

	2017 \$'000	2016 \$'000
Depreciation and amortisation of property, plant and equipment	6,202	14,901
<b>Total depreciation and amortisation</b>	<b>6,202</b>	<b>14,901</b>
UK investment overhead costs	2,209	2,820
Settlement of historical legal disputes	252	7,445
Recovery of receivable from equity accounted investees	–	(525)
Redundancy costs	299	503
Net (profit) / loss on sales of assets	(140)	102
Share based payment expense	–	27
Other (income) / expense	92	404
<b>Total non operating costs</b>	<b>2,712</b>	<b>10,776</b>

### 9. AUDITOR'S REMUNERATION

	2017 \$	2016 \$
Audit services		
Auditors of the Company — EY Australia and other network firms		
Audit and review of financial reports	313,000	293,000
Other professional services	70,000	174,337
	<b>383,000</b>	<b>467,337</b>

Other professional services related to due diligence investigations and general tax advisory services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. INCOME TAX

	2017 \$'000	2016 \$'000
<b>Recognised in profit or loss</b>		
<b>Current tax benefit</b>		
Current year	(8,405)	(4,149)
Tax losses not recognised and temporary differences derecognised in current year	5,861	(596)
	(2,544)	(4,745)
<b>Deferred tax expense recognised in profit or loss</b>		
Origination and reversal of temporary differences	2,544	4,745
Prior year adjustment	767	(336)
Prior year tax losses not recognised	(767)	336
<b>Total income tax expense / (benefit) in profit or loss</b>	–	–
Numerical reconciliation between tax benefit and pre-tax net profit/(loss)		
Accounting loss before income tax	(39,030)	(19,485)
Prima facie income tax benefit calculated at 30%	(11,709)	(5,846)
Adjustment for:		
Equity settled share based payments	(328)	–
Equity accounted (gain)/loss	725	1,927
Non-deductible expenses	760	241
Non-deductible option expense	12	435
Effect of tax rate in foreign jurisdictions	–	173
Non-deductible finance cost	4,352	3,278
Fair value- derivative option (gain)/loss non-assessable	–	(9)
Prior year tax losses not recognised	(767)	336
Current year tax losses not recognised	8,404	4,546
Current year temporary differences not recognised	(2,216)	(4,745)
Income tax over-provided in prior year	(767)	336
<b>Income tax expense / (benefit) attributable to operating loss</b>	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 was based on the loss after tax attributable to ordinary shareholders of \$39,030,000 (2016: loss after tax \$19,485,000) and a weighted average number of ordinary shares outstanding of 402,515,181 (2016: 290,031,908) calculated as follows:

	2017 Number	2016 Number
<b>Weighted average number of ordinary shares (basic)</b>		
Issued ordinary shares at 1 July	381,110,165	267,383,816
Accelerated rights offer	13,626,466	22,459,518
Equity placements	7,778,550	188,574
<b>Weighted average number of ordinary shares (basic) at 30 June</b>	<b>402,515,181</b>	<b>290,031,908</b>

### Diluted earnings per share

There were no dilutive potential ordinary shares outstanding at 30 June 2017 or 30 June 2016, 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, which have expired in December 2016, were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## 12. CASH, CASH EQUIVALENTS AND CASH IN TRUST

	2017 \$'000	2016 \$'000
Bank balances	8,974	2,197
Share of Joint Venture cash	1,350	4,669
<b>Total cash and cash equivalents</b>	<b>10,324</b>	<b>6,866</b>
Cash in trust	11,847	15,634
<b>Total cash in trust</b>	<b>11,847</b>	<b>15,634</b>

### 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 licence.

## 13. TRADE AND OTHER RECEIVABLES

	2017 \$'000	2016 \$'000
<b>Current</b>		
Trade receivables (net of impairment losses)	13,771	15,187
Deposits supporting bank guarantees	8,723	10,567
	<b>22,494</b>	<b>25,754</b>

No new impairment provisions were recognised against trade receivables and other receivables at 30 June 2016 or 30 June 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INVENTORIES

	2017 \$'000	2016 \$'000
Materials and consumables	3,926	2,582
Construction work in progress	26,927	13,465
<b>Total inventories</b>	<b>30,853</b>	<b>16,047</b>

### 15. OTHER ASSETS

	2017 \$'000	2016 \$'000
Prepayments	1,098	1,288

### 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
<b>30 June 2017</b>					
At cost	7	3,912	146,971	11,939	162,829
Accumulated depreciation/amortisation/impairment	(7)	(888)	(112,800)	(11,284)	(124,979)
<b>Carrying amount at 30 Jun 2017</b>	<b>–</b>	<b>3,024</b>	<b>34,171</b>	<b>655</b>	<b>37,850</b>
<b>30 June 2016</b>					
At cost	7	3,912	143,253	11,315	158,487
Accumulated depreciation/amortisation/impairment	(7)	(792)	(107,400)	(11,264)	(119,463)
<b>Carrying amount at 30 Jun 2016</b>	<b>–</b>	<b>3,120</b>	<b>35,853</b>	<b>51</b>	<b>39,024</b>

### 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 2016	–	3,120	35,853	51	39,024
Additions	–	–	4,492	624	5,116
Disposals	–	–	(88)	–	(88)
Depreciation and amortisation	–	(96)	(6,086)	(20)	(6,202)
<b>Carrying amount at 30 June 2017</b>	<b>–</b>	<b>3,024</b>	<b>34,171</b>	<b>655</b>	<b>37,850</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### PROPERTY, PLANT AND EQUIPMENT (CONT.)

	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)
Depreciation and amortisation	(1)	(110)	(14,779)	(11)	(14,901)
<b>Carrying amount at 30 June 2016</b>	<b>–</b>	<b>3,120</b>	<b>35,853</b>	<b>51</b>	<b>39,024</b>

An independent expert was engaged to perform an independent valuation of the Group's plant and equipment at 30 June 2017. No impairment charge was recognised as a result of this process.

### 17. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

	2017 \$'000	2016 \$'000
Balance at 1 July	106,209	103,997
Purchase of additional ownership interest	5,153	5,480
Movement of foreign currency translation recognised in equity	(3,870)	3,483
Share of equity accounted profits / (losses) during the year	(2,717)	(6,751)
<b>Balance at 31 December 2016</b>	<b>104,775</b>	<b>106,209</b>

The Group's share of loss of equity accounted investees is \$2,717,000 (2016: \$6,751,000). 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 2017, 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:

Name of investee	Ownership		Carrying value	
	Jun 2017 %	Jun 2016 %	Jun 2017 \$'000	Jun 2016 \$'000
Cuadrilla Resources Holdings Limited (associate)	47.40%	45.08%	104,775	106,209
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50.00%	50.00%	–	–
			<b>104,775</b>	<b>106,209</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2017			2016		
	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	12,135	608	12,743	6,977	631	7,608
Non-current assets	225,237	150	239,387	239,790	250	240,040
<b>Total assets</b>	<b>237,372</b>	<b>758</b>	<b>238,130</b>	<b>246,767</b>	<b>881</b>	<b>247,648</b>
Current liabilities	(9,328)	(6,327)	(15,655)	3,547	6,344	9,891
Non-current liabilities	(7,035)	–	(7,035)	7,619	–	7,619
<b>Total liabilities</b>	<b>(16,363)</b>	<b>(6,327)</b>	<b>(22,690)</b>	<b>11,166</b>	<b>6,344</b>	<b>17,510</b>
Income	–	–	–	2,148	–	2,148
Expenses	(5,781)	(103)	(5,884)	(17,124)	(103)	(17,227)
<b>Loss</b>	<b>(5,781)</b>	<b>(103)</b>	<b>(5,884)</b>	<b>(14,976)</b>	<b>(103)</b>	<b>(15,079)</b>

### 18. EXPLORATION ASSETS

	2017 \$'000	2016 \$'000
<b>Cost</b>		
Bowland exploration asset	12,734	9,884
Elswick exploration asset	5,131	5,201
Bolney exploration asset	3,117	3,229
	<b>20,982</b>	<b>18,314</b>

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

	Indirect Interest %	Direct Interest %	Jun 2017 %	Jun 2016 %
<b>Beneficial interest</b>				
Bowland licence	24.29	23.75	48.04	46.85
Elswick licence	23.79	22.06	45.85	44.69
Bolney licence	35.55	25.00	60.55	58.81

The indirect interest comprises Cuadrilla's equity interest in the respective licence 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. Cuadrilla has to date met all of its milestones in respect of UK licences.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## EXPLORATION ASSETS (CONT)

### Future Expenditure on the Bowland and Elswick licences

In June 2013 the existing owners, Cuadrilla and the Group, each sold 25% of their interest in the Bowland and Elswick Lancashire exploration licences to Centrica Plc ("Centrica"). Consideration for the interest included cash and a farm-in arrangement. Continuation of the farm-in 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 portion of Centrica's initial farm in funding remaining as at 30 June 2017 is approximately £20.81m. There is also a further contingent farm in funding of £46.7 million ("Contingent Carry"), for Centrica to maintain its 25% interest after the commercial flow of gas, to be applied against various appraisal and development activities. The Contingent Carry is subject to certain appraisal and operational milestones in respect of the license area.

As a result of an agreement in August 2015 with Cuadrilla for the Company to increase its interest in the Bowland Joint Venture to 23.75% and Cuadrilla to correspondingly reduce its interest to 51.25%, the Company's entitlement to the Carry and Contingent Carry has been reduced proportionately in relation to its direct interest in the licences. The Company continues to benefit from the Carry and Contingent Carry through its 47.4% ownership in Cuadrilla.

### Planning approvals to drill and fracture wells

Planning consent for the four wells at PNR was received on 6 October 2016 from the UK government. The UK Secretary of State for Communities and Local Government ("SOS") advised that he was also minded to grant planning consent for a similar application at the RW exploration site, pending receipt of further evidence on highway safety. Following this announcement, a planning inquiry has been set for April 2018 focusing solely on transport safety issues associated with RW. Cuadrilla is looking forward to making a strong case for approval of planning for that site.

In April, several applications challenging the UK Government's planning permission in respect of the PNR were dismissed by the UK High Court. Two applicants were granted leave to appeal by the UK Court of Appeals, with appeals hearing dates set for the end of August 2017. The Company remains confident that the Court of Appeals will uphold the positive recommendation of the Planning Inspector, the subsequent decision to grant planning consent by the Secretary of State and the subsequent ruling by the High Court in respect of the PNR site.

A legal challenge to the Government's decision to allow the Public Inquiry in relation to transport issues at RW has been dismissed by the High Court, and the deadline for an appeal to the Court of Appeal in respect of RW has passed.

### Monument Prospect

In 2009 and 2010 the Company acquired a 10% net profit interest (NPI) over certain oil and gas leasehold interests in East Texas, totaling \$87 million from Thomas Knowlton (Knowlton). The NPI was fully impaired by the Company in the year of acquisition.

In early 2015 the Company commenced a detailed review of the NPI to determine if any value could be recovered. It was discovered that while Knowlton had acquired oil and gas leases no exploration had been undertaken on the leases, and they had expired. Negotiations were commenced with Knowlton who agreed to return a significant amount of funds to AJ Lucas, however payment was not forthcoming, and there was no evidence that Knowlton had the funds for the payment agreed. In April 2015 AJ Lucas commenced proceedings against Knowlton in Texas for fraud. In May 2015 Knowlton died and thus could not be cross-examined in the Court proceedings. The Court did however allow AJ Lucas's lawyers to issue subpoenas to obtain information for the proceedings.

Using the subpoena powers AJ Lucas obtained information from bank accounts of Knowlton, his company and his former wife. Those bank accounts include the ones where AJ Lucas deposited money for its NPI interest. The information obtained was subject to detailed examination by forensic experts in Sydney. The conclusion from this detailed examination is that AJ Lucas was the subject of fraud and that there are no known assets from which AJ Lucas could recover money. Accordingly, the Directors do not propose to pursue the matter further unless assets are uncovered from which AJ Lucas can recover funds.

It should be noted that Knowlton was also subject to detailed investigation by the USA Internal Revenue Service and Californian Franchise Tax Board, neither of which found assets of Knowlton.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Consolidated</b>						
Inventories	–	–	(1,177)	(774)	(1,177)	(774)
Equity accounted investments	–	–	(2,613)	(2,613)	(2,613)	(2,613)
Property, plant and equipment	11,086	11,088	–	–	11,086	11,088
Provisions for employee benefits	1,815	1,823	–	–	1,815	1,823
Trade creditors	205	89	–	–	205	89
Share raising costs	710	1,055	–	–	710	1,055
Other creditors and accruals	738	1,401	–	–	738	1,401
Unrealised foreign exchange differences	(1,451)	227	–	–	(1,451)	227
Deferred tax asset write down	(9,313)	(12,296)	–	–	(9,313)	(12,296)
<b>Tax assets/(liabilities)</b>	<b>3,790</b>	<b>3,387</b>	<b>(3,790)</b>	<b>(3,387)</b>	<b>–</b>	<b>–</b>
Set off of tax	(3,790)	(3,387)	3,790	3,387	–	–
<b>Net assets/(liabilities)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Movement in temporary differences during the year:

	Balance 30 Jun 16 \$'000	Recognised directly in equity \$'000	Recognised in profit and loss \$'000	Balance 30 Jun 17 \$'000
<b>2017</b>				
Inventories	(774)	–	(403)	(1,177)
Equity accounted investments	(2,613)	–	–	(2,613)
Property, plant and equipment	11,088	–	(2)	11,086
Provisions for employee benefits	1,823	–	(8)	1,815
Trade creditors	89	–	116	205
Share raising costs	1,055	–	(345)	710
Other creditors and accruals	1,401	–	(663)	738
Unrealised foreign exchange differences	227	–	(1,678)	(1,451)
Deferred tax asset written off	(12,296)	–	2,983	(9,313)
	–	–	–	–
	Balance 30 Jun 15 \$'000	Recognised directly in equity \$'000	Recognised in profit and loss \$'000	Balance 30 Jun 16 \$'000
<b>2016</b>				
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)
	–	–	–	–

#### Unrecognised deferred tax assets

As at 30 June 2017, the Group had not recognised deferred tax assets of \$51,474,406 (2016: \$43,239,121) in relation to income tax losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. TRADE AND OTHER PAYABLES

	2017 \$'000	2016 \$'000
<b>Current</b>		
Trade payables	12,463	9,908
Other payables and accruals	12,862	16,581
Provisions	4,132	4,434
	<b>29,457</b>	<b>30,923</b>

### 21. INTEREST-BEARING LOANS AND BORROWINGS

	Jun 2017 \$'000	Jun 2016 \$'000
<b>Current</b>		
Lease liabilities	37	90
Senior loan notes	156	101
Loans from related party	933	34,552
	<b>1,126</b>	<b>34,743</b>
<b>Non-current</b>		
Lease liabilities	–	37
Senior loan notes	56,559	30,121
Loans from related party	49,590	40,826
	<b>106,149</b>	<b>70,984</b>

#### (a) Loans and borrowing terms and maturities

##### Senior loan notes

The senior loan notes comprise US\$45 million of loan notes secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries.

The senior loan notes were fully drawn at balance date following the second draw down announced by the Company in November 2016. Funds drawn but not utilised are held in trust bank deposits until utilised in accordance with the senior loan note facility, primarily for the purpose of furthering the Group's investments in the Bowland licence.

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 of a breach of certain financial covenants or other terms of the senior loan notes.

As part consideration of the facility, the Company 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 in June 2016 and the remaining 9 million ordinary shares were issued in November 2016 as disclosed in Note 24. The costs of the shares, together with other prepaid transaction costs incurred are being amortised over the life of the loan notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### INTEREST-BEARING LOANS AND BORROWINGS (CONT)

#### Loans from related party

Loans from related parties are provided by Kerogen Investments No.1 (HK) Limited ("Kerogen"), a substantial shareholder holding 58.58% of the ordinary shares outstanding at balance date. In accordance with the condition of the restructure and maturity extension agreed in June 2016 to repay a minimum of US\$25 million, the Company repaid \$37,225,334 as part of an entitlement offer completed in June 2017 as disclosed in note 24.

The related party loans terminate in 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.

	Tranche 1	Tranche 2
Loan balance at 30 June 17	US\$3.7m	US\$38.5m
Interest rate	20% initially increasing to 21% from June 2018	16% initially 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.

#### (b) Available finance facilities

	2017 \$'000	2016 \$'000
<b>(i) The Group has access to the following lines of credit</b>		
Lease liabilities	37	127
Senior term loan notes	56,715	57,154
Loans from related party	50,523	75,378
	<b>107,275</b>	<b>132,659</b>
Total facilities utilised at balance date:		
Lease liabilities	37	127
Senior term loan notes	56,715	30,222
Loans from related party	50,523	75,378
	<b>107,275</b>	<b>105,727</b>
Total facilities not utilised at balance date:		
Senior term loan notes	–	26,932
	<b>–</b>	<b>26,932</b>
<b>(ii) The Group has access to the following bond and facilities provided by surety entities</b>		
Bond facilities in aggregate	–	3,500
Amount utilised	–	(3,500)
Unused bond facilities	–	–
Bank indemnity guarantee	8,723	10,566
Amount utilised	(8,723)	(10,566)
Unused facilities	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### INTEREST-BEARING LOANS AND BORROWINGS (CONT)

#### (c) Finance lease liabilities

	2017 \$'000	2016 \$'000
<b>Finance lease liabilities</b>		
Payments		
Within one year	39	96
Between one and five years	–	40
	<b>39</b>	<b>136</b>
Less: interest		
Within one year	(2)	(6)
Between one and five years	–	(3)
	<b>(2)</b>	<b>(9)</b>
<b>Total lease liabilities</b>	<b>37</b>	<b>127</b>
Lease liabilities provided for in the financial statements:		
Current	37	90
Non-current	–	37
<b>Total lease liabilities</b>	<b>37</b>	<b>127</b>

### 22. 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:

	2017 \$'000	2016 \$'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,001	611
Between one and five years	1,720	609
	<b>2,721</b>	<b>1,220</b>

During the financial year \$750,000 (2016: \$915,000) was recognised as an expense in the profit and loss in respect of the operating leases.

### 23. EMPLOYEE BENEFITS

	2017 \$'000	2016 \$'000
Provision for employee benefits, including on-costs:		
Current	4,884	4,759
Non-current	836	937
	<b>5,720</b>	<b>5,696</b>

### 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 \$3,583,277 (2016: \$3,289,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. 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:

	Issue Price Per Share \$	No. of Shares	\$000
<b>2017</b>			
On issue at 1 July 2016		381,110,165	362,034
November 2016 placement	0.21	9,402,000	1,974
May 2017 placement	0.275	18,209,091	5,008
Entitlement offer	0.275	176,467,474	48,528
Transaction costs incurred	N/A		(1,101)
<b>On issue at 30 June 2017</b>		<b>585,188,730</b>	<b>416,443</b>
		<b>No. of Shares</b>	<b>\$000</b>
<b>2016</b>			
On issue at 1 July 2015		267,383,816	339,670
Entitlement offer	0.21	100,268,337	21,056
April 2016 placement	N/A	1,955,012	–
June 2016 placement	0.21	11,503,000	2,376
Transaction costs incurred	N/A		(1,068)
<b>On issue at 30 June 2016</b>		<b>381,110,165</b>	<b>362,034</b>

In May 2017 the Company undertook a pro rata Entitlement Offer and Placement at a price of \$0.275. A total of \$37,225,334, representing Kerogen's full subscription under the entitlement offer and sub-underwriting arrangement, was satisfied by the part conversion of tranche 1 of the related party loan facility as disclosed in Note 21, including outstanding interest. This satisfied a condition of the restructure of the related party loan notes agreed in June 2016 which required a minimum of US\$25m to be repaid through an entitlement offer.

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

In the comparative period the company completed a pro rata entitlement offer at \$0.21 in April 2016. Entitlement shares were underwritten, with certain sub-underwriters, excluding Kerogen, entitled to a bonus share for each 6 shares allotted under the underwriting agreements. These bonus shares were issue 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 of \$13,011,727, with the remainder of Kerogen's subscription paid in cash.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CAPITAL AND RESERVES (CONT.)

### OPTIONS

There are no options over ordinary shares outstanding at balance date.

### DIVIDENDS

No dividends in respect of the 2017 or 2016 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 2017 \$60,852,374 (2016: \$60,852,374).

## 25. 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 Audit and Risk 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FINANCIAL INSTRUMENTS (CONT.)

### 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:

	2017 \$'000	2016 \$'000
Trade and other receivables	22,494	25,754
Bank balances	22,171	22,500
	<b>44,665</b>	<b>48,254</b>
Maximum exposure to credit risk for loans and receivables at the reporting date by business segment was:		
Drilling	9,284	12,250
Engineering and construction	12,296	13,442
Oil and gas	585	4
Corporate / unallocated	329	58
	<b>22,494</b>	<b>25,754</b>

### Impairment

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

	Gross 2017 \$'000	Impairment 2017 \$'000	Gross 2016 \$'000	Impairment 2016 \$'000
Not past due	18,914	—	24,891	—
Past due up to 30 days	793	—	—	—
Past due 31 to 120 days	1,075	—	863	—
Past due 121 days to one year	1,285	—	—	—
Past due more than one year	427	—	—	—
	<b>22,494</b>	<b>—</b>	<b>25,754</b>	<b>—</b>

An impairment allowance is recognised against 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FINANCIAL INSTRUMENTS (CONT.)

#### LIQUIDITY RISK

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

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

	Carrying amount \$'000	Total \$'000					More than 5 years \$'000
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	
<b>2017</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	29,457	(29,457)	(25,325)	–	(3,371)	(761)	–
Senior term loan notes	56,715	(79,562)	(3,510)	(3,510)	(72,542)	–	–
Loans from related party	50,523	(80,689)	(897)	(597)	(716)	(78,479)	–
Lease liabilities	37	(39)	(19)	(20)	–	–	–
	<b>136,732</b>	<b>(189,747)</b>	<b>(29,751)</b>	<b>(4,127)</b>	<b>(76,629)</b>	<b>(79,240)</b>	<b>–</b>

	Carrying amount \$'000	Total \$'000					More than 5 years \$'000
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	
<b>2016</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	30,923	(30,923)	(26,489)	–	–	(4,434)	–
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)	–	–
	<b>136,650</b>	<b>(203,962)</b>	<b>(28,563)</b>	<b>(36,643)</b>	<b>(4,722)</b>	<b>(134,034)</b>	<b>–</b>

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FINANCIAL INSTRUMENTS (CONT.)

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

	2017 Exposure to GBP \$'000	2016 Exposure to GBP \$'000	2017 Exposure to USD \$'000	2016 Exposure to USD \$'000
Cash balances	658	—	11,848	5,844
Trade and other receivables	—	—	585	—
Trade payables	—	—	(5,352)	(4,815)
Interest-bearing liabilities	—	—	(107,238)	(105,600)
<b>Net Financial Instrument exposure</b>	<b>658</b>	<b>—</b>	<b>(100,157)</b>	<b>(104,571)</b>
Value of investment in Cuadrilla Resource	—	—	104,775	106,209
Value of Exploration assets	—	—	20,982	18,314
<b>Net balance sheet exposure</b>	<b>658</b>	<b>—</b>	<b>25,600</b>	<b>19,952</b>

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		10% weakened	
	2017	2016	2017	2016
AUD/USD	0.8461	0.8169	0.6923	0.6683
AUD/GBP	0.6504	N/A	0.5322	N/A
Post-tax loss (higher) / lower	9,045	9,506	(11,055)	(11,619)
Net equity higher / (lower)	(2,387)	(1,814)	2,918	2,217

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
	2017	2016	2017	2016
USD	0.7544	0.7316	0.7692	0.7426
GBP	0.5953	N/A	0.5913	N/A

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FINANCIAL INSTRUMENTS (CONT.)

Interest rate exposure is detailed as follows:

	2017 \$'000	2016 \$'000
<b>Fixed rate instruments</b>		
Financial liabilities	(107,275)	(105,727)
	<b>(107,275)</b>	<b>(105,727)</b>
<b>Variable rate instruments</b>		
Financial assets	22,171	22,500
	<b>22,171</b>	<b>22,500</b>

At reporting date, the Group did not have any variable interest rate borrowings.

### 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:

	Carrying Amount \$'000	Fair value \$'000
<b>2017</b>		
Bank balances	22,171	22,171
Trade and other receivables	22,494	22,494
Trade and other payables	(29,458)	(29,458)
Lease Liabilities	(37)	(37)
Senior term loan notes <sup>(1)</sup>	(56,715)	(61,732)
Loans from related party <sup>(1)</sup>	(50,523)	(51,692)
	<b>(92,068)</b>	<b>(98,254)</b>
<b>2016</b>		
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 <sup>(1)</sup>	(30,222)	(33,817)
Loans from related party <sup>(1)</sup>	(75,378)	(76,567)
	<b>(88,396)</b>	<b>(93,180)</b>

- (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FINANCIAL INSTRUMENTS (CONT.)

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 its investments in UK shale gas whilst maximising shareholder returns. The Board therefore seeks to have a 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:

	2017 \$'000	2016 \$'000
Total liabilities	142,452	142,346
Less: cash and cash equivalents	(10,324)	(6,865)
<b>Net debt</b>	<b>132,128</b>	<b>135,481</b>
Total equity	97,771	86,790
<b>Net debt to equity ratio at 30 June</b>	<b>1.35</b>	<b>1.56</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. INTERESTS IN JOINT OPERATIONS

	Principal activities	Principal place of business	Participation interest		Contribution to operating results	
			2017 %	2016 %	2017 \$'000	2016 \$'000
Southern SeaWater Alliance	Construction and operation of desalination plant	Level 2, 1 Adelaide Terrace East Perth 6004	19	19	1,159	1,972
VSL Australia - AJ Lucas Operations Joint Venture	Construction of water related infrastructure	6 Pioneer Avenue, Thornleigh 2120	50	50	—	—
AJ Lucas - Spiecapag JV Project 1	Construction of gas infrastructure	616 Boundary Road Richlands 4077	50	50	259	1,081
AJ Lucas - Spiecapag JV Project 2	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	40	476	5,512
AJ Lucas - Spiecapag JV Project 3	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	40	(2,140)	1,100

All joint operations above are domiciled in Australia.

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

	2017 \$'000	2016 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,351	4,669
Trade and other receivables	155	2,021
Construction work in progress	8,005	2,356
Other	214	4
<b>Total assets</b>	<b>9,725</b>	<b>9,050</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	6,494	5,937
<b>Total liabilities</b>	<b>6,494</b>	<b>5,937</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. CONSOLIDATED ENTITIES

The financial statements at 30 June 2017 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

Name of entity	Country of incorporation	Ownership interest	
		2017 %	2016 %
<b>Parent entity</b>			
AJ Lucas Group Limited			
<b>Controlled entities</b>			
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. 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 26), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint operation. As at 30 June 2017, 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 \$9,359,000 (2016: \$12,573,000).
- (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 32, 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 licence, the Company has a further contingent liability to pay the seller US\$1,900,000 (\$2,470,098) provided Centrica, a holder of a 25% interest in the Bowland and Elswick licences, does not exercise its options to put back its interest to Cuadrilla and AJ Lucas for a nominal amount, as it is entitled to under a sale and purchase agreement entered into in June 2014.

### COMMITMENTS

At 30 June 2017, the Group had no commitments contracted but not provided for and payable within one year (2016: nil) for the purchase of new plant and equipment.

## 29. PARENT ENTITY DISCLOSURES

As at 30 June 2017 and 2016, and throughout the financial years then ended, the parent entity of the Group was AJ Lucas Group Limited.

	2017 \$'000	2016 \$'000
<b>Results of the parent entity</b>		
Loss for the year	(43,431)	(15,091)
<b>Total loss for the year</b>	<b>(43,431)</b>	<b>(15,091)</b>
<b>Financial position of the parent entity at year end</b>		
Current assets	11,847	15,634
Total assets	207,376	193,294
Current liabilities	3,456	35,557
Total liabilities	109,605	106,504
<b>Total equity of the parent entity comprises:</b>		
Share capital	416,443	362,031
Employee equity benefit reserve	4,670	4,670
Accumulated losses	(323,342)	(279,911)
<b>Total equity</b>	<b>97,771</b>	<b>86,790</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## PARENT ENTITY DISCLOSURES (CONT.)

### 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 32, with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.

## 30. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2017 \$'000	2016 \$'000
<b>(a) Reconciliation of cash</b>		
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	10,324	6,866
Cash in trust	11,847	15,634
<b>Total cash</b>	<b>22,171</b>	<b>22,500</b>
<b>(b) Reconciliation of cash flows from operating activities</b>		
Loss for the year	(39,030)	(19,485)
Adjustments for:		
Interest on capitalised leases	7	13
Interest payable settled through equity raising	7,094	11,441
Amortisation of borrowing costs (included in interest-bearing liabilities)	3,070	1,422
Accrued interest capitalised into borrowings	–	2,524
Increase / (decrease) in accrued interest	9,761	(6,923)
(Profit) / loss on sale of non-current assets	(140)	102
Share based payment expense	–	27
Loss on foreign currency loans	(3,229)	2,085
Exchange rate changes on the balance of cash held in foreign currencies	131	(138)
Fair value adjustment in derivative liability	–	(31)
Share of profit of equity accounted investees	2,717	6,751
Revenue recognised on farm-in	(619)	(227)
PEL investment transferred in satisfaction of loan	(500)	–
Recovery of receivable from equity accounted investees	–	(525)
Corporate advisory fees	–	1,547
Decommissioning liability on exploration assets	148	(307)
Depreciation and amortisation	6,202	14,901
<b>Operating loss before changes in working capital and provisions</b>	<b>(14,388)</b>	<b>13,177</b>
Change in receivables	3,260	1,112
Change in other current assets	190	(19)
Change in inventories	(14,806)	(2,602)
Change in payables	(1,466)	(6,486)
Change in provisions for employee benefits	24	705
Change in tax balances	–	(30,481)
<b>Net cash used in operating activities</b>	<b>(27,186)</b>	<b>(24,594)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (CONT.)

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

Kerogen's subscription under the entitlement offer, as disclosed in note 24, and sub-underwriting arrangement was satisfied partly in cash and the conversion of interest due and payable under the Kerogen senior debt facility of \$37,225,334 (2016: \$13,012,727). The amount converted is not shown in the cash flow statements.

A further \$500,000 in funding provided by Kerogen was satisfied through the transfer of all rights and obligations of the Group arising under an earlier agreement with Lawndale Group to purchase three Petroleum Exploration Licences (the PEL's) in New South Wales, as disclosed under transactions with Lawndale Group in Note 31. No profit or loss was recognized on this transaction.

As a result of the extension and restructure of the related party loans in June 2016, US\$1,868,000 interest that was due and payable under the previous facility and not repaid under the entitlement offer launched in March 2016 was capitalised into the principal balance under the restructured facility in the comparative financial year.

The Company issued advisor shares, as disclosed in Appendix 3B's lodged with the Australian Stock Exchange on 2 November 2016 and 24 June 2016. These shares were issued in part satisfaction of advisory fees incurred. The amount satisfied by the shares issued was \$84,400 and \$105,000 respectively and is not presented in the cash flow statements.

#### (d.) Financing arrangements

Refer to Note 21.

### 31. RELATED PARTIES

#### ENTITY WITH CONTROL

Kerogen Investments No. 1 Limited (Kerogen) participated in the accelerated entitlement offer announced by the Company on 18 May 2017 by subscribing for its pro rata entitlement and providing sub underwriting support. In total \$37,225,000 was raised from Kerogen and settled by the part conversion of tranche 1 of the related party loan facility as disclosed in Note 21, including outstanding interest. This satisfied a condition of the restructure of the related party loan notes agreed in June 2016 which required a minimum of US \$25 million to be repaid through an entitlement offer.

A further \$500,000 in funding provided by Kerogen was satisfied through the transfer of all rights and obligations of the Group arising under an earlier agreement with Lawndale Group to purchase three Petroleum Exploration Licences (the PEL's) in New South Wales. No profit or loss was recognized on this transaction.

Kerogen also participated in the accelerated entitlement offer announced by the company on 17 March 2016, by also 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 \$13,867,000 (2016: \$13,486,000), 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:

	2017 \$	2016 \$
Short-term employee benefits	1,791,774	2,517,488
Other long-term benefits	18,306	9,351
Post-employment benefits	63,398	77,704
Termination benefits	–	259,000
Share based payments	–	1,333
	<b>1,873,478</b>	<b>2,864,876</b>

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## RELATED PARTIES (CONT.)

### 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	2017 \$	2016 \$
Phillip Arnall	Felix Ventures Pty Ltd	Non-Executive director services	235,000	145,000
Julian Ball	Kerogen Capital Limited	Non-Executive director services	100,000	100,000
Ian Meares	Autonome Pty Ltd	Non-Executive director services	95,000	95,000
Andrew Purcell <sup>(1)</sup>	Lawndale Group	Non-Executive director services	95,000	95,000
	Lawndale Group	Other consulting services	-	84,098

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

### Transactions with Lawndale Group

The agreement with Lawndale Group, a company controlled by Andrew Purcell, for the provision of project management and consulting services had concluded in the comparative period. \$84,098 was paid in the comparative year under the agreement which were considered to be arm's length and below market rates.

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 Lawndale Group had agreed to purchase from Dart Energy Limited. The AJ Lucas paid a deposit of \$500,000 directly to Dart Energy Limited.

The purchase was funded by a loan facility provided by Kerogen No.1 Limited ("the PEL loan").

In September 2015 the Company reviewed its investment in the PEL's and decided that it was not in the strategic interest of the Group at the time. As provided under the PEL loan, the Company therefore transferred its rights and obligations under the original agreement to Kerogen No.1 Limited in full satisfaction of the PEL loan. No profit or loss was recognized on this transaction.

### OTHER RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see Note 27) and joint operations (see Note 26). These entities trade with each other from time to time on normal commercial terms. No interest is payable on inter-company balances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. 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 2017 are set out below:

### SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	2017 \$'000	2016 \$'000
Loss before income tax	(14,858)	(10,605)
Income tax expense	–	–
Loss after tax	(14,858)	(10,605)
Accumulated losses at the beginning of the year	(308,514)	(297,909)
Accumulated losses at the end of the year	(323,372)	(308,514)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## DEED OF CROSS GUARANTEE (CONT.)

### SUMMARISED STATEMENT OF FINANCIAL POSITION

	2017 \$'000	2016 \$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	9,655	6,841
Cash in trust	11,847	15,634
Trade and other receivables	21,909	25,749
Inventories	30,853	16,047
Other Assets	1,098	1,288
<b>Total Current Assets</b>	<b>75,362</b>	<b>65,559</b>
<b>NON-CURRENT ASSETS</b>		
Trade and Other Receivables	121,610	90,886
Property, plant and equipment	37,849	39,024
<b>Total Non-Current Assets</b>	<b>159,459</b>	<b>129,910</b>
<b>Total Assets</b>	<b>234,821</b>	<b>195,469</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	24,055	25,860
Intercompany	-	-
Interest bearing loans and borrowings	1,126	34,743
Employee benefits - current	4,884	4,759
<b>Total Current Liabilities</b>	<b>30,065</b>	<b>65,362</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest bearing loans and borrowings	106,149	70,979
Employee benefits	836	937
<b>Total Non-Current Liabilities</b>	<b>106,985</b>	<b>71,916</b>
<b>Total Liabilities</b>	<b>137,050</b>	<b>137,278</b>
<b>Net Assets</b>	<b>97,771</b>	<b>58,191</b>
<b>EQUITY</b>		
Share capital	416,443	362,034
Reserves	4,700	4,671
Retained earnings	(323,372)	(308,514)
<b>Total Equity</b>	<b>97,771</b>	<b>58,191</b>

### 33. 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.



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## DIRECTORS' DECLARATION

- 1 In the opinion of the directors of AJ Lucas Group Limited (the Company):
  - (a) the consolidated financial statements and notes, that are contained in pages 24 to 71 and the Remuneration Report included in the Directors' Report, set out on pages 18 to 22, 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 2017 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 27 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 Corporations (Wholly-owned Companies) Instrument 2016/785.
- 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 2017.
- 4 The directors draw attention to note 2(A) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "Phillip Arnall".

Phillip Arnall  
Director  
31 August 2017



## Independent Auditor's Report to the Members of AJ Lucas Group Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of AJ Lucas Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2c in the consolidated financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern.

These conditions along with other matters set forth in Note 2c, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business without the ongoing financial support of its major shareholder and financiers.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

### 1. Recognition and Measurement – Revenue from services rendered and construction contracts

#### Refer to Note 6 Operating Segments

Why significant	How our audit addressed the key audit matter
<p>Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction at reporting date.</p> <p>Construction contracts revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent it is probable that they will result in revenue that can be measured reliably.</p> <p>Revenue recognition involves estimation due to the nature and extent of varying contract conditions, which are unique to each contract and can be complex.</p> <p>The accurate recording of revenue is highly depend on the following factors:</p> <ul style="list-style-type: none"> <li>• Appropriate knowledge of individual contract characteristics and status of work. Key characteristics would be the industry and/or geography of the project and length and type of contract (lump sum basis or time and materials basis);</li> </ul>	<ul style="list-style-type: none"> <li>▶ We assessed whether the methodology used to recognise revenue met the requirements of Australian Accounting Standards;</li> <li>▶ We tested the effectiveness of the Group's controls in the following areas: <ul style="list-style-type: none"> <li>- Initiation, processing and approval of setting up a customer and/or contract;</li> <li>- review and approval of project costs incurred;</li> <li>- authorisation of project variations;</li> <li>- review and assessment of significant changes in work in progress balances; and</li> <li>- review of unapproved variations and claims.</li> </ul> </li> <li>▶ We selected a sample of contracts based on qualitative and quantitative factors and performed the following procedures: <ul style="list-style-type: none"> <li>- reviewed contract terms and conditions and assessed whether the individual characteristics of each contract were appropriately accounted for;</li> </ul> </li> </ul>

#### Why significant

- Determination of variations and claims provided to customers including an assessment of when the Group believes it is probable that amounts will be approved and can be recovered from the customer; and
- Determination of claims received from customers, including an assessment of when the Group believes it is probable that such claims will result in an outflow of economic resources.

This matter has been considered as a Key Audit Matter given the complexity of the contracts, the level of judgement required to estimate the value of revenue recognized and the materiality of revenue to the financial statements.

#### How our audit addressed the key audit matter

- assessed the Group's ability to deliver budgeted contract margins by analysing the historical accuracy of forecasting margins and the relationship of contract cost versus billing status;
  - agreed material contract revenue and cost variations and claims to information provided by 3<sup>rd</sup> party's; and
  - for contracts accounted for using the percentage of completion method we assessed the forecast cost to complete calculations.
- We also assessed the effect of contract performance in the period since year end to the date of this report on year-end revenue recognition; and
- We evaluated the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.

## 2. Valuation of equity accounted investments

Refer to Note 17 Investments in Equity Accounted Investees

#### Why significant

The Group's equity accounted investment in Cuadrilla Resources Holdings Limited ("Cuadrilla") of \$104.7m as at 30 June 2017, represents 43% of total assets.

Subsequent to initial recognition at cost, the value of the investment in the consolidated financial statements includes the Group's share of profit or loss and other comprehensive income of the equity accounted investment, adjusted to align to the accounting policies of the Group.

#### How our audit addressed the key audit matter

- We recalculated the share of equity accounted losses during the year and movements in foreign currency translation recognised in equity for the Group's investment in Cuadrilla. In doing so, we assessed the Group's adjustments to align the accounting policies of Cuadrilla with those of the Group;
- We met with responsible representatives of Cuadrilla so as to understand the current drilling program and whether there are any risks of the commercial drilling at the investment site;
- We assessed whether the methodology used by the Group to identify indicators of impairment met the requirements of Australian Accounting Standard AASB 136 *Impairment of Assets*;

As disclosed in the financial report, the Directors' assess the Group's equity accounted investment for indicators of impairment at each balance date. This involves assessment of any potential indications of impairment including (but not limited to) significant changes to market, economic or the legal environment in which AJ Lucas and Cuadrilla Resources Limited ("Cuadrilla") operates. This assessment determines whether a full impairment assessment is required.

This is considered a Key Audit Matter due to the magnitude of the balance in the statement of financial position, and the significant judgments and assumptions involved in the assessment of indicators of impairment.

- We evaluated the Group's assessment of indicators of impairment at year-end by validating the assumptions made by management. Our procedures included discussions with representatives from Cuadrilla and the Group, including the directors as well as evaluating the impact of Cuadrilla receiving final planning consent from the United Kingdom Government by way of the UK Secretary of State for Departments and Local Government on 6 October 2016;
- We also considered market announcements made by the Group and Board meeting minutes of both the Group and Cuadrilla throughout the year and through to the date of this report for any facts or circumstances that would indicate any indicators of impairment; and
- We evaluated the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.

## Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

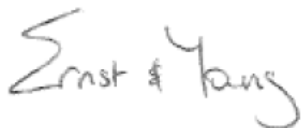
### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 22 of the directors' report for the year ended 30 June 2017.

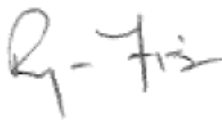
In our opinion, the Remuneration Report of AJ Lucas Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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.



Ernst & Young



Ryan Fisk  
Partner  
Sydney  
31 August 2017

# AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

## DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 JULY 2017)

Securities held	Number of shareholders	Number of shares
1 - 1,000	617	308,064
1,001 - 5,000	778	2,166,703
5,001 - 10,000	304	2,368,186
10,001 - 100,000	502	17,148,792
100,001 and over	128	563,196,985
Total	2,329	585,188,730

945 shareholders held less than a marketable parcel of shares.

## TWENTY LARGEST ORDINARY SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Kerogen Investments No. 1 (HK) Limited	342,807,985	58.58
Mr Paul Fudge	46,115,863	7.89
CS Third Nominees Pty Limited <HSBC CUST NOM AU LTD 13 A/C>	34,277,448	5.86
Citicorp Nominees PTY Limited	25,089,171	4.29
CS Fourth Nominees PTY Limited <HSBC CUST NOM AU LTD 11 A/C>	17,527,450	3.00
Amalgamated Dairies Investments No 2 Limited	11,990,000	2.05
HSBC Custody Nominees (Australia) Limited - A/C 2	11,016,702	1.88
Toolebuc Investments PTY LTD	8,133,442	1.39
Milson Investments PTY Limited	5,523,248	0.94
Amalgamated Dairies Limited	6,379,348	1.09
HSBC Custody Nominees (Australia) Limited	5,035,667	0.86
Brispot Nominees PTY LTD <HOUSE HEAD NOMINEE A/C>	3,651,310	0.62
HSBC Custody Nominees (AUSTRALIA) Limited-GSCO ECA	3,013,391	0.51
J P Morgan Nominees Australia Limited	2,755,052	0.47
ADEMSA PTY LTD	2,433,417	0.42
Forsyth Barr Custodians LTD <FORSYTH BARR LTD-NOMINEE A/C>	1,514,889	0.26
Mr Ross Alexander Macpherson	1,443,750	0.25
Ingrid Miriam Seton	1,290,904	0.22
Patersons Securities Limited	1,258,150	0.21
BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAIL CLIENT DRP>	1,162,972	0.20
	<b>532,420,159</b>	<b>90.99</b>

## SUBSTANTIAL SHAREHOLDERS

Name	Number of ordinary shares held	% of issued shares
Kerogen Investments No. 1(HK) Limited	320,806,301	54.82
Mr Paul Fudge	46,115,863	7.89

## VOTING RIGHTS

Ordinary shares - Refer to note 24 of the financial statements.

Options - There are no options outstanding.

# DIRECTORY

## COMPANY SECRETARY

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

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](mailto:web.queries@computershare.com.au)

Website: [www.computershare.com](http://www.computershare.com)

## STOCK EXCHANGE

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

## AUDITORS

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.