

**AJ LUCAS GROUP LIMITED**

**ABN 12 060 309 104**

**PRELIMINARY FINAL FINANCIAL  
REPORT**

**YEAR ENDED 30 JUNE 2014**

**APPENDIX 4E**

## Results for Announcement to the Market

for the year ended 30 June 2014

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change	\$A'000
Revenues from ordinary activities	Down 22.7% to	227,894
Profit / (Loss) before interest and tax	Up 9.2% to	(77,816)
Profit / (Loss) from ordinary activities after tax attributable to members	Up 27.8% to	(91,693)
Profit / (Loss) for the period attributable to members	Up 27.8% to	(91,693)
<b>NTA Backing</b>	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	40.2 ¢	43.6 ¢
<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

### 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 (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 2014 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

#### Current Directors

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

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

Russell Eggers

CEO and Executive Director since 3 June 2014

#### Former Directors

Genelle Coghlan

Independent Non-Executive Director 10 August 2010 to 3 June 2014

Martin Green

Independent Non-Executive Director 28 May 1999 to 3 June 2014

Mike McDermott

Independent Non-Executive Director 4 February 2010 to 3 June 2014

Allan Campbell

Executive Chairman 6 March 1995 to 29 November 2013

CEO 29 November 2013 to 28 January 2014

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

### PHILLIP ARNALL B Com

Age 69

Mr Arnall has had a distinguished thirty year career in the mining and steel industries including senior executive responsibility at Smorgon Steel Group, Tubemakers and ANI Limited. Mr Arnall is currently a non-executive director of Bradken Limited and was previously a director and Chairman of Ludowici Limited 2006-2012. Mr Arnall is a member of both the Audit and Risk Committee and the Remuneration Committee.

### JULIAN BALL BA; FCA

Age 52

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 J P Morgan primarily covering the energy and natural resources sectors prior to working in private equity. Mr Ball is a member of both the Audit and Risk Committee and the Remuneration Committee.

# DIRECTORS' REPORT

## **IAN MEARES B Eng (Hons); MEngSc; MBA; MAICD**

Age 53

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 Remuneration Committee.

## **ANDREW PURCELL B Eng; MBA**

Age 49

Mr Purcell had a distinguished career in investment banking working with Macquarie Bank and Credit Suisse. He is also a former Director of Cougar Energy Ltd. and Realm Resources Ltd. in Australia.

More recently, he founded Teknix Capital in Hong Kong, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Mr Purcell also has experience across Asian markets, having been a Director of a number of public companies in the region, including Bangkok Mass Transit System PCL and PT Medco Energi Internasional Tbk. Mr Purcell is Chairman of the Audit and Risk Committee.

## **RUSSELL EGGERS B Eng (Mech Hons); MBA**

Age 54

Mr Eggers has many years of executive and consulting experience focused on mining and energy services. He also has considerable experience in business improvement and implementation projects. He is a mechanical engineer by background and holds an MBA from Stanford University.

He was previously CEO of Vinidex Pty Ltd, a leading supplier of pipe systems and solutions to the resources, construction and housing industries. He was also a former CEO of Australian Drilling Services (renamed Easternwell), a company providing drilling services to the coal seam gas, mineral and infrastructure industries as well as holding various senior roles at Dyno Nobel, a manufacturer of mining explosives, including as Executive Manager Business Improvement and Senior Vice President Initiation Systems.

## **COMPANY SECRETARY**

Mr Nicholas Swan MA, MBA, was appointed company secretary on 15 November 2001. He has also served as the company secretary of several listed public companies as well as a responsible entity for managed investment schemes.

## **DIRECTORS' MEETINGS**

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

# DIRECTORS' REPORT

	Board of Directors		Audit and Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Phillip Arnall	14	13	5	5	1	1
Julian Ball	13	13	3	3	1	1
Ian Meares	1	1	–	–	1	1
Andrew Purcell	1	1	1	1	–	–
Russell Eggers	1	1	–	–	–	–
Allan Campbell	8	8	–	–	–	–
Genelle Coghlan	13	12	2	2	1	1
Martin Green	13	12	4	2	1	1
Mike McDermott	13	13	2	2	1	1

## CORPORATE GOVERNANCE STATEMENT

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

### BOARD OF DIRECTORS

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

The key responsibilities of the Board are to:

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

The Board's role and responsibilities are documented in a written Board Charter which is available in the shareholder information section of the Company's website. The Board charter details the functions reserved to the Board and those delegated to the CEO who then engages senior management to assist in those delegated functions. The directors are also subject to a Code of Conduct, a copy of which is also available in the shareholder information section of the Company website.

### COMPOSITION OF THE BOARD

The constitution of the Company requires between three and ten directors. Currently there are five directors, four of whom are non-executive of whom three 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	Independent Non-Executive Director
Russell Eggers	Executive Director
Andrew Purcell	Independent Non-Executive Director
Ian Meares	Independent Non-Executive Director
Julian Ball	Non-Executive Director

Directors are appointed for their industry-specific expertise and commercial acumen. The directors are able to obtain independent advice at the expense of the Company.

# DIRECTORS' REPORT

During the financial year ended 30 June 2014, the Company did not have a formal nomination committee, it being the view that one was not necessary while the Board is its current size. The Board recognises the need for the size and composition of the Board to have a balance of skills and experience to allow it to make its decisions having regard to the interests of the various stakeholders of the Company. Directors are nominated for re-election by rotation.

The Board's performance is assessed on an informal basis. Given its size, each director has, and is required, to actively participate in the business of the Board. On this basis, no formal evaluation process is undertaken.

## ETHICAL AND RESPONSIBLE DECISION MAKING

The Company has a code of conduct to guide the directors and key executives. It includes disclosure of conflicts of interest and use of information not otherwise publicly known or available. Any director with an interest in matters being considered by the Board must take no part in decisions relating to those matters.

The Directors' Code of Conduct is available in the shareholder information section of the Company's website as is the employee Code of Conduct. These codes address the practices necessary to maintain confidence in the Company's integrity, to take account of legal obligations and expectations of stakeholders and the responsibility and accountability for reporting and investigating unethical practices.

## TRADING IN COMPANY SECURITIES

The Company has in place a Securities Trading Policy which restricts the times and circumstances in which directors, senior executives and certain employees may buy or sell shares in the Company. These persons are required to seek approval from the Company Secretary prior to trading.

Directors must also advise the Company, which advises the ASX on their behalf, of any transactions conducted by them in the Company's securities within five business days after the transaction occurs.

The Securities Trading Policy is available in the shareholder information section of the Company's website.

## DIVERSITY

AJ Lucas is committed to being a diversity leader by providing a diversity inclusive workplace in which everyone has the opportunity to participate and is valued for their distinctive skills, experiences and perspectives. The Group is committed to ensuring all employees are treated fairly, equally and with respect. A copy of the Diversity Policy is available in the shareholder information section of the Company's website.

Through periodic reviews of the Board composition and succession planning, the Board seeks to ensure that the skills and diversity of the Board are appropriate for the present and future requirements of the Group. The Board actively seeks to identify and recruit directors whose skills and attributes complement and enhance the effective operation of the Board.

At present, 9% (2013: 10%) of the Company's workforce is female. This reflects the nature of the industries in which the Group operates and the generally low participation rates of women in the engineering and mining services trades workforce across Australia and the world. The available pool of female candidates for engineering and manual roles is limited and consequentially constrains the ability of the Company to increase female participation through internal promotion and external recruitment both across the workforce generally and at a senior executive level.

Female participation rates are however considerably higher across the Group's service functions (such as finance, communications, HR, project support and office administration) accounting for 35% (2013: 36%) of total employees in these roles.

The Company has in place various programs to foster career development including training sessions for line managers, sponsoring attendance at executive management training courses, implementation of flexible work place practices, and development and implementation of HR policies and practices to drive workforce participation rates of key diversity segments. The Board will monitor the effectiveness of these various initiatives to meet the Group's diversity plan including supporting women's progress into senior management positions.

## INTEGRITY IN FINANCIAL REPORTING

The Board has established an Audit and Risk Committee which provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control systems, risk management systems, regulatory compliance and external audit. The Audit and Risk Committee is governed by the Audit and Risk Committee Charter which is available in the shareholder information section of the Company's website.

The Committee must have at least three members, 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.

## DIRECTORS' REPORT

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

Name	Resignation / appointment date	Position at date of report
Phillip Arnall		Independent non-executive director
Andrew Purcell (Chairman)	Appointed 3 June 2014	Independent non-executive director
Julian Ball	Appointed 29 January 2014	Non-executive director
Mike McDermott	Appointed 29 January 2014	Independent non-executive director
	Resigned 3 June 2014	
Martin Green (Chairman)	Resigned 3 June 2014	Independent non-executive director
Genelle Coghlan	Resigned 29 January 2014	Independent non-executive director

The principal roles of the Committee are to:

- assess whether the accounting methods and statutory reporting applied by management are consistent and comply with accounting standards and applicable laws and regulations;
- make recommendations on the appointment of the external auditors, assess their performance and independence and ensure that management responds to audit findings and recommendations;
- discuss the adequacy and effectiveness of the Company's internal control systems and policies to assess and manage business risks and its legal and regulatory compliance programmes; and
- ensure effective monitoring of the Company's compliance with its codes of conduct and Board policy statements.

The Audit and Risk Committee meets with the external auditors at least twice a year. The Committee is authorised to seek information from any employee or external party and obtain legal or other professional advice.

The Committee co-operates with its external auditors in the selection, appointment and rotation of external audit engagement partners.

The Chief Executive Officer and the Chief Financial Officer have provided assurance in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

### TIMELY AND BALANCED DISCLOSURE

The Company has established policies and procedures designed to ensure compliance with ASX listing rules, continuous disclosure requirements and accountability for compliance at a senior level so that investors have equal and timely access to all material information.

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

### CLEAR COMMUNICATION WITH SHAREHOLDERS

The Continuous Disclosure and Communications Policy promotes effective communication with shareholders and encourages shareholder participation at AGMs.

### RISK IDENTIFICATION AND MANAGEMENT

The Board has established policies on risk management. The systems of internal financial controls have been determined by senior management and are designed to provide reasonable but not absolute protection against fraud, material misstatement or loss. The Chief Executive Officer and Chief Financial Officer provide representation to the Audit and Risk Committee and the Board that the risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Company has, in accordance with the Australian Standard on risk management AS/NZS ISO 31000:2009, developed a risk statement and underlying procedures for the key risk areas of People, Environment, Business and Reputation.

The Company has had a number of external audits of particular types of risk performed during the year.

A copy of the risk statement is available in the shareholder information section of the Company's website.

As part of the CEO's regular operational reviews, he reports to the Board on key areas of risk and the Company's management of risk.

# DIRECTORS' REPORT

## ENCOURAGE ENHANCED PERFORMANCE

The performance of the Audit and Risk Committee, individual directors and key executives is evaluated regularly by the Board.

The Board informally evaluates its performance and that of the individual directors and committees on a regular basis. The Board believes that the individuals on the Board have made quality and independent judgements in the best interests of the Company on all relevant issues during the reporting period.

## RECOGNISE THE INTERESTS OF ALL STAKEHOLDERS

The Company has established various codes of conduct to guide compliance with legal and other obligations to stakeholders and the community at large. These include ethical and work standards, employment practices including occupational health and safety and employment opportunities, and environmental protection. The Company's compliance and that of its employees is monitored through internal review.

## REMUNERATION

The Remuneration Committee reviews the remuneration of the executive directors and senior officers. The remuneration of the non-executive directors is based on the recommendations of independent remuneration consultants and while there is no formal charter for remuneration, the Board seeks independent advice as required.

The Company's non-executive directors receive fees for acting as a director of the Company. Additional fees are payable for being a member of a Board committee or representing the Group in specific matters from time to time. Non-executive directors may receive shares in the Company as part of their fees.

Executive directors and senior executives are remunerated based on a fixed wage plus incentive payments. The Company has performance and review policies and procedures in place for the evaluation of senior executives and these evaluations take place over the course of the year. The matters delegated to senior executives are such matters as are within the delegated authority of the CEO and delegated based on relevant skills and experience.

Further details in relation to the remuneration of directors and senior executives are set out in the Remuneration Report. The Board also seeks independent advice on the structure of executive pay and has acted in accordance with this advice.

The Company's Securities Trading Policy deals with executives entering into transactions limiting risk on unvested equity, and hedging more generally.

## PRINCIPAL ACTIVITIES

AJ Lucas Group is a diversified infrastructure, engineering and construction, and mining services group specialising in providing services to the energy, water and wastewater, and resources sectors. It is also an investor in the exploration and appraisal of oil and gas prospects.

The Group had 390 employees at balance date and a client base principally comprising major corporations and State and local governments.

The Group is structured into three principal operating segments:

**DRILLING:** Drilling services to the coal and coal seam gas industries for the degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.

**ENGINEERING & CONSTRUCTION (E&C):** Pipelines and associated construction and civil services. The Group is also the market leader in the installation of pipes including using horizontal directional drilling techniques.

**OIL AND GAS:** Commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.

## STRATEGY

The Group's business is to provide specialist engineering and drilling services principally to the energy, resources and water industries. This is to be achieved through a highly skilled workforce, specialist equipment, an excellent safety performance, quality management and information systems, and the provision of innovative, cost saving solutions. The Group seeks to increase shareholder returns through application of its skills to early identification and subsequent exploration of oil and gas prospects, particularly for unconventional hydrocarbons, derived from its expertise and knowledge of directional drilling.

The Group is 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 Group also has a successful track record in its oil and gas investments with exceptional returns from its investments at Gloucester Basin and in the Surat Basin. Partial monetization of its investments in Cuadrilla Resources and directly in the Bowland Basin in the UK continues this trend.



# DIRECTORS' REPORT

## REVIEW AND RESULTS OF OPERATIONS

### Overview of the Group

Trading conditions were very challenging throughout the year although towards the end of the period, there were some signs of stabilisation. Consolidated revenue declined by 22.7% (\$66.9 million) to \$227.9 million. Given these circumstances, the principal focus of the Company during the year was on rationalising the business and cutting costs to align the business with market conditions. These measures are reflected in the improved performance of the Group in the second half with an underlying EBITDA result during this period of \$2.7 million compared to a loss of \$2.5 million in the first half.

The restructuring of the business however, together with the substantial recapitalisation undertaken at the beginning of the financial year, positions the Company for a significant improvement once market conditions recover.

The following table summarises the results for the year:

	2014 Year \$'000	2014 2nd half \$'000	2014 1st half \$'000	2013 Year \$'000	2013/14 Change %
<b>Total revenue</b>	227,894	108,022	119,872	294,791	(22.7%)
Underlying EBITDA	204	2,728	(2,524)	3,332	(93.9%)
Reported EBITDA	(5,495)	(2,183)	(3,312)	(19,306)	71.5%
<b>EBIT</b>	(77,816)	(11,212)	(66,604)	(85,739)	9.2%
Profit / (loss) before tax	(91,693)	(13,038)	(78,655)	(124,438)	26.3%
<b>Net profit / (loss) for the year</b>	(91,693)	(13,038)	(78,655)	(126,996)	27.8%
Total assets	255,987	255,987	286,554	333,376	(23.2%)
Net assets	107,482	107,482	124,548	131,640	(18.4%)

Basic loss per share (cents) (34.6) (4.7) (29.9) (97.6) 64.6%

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	2014 \$'000	2013 \$'000
<b>Reconciliation:</b>						
<b>Consolidated loss before income tax</b>	<b>(53,783)</b>	<b>(8,512)</b>	<b>2,153</b>	<b>(31,551)</b>	<b>(91,693)</b>	<b>(124,438)</b>
Impairment of plant and equipment	11,402	—	—	—	<b>11,402</b>	13,615
Impairment of intangible assets	35,640	3,832	—	—	<b>39,472</b>	27,529
Impairment of equity accounted investees	—	—	—	—	—	2,437
Impairment of other receivables	—	—	—	1,122	<b>1,122</b>	—
Depreciation and amortisation	15,288	2,542	—	2,495	<b>20,325</b>	22,852
Finance costs	577	56	—	16,899	<b>17,532</b>	39,406
Finance income	(48)	(184)	(25)	(3,398)	<b>(3,655)</b>	(707)
<b>Reported EBITDA</b>	<b>9,076</b>	<b>(2,266)</b>	<b>2,128</b>	<b>(14,433)</b>	<b>(5,495)</b>	<b>(19,306)</b>
Share of (profit) / loss of equity accounted investees	—	(1,850)	(2,528)	—	<b>(4,378)</b>	3,858
Share of overhead - UK investments	—	—	204	—	<b>204</b>	1,427
Provisions and settlement of historical projects	578	3,409	—	638	<b>4,625</b>	13,114
Impairment of equity accounted investees	—	1,714	—	—	<b>1,714</b>	—
Redundancy costs	1,206	683	—	920	<b>2,809</b>	2,119
Net (profit) / loss on sales of assets	(86)	5	—	185	<b>104</b>	1,107
Advisory fees on balance sheet restructure	—	—	—	643	<b>643</b>	836
Cost of options granted	—	—	—	178	<b>178</b>	177
Other (income) / expense	(5)	12	(156)	(51)	<b>(200)</b>	—
<b>Underlying EBITDA</b>	<b>10,769</b>	<b>1,707</b>	<b>(352)</b>	<b>(11,920)</b>	<b>204</b>	<b>3,332</b>

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

# DIRECTORS' REPORT

The result was impacted by impairment charges totalling \$52.0 million with all goodwill now fully impaired and drilling plant and equipment also partly impaired reflecting the difficult market outlook for drilling activities. Other restructuring initiatives including closure of various facilities and stand down of under-performing equipment, together with provisions totalling \$4.6 million on residual legacy projects, also impacted on the result.

## Divisional performance

Contributions from the business divisions were as follows:

	Revenue \$'000	Underlying EBITDA \$'000	Margin % \$'000
<b>2014</b>			
Drilling	94,189	10,769	11.4%
Engineering and construction	133,705	1,707	1.3%
Oil and gas	–	(352)	N/A
<b>2013</b>			
Drilling	163,359	23,491	14.4%
Engineering and construction	131,432	(14,585)	-11.1%
Oil and gas	–	–	N/A

## Drilling

The results of the Drilling division are summarised as follows:

	2014 Year \$'000	2014 2nd half \$'000	2014 1st half \$'000	2013 Year \$'000	2013/14 Change %
Revenue	94,189	44,763	49,426	163,359	(42.3%)
Underlying EBITDA	10,769	5,614	5,155	23,491	(54.2%)
EBITDA margin	11.4%	12.5%	10.4%	14.4%	

Drilling revenue declined by 42.3% to \$94.2 million but encouragingly, stabilised in the second half with revenue in this period not materially different from the first half. The measures taken to reduce costs, together with a focus on the Group's core strength of directional drilling, resulted in an improvement in the underlying EBITDA margin in the second half to 12.5%. Favourable weather conditions in the second half also contributed to an improved performance during this period.

## Engineering & Construction

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

	2014 Year \$'000	2014 2nd half \$'000	2014 1st half \$'000	2013 Year \$'000	2013/14 Change %
Revenue	133,705	63,259	70,446	131,432	1.7%
Underlying EBITDA	1,707	3,396	(1,689)	(14,585)	111.7%
EBITDA margin	1.3%	5.4%	(2.4%)	(11.1%)	

Engineering & Construction revenue increased by 1.7% to \$133.7 million reflecting a change in market demand away from large scale infrastructure to more specialised smaller scale works better suited to the Group's capabilities. The Group benefited from its partnership with Spiecapag that contributed newly won revenue of \$53.6 million during the year. A renewed emphasis on project execution, and a reduction of legacy projects requiring resolution, resulted in a further improvement in contract margin in the second half to 5.4%.

# DIRECTORS' REPORT

## Oil and Gas Investments

The last year has seen substantial progress of the Company's European shale gas investments, held through its shareholding in Cuadrilla and direct licence interests in the UK. Early in the financial year, there was a successful monetisation of part of these investments and, in recent months, signs of real progress towards approval of drilling at Cuadrilla's Bowland Basin, which comprises the Elswick and Bowland Prospects in North-West England. Application was recently made to drill at two well sites in these Prospects and subject to local Council approval, Cuadrilla expects to commence operational work at the first of these sites in the first quarter of next calendar year. The monies required to fund the expenditure will be largely met from the Centrica farm-in which is expected to be sufficient to fund the expenditure through to approximately June 2015.

## OUTLOOK

The drilling market is showing signs of stabilising. The level of enquiry for drilling services is picking up, reflected in the Group tendering for a significant amount of work and recent success in winning new clients. Global coal demand remains strong and with the need for Australian coal exporters to replenish their reserves after an extended period of exploration restraint, this suggests a continuing recovery for the Company's drilling services.

The Engineering and Construction division is also tendering for a significant amount of new work and has been short listed for a number of projects. This reflects the change in the market requirements to smaller scale infrastructure works better suited to the Company's capability and size. The Company's expertise in pipeline and directional drilling works is being increasingly recognised leading to a number of larger companies wishing to partner with Lucas to access the Company's expertise.

The Company also expects to progress the commercialisation of its oil and gas investments with, depending on timing of the approval of the well sites applied for in the Bowland basin, operational work at the first of the well sites expected to commence in the first quarter of next calendar year.

## REVIEW OF FINANCIAL CONDITION

### Balance Sheet

The balance sheet was substantially strengthened during the year following the completion of the capital raising commenced at the end of the last financial year and the rescheduling of the Company's residual borrowings. As a result of these events, the Company has experienced a significant improvement in its working capital and liquidity with net current assets at balance date of \$20.0 million and a current ratio of 1.35.

Gross interest-bearing loans and borrowings were reduced by \$31.7 million to \$63.2 million with the debt to equity ratio improving to 59% as a result.

### Cash flows from operations

Cash outflow from operations amounted to \$8.7 million in large part due to a normalisation of creditor arrears at the beginning of the financial year funded out of the capital raising completed in July 2013. However, cash flow improved substantially in the second half with a positive \$2.5 million cash generated from operations during this period.

## 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.

## 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.

# DIRECTORS' REPORT

## ENVIRONMENTAL REGULATIONS & NATIVE TITLE

As infrastructure engineers, meeting stringent environmental and land use regulations, including native title issues, are an important element of the Company's work. Lucas is committed to identifying environmental risks and engineering solutions to avoid, minimise or mitigate them. The Group works closely with all levels of government, landholders, and other bodies to ensure its activities have minimal or no effect on land use and areas of environmental and cultural importance. One of the key benefits of directional drilling is its ability to avoid or substantially mitigate environmental impact.

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

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

## EVENTS SUBSEQUENT TO REPORTING 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.

## OTHER DISCLOSURES

### Unissued shares under options

All options were granted in previous financial years. No options were exercised during the financial year. At the date of this report, unissued shares of the Company under options are:

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

3,750,000 options held by the former CEO expire on 7 December 2015. All other options expire on the earlier of their expiry date and in relation to employees or officers of the Company, the termination of the employee's employment and cessation of the officer's service. In addition, the options granted to directors and management are exercisable only upon the vesting conditions being met. Further details are provided in the Remuneration Report.

## 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
Allan Campbell <sup>(1)</sup>	10,378,731	3,750,000
Martin Green <sup>(1)</sup>	350,000	—
Phillip Arnall	100,000	—
Russell Eggers	9,800	—
Ian Meares	—	—
Andrew Purcell	—	—
Julian Ball	—	—
Mike McDermott <sup>(1)</sup>	—	—
Genelle Coghlan <sup>(1)</sup>	—	—

(1) Resigned their directorships during the year.

# DIRECTORS' REPORT

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

### Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities including expenses to another person or entity (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Group, except where the liability arises out of conduct involving a lack of good faith.

No indemnity has been provided to the auditors of the Company.

### Insurance premiums

Since the end of the previous financial year, the Company has paid premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ending 31 May 2015.

## NON-AUDIT SERVICES

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *'Code of Ethics for Professional Accountants'*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Payments to the auditor of the Company and its related practices for non-audit services provided during the year, as set out in note 9 of the consolidated financial statements, amounted to \$6,500 (2013: \$150,696).

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 19 and forms part of the Directors' Report for the financial year ended 30 June 2014.

## ROUNDING OFF

The Company is of a kind referred to in ASIC 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the Directors' Report and the consolidated financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

## REMUNERATION REPORT – AUDITED

This remuneration report outlines the remuneration policy for key management personnel comprising the directors of the Company and senior executives of the Company and the Group. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

### Non-executive directors' remuneration

The Board's policy for setting fees for non-executive directors is to position them around the middle of market practice for comparable non-executive director roles in companies listed on the Australian Securities Exchange (ASX). Non-executive directors do not receive performance related remuneration and are not provided with retirement benefit apart from statutory superannuation. Non-executive director fees are expressed as inclusive of superannuation contributions. Options and other forms of equity are not provided for non-executive directors. However, the Company has in the past periodically awarded them shares under its Deferred Share Plan. Such shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their service with AJ Lucas ceases.

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 of the non-executive directors is currently \$90,000 per annum. The remuneration of the Chairman is currently \$135,000. In addition, \$5,000 per annum additional remuneration is paid for serving on any committee of the Board.

# DIRECTORS' REPORT

## REMUNERATION REPORT – AUDITED (CONT.)

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 \$	Fees for additional services \$	Total \$
Phillip Arnall <sup>(1)</sup>	2014	72,050	6,667	–	78,717
	2013	75,000	10,000	–	85,000
Martin Green	2014	90,000	10,000	–	100,000
	2013	75,000	10,000	–	85,000
Genelle Coghlan	2014	90,000	5,000	15,000	110,000
	2013	75,000	5,000	–	80,000
Mike McDermott	2014	90,000	5,000	15,000	110,000
	2013	75,000	5,000	–	80,000
Julian Ball	2014	82,500	6,667	–	89,167
Ian Meares	2014	7,500	417	–	7,917
Andrew Purcell	2014	7,500	417	–	7,917

(1) Phillip Arnall acted in the role of interim CEO for the period 28 January to 3 June 2014 and was therefore an executive director during that period. Only the remuneration for the period he was a non-executive director is included in the table above.

### Executive remuneration

#### Policy

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

The overriding philosophy of the remuneration structure is to reward employees for increasing shareholder value. This is achieved by providing a fixed remuneration component together with short and long-term performance-based incentives.

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.

The remuneration for executives and staff is reviewed annually, using a formal performance appraisal process and market data derived from independent surveys of people with similar competencies and responsibilities.

#### Fixed remuneration

Fixed remuneration consists of base remuneration which is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits including motor vehicles as well as employer contributions to superannuation funds.

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

#### Performance linked compensation

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

# DIRECTORS' REPORT

## REMUNERATION REPORT – AUDITED (CONT.)

The short-term incentive (STI) is an 'at risk' bonus generally provided in the form of cash. No STI payments were made in the last financial year.

The long-term incentive (LTI) is provided as options or rights over ordinary shares of the Company under the rules of the Company's various incentive schemes. The long-term incentive (LTI) is only available to be taken in ordinary shares and vests after three years subject to the performance hurdles being met and the recipient still being employed by the Group at vesting time. No option or rights have been granted in the last financial year.

### Management rights and options plan

The management rights and options plan is available to employees and other persons at the discretion of the Board. Nominated persons are granted rights and options to acquire shares in the Company. The exercise of rights can be satisfied by either the issue of shares for no consideration or by the monetary equivalent of the underlying shares on the date of grant of the rights. The exercise of options is subject to the vesting conditions being met. There were no options granted during the period.

### Deferred share plan

The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the Group ceases. No such shares were issued in either of the last three years.

### Employee share acquisition plan

The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to \$1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Employees must have been employed by any entity within the Group for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of three years from the date of issue or the date their employment with the Group ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares. No such shares were issued in either of the last three years.

### Relationship of remuneration to Company performance

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

Year ended 30 June	2014	2013	2012	2011	2010
Total revenue (\$'000)	227,894	294,791	504,276	433,373	358,490
Net loss after tax attributable to members (\$'000)	(91,693)	(126,996)	(110,237)	(11,527)	(7,128)
Loss per share (cents)	(34.6)	(97.6)	(133.2)	(17.5)	(11.0)
Dividend per share (cents)	—	—	—	—	5.5
Share price at balance date	\$0.93	\$1.20	\$1.06	\$1.35	\$2.23
Share price appreciation/(depreciation)	(23%)	13%	(21%)	(40%)	(30%)

The overall level of key management personnel compensation has been constrained due to the performance of the Group over a number of years. The previously agreed 10% reduction in the monetary remuneration of key management personnel, commencing January 2013 was ended effective 1 July 2013. No other adjustments have been made to key management personnel fixed remuneration levels during the year. There was no performance linked remuneration issued during the year.

# DIRECTORS' REPORT

## REMUNERATION REPORT – AUDITED (CONT.)

### Executive directors' 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>	Non-monetary benefits <sup>(2)</sup>	Total	Superannuation benefits	Termination benefit <sup>(3)</sup>	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 directors												
Russell Eggers	2014	44,828	–	44,828	1,481	–	685	–	46,994	–	–	
CEO (appointed 3 Jun 2014)												
Phillip Arnall	2014	145,333	–	145,333	–	–	–	–	145,333	–	–	
(Interim CEO 28 January to 3 June 2014)												
Allan Campbell	2014	449,713	–	449,713	4,167	1,002,868	–	121,254	1,578,002	–	7.7	
CEO (resigned 28 January 2014)	2013	631,458	–	631,458	4,167	–	–	98,996	734,621	–	13.5	
Executive officers												
Mark Summergreene	2014	397,281	–	397,281	25,000	–	11,708	4,387	438,377	–	1.0	
Chief Financial Officer												
	2013	336,017	240	336,257	24,556	–	18,958	2,560	382,332	–	0.7	
Brett Tredinnick	2014	358,204	–	358,204	20,470	–	18,082	10,445	407,201	–	2.6	
CEO Drilling												
	2013	361,606	–	361,606	25,225	–	(5,518)	6,095	387,409	–	1.6	
John Stuart-Robertson	2014	31,351	–	31,351	1,856	–	3,519	–	36,726	–	–	
General Manager - Pipelines (KMP from 28 May 2014)												

Amounts disclosed for remuneration of key management personnel exclude insurance premiums paid in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers of the Company and its controlled entities. This amount has not been allocated to the individuals covered by the insurance policy as the directors believe that no reasonable basis for such allocation exists. Details of the nature of the liabilities or the amount of the premium paid have not been shown as such disclosure is prohibited under the terms of the policy contract.

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

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

(3) Termination benefits include \$550,000 that remain unpaid at the date of this report, in accordance with the settlement terms.

(4) The fair value of the rights and 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 rights and options allocated to the reporting period shown.



# DIRECTORS' REPORT

## REMUNERATION REPORT – AUDITED (CONT.)

### Other benefits

The remuneration policy provides that key management personnel may obtain loans from the Group. All such loans are made at commercial rates and therefore do not represent a benefit to the recipient or attract fringe benefit tax. No loans were made at any time during the year.

### Service agreements

All key management personnel are employed under a standard contract. The service contract outlines the components of remuneration but does not prescribe how 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 and any changes required to meet the principles of the remuneration policy.

The service contracts are unlimited in term. All contracts can be terminated without notice by the Company with compensation, if any, payable to the employee in accordance with the law or by negotiated agreement.

### External remuneration consultant advice

During the 2013-14 financial year, the Company did not receive advice on key management personnel remuneration from external remuneration consultants. Effective 1 July 2013, the previously agreed 10% reduction in key management personnel monetary remuneration which commenced in January 2013 was reversed. No other adjustments to remuneration of key management personnel were made during the year.

### Options over equity instruments granted as compensation

No options over ordinary shares in the Company were granted as compensation to key management personnel during the reporting period. No options granted in the prior year vested during the reporting period.

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

2014	Held at 1 July 2013	Granted as compensation	Cancelled	Exercised	Held at 30 June 2014	Vested during the year	Vested and exercisable at 30 June 2014
<b>Former Directors</b>							
Allan Campbell	3,750,000	–	–	–	3,750,000	–	–
<b>Executives</b>							
Mark Summergreene	105,000	–	–	–	105,000	–	–
Brett Tredinnick	250,000	–	–	–	250,000	–	–

Details of the vesting profiles of the options held by each key management person are detailed as follows:

2014	Number	Grant date	% Vested in year	% forfeited in year	Financial year in which grant vests
<b>Former Directors</b>					
Allan Campbell	3,750,000	05-Sep-12	–	–	2015/16
<b>Executives</b>					
Mark Summergreene	105,000	29-Nov-12	–	–	2015/16
Brett Tredinnick	250,000	29-Nov-12	–	–	2015/16

The executive options vest 50% after 2 years service, and 100% after three years of service from grant date.

# DIRECTORS' REPORT

## REMUNERATION REPORT – AUDITED (CONT.)

### 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:

<b>2014</b>	<b>Held at 1 July 2013</b>	<b>Received on exercise of rights</b>	<b>Purchased</b>	<b>Net other change</b>	<b>Held at 30 June 2014</b>
<b>Directors</b>					
Phillip Arnall	–	–	100,000	–	100,000
Russell Eggers	–	–	9,800	–	9,800
Alan Campbell	10,378,731	–	–	–	10,378,731
Martin Green	350,000	–	–	–	350,000
<b>Executives</b>					
Mark Summergreene	102,209	–	81,767	–	183,976
Brett Tredinnick	345,722	–	–	–	345,722
John Stuart-Robertson	48,859	–	–	–	48,859

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 28th day of August 2014



Russell Eggers,  
Managing Director



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

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

*KPMG*

KPMG

Carlo Pasqualini  
*Partner*

Sydney

28 August 2014

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$'000	2013 \$'000
Revenue	6	227,894	294,791
<b>Total revenue</b>		<b>227,894</b>	<b>294,791</b>
Material costs		(50,431)	(83,264)
Sub-contractor costs		(48,535)	(75,641)
Employee expenses		(95,361)	(104,055)
Plant and other construction costs		(36,100)	(39,857)
Depreciation and amortisation expenses	8	(20,325)	(22,852)
Advisory fees on balance sheet restructure		(643)	(836)
Cost of options granted		(178)	(177)
Impairment expense	8	(53,710)	(45,725)
Redundancy costs		(2,809)	(2,119)
Loss on sale of assets held for sale		(104)	(1,107)
Other expenses		(1,892)	(1,039)
<b>Results from operating activities</b>		<b>(82,194)</b>	<b>(81,881)</b>
Finance income	7	3,655	707
Finance costs	7	(17,532)	(39,406)
<b>Net finance costs</b>	7	<b>(13,877)</b>	<b>(38,699)</b>
Share of profit / (loss) of equity accounted investees	17	4,378	(3,858)
<b>Loss before income tax</b>		<b>(91,693)</b>	<b>(124,438)</b>
Income tax expense	10	–	(2,558)
<b>Loss for the period</b>		<b>(91,693)</b>	<b>(126,996)</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit and loss</b>			
Effective portion of changes in fair values of hedges		–	78
Total items that will not be reclassified to profit and loss		–	78
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences on translation of foreign operations		3,324	7,756
Total items that may be reclassified subsequently to profit and loss		3,324	7,756
<b>Other comprehensive income for the period</b>		<b>3,324</b>	<b>7,834</b>
<b>Total comprehensive loss for the period</b>		<b>(88,369)</b>	<b>(119,162)</b>
<b>Total comprehensive loss attributable to owners of the Company</b>		<b>(88,369)</b>	<b>(119,162)</b>
<b>Earnings per share:</b>			
Basic (loss)/earnings per share (cents)	11	(34.6)	(97.6)
Diluted (loss)/earnings per share (cents)	11	(34.6)	(97.6)

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Note	2014 \$'000	2013 \$'000
<b>Current assets</b>			
Cash and cash equivalents	12	29,250	9,675
Trade and other receivables	13	18,815	39,430
Inventories	14	29,630	29,410
Assets classified as held for sale		–	1,357
Other assets	15	886	1,978
<b>Total current assets</b>		<b>78,581</b>	<b>81,850</b>
<b>Non-current assets</b>			
Property, plant and equipment	16	79,074	109,972
Exploration assets	18	10,759	6,320
Other intangible assets	19	–	39,472
Investments in equity accounted investees	17	87,573	95,762
<b>Total non-current assets</b>		<b>177,406</b>	<b>251,526</b>
<b>Total assets</b>		<b>255,987</b>	<b>333,376</b>
<b>Current liabilities</b>			
Trade and other payables	21	45,232	61,743
Interest-bearing loans and borrowings	22	864	88,921
Current tax liabilities	23	5,480	9,020
Derivative liabilities	24	1,765	4,916
Employee benefits	26	4,796	5,527
<b>Total current liabilities</b>		<b>58,137</b>	<b>170,127</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	22	62,329	5,948
Non-current tax liabilities	23	27,415	24,655
Employee benefits	26	624	1,006
<b>Total non-current liabilities</b>		<b>90,368</b>	<b>31,609</b>
<b>Total liabilities</b>		<b>148,505</b>	<b>201,736</b>
<b>Net assets</b>		<b>107,482</b>	<b>131,640</b>
<b>Equity</b>			
Share capital		339,670	275,637
Reserves		11,980	8,478
Accumulated losses		(244,168)	(152,475)
<b>Total equity</b>	27	<b>107,482</b>	<b>131,640</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 2014

	Share capital \$'000	Translation reserve \$'000	Option reserve \$'000	Employee equity benefits reserve \$'000	Hedging reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance 1 July 2013	275,637	4,183	637	3,658	—	(152,475)	131,640
<b>Total comprehensive income</b>							
Loss for the period	—	—	—	—	—	(91,693)	(91,693)
<b>Other comprehensive income</b>							
Foreign currency translation differences	—	3,324	—	—	—	—	3,324
Total comprehensive income/(loss)	—	3,324	—	—	—	(91,693)	(88,369)
<b>Transactions with owners recorded directly in equity</b>							
Issue of ordinary shares, net of transaction costs	64,033	—	—	—	—	—	64,033
Share based payment transactions	—	—	—	178	—	—	178
Total contributions by and distributions to owners	64,033	—	—	178	—	—	64,211
<b>Balance 30 June 2014</b>	<b>339,670</b>	<b>7,507</b>	<b>637</b>	<b>3,836</b>	<b>—</b>	<b>(244,168)</b>	<b>107,482</b>
Balance 1 July 2012	138,506	(3,573)	637	3,481	(78)	(25,479)	113,494
<b>Total comprehensive income</b>							
Loss for the period	—	—	—	—	—	(126,996)	(126,996)
<b>Other comprehensive income</b>							
Effective portion of changes in fair value of hedges	—	—	—	—	78	—	78
Foreign currency translation differences	—	7,756	—	—	—	—	7,756
Total comprehensive income/(loss)	—	7,756	—	—	78	(126,996)	(119,162)
<b>Transactions with owners recorded directly in equity</b>							
Issue of ordinary shares, net of transaction costs	137,131	—	—	—	—	—	137,131
Share based payment transactions	—	—	—	177	—	—	177
Total contributions by and distributions to owners	137,131	—	—	177	—	—	137,308
<b>Balance 30 June 2013</b>	<b>275,637</b>	<b>4,183</b>	<b>637</b>	<b>3,658</b>	<b>—</b>	<b>(152,475)</b>	<b>131,640</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		266,767	365,638
Cash paid to suppliers and employees		(275,485)	(375,397)
<b>Cash used in operations</b>		<b>(8,718)</b>	<b>(9,759)</b>
Interest received		454	634
Income taxes paid		(4,020)	(11,466)
Interest and other costs of finance paid		(7,646)	(1,273)
<b>Net cash used in operating activities</b>	33(b)	<b>(19,930)</b>	<b>(21,864)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		299	1,891
Acquisition of plant and equipment		(1,233)	(15,241)
Recovery of impaired receivables from equity accounted investees		2,200	–
Payments for interest in exploration assets		(3,124)	(5,618)
Payments for equity accounted investees		(3,160)	(20,689)
Proceeds from redemption of preference shares	17	17,793	–
Proceeds from sale of exploration assets		–	14,397
Proceeds from assets held for sale		1,019	5,433
Advisory fees on balance sheet restructure		–	(1,450)
Loans to other entities		–	(51)
<b>Net cash from / (used in) investing activities</b>		<b>13,794</b>	<b>(21,328)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		–	19,244
Repayment of borrowings		(3,822)	(14,436)
Payment of finance lease liabilities		(1,331)	(33,130)
Net proceeds from issue of shares		30,864	83,489
<b>Net cash from financing activities</b>		<b>25,711</b>	<b>55,167</b>
<b>Net increase in cash and cash equivalents</b>		<b>19,575</b>	<b>11,975</b>
Cash and cash equivalents at beginning of the period		9,675	(2,300)
<b>Cash and cash equivalents at end of the period</b>	33(a)	<b>29,250</b>	<b>9,675</b>

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

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

AJ Lucas Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 394 Lane Cove Road, Macquarie Park, NSW 2113. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2014 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 and resources sectors. It also holds investments in unconventional and conventional hydrocarbons in Europe, Australia and the USA.

## 2. BASIS OF PREPARATION

### (A) STATEMENT OF COMPLIANCE

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ('AASBs') including Australian interpretations adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). The consolidated financial statements were authorised for issue by the Board of Directors on 28 August 2014.

### (B) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure 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 year of \$91.7 million primarily as a result of non-cash impairment charges of \$53.7 million, net finance costs of \$13.9 million, continued operating losses and restructuring expenses;
- The Group used net cash of \$19.9 million in its operating activities during the year primarily as a result of finance charges of \$7.6 million, continued operating losses and restructuring expenses. Whilst the Group had cash and cash equivalents of \$29.3 million available as at balance date, at present it does not have access to any additional financing facilities;
- The Group's core markets have remained depressed throughout the current year. The Group's financial performance and its cash flows during the following financial year will be driven by demand for its drilling, engineering and construction services, which in turn will be impacted by various factors which are outside the control of the Group. As such, forecasting carries an inherent degree of uncertainty; and
- The ongoing exposure of the Group to contractor liabilities as disclosed in note 31.

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, if and when required, as evidenced by the completion in July 2013 of a capital raising commencing in June 2013 which raised \$148.8 million in equity, including cash of \$60.5 million after share raising fees and amounts settled via debt to equity swaps;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION (CONT.)

### (C) GOING CONCERN (CONT.)

- The directors' confidence in the continuing support of Kerogen Investments No. 1 (HK) Limited ("Kerogen"), both as a substantial debtholder and shareholder of the Company. This is evidenced by the extension of the maturity date of its debt facilities to 2017, the provision of an option to defer a defined portion of interest on those facilities at the Company's discretion, and its participation in the entitlement offer during the period;
- The reasonableness of the profitability and cash flow forecasts of the Group, which have been prepared by management on the basis of past experience, guidance and commentary provided by customers and competitors together with macroeconomic indicators;
- The arrangement summarised at Note 18 under which Centrica Plc ("Centrica") has provided certain commitments to fund exploration expenditure in respect of the Bowland and Elswick Prospects. The directors are confident that this arrangement will mean that the Group will not be required to provide additional cash in respect of the development of the Prospects until after June 2015;
- The implied value of the Group's investment in both Cuadrilla and also its direct holding in the Bowland and Elswick Prospects, as evidenced by the partial sale of the Group's direct and indirect interests in the Prospects to Centrica during the previous financial year; and
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla.

After considering the above factors, the directors have concluded that the use of the going concern assumption is appropriate. Had the going concern basis not been used, adjustments would need to be made relating to the recoverability and classification of certain assets, and the classification and measurement of certain liabilities to reflect the fact that the Group may be required to realise its assets and settle its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial report.

### (D) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Australian dollars which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

### (E) USE OF ESTIMATES AND JUDGMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

- Note 14 – Inventories;
- Note 3(N) – Exploration and evaluation assets
- Note 19 – Key assumptions used in discounted cash flow projections;
- Note 20 – Utilisation of tax losses;
- Note 26 – Measurement of share based payments;
- Note 28 – Valuation of financial instruments; and
- Note 31 – Contingencies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION (CONT.)

### (F) CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in these consolidated financial statements have been applied consistently to all periods presented. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

#### **AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements and AASB 12 Disclosure of Interest in Other Entities**

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

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

As a result a dormant company, Lucas Xtreme Drilling Pty Ltd, which was previously considered a subsidiary is now accounted for as a joint venture. There has been no impact on the reported consolidated statement of financial position, consolidated statement of comprehensive income or consolidated statement of cash flow as a result of these changes.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

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

#### **AASB 13 Fair Value Measurement (2011)**

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. There has not been any material changes as a result of adopting this new standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained above in Note 2 (F), the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities.

### (A) BASIS OF CONSOLIDATION

#### **Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over the fair value of 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (A) BASIS OF CONSOLIDATION (CONT.)

#### **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 Groups 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. Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. A partial redemption of equity interests is accounted for by 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 Groups 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (B) FOREIGN CURRENCY (CONT.)

#### **Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

### (C) FINANCIAL INSTRUMENTS

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

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

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

##### ***Loans and receivables***

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

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

##### ***Cash and cash equivalents***

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

##### ***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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (C) FINANCIAL INSTRUMENTS (CONT.)

#### **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.

#### ***Cash flow hedges***

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit and loss in the same period or periods during which the hedged item affect profit and loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit and loss.

### (D) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends are recognised as a liability in the period in which they are declared.

### (E) LEASES

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

#### **Leased assets**

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Group's statement of financial position.

#### **Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (F) REVENUE

#### **Services rendered**

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (F) REVENUE (CONT.)

#### 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 that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### (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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- relating to investments in subsidiaries and associates and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (H) INCOME TAX (CONT.)

#### Deferred tax (Cont.)

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

## 3. 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 CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

### (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) 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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

The residual value, useful life and depreciation method applied to an asset are reviewed at each financial year-end and adjusted if appropriate at least annually.

### (M) INTANGIBLE ASSETS

#### Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

#### Customer relationships and customer contracts

Customer relationship and customer contracts intangibles that are acquired by the Group that have finite lives are measured at cost less accumulated amortisation and impairment losses.

#### Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

#### Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

#### Amortisation

Amortisation is calculated to write off the cost of the intangible asset, less its residual value, using the straight line method over the estimated useful lives. Goodwill is not amortised.

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

	Years
Other development assets	5
Customer contracts	1-5
Customer relationships	5 years after expiry of the contract

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (N) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained legal rights to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

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

Where the Group is party to a farm-in arrangement any proceeds or non-cancellable expenditure funded by the purchaser is recognised as disposal proceeds. The non-cancellable expenditure to be funded by the purchaser is recognised as a receivable carry asset within exploration assets in accordance with the Group's interest percentage. The assets disposed per the terms of the farm-in arrangement are treated as costs of disposal, alongside any other costs incurred, with the net profit or loss recognised in the income statement as incurred.

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

### (O) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (O) IMPAIRMENT (CONT.)

#### Financial assets (including receivables) (Cont.)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### Non-financial assets

The carrying amounts of the Group's non-financial assets (other than inventories, construction work in progress and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 groups of assets ("the cash generating unit" or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### (P) NON-CURRENT ASSETS HELD FOR SALE

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (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.

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

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

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

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

## 5. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### Property, plant and equipment

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

### Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### Inventories

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

### Trade and other receivables

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

### Derivatives

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

### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. DETERMINATION OF FAIR VALUES (CONT.)

### Share-based payment transactions

The fair value of employee stock options are measured using the Monte Carlo pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 6. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Drilling	Drilling services to the coal and coal seam gas industries for degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.
Engineering & Construction (E&C)	Pipelines and associated construction and civil services. The Group is also the market leader in the installation of pipes including using horizontal directional drilling techniques.
Oil & Gas	Commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.

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

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

New loans from the related party entered into in the current year are allocated wholly to the Corporate segment. Previous loans were allocated to strategic business units as reported at that time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. OPERATING SEGMENTS (CONT.)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>June 2014</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	94,189	–	–	94,189	–	–	94,189
Revenue - construction contracts	–	133,705	–	133,705	–	–	133,705
Inter-segment revenue	5,752	–	–	5,752	–	(5,752)	–
<b>Total consolidated revenue</b>	<b>99,941</b>	<b>133,705</b>	<b>–</b>	<b>233,646</b>	<b>–</b>	<b>(5,752)</b>	<b>227,894</b>
<b>EBITDA</b>	<b>9,076</b>	<b>(2,266)</b>	<b>2,128</b>	<b>8,938</b>	<b>(14,433)</b>	<b>–</b>	<b>(5,495)</b>
Depreciation, amortisation and impairment	(62,330)	(6,374)	–	(68,704)	(3,617)	–	(72,321)
Finance income	48	184	25	257	3,398	–	3,655
Finance cost	(577)	(56)	–	(633)	(16,899)	–	(17,532)
<b>Reportable segment profit / (loss)</b>	<b>(53,783)</b>	<b>(8,512)</b>	<b>2,153</b>	<b>(60,142)</b>	<b>(31,551)</b>	<b>–</b>	<b>(91,693)</b>
	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>June 2013</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	163,359	–	–	163,359	–	–	163,359
Revenue - construction contracts	–	131,432	–	131,432	–	–	131,432
Inter-segment revenue	8,879	–	–	8,879	–	(8,879)	–
<b>Total consolidated revenue</b>	<b>172,238</b>	<b>131,432</b>	<b>–</b>	<b>303,670</b>	<b>–</b>	<b>(8,879)</b>	<b>294,791</b>
<b>EBITDA</b>	<b>21,776</b>	<b>(29,064)</b>	<b>(4,678)</b>	<b>(11,966)</b>	<b>(7,340)</b>	<b>–</b>	<b>(19,306)</b>
Depreciation, amortisation and impairment	(54,733)	(8,698)	–	(63,431)	(3,002)	–	(66,433)
Finance income	–	618	–	618	89	–	707
Finance cost	(2,169)	(3,748)	–	(5,917)	(33,489)	–	(39,406)
<b>Reportable segment profit / (loss)</b>	<b>(35,126)</b>	<b>(40,892)</b>	<b>(4,678)</b>	<b>(80,696)</b>	<b>(43,742)</b>	<b>–</b>	<b>(124,438)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. OPERATING SEGMENTS (CONT.)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Total \$'000
<b>June 2014</b>						
Segment assets	91,265	39,803	109,832	240,900	15,087	255,987
Segment liabilities (1)	(28,625)	(22,535)	(2,782)	(53,942)	(94,563)	(148,505)
Depreciation and amortisation	(15,288)	(2,542)	–	(17,830)	(2,495)	(20,325)
Share of profit of equity accounted investees	–	1,850	2,528	4,378	–	4,378
Equity accounted investments	–	–	87,573	87,573	–	87,573
Capital expenditure	827	93	–	920	301	1,221
Impairment of intangible asset	(35,640)	(3,832)	–	(39,472)	–	(39,472)
Impairment of plant and equipment	(11,402)	–	–	(11,402)	–	(11,402)
Impairment of equity accounted investee	–	(1,714)	–	(1,714)	–	(1,714)
Impairment of receivable	–	–	–	–	(1,122)	(1,122)
<b>June 2013</b>						
Segment assets	164,706	39,288	102,082	306,076	27,300	333,376
Segment liabilities	(82,566)	(38,097)	(54,356)	(175,019)	(26,717)	(201,736)
Depreciation and amortisation	(16,714)	(3,136)	–	(19,850)	(3,002)	(22,852)
Share of loss of equity accounted investees	–	(607)	(3,251)	(3,858)	–	(3,858)
Equity accounted investments	–	–	95,762	95,762	–	95,762
Capital expenditure	13,825	269	–	14,094	1,147	15,241
Impairment of intangible asset	(27,529)	–	–	(27,529)	–	(27,529)
Impairment of plant and equipment	(10,490)	(3,125)	–	(13,615)	–	(13,615)
Impairment of equity accounted investee	–	(2,437)	–	(2,437)	–	(2,437)

(1) New loans from the related party entered into in the current year are allocated wholly to the Corporate segment. Previous loans were allocated to strategic business units as reported at that time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. OPERATING SEGMENTS (CONT.)

### GEOGRAPHICAL INFORMATION

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

	Revenues		Non-current assets	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Australia	227,085	294,791	79,074	149,444
Europe	156	—	98,332	102,082
Asia/Pacific	653	—	—	—
	<b>227,894</b>	<b>294,791</b>	<b>177,406</b>	<b>251,526</b>

## 7. FINANCE INCOME AND FINANCE COSTS

	2014 \$'000	2013 \$'000
Interest income	504	707
Net change in fair value of derivative liability	3,151	—
<b>Finance income</b>	<b>3,655</b>	<b>707</b>
Interest expense	(14,366)	(20,432)
Net change in fair value of derivative liability	—	(901)
Amortisation of options and fees on debt facilities	(1,807)	(6,144)
Net foreign exchange loss	(1,359)	(11,929)
<b>Finance costs</b>	<b>(17,532)</b>	<b>(39,406)</b>
<b>Net finance costs recognised in profit and loss</b>	<b>(13,877)</b>	<b>(38,699)</b>

## 8. OTHER EXPENSES

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

	2014 \$'000	2013 \$'000
Depreciation and amortisation of property, plant and equipment	20,325	22,852
<b>Total depreciation and amortisation</b>	<b>20,325</b>	<b>22,852</b>
Impairment of intangible asset	39,472	27,529
Impairment of plant and equipment	11,402	13,615
Impairment of equity accounted investees	1,714	2,437
Impairment of receivables	—	2,144
Impairment of other receivables	1,122	—
<b>Total impairments</b>	<b>53,710</b>	<b>45,725</b>

## 9. AUDITOR'S REMUNERATION

	2014 \$'000	2013 \$'000
Audit services		
Auditors of the Company — KPMG Australia and other network firms		
Audit and review of financial reports	495,977	600,701
Other professional services	6,500	150,696
	<b>502,477</b>	<b>751,397</b>

Other professional services related to advisory services.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. INCOME TAX

	2014 \$'000	2013 \$'000
<b>Current tax (expense) / benefit recognised in profit or loss</b>		
Current year	(13,733)	(14,264)
Tax losses not recognised and temporary differences derecognised in current year	15,796	26,240
Prior year adjustments	–	187
	2,063	12,163
<b>Deferred tax expense recognised in profit or loss</b>		
Origination and reversal of temporary differences	(2,063)	(10,469)
Prior year adjustment	1,009	(222)
Prior year tax losses not recognised	(1,009)	1,086
<b>Total income tax expense / (benefit) in profit or loss</b>	<b>–</b>	<b>2,558</b>
<b>Current tax benefit recognised in the statement of changes in equity</b>		
Current year	–	1,589
<b>Total income tax benefit in equity</b>	<b>–</b>	<b>1,589</b>
<b>Numerical reconciliation between tax benefit and pre-tax net profit/(loss)</b>		
Accounting loss before income tax	(91,693)	(124,438)
Prima facie income tax benefit calculated at 30% (2013: 30%)	(27,508)	(37,331)
Adjustment for:		
Equity settled share based payments	–	(166)
Equity accounted loss	(1,314)	1,167
Non-deductible expenses	83	487
Non-deductible option expense	596	1,639
Non-assessable income	(140)	–
Effect of tax rate in foreign jurisdictions	–	(15)
Non-deductible finance cost	538	230
Impairment expenses	12,894	8,990
Fair value derivative option gain non-assessable	(945)	270
Prior year tax losses not recognised	(1,009)	1,271
Current year tax losses not recognised	13,733	14,264
Derecognition of prior year deferred tax asset	–	782
Current year temporary differences not recognised	2,063	11,191
	(1,009)	2,779
Income tax over-provided in prior year	1,009	(221)
<b>Income tax expense / (benefit) attributable to operating loss</b>	<b>–</b>	<b>2,558</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 2014 was based on the loss after tax attributable to ordinary shareholders of \$91,693,000 (2013: loss after tax of \$126,996,000) and a weighted average number of ordinary shares outstanding of 265,088,383 (2013: 130,079,181) calculated as follows:

	2014 Number	2013 Number
<b>Weighted average number of ordinary shares (basic)</b>		
Issued ordinary shares at 1 July	211,528,273	103,027,291
Effect of exercise of options issued to lender	–	5,601,217
Equity placements	–	20,792,206
Entitlement shares	53,560,110	645,095
Effect of exercise of management rights	–	13,372
<b>Weighted average number of ordinary shares (basic) at 30 June</b>	<b>265,088,383</b>	<b>130,079,181</b>

### Diluted earnings per share

There were no dilutive potential ordinary shares outstanding at 30 June 2014 or 30 June 2013, therefore no adjustments have been made to basic earnings per share to arrive at diluted earnings per share. At 30 June 2014, 17,039,356 (2013: 17,159,356) options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## 12. CASH AND CASH EQUIVALENTS

	2014 \$'000	2013 \$'000
Bank balances	29,250	9,675

## 13. TRADE AND OTHER RECEIVABLES

	2014 \$'000	2013 \$'000
<b>Current</b>		
Trade receivables (net of impairment losses)	16,528	36,747
Other receivables	2,287	1,562
Other loans (net of impairment losses)	–	1,121
	<b>18,815</b>	<b>39,430</b>

At 30 June 2014, an impairment provision is recognized against other loans of \$1,122,000 (2013: \$459,000). No impairment provisions are recognised against trade receivables (2013: \$4,086,000) and other receivables (2013: Nil).

## 14. INVENTORIES

	2014 \$'000	2013 \$'000
Materials and consumables	4,124	5,176
Construction work in progress	25,506	24,234
<b>Total inventories</b>	<b>29,630</b>	<b>29,410</b>
Construction work in progress comprises:		
Contract costs incurred to date	837,284	1,120,288
Profit recognised to date	74,971	127,070
	912,255	1,247,358
Less: progress billings	(886,749)	(1,223,124)
<b>Net construction work in progress</b>	<b>25,506</b>	<b>24,234</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. OTHER ASSETS

	2014 \$'000	2013 \$'000
Prepayments	886	1,978

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
<b>30 June 2014</b>					
At cost	7	3,912	143,632	11,162	158,713
Accumulated depreciation/amortisation	(5)	(597)	(74,647)	(4,390)	(79,639)
<b>Carrying amount at 30 Jun 2014</b>	<b>2</b>	<b>3,315</b>	<b>68,985</b>	<b>6,772</b>	<b>79,074</b>
<b>30 June 2013</b>					
At cost	2,888	3,912	145,346	10,568	162,714
Accumulated depreciation/amortisation	(2,299)	(499)	(47,307)	(2,637)	(52,742)
<b>Carrying amount at 30 June 2013</b>	<b>589</b>	<b>3,413</b>	<b>98,039</b>	<b>7,931</b>	<b>109,972</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 2013	589	3,413	98,039	7,931	109,972
Additions	–	–	627	594	1,221
Disposals	(107)	–	(285)	–	(392)
Impairment	–	–	(11,402)	–	(11,402)
Depreciation and amortisation	(480)	(98)	(17,994)	(1,753)	(20,325)
<b>Carrying amount at 30 June 2014</b>	<b>2</b>	<b>3,315</b>	<b>68,985</b>	<b>6,772</b>	<b>79,074</b>
Carrying amount at 1 July 2012	1,165	3,510	120,013	8,950	133,638
Additions	–	–	14,537	704	15,241
Disposals	–	–	(2,580)	–	(2,580)
Impairment	–	–	(13,615)	–	(13,615)
Depreciation and amortisation	(576)	(97)	(20,316)	(1,723)	(22,712)
<b>Carrying amount at 30 June 2013</b>	<b>589</b>	<b>3,413</b>	<b>98,039</b>	<b>7,931</b>	<b>109,972</b>

At 31 December 2013, an impairment charge of \$11.4m was recognised based on management's assessment of recoverable amount reflecting the reduced demand for the Group's drilling services. An independent expert was engaged at 30 June 2014 to perform an independent valuation of the Group's plant and equipment, leading to no further impairment charges being recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

Name of investee	Ownership		Carrying value	
	2014 %	2013 %	2014 \$'000	2013 \$'000
Cuadrilla Resources Holdings Limited (associate)	45.0%	43.7%	87,573	95,762
Marais-Lucas Technologies Pty Limited (joint venture)	50.0%	50.0%	-	-
Lucas Xtreme Drilling Pty Ltd (joint venture)	50.0%	50.0%	-	-
			<b>87,573</b>	<b>95,762</b>

The Group's share of profit of equity accounted investees is \$4,378,000 (2013: loss of \$3,858,000). During both the current and the prior year, the Group did not receive dividends from any of its investments in equity accounted investees.

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

Lucas Xtreme Drilling Pty Ltd is a dormant company with \$1 share capital and net assets.

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

	2014 \$'000	2013 \$'000
Balance at 1 July	95,762	73,603
Purchase of additional ownership interest	3,024	20,689
Redemption of preference shares in Cuadrilla Resources Holdings Limited	(17,793)	-
Impairment	(1,714)	(2,437)
Movement of foreign currency translation recognised in equity	3,916	7,765
Share of equity accounted profits / (losses) during the year	4,378	(3,858)
<b>Balance at 30 June</b>	<b>87,573</b>	<b>95,762</b>

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

	2014			2013		
	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	31,136	1,981	33,117	71,093	1,923	73,016
Non-current assets	116,838	1,098	117,936	108,632	1,205	109,837
<b>Total assets</b>	<b>147,974</b>	<b>3,079</b>	<b>151,053</b>	<b>179,725</b>	<b>3,128</b>	<b>182,853</b>
Current liabilities	7,251	7,918	15,169	6,644	7,514	14,158
Non-current liabilities	1,561	-	1,561	1,525	-	1,525
<b>Total liabilities</b>	<b>8,812</b>	<b>7,918</b>	<b>16,730</b>	<b>8,169</b>	<b>7,514</b>	<b>15,683</b>
Income	16,774	7,830	24,604	694	3,747	4,441
Expenses	(9,934)	(8,350)	(18,284)	(8,436)	(5,152)	(13,588)
<b>Profit / (Loss)</b>	<b>6,840</b>	<b>(520)</b>	<b>6,320</b>	<b>(7,742)</b>	<b>(1,405)</b>	<b>(9,147)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. EXPLORATION ASSETS

	2014 \$'000	2013 \$'000
<b>Cost</b>		
Carry asset	1,256	5,127
Bowland exploration asset	4,931	1,061
Elswick exploration asset	2,110	–
Bolney exploration asset	2,462	132
	<b>10,759</b>	<b>6,320</b>

The exploration assets comprise the Group's direct equity interest in the following tenements and represents direct expenditure on these tenements:

	2014 %	2013 %
<b>Beneficial interest</b>		
Bowland tenement	18.75	18.75
Elswick tenement	18.75	–
Bolney tenement	25.00	25.00

Cuadrilla Resources Holdings Limited, in which Lucas held a 45% shareholding at balance date (2013: 43.7%), owns 56.25% (2013: 56.25%) of the Bowland Prospect, 51.19% (2013: 68.25%) of the Elswick Prospect and the remaining 75% of the Bolney Prospect.

### CARRY ASSET

In June 2013 the Group disposed of 6.25% of its interest in the Bowland Prospect. Consideration for the interest included a deferred consideration component and contingent consideration. The Group recognised its share of the non-cancellable portion of the deferred consideration of £3.8 million (A\$6.2 million) as a carry asset which reverts to 'capitalised exploration expenditure' once the expenditure has been incurred by the purchaser.

The purchaser of the interest agreed to spend at least the next £20.0 million of the Bowland Prospect expenditure (£3.8 million at the Group's 18.75% share). Deferred consideration also comprises a further £40.0 million exploration expenditure required to be spent by the purchaser provided it does not exercise its option to put its equity interest back. The put option can be exercised at any time so long as certain operational conditions have not been met. This Group's share of deferred consideration will be recognised as an increase in the carrying value of the Group's interest in the Prospect as expenditure is incurred by the purchaser.

The contingent consideration comprises a further £60.0 million, of which £15.0 million (A\$28.6 million) is payable to the Group, provided the put option is not exercised.

During the current financial year, the Carry agreement was varied so that the deferred consideration expenditure also covers any expenditure on the Elswick tenement up to the limits described above.

At year end, \$1.3 million of the deferred consideration not subject to the put option remains recognised as a carry asset. No amount has been recognised for the portion subject to the put option or the contingent consideration.

### ELSWICK EXPLORATION ASSET

During the year Lucas acquired a 18.75% interest in the Elswick Prospect for \$2.1 million, with a possible contingent consideration of a further \$2.1 million also payable as described in note 31.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. OTHER INTANGIBLE ASSETS

	Customer intangibles \$'000	Goodwill \$'000	Net profit interest \$'000	Total \$'000
<b>Cost</b>				
Balance at 1 July 2013	17,851	113,561	87,762	219,174
Transfers	–	–	–	–
Acquisitions	–	–	–	–
<b>Balance at 30 June 2014</b>	<b>17,851</b>	<b>113,561</b>	<b>87,762</b>	<b>219,174</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance at 1 July 2012	17,851	46,560	87,762	152,173
Impairment loss	–	27,529	–	27,529
<b>Balance at 30 June 2013</b>	<b>17,851</b>	<b>74,089</b>	<b>87,762</b>	<b>179,702</b>
Balance at 1 July 2013	17,851	74,089	87,762	179,702
Impairment loss	–	39,472	–	39,472
<b>Balance at 30 June 2014</b>	<b>17,851</b>	<b>113,561</b>	<b>87,762</b>	<b>219,174</b>
<b>Carrying amounts</b>				
<b>At 30 June 2013</b>	<b>–</b>	<b>39,472</b>	<b>–</b>	<b>39,472</b>
<b>At 30 June 2014</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

### Net profit interest

Lucas has a 10% net profit interest (NPI) in oil and gas leasehold interests in the Monument Prospect (“the Prospect”) located in Trinity County, East Texas, USA. The investment represents a contractual right to future income streams. No recent exploratory drilling has been conducted at the Prospect and the Company has therefore been unable to prepare a discounted cash flow analysis of the investment. Accordingly, the investment is currently fully impaired. Future exploration and evaluation activity may allow an assessment of future cash flows to be performed and a reassessment made of the carrying value.

### IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

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

In December 2013, the Group reassessed the recoverable amount of each Cash Generating Unit (“CGU”) resulting in goodwill being fully impaired. An impairment provision was also recognised against property, plant and equipment as disclosed in Note 16.

### Key assumptions used in discounted cash flow projections

The recoverable amount of each CGU is based on its value in use and is determined by discounting the future cash flows to be generated from the continuing operation of the CGUs. The calculation used actual results for the six months ended 31 December 2013 together with management’s forecast for the remainder of the financial year extended over a period of five years based on management’s estimate of future growth rates. Cash flows into perpetuity were extrapolated using a terminal growth factor relevant to the sector and business plan. A post tax discount rate was applied adjusted for the industry in which each CGU operates.

EBITDA growth, capital expenditure, terminal value growth rates, discount rate and revenue security were key drivers for determining cash flows. These assumptions were projected based on past experience, actual operating results, the forecast operating result for the period 31 December 2013 to 30 June 2015 and management’s outlook for future years taking into account forecast industry growth rates.

Growth rates were determined after considering factors including the nature of the industry, the overall market including competition, past performance and the economic outlook. A long term growth rate into perpetuity of 3% was used.

Post-tax discount rates of 14% was applied to both the Drilling and Engineering & Construction cash generating units to discount the forecast future attributable post-tax cash flows. The discount rates have been calculated after assessing the relevant risks applicable to each CGU, the current risk free rate of return and the volatility of the Group performance compared to the sectors in which it operates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>						
Inventories	–	–	(1,237)	(1,553)	(1,237)	(1,553)
Equity accounted investments	–	–	(2,613)	(2,613)	(2,613)	(2,613)
Capitalised interest and borrowing costs	–	–	–	(36)	–	(36)
Property, plant and equipment	7,990	4,548	–	–	7,990	4,548
Impairment of trade debtors	462	968	–	–	462	968
Provisions for employee benefits	1,703	2,335	–	–	1,703	2,335
Trade creditors	423	1,094	–	–	423	1,094
Share raising costs	1,687	1,301	–	–	1,687	1,301
Other creditors and accruals	1,530	2,246	–	–	1,530	2,246
Unrealised foreign exchange differences	4,097	3,689	–	–	4,097	3,689
Deferred tax asset write down	(14,042)	(11,979)	–	–	(14,042)	(11,979)
<b>Tax assets/(liabilities)</b>	<b>3,850</b>	<b>4,202</b>	<b>(3,850)</b>	<b>(4,202)</b>	<b>–</b>	<b>–</b>
Set off of tax	(3,850)	(4,202)	3,850	4,202	–	–
<b>Net assets/(liabilities)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Movement in temporary differences during the year:

	Balance 01 Jul 13 \$'000	Recognised directly in equity \$'000	Recognised in profit and loss \$'000	Balance 30 Jun 14 \$'000
<b>2014</b>				
Inventories	(1,553)	–	316	(1,237)
Equity accounted investments	(2,613)	–	–	(2,613)
Capitalised interest and borrowing costs	(36)	–	36	0
Property, plant and equipment	4,548	–	3,442	7,990
Doubtful debts impairment recognised	968	–	(506)	462
Provisions for employee benefits	2,335	–	(632)	1,703
Trade creditors	1,094	–	(672)	422
Share raising costs	1,301	–	387	1,688
Other creditors and accruals	2,246	–	(716)	1,530
Unrealised foreign exchange differences	3,689	–	408	4,097
Deferred tax asset written off	(11,979)	–	(2,063)	(14,042)
	–	–	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### Unrecognised deferred tax assets

As at 30 June 2014, the Group had not recognised deferred tax assets of \$42,169,262 (2013: 26,314,720) in relation to income tax losses. The Group also has an unrecognised deferred tax asset of \$1,158,697 (2013: \$1,158,697) in relation to foreign income tax losses.

## 21. TRADE AND OTHER PAYABLES

	2014 \$'000	2013 \$'000
<b>Current</b>		
Trade payables	12,624	34,408
Other payables and accruals	32,608	27,335
	<b>45,232</b>	<b>61,743</b>

## 22. INTEREST-BEARING LOANS AND BORROWINGS

	2014 \$'000	2013 \$'000
<b>Current</b>		
Other borrowings	–	310
Lease liabilities	149	1,406
Loans from related party	715	87,205
	<b>864</b>	<b>88,921</b>
<b>Non-current</b>		
Lease liabilities	122	148
Other borrowings	5,165	5,800
Loans from related party	57,042	–
	<b>62,329</b>	<b>5,948</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Currency	Interest Rate	Year of maturity	2014 \$'000	2013 \$'000
Loans from related party	USD	15.0%	2017	57,757	82,778
Other borrowings - secured	AUD	9.6%	2021	5,165	5,800
Other borrowings - secured	USD	N/A	2013	–	4,427
Other borrowings - unsecured	AUD	3.2%	2014	–	310
Finance lease liability	AUD	5.9%	2015-2017	271	1,554

#### Loans from related party

Relates to finance facilities provided by Kerogen (“Kerogen debt”) and are secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries.

During the year, the Company repaid US\$30.3 million (A\$33.2 million) of the Kerogen debt following subscription to the Entitlement Offer, described at note 27.

#### Other borrowings - secured

Relates to a non-current PAYG liability to the Australian Taxation Office (ATO) that forms part of the payment arrangement agreed with the ATO as described in note 23 Income Tax Liabilities.

### (b) Finance lease liabilities

	2014 \$'000	2013 \$'000
<b>Finance lease liabilities</b>		
Payments		
Within one year	220	1,462
Between one and five years	76	159
	<b>296</b>	<b>1,621</b>
Less: interest		
Within one year	(18)	(56)
Between one and five years	(7)	(11)
	<b>(25)</b>	<b>(67)</b>
<b>Total lease liabilities</b>	<b>271</b>	<b>1,554</b>
Lease liabilities provided for in the financial statements:		
Current	202	1,406
Non-current	69	148
<b>Total lease liabilities</b>	<b>271</b>	<b>1,554</b>

The Group’s lease liabilities are secured by the leased assets which, in the event of default, revert to the lessor.

### (c) Finance facilities

	2014 \$'000	2013 \$'000
<b>Bond and other facilities provided by surety entities</b>		
Bond facilities in aggregate	6,947	10,609
Amount utilised	(6,947)	(10,609)
Unused bond facilities	–	–
Bank indemnity guarantee	140	1,869
Amount utilised	(140)	(1,869)
Unused facilities	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. INCOME TAX LIABILITIES

The tax liabilities represent the amount of income tax payable in respect of prior financial periods. The Company has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO). The payment arrangement also covers a PAYG liability disclosed in interest bearing liabilities described in note 22. The ATO has a second ranking fixed and floating charge over the Group's assets. Interest is payable on this liability at the General Interest Charge (GIC), levied by the ATO. The residual tax payable has been classified according to the period in which it is due for payment in accordance with the deferred instalment arrangement. Repayment of the income tax and PAYG liabilities is expected to be completed by 2021.

## 24. DERIVATIVE LIABILITY

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

	2014		2013	
	Number of Options	Carrying amount \$'000	Number of Options	Carrying amount \$'000
<b>As at 1 July</b>	11,159,356	4,916	18,566,763	6,680
Options exercised	–	–	(7,407,407)	(2,665)
Change in valuation	–	(3,151)	–	901
<b>As at 30 June</b>	<b>11,159,356</b>	<b>1,765</b>	<b>11,159,356</b>	<b>4,916</b>

The fair value of the options was calculated at balance date using a Monte Carlo pricing model. The following factors and assumptions were used in determining the fair value at 30 June 2014:

AJ Lucas share price on valuation date	\$0.93
Options exercise price	1.54*
Risk-free interest rate	2.48%
Dividend yield	0.0%
Expiry date	22 December 2015
Volatility of AJ Lucas shares	70%-80%

\* The exercise price of the options is the lower of a 20% premium to the five day volume weighted average price (VWAP) of the Company's shares ending on the date prior to exercise and \$1.54 per share subject to a minimum exercise price of \$1.19 per option. As a rational investor would only exercise the options provided the exercise price is below the share price at exercise date, the exercise price is assumed to be \$1.54 per share.

## 25. OPERATING LEASES

### LEASES AS LESSEE

	2014 \$'000	2013 \$'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	1,413	2,315
Between one and five years	1,082	2,019
	<b>2,495</b>	<b>4,334</b>

The Group leases property under non-cancellable operating leases expiring from one to three years. The leases generally provide the Group with a right of renewal. During the financial year, \$2,402,000 (2013: \$4,615,000) was recognised as an expense in the profit or loss in respect of operating leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26. EMPLOYEE BENEFITS

	2014 \$'000	2013 \$'000
Provision for employee benefits, including on-costs:		
Current	4,796	5,527
Non-current	624	1,006
	<b>5,420</b>	<b>6,533</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 \$4,132,192 (2013: \$4,969,234).

### EMPLOYEE SHARE PLANS

The Group has three employee incentive schemes approved by shareholders in annual general meeting. Total securities granted but unissued under these schemes cannot exceed 15% of the total number of shares on issue.

#### Management rights plan

The management rights and options plan is available to employees and other persons at the discretion of the Board. Nominated persons are granted rights and options to acquire shares in the Company. The exercise of rights is satisfied by the issue of shares for no consideration. The exercise of options is satisfied by the exercise price as agreed.

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

	Weighted average exercise price 2014	Number of rights and options 2014	Weighted average exercise price 2013	Number of rights and options 2013
Outstanding at 1 July	\$1.19	5,000,000	\$1.53	343,861
Exercised	—	—	—	(93,861)
Forfeited / cancelled	—	—	—	(250,000)
Issued during the year	—	—	\$1.19	5,000,000
Outstanding at 30 June	\$1.19	5,000,000	\$1.19	5,000,000
<b>Exercisable at 30 June</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

The options outstanding at 30 June 2014 have an exercise price of \$1.19 (2013: \$1.19) and a weighted average contractual life of 1.4 years (2013: 2.4 years). During the year, the Group recognised as an expense \$178,427 (2013: \$176,911) in relation to share based payments. The expense is based on the fair value of options at grant date allocated over the vesting period. Fair value is determined using the Monte Carlo pricing model, based on the following assumptions.

Terms	Management	Former Chief executive officer
Grant date	29 November 2012	5 September 2012
AJ Lucas share price	\$0.77	\$0.65
Option exercise price <sup>(1)</sup>	\$1.35	\$1.35
Risk-free interest rate	2.68%	2.59%
Dividend yield	0.00%	0.00%
Term <sup>(2)</sup>	2.5 years	3.25 years
Volatility of Lucas shares	55%-65%	55%-65%
Fair value at grant date (cents per option)	12.5	10.6

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26. EMPLOYEE BENEFITS (CONT.)

### EMPLOYEE SHARE PLAN (CONT.)

#### Deferred share plan

The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the Group ceases. No shares were issued in any of the last three years.

#### Employee share acquisition plan

The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to \$1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income. No shares were issued under this plan in any of the last three years.

Employees must have been employed by any entity within the Group for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of three years from the date of issue or the date their employment with the Group ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares.

## 27. CAPITAL AND RESERVES

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

### 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>2014</b>			
On issue at 1 July 2013		211,528,273	275,637
Entitlement offer	1.20	55,855,543	67,027
Transaction costs incurred	N/A	N/A	(2,994)
<b>On issue at 30 June 2014</b>		<b>267,383,816</b>	<b>339,670</b>
	Issue Price Per Share \$	No. of Shares	\$000
<b>2013</b>			
On issue at 1 July 2012		103,027,291	138,506
Exercise of options	1.35	7,407,407	10,000
Exercise of options	0.00	93,861	—
September 2012 placement	1.35	22,222,222	30,000
February 2013 placement	1.55	10,650,000	16,508
June 2013 placement	1.20	9,262,617	11,116
June 2013 entitlement offer	1.20	58,864,875	70,638
Transaction costs incurred <sup>(1)</sup>	N/A	N/A	(1,130)
<b>On issue at 30 June 2013</b>		<b>211,528,273</b>	<b>275,637</b>

(1) \$1,130,000 is net of non-cash fair value derivative liability movement and tax effect totaling \$3,960,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. CAPITAL AND RESERVES (CONT.)

### SHARE CAPITAL - ORDINARY SHARES (CONT.)

The entitlement shares were allotted under a 1 for 1.25 Entitlement Offer at an issue price of \$1.20 per share. The Entitlement Offer was effected in two stages: the first completed in June 2013 with the allotment of 58,864,875 ordinary shares; and the second completed in July 2013 with the allotment of a further 55,855,543 ordinary shares.

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.

#### Hedging reserve

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

### OPTIONS

Allottee	Former Chief Executive Officer	Perpetual Nominees	Kerogen	Management
Number	3,750,000	1,000,000	11,159,356	1,250,000
Grant date	5-Sep-12	22-Dec-11	22-Dec-11	29-Nov-12
Expiry date	7-Dec-15	22-Dec-16	22-Dec-15	7-Dec-15
Exercise price	\$1.19	\$1.97	\$1.19 - \$1.54	\$1.19

The fair value of options was calculated using a Monte Carlo simulation. Further details of the valuation of the Kerogen options are disclosed in Note 24. Further details of the valuation of the management and former chief executive officer options are disclosed in Note 26. The Perpetual Nominees options have been fully expensed in prior periods.

### DIVIDENDS

No dividends in respect of the 2014 or 2013 financial years have been declared or paid.

### DIVIDEND FRANKING ACCOUNT

The balance of franking credits available to shareholders of the Company is \$62,966,276 (2013: \$62,966,276).

## 28. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INSTRUMENTS (CONT.)

### RISK MANAGEMENT FRAMEWORK

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

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### CREDIT RISK

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

#### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base consists of principally major corporations and State and local governments. The demographics of the Group's customer base, including the default risk of the industry and location in which the customers operate, has less of an influence on credit risk.

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

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

A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired.

#### Investments

The Group limits its exposure to credit risk by only investing in liquid securities of short maturity issued by a reputable party or in readily marketable securities listed on a recognisable securities exchange. Given these investment criteria, management does not expect any counterparty to fail to meet its obligations.

#### Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries and joint ventures where the Company owns 50% of the joint venture company.

#### Exposure to credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2014 \$'000	2013 \$'000
Trade and other receivables	18,815	39,430
Bank balances	29,250	9,675
	<b>48,065</b>	<b>49,105</b>
Maximum exposure to credit risk for loans and receivables at the reporting date by business segment was:		
Drilling	7,466	24,153
Engineering and construction	8,230	11,904
Oil and gas	492	—
Unallocated	2,627	3,373
	<b>18,815</b>	<b>39,430</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INSTRUMENTS (CONT.)

### Impairment

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

	Gross 2014 \$'000	Impairment 2014 \$'000	Gross 2013 \$'000	Impairment 2013 \$'000
Not past due	17,213	—	27,004	(907)
Past due up to 30 days	34	—	5,626	—
Past due 31 to 120 days	18	—	3,610	—
Past due 121 days to one year	91	—	6,626	(1,471)
Past due more than one year	2,581	(1,122)	4,957	(6,015)
	<b>19,937</b>	<b>(1,122)</b>	<b>47,823</b>	<b>(8,393)</b>

The impairment allowance is related to specific customers, identified as being in trading difficulties, or where specific debts are in dispute. The impairment allowance does not include debts past due relating to customers with a good credit history, or where payments of amounts due under a contract for such customers are delayed due to works in dispute and previous experience indicated that the amount will be paid in due course.

When the Group is satisfied that no recovery of the amount owing is possible, the amounts considered irrecoverable are written off directly against the financial asset. At 30 June 2014, the Group has collective impairments on its trade receivables of \$1,122,000 (2013: \$8,393,000).

### 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					
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
<b>2014</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	45,232	(45,232)	(45,232)	—	—	—	—
Loans from related party	57,757	(83,130)	(3,448)	(3,513)	(9,062)	(67,107)	—
Lease liabilities	271	(296)	(64)	(156)	(49)	(27)	—
Other borrowings	5,165	(9,227)	—	—	—	—	(9,227)
Income tax liability	32,895	(43,340)	(2,730)	(2,750)	(8,247)	(25,053)	(4,560)
<b>Derivative financial liabilities</b>							
Derivative liability	1,765	(1,765)	(1,765)	—	—	—	—
	<b>143,085</b>	<b>(182,990)</b>	<b>(53,239)</b>	<b>(6,419)</b>	<b>(17,358)</b>	<b>(92,187)</b>	<b>(13,787)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INSTRUMENTS (CONT.)

### LIQUIDITY RISK (CONT.)

	Carrying amount \$'000	Total					
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
<b>2013</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables	61,743	(61,743)	(61,743)	—	—	—	—
Loans from related party	87,205	(105,398)	(5,038)	(87,847)	—	—	—
Other borrowings	5,800	—	—	—	—	—	(12,513)
Lease liabilities	1,554	(1,621)	(1,039)	(423)	(159)	—	—
Other borrowings	310	(310)	(310)	—	—	—	—
Income tax liability	33,675	(48,548)	(1,290)	(2,730)	(5,480)	(24,900)	(14,148)
<b>Derivative financial liabilities</b>							
Derivative liability	4,916	(4,916)	(4,916)	—	—	—	—
	<b>195,203</b>	<b>(222,536)</b>	<b>(74,336)</b>	<b>(91,000)</b>	<b>(5,639)</b>	<b>(24,900)</b>	<b>(26,661)</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, denominated in US dollars. This currency borrowing is substantially offset by the Group's investment in its equity accounted investee, Cuadrilla Resource Holdings Limited, whose functional currency is US dollars, and the directly owned exploration assets in oil and gas in England, held through subsidiaries whose functional currency is US dollars. However, while exchange gains or losses on borrowings are accounted for through the profit and loss account, translation gains or losses on the Cuadrilla investment and exploration assets are recorded through the translation reserve in equity until sold. Therefore, although the Group's investments provide a natural hedge on the US dollar borrowings, this is not reflected in the consolidated statement of comprehensive income due to the manner in which the investments are held.

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

	USD	HKD	Other
<b>2014</b>			
Trade and other receivables	—	652	—
Trade payables	(37)	—	(12)
Interest-bearing liabilities	(57,757)	—	—
<b>Net balance sheet exposure</b>	<b>(57,794)</b>	<b>652</b>	<b>(12)</b>
<b>2013</b>			
Trade and other receivables	—	—	—
Trade payables	(1,184)	(8)	(371)
Interest-bearing liabilities	(87,205)	—	—
<b>Net balance sheet exposure</b>	<b>(88,389)</b>	<b>(8)</b>	<b>(371)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INSTRUMENTS (CONT.)

### MARKET RISK (CONT.)

#### Currency risk (Cont.)

At 30 June 2014, had the Australian dollar weakened/strengthened by 10% against the respective foreign currencies with all other variables held constant, the Group post-tax loss and equity would have been \$5,715,000 lower / \$5,715,000 higher (2013: \$8,876,000 lower / \$8,876,000 higher).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
USD	0.8735	0.9914	0.9006	0.9385
HKD	6.9286	7.6545	6.9780	7.2470

#### 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. Following shareholder approval at the 2013 Annual General Meeting of the variation in terms of the loan facilities offered by KeroGen, most of the Group's borrowings are at fixed rates.

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss for the Group.

Interest rate exposure is detailed as follows:

	2014 \$'000	2013 \$'000
<b>Fixed rate instruments</b>		
Financial assets	—	—
Financial liabilities	(58,028)	(87,515)
	<b>(58,028)</b>	<b>(87,515)</b>
<b>Variable rate instruments</b>		
Financial assets	29,250	10,746
Financial liabilities	(5,165)	(7,354)
	<b>24,085</b>	<b>3,392</b>

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

	30 June 2014		30 June 2013	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
<b>Consolidated</b>				
Other borrowings	9.69	5,165	10.67	5,800
Net exposure to cash flow interest rate risk		<b>5,165</b>		<b>5,800</b>

At 30 June 2014, had interest rates increased/decreased by 100 basis points with all other variables held constant, the Group post-tax loss and equity would have been \$50,000 higher / lower (2013: \$4,092,580 higher / lower). The reduced exposure is a result of converting material variable rate debt to fixed interest rates during the year ended 30 June 2014. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed consistently from year to year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INSTRUMENTS (CONT.)

### 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>2014</b>		
Bank balances	29,250	29,250
Trade and other receivables	18,815	18,815
Trade and other payables	(45,232)	(45,232)
Lease liabilities	(271)	(271)
Other borrowings	(5,165)	(5,165)
Loans from related party	(57,757)	(57,757)
Derivative liability	(1,765)	(1,765)
	<b>(62,125)</b>	<b>(62,125)</b>

	Carrying amount \$'000	Fair value \$'000
<b>2013</b>		
Bank balances	9,675	9,675
Trade and other receivables	39,430	39,430
Trade and other payables	(61,743)	(61,743)
Lease liabilities	(1,554)	(1,554)
Other borrowings	(6,110)	(6,110)
Loans from related party	(87,205)	(87,205)
Derivative liability	(4,916)	(4,916)
	<b>(112,423)</b>	<b>(112,423)</b>

The following methods and assumptions are used in estimating the fair values of financial instruments:

- Loans and borrowings, and finance leases – present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date; 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 whilst maximising shareholder returns. The Board therefore seeks to have a moderate level of indebtedness to leverage return on capital having regard to the Company's cash flow and the ability to service these borrowings.

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

	2014 \$'000	2013 \$'000
Total liabilities	148,505	201,736
Less: cash and cash equivalents	(29,250)	(9,675)
<b>Net debt</b>	<b>119,255</b>	<b>192,061</b>
Total equity	107,482	131,640
<b>Net debt to equity ratio at 30 June</b>	<b>1.11</b>	<b>1.46</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INSTRUMENTS (CONT.)

### FAIR VALUES (CONT.)

#### Fair value hierarchy

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

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2014</b>				
Derivative financial liability	–	1,765	–	1,765
	–	<b>1,765</b>	–	<b>1,765</b>
<b>30 June 2013</b>				
Derivative financial liability	–	4,916	–	4,916
	–	<b>4,916</b>	–	<b>4,916</b>

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

## 29. INTERESTS IN JOINT OPERATIONS

			Participation interest		Contribution to operating results	
	Principal activities	Principal place of business	2014 %	2013 %	2014 \$'000	2013 \$'000
Southern SeaWater Alliance	Construction and operation of desalination plant	Level 2, 1 Adelaide Terrace East Perth 6004	19	19	607	1,919
VSL Australia - AJ Lucas Operations Joint Venture	Construction of water related infrastructure	6 Pioneer Avenue, Thornleigh 2120	50	50	786	985
AJ Lucas - Spiecapag Joint Venture	Construction of gas infrastructure	616 Boundary Road Richlands 4077	50	–	7,384	–

All joint operations above are domiciled in Australia.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29. INTERESTS IN JOINT OPERATIONS (CONT.)

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

	2014 \$'000	2013 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,416	3,497
Trade and other receivables	208	1,185
Construction work in progress	1,600	20
Other	31	303
<b>Total assets</b>	<b>9,255</b>	<b>5,005</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	5,583	4,495
<b>Total liabilities</b>	<b>5,583</b>	<b>4,495</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30. CONSOLIDATED ENTITIES

The financial statements at 30 June 2014 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	
		2014 %	2013 %
<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
Lucas Stuart Pty Limited (deregistered in 2014)	Australia	-	100
Ketrim Pty Limited	Australia	100	100
Stuart Painting Services Pty Limited	Australia	100	100
Lucas Stuart Projects Pty Limited (deregistered in 2014)	Australia	-	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	-
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

## 31. 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 29), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint operation. As at 30 June 2014, the assets of the joint operation were sufficient to meet such liabilities. The liabilities of the joint operations not included in the consolidated financial statements amounted to \$13,906,000 (2013: \$14,545,000).
- (ii) During the normal course of business, entities within the Group may incur contractor's liability in relation to their performance obligations for specific contracts. Such liability includes the potential costs to carry out further works and/or litigation by or against those Group entities. Provision is made for the potential costs of carrying out further works based on known claims and previous claims history, and for legal costs where litigation has been commenced. While the ultimate outcome of these claims cannot be reliably determined at the date of this report, based on previous experience, amounts specifically provided, and the circumstances of specific claims outstanding, no additional costs are anticipated. Certain claims and counterclaims are outstanding but not detailed on the basis that further disclosure may seriously prejudice the Group's position in regards to these matters. Provisions have been made for such claims to the extent required under Australian Accounting Standards.
- (iii) Under the terms of the Class Order described in note 35, 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 Prospect, the Company has a further contingent liability to pay the seller US\$ 1,900,000 (\$2,109,000) provided the buyer of the Bowland interest does not exercise its options as disclosed in note 18.

### COMMITMENTS

At 30 June 2014, the Group had no commitments contracted but not provided for and payable within one year (2013: nil) for the purchase of new plant and equipment.

## 32. PARENT ENTITY DISCLOSURES

As at 30 June 2014 and 2013, and throughout the financial years then ended, the parent entity of the Group was AJ Lucas Group Limited.

	2014 \$'000	2013 \$'000
<b>Results of the parent entity</b>		
Loss for the year	(88,369)	(119,162)
<b>Total loss for the year</b>	<b>(88,369)</b>	<b>(119,162)</b>
<b>Financial position of the parent entity at year end</b>		
Current assets	2,282	2,967
Total assets	260,532	301,035
Current liabilities	68,578	144,740
Total liabilities	153,050	169,395
<b>Total equity of the parent entity comprises:</b>		
Share capital	339,670	275,637
Employee equity benefit reserve	4,473	4,295
Accumulated losses	(236,661)	(148,292)
<b>Total equity</b>	<b>107,482</b>	<b>131,640</b>

### Parent entity commitments and contingencies

The parent entity has guaranteed, to various unrelated parties, the performance of various subsidiaries in relation to various contracts. In the event of default, the parent entity undertakes to meet the contractual obligations of the relevant subsidiary.

### PARENT ENTITY GUARANTEES IN RESPECT OF DEBTS OF ITS SUBSIDIARIES

The Company has entered into a Deed of Cross Guarantee, as disclosed in note 35, with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2014 \$'000	2013 \$'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 assets	29,250	9,675
<b>Total cash</b>	<b>29,250</b>	<b>9,675</b>
<b>(b) Reconciliation of cash flows from operating activities</b>		
Loss for the year	(91,693)	(126,996)
Adjustments for:		
Interest on capitalised leases	48	2,891
Accrued interest converted into borrowings	4,447	25,198
Increase in accrued interest	307	–
Loss on sale of non-current assets	71	689
Interest income receivable	(52)	(73)
Cost of issue of options	178	177
Loss on sale of assets held for sale	33	237
Loss on sale of exploration assets	–	181
Loss on foreign currency loan	1,359	12,296
Fair value adjustment in derivative liability	(3,151)	901
Net foreign exchange loss on restatement of exploration assets	–	(65)
Share of overhead expenses for exploration assets	204	1,427
Share of profit of equity accounted investees	(2,528)	3,858
Advisory fees on balance sheet restructure	–	1,450
Impairment of intangible asset	39,472	27,529
Impairment of property, plant and equipment	11,402	13,615
Reversal of impairment of equity accounted investees	(1,850)	2,437
Impairment of other receivables	1,122	–
Depreciation and amortisation	20,325	22,852
Amortisation of borrowing costs (included in interest-bearing liabilities)	1,807	857
Commitment fees paid	(1,322)	–
Accounting interest and fees on mezzanine debt	–	5,287
Unrecognised tax loss	–	1,295
<b>Operating loss before changes in working capital and provisions</b>	<b>(19,821)</b>	<b>(3,957)</b>
Change in receivables	19,883	16,096
Change in other current assets	1,092	(1,116)
Change in inventories	(220)	26,508
Change in payables	(18,971)	(58,605)
Change in provisions for employee benefits	(1,113)	(2,555)
Change in tax balances	(780)	1,765
<b>Net cash used in operating activities</b>	<b>(19,930)</b>	<b>(21,864)</b>

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

As part of the 1 for 1.25 share Entitlement Offer commenced in June 2013 and associated placement, Kerogen entered into a debt for equity swap of \$49,680,000, including accrued interest, disclosed in Note 27. This swap transaction is not reflected in the statement of cash flows.

### (d) Financing arrangements

Refer Note 22.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. RELATED PARTIES

### ENTITY WITH SIGNIFICANT INFLUENCE

During the current and comparative financial years, Kerogen Investments No. 1 Limited (Kerogen) participated in various equity raisings, increasing its shareholding of the Company's issued share capital to 49.6%. Should Kerogen choose to exercise its options, its shareholding on a fully diluted basis would increase to 50.5%.

At various times, Kerogen has also either provided or arranged short term and senior debt facilities to the Company. Total interest and borrowing costs incurred on those loans totaled \$12,273,000 (2013: \$15,730,090) with \$2,237,000 being paid in cash (2013: \$nil). Further details of loans provided by Kerogen are disclosed in note 22 (a).

Under the terms of the mezzanine facility provided by Kerogen to the Company, Kerogen also has the right to appoint two directors. Kerogen has partially exercised this right with Julian Ball being appointed a director. The Lucas Group continues to rely on Kerogen for financial support. Refer to note 2 (c) for further details.

### KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation comprised:

	2014	2013
	\$	\$
Short-term employee benefits	1,930,427	1,659,321
Other long-term benefits	33,994	13,441
Post-employment benefits	52,974	55,983
Termination benefits	1,002,868	99,960
Share based payments	136,085	107,651
	<b>3,156,348</b>	<b>1,936,356</b>

Individual directors and executives compensation disclosures

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

### KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

A number of key management personnel, 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.

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	2014	2013
			\$	\$
Allan Campbell	Argyll Capital Partners Pty Ltd	Executive director services	381,250	514,583
Phillip Arnall	Felix Ventures Pty Ltd	Non-Executive director services	224,050	85,000
Genelle Coghlan	Dunblane Pty Ltd	Non-Executive director services	110,000	80,000
Martin Green	BRI Ferrier (NSW) Pty Ltd	Non-Executive director services	100,000	85,000
Julian Ball	Kerogen Capital Limited	Non-Executive director services	89,167	—
Ian Meares	Autonome Pty Ltd	Non-Executive director services	7,917	—
Andrew Purcell	Lawndale Group	Non-Executive director services	7,917	—

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.

### OTHER RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see note 30) and joint operations (see note 29). 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

## 35. DEED OF CROSS GUARANTEE

On 16 June 2008, several of the entities in the Group entered into a Deed of Cross Guarantee. Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the Group's wholly owned subsidiaries entering into the Deed are relieved from the Corporations Act 2001 requirements to prepare, have audited and lodge financial reports, and directors' reports.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

### **Name of entity**

AJ Lucas Operations Pty Limited	Ketrim Pty Limited
Lucas Engineering & Construction Pty Limited	Stuart Painting Services Pty Limited
AJ Lucas Plant & Equipment Pty Limited	Jaceco Drilling Pty Limited
AJ Lucas Drilling Pty Limited	Geosearch Drilling Service Pty Limited
Lucas Shared Services Pty Limited	Lucas Energy Holdings Pty Limited
AJ Lucas Testing Pty Limited	Lucas Energy (WA) Pty Limited
Lucas Operations (WA) Pty Limited	Lucas (Arawn) Pty Limited
AJ Lucas Joint Ventures Pty Limited	Lucas Power Holdings Pty Limited
Lucas Drilling Pty Limited	Mitchell Drilling Corporation Pty Limited
Lucas Contract Drilling Pty Limited	McDermott 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 2014 are set out on the following page:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35. DEED OF CROSS GUARANTEE (CONT.)

### SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	2014 \$'000	2013 \$'000
Loss before tax	(96,497)	(122,966)
Income tax expense	–	(2,478)
Loss after tax	(96,497)	(125,444)
Accumulated losses at beginning of the year	(151,990)	(26,546)
Accumulated losses at end of the year	(248,487)	(151,990)

### STATEMENT OF FINANCIAL POSITION

	2014 \$'000	2013 \$'000
<b>Current assets</b>		
Cash and cash equivalents	18,232	9,675
Trade and other receivables	18,323	39,430
Inventories	29,630	29,410
Assets classified as held for sale	–	1,357
Other assets	886	1,978
<b>Total current assets</b>	<b>67,071</b>	<b>81,850</b>
<b>Non-current assets</b>		
Trade and other receivables	95,592	103,671
Intangible assets	–	39,472
Property, plant and equipment	79,074	109,972
<b>Total non-current assets</b>	<b>174,666</b>	<b>253,115</b>
<b>Total assets</b>	<b>241,737</b>	<b>334,965</b>
<b>Current liabilities</b>		
Trade and other payables	42,808	61,706
Interest-bearing loans and borrowings	864	88,921
Income tax payable	5,480	9,020
Derivative liability	1,765	4,916
Provisions	4,796	5,527
<b>Total current liabilities</b>	<b>55,713</b>	<b>170,090</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	62,329	5,948
Income tax liability	27,415	24,655
Provisions	624	1,006
<b>Total non-current liabilities</b>	<b>90,368</b>	<b>31,609</b>
<b>Total liabilities</b>	<b>146,081</b>	<b>201,699</b>
<b>Net assets</b>	<b>95,656</b>	<b>133,266</b>
<b>Equity</b>		
Issued capital	339,670	275,637
Reserves	4,473	9,619
Accumulated losses	(248,487)	(151,990)
<b>Total equity</b>	<b>95,656</b>	<b>133,266</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 36. 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 20 to 69 and the Remuneration Report included in the Directors' Report, set out on pages 13 to 18, 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 2014 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 30 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2014.
- 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, consisting of a large, stylized 'P' followed by a series of loops and a final horizontal stroke.

Phillip Arnall  
Director  
28 August 2014



## **Independent auditor's report to the members of AJ Lucas Group Limited**

### **Report on the financial report**

We have audited the accompanying financial report of AJ Lucas Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 36 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(A), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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



#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(A).

#### **Report on the remuneration report**

We have audited the Remuneration Report included in pages 13 to 18 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

#### *Auditor's opinion*

In our opinion, the remuneration report of AJ Lucas Group Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Carlo Pasqualini  
*Partner*

Sydney

28 August 2014



# AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

## DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 JULY 2014)

Securities held	Ordinary shares	Employee incentive scheme options	Perpetual Nominees options	Kerogen options
1 - 1,000	750	—	—	—
1,001 - 5,000	997	—	—	—
5,001 - 10,000	369	—	—	—
10,001 - 100,000	471	12	—	—
100,001 and over	68	4	2	1
Total	2,655	16	2	1

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

## TWENTY LARGEST ORDINARY SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Kerogen Investments No. 1 (HK) Limited	132,558,851	49.58
Mr Paul Fudge	26,700,000	9.99
Andial Holdings Pty Limited	11,990,000	4.48
HSBC Custody Nominees (Australia) Limited	11,259,918	4.21
Citicorp Nominees Pty Limited	10,969,344	4.10
National Nominees Limited	8,008,336	3.00
J P Morgan Nominees Australia Limited	4,762,527	1.78
HSBC Custody Nominees (Australia) Limited- A/C 3	4,549,760	1.70
CS Fourth Nominees Pty Ltd	4,461,430	1.67
Toolebuc Investments Pty Limited	4,423,140	1.65
Amalgamated Dairies Limited	4,129,348	1.54
HSBC Custody Nominees (Australia) Limited- GSCO ECA	3,406,248	1.27
Milson Investments Pty Ltd O'Neill Superannuation Fund	2,653,925	0.99
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	1,956,000	0.73
UBS Nominees Pty Ltd	1,924,120	0.72
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	926,173	0.35
National Nominees Limited	731,386	0.27
Ademsa Pty Ltd	725,259	0.27
HSBC Custody Nominees (Australia) Limited - A/C 2	709,093	0.27
Mr Ross Alexander Macpherson	700,000	0.26
	<b>237,544,858</b>	<b>88.83</b>

## SUBSTANTIAL SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Kerogen Investments No. 1 (HK) Limited	132,558,851	49.58
Mr Paul Fudge	26,700,000	9.99
Andial Holdings Pty Limited	17,490,000	6.54
Amalgamated Dairies Limited	16,220,348	6.07
Coupland Cardiff Asset Management LLP	15,227,960	5.70

# AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

## UNQUOTED EQUITY SECURITIES

### Kerogen Options

Kerogen Investments No. 1 (HK) Limited holds 11,159,356 Kerogen options representing 100% of that class of options.

### Perpetual Nominees Options

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

### VOTING RIGHTS

Ordinary shares - Refer to note 27 of the financial statements.

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

# DIRECTORY

## COMPANY SECRETARY

Nicholas Swan MA, MBA

## REGISTERED OFFICE

394 Lane Cove Road  
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Tel +61 2 9490 4000  
Fax +61 2 9490 4200

## SHARE REGISTRY

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

## STOCK EXCHANGE

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

## AUDITORS

KPMG  
10 Shelley Street  
Sydney NSW 2000

## 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.