# AJ LUCAS GROUP LIMITED

**ABN: 12 060 309 104**

# PRELIMINARY FINANCIAL REPORT

**YEAR ENDED 30 JUNE 2013**

# APPENDIX 4E

**(Previous Corresponding Reporting Period: Year ended 30 June 2012)**

# Results for Announcement to the Market

For the year ended 30 June 2013

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

| | Change | | $A'000 |
|---|---|---|---|
| Revenues from ordinary activities | Down 41.5% | to | 294,791 |
| Loss before interest and tax | Down 7.9% | to | (85,739) |
| Loss from ordinary activities after tax attributable to members | Up 15.2% | to | (126,996) |
| Loss for the period attributable to members | Up 15.2% | to | (126,996) |

| **NTA Backing** | Current year | Previous Corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | 39.9¢ | 44.6¢ |

| **Dividends** | | 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 financial report is based on financial statements which are in the process of being audited.

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Company Secretary

NJW Swan

30 August 2013

## Commentary on the Results

For the year ended 30 June 2013

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

Offsetting the poor operating result however, the Company's investment in its European shale gas portfolio continued to mature. Lucas and its 44% owned associate, Cuadrilla Resources Holdings Limited (Cuadrilla), each sold 25% of their interest in the Bowland Prospect for an upfront payment of £40 million of which Lucas' share was £10 million. The purchaser has also committed to fund the next £60 million of expenditure on Bowland of which £15 million must be incurred by the purchaser before the purchaser has the option to put the acquired interest back to Lucas and Cuadrilla. In the event this option is not put to Lucas and Cuadrilla, subject to certain appraisal or operational milestones occurring, future additional payments will be made by the purchaser of up to £45 million to Cuadrilla and £15 million to Lucas.

A summary of the Group's unaudited preliminary financial results compared with the prior year is as follows:

| | 2013 Year $'000 | 2013 2nd half $'000 | 2013 1st half $'000 | 2012 Year $'000 | 2012/13 Change % |
|---|---|---|---|---|---|
| **Total revenue** | 294,791 | 118,591 | 176,200 | 504,276 | (41.5%) |
| Reported EBITDA | (19,306) | (11,706) | (7,600) | (21,517) | 10.3% |
| **EBIT** | (85,739) | (52,839) | (32,900) | (93,140) | 7.9% |
| Loss before tax | (124,438) | (82,938) | (41,500) | (116,579) | (6.7%) |
| **Net loss for the year** | (126,996) | (84,396) | (42,600) | (110,237) | (15.2%) |
| Total assets | 325,612 | 325,612 | 379,096 | 415,354 | (21.6%) |
| Net assets | 123,875 | 123,875 | 149,510 | 113,494 | 9.1% |
| | | | | | |
| Basic loss per share (cents) | (97.6) | (61.6) | (36.0) | (133.2) | 26.7% |

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

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

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

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

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

The results by division are as follows:

**Drilling Division**

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

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

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

**Engineering & Construction Division**

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

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

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

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

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

## Commentary on the Results

For the year ended 30 June 2013

### Oil & Gas Investments

The Company's shareholding in Cuadrilla increased during the year from 42.97% of its issued share capital to 44.0% at year end. Subsequent to balance date, the Company has purchased additional shares in Cuadrilla increasing its shareholding to 45.0%.

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

Under the Sale Agreement, Centrica has committed to fund £60 million of expenditure on the Bowland Prospect however £15 million must be incurred by the purchaser before the purchaser has the option to put the acquired interest back to Lucas and Cuadrilla. In the event this option is not put to Lucas and Cuadrilla, subject to certain appraisal or operational milestones, Centrica will then pay a further £60 million for its interest of which Lucas' direct share is £15 million.

Currently, an Environmental Impact Assessment is being conducted on the Bowland Prospect and drilling consents are being sought. It is therefore unlikely that any significant drilling work will be undertaken on the Prospect for upwards of another 12 months.

Drilling has also commenced, this time looking for oil, at Balcombe in the Bolney Prospect in the south of England. The results of this drilling are not expected for several months.

### Recapitalisation

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

Just prior to year end, the Company launched a $148.8 million recapitalisation of which $81.8 million was subscribed in June and the balance of $67.0 million just after year end. The Company's Senior Lender was repaid in full out of the first tranche of the subscription proceeds and its first ranking security released. The effect of this capital raising was to substantially strengthen the balance sheet, significantly reduce borrowings and debt service costs and increase liquidity. Because the recapitalisation was not completed until after balance date, the benefit of the capital raising is not reflected in full in the balance sheet at year end. Further, the balance sheet at year end shows the majority of interest bearing loans and borrowings, principally owed to Kerogen Investments, as a current liability. Therefore, at year end, the balance sheet still shows a deficiency of working capital although a substantial reduction in gearing level compared with the prior year.

Following the completion of the capital raising, the interest bearing debt has been reduced by a further $35 million. In addition, Kerogen has agreed, subject to Lucas shareholder approval, to reschedule the maturity date of its loan facilities to January and February 2017. A resolution will be put to shareholders at the Annual General Meeting to be held in November 2013 to approve the change in borrowing terms. Subject to shareholder approval being granted, no material borrowings will then fall due for repayment for over three years. The effect of the additional equity raised in July, the additional debt repayment and the proposed rescheduling of the maturity date of the Kerogen borrowings is to restore the Company to a surplus working capital position and reduce its gearing ratio to 24.8%.

Furthermore, preference share redemptions from Cuadrilla since year end, have realised $13.1 million in cash net of an additional 1% subscription, for Cuadrilla shares taking Lucas' shareholding in Cuadrilla to 45.0%. The pro-forma balance sheet of the Group as at 30 June 2013, including these events, is as follows:

| | Reported as at June 2013 | Entitlement Offer less Fees and Kerogen Loan Repayment | Other Loan Repayments | Working Capital Movement | Cuadrilla Preference Share Redemption less Additional Investment | Kerogen Loan Rescheduling | Pro forma June 2013 |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **CURRENT ASSETS** | | | | | | | |
| **Total Current Assets** | 81,850 | 32,231 | (5,406) | (20,269) | 13,100 | (1,000) | 100,506 |
| **NON-CURRENT ASSETS** | | | | | | | |
| **Total Non-Current Assets** | 243,761 | – | – | – | (13,100) | – | 230,661 |
| **Total Assets** | 325,611 | 32,231 | (5,406) | (20,269) | – | (1,000) | 331,167 |
| **CURRENT LIABILITIES** | | | | | | | |
| **Total Current Liabilities** | 170,127 | (33,200) | (5,406) | (20,269) | – | (50,889) | 60,363 |
| **NON-CURRENT LIABILITIES** | | | | | | | |
| **Total Non-Current Liabilities** | 31,609 | – | – | – | – | 51,889 | 83,498 |
| **Total Liabilities** | 201,736 | (33,200) | (5,406) | (20,269) | – | 1,000 | 143,861 |
| **Net Assets** | 123,875 | 65,431 | – | – | – | (2,000) | 187,306 |
| **EQUITY** | | | | | | | |
| **Total Equity** | 123,875 | 65,431 | – | – | – | (2,000) | 187,306 |

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### Outlook

The strengthening of the balance sheet is already resulting in improved market confidence in the Company. Engineering work awarded since mid-June 2013 already amounts to $66 million. In addition, the Group is tendering a significant amount of work, both individually and in joint venture with other companies. Notably, the Group is engaged in the early stage engineering and design of a major long distance pipeline as well as tendering for a number of other significant engineering projects which management believes the Group is well positioned to secure.

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

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

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

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

# A J LUCAS GROUP LIMITED
## ABN: 12 060 309 104

## PRELIMINARY FINANCIAL REPORT
## FOR THE YEAR ENDED 30 JUNE 2013

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Revenue | 2 | 294,791 | 504,276 |
| Total Revenue | | **294,791** | **504,276** |
| Material costs | | (83,264) | (146,113) |
| Sub-contractor costs | | (75,641) | (177,923) |
| Employee expenses | | (104,055) | (125,352) |
| Plant and other construction costs | | (39,857) | (61,091) |
| Advisory fees on balance sheet restructure | | (836) | (6,677) |
| Depreciation and amortisation expenses | 3 | (22,852) | (24,793) |
| Impairment of intangible asset | 3 | (27,529) | (44,960) |
| Impairment of equity accounted investees | 3 | (2,437) | – |
| Impairment of land and buildings | 3 | – | (1,870) |
| Impairment of plant and equipment | 3 | (13,615) | – |
| Impairment of receivables | 3 | (2,144) | (2,352) |
| Cost of options granted | | (177) | (627) |
| Loss on sale of assets | | (1,107) | – |
| Redundancy costs | | (2,119) | – |
| Other expenses | | (1,039) | (3,312) |
| **Results from operating activities** | | **(81,881)** | **(90,794)** |
| Finance income | | 707 | 2,618 |
| Finance costs | | (39,406) | (26,057) |
| **Net financing costs** | 4 | **(38,699)** | **(23,439)** |
| Share of loss of equity accounted investees | 9 | (3,858) | (2,346) |
| **Loss before income tax** | | **(124,438)** | **(116,579)** |
| Income tax (expense) / benefit | 5 | (2,558) | 6,342 |
| **Loss for the year** | | **(126,996)** | **(110,237)** |
| **Other comprehensive income** | | | |
| Effective portion of changes in fair values of hedges | | 78 | 638 |
| Exchange differences on translation of foreign operations | | (9) | (140) |
| **Other comprehensive income for the year** | | **69** | **498** |
| **Total comprehensive loss for the year** | | **(126,927)** | **(109,739)** |
| **Total comprehensive loss attributable to owners of the company** | | **(126,927)** | **(109,739)** |
| **Earnings per share:** | | | |
| Basic (loss)/earnings per share | | (97.6) | (133.2) |
| Diluted (loss)/earnings per share | | (97.6) | (133.2) |

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated preliminary financial report.

# Consolidated Statement of Financial Position

At 30 June 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 16 | 9,675 | 4,343 |
| Trade and other receivables | | 39,430 | 57,051 |
| Inventories | | 29,410 | 55,918 |
| Asset classified as held for sale | | 1,357 | 5,503 |
| Other assets | | 1,978 | 862 |
| **Total Current Assets** | | **81,850** | **123,677** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 6 | 109,972 | 133,638 |
| Exploration assets | 7 | 6,320 | 16,073 |
| Intangible development assets | | – | 580 |
| Other intangible assets | 8 | 39,472 | 67,001 |
| Deferred tax assets | | – | 782 |
| Investments in equity accounted investees | 9 | 87,997 | 73,603 |
| **Total Non-Current Assets** | | **243,761** | **291,677** |
| **Total Assets** | | **325,611** | **415,354** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | 61,743 | 120,348 |
| Interest-bearing loans and borrowings | 10 | 88,921 | 91,171 |
| Income tax liabilities | 11 | 9,020 | 32,692 |
| Derivative liabilities | 13 | 4,916 | 2,665 |
| Employee benefits | | 5,527 | 7,849 |
| **Total Current Liabilities** | | **170,127** | **254,725** |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing loans and borrowings | 10 | 5,948 | 41,881 |
| Derivative liabilities | 13 | – | 4,015 |
| Income tax liabilities | 11 | 24,655 | – |
| Employee benefits | | 1,006 | 1,239 |
| **Total Non-Current Liabilities** | | **31,609** | **47,135** |
| **Total Liabilities** | | **201,736** | **301,860** |
| **Net Assets** | | **123,875** | **113,494** |
| **EQUITY** | | | |
| Share capital | | 275,637 | 138,506 |
| Reserves | | 713 | 467 |
| Accumulated losses | | (152,475) | (25,479) |
| **Total Equity** | | **123,875** | **113,494** |

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated preliminary financial report.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

| | Share capital $'000 | Translation reserve $'000 | Option reserve $'000 | Employee equity benefits reserve $'000 | Hedging reserve $'000 | Retained earnings / (accumulated losses) $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance 1 July 2011 | 91,935 | (3,433) | – | 3,339 | (716) | 84,758 | 175,883 |
| **Total comprehensive income** | | | | | | | |
| Loss for the year | – | – | – | – | – | (110,237) | (110,237) |
| Other comprehensive income | | | | | | | |
| Effective portion of changes in fair value of hedges | – | – | – | – | 638 | – | 638 |
| Foreign currency translation differences | – | (140) | – | – | – | – | (140) |
| **Total comprehensive income/(loss)** | **–** | **(140)** | **–** | **–** | **638** | **(110,237)** | **(109,739)** |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| Issue of ordinary shares | 46,571 | – | – | – | – | – | 46,571 |
| Issue of options | – | – | 637 | – | – | – | 637 |
| Dividends to shareholders | – | – | – | – | – | – | – |
| Share based payment transactions | – | – | – | 142 | – | – | 142 |
| Total contributions by and distributions to owners | 46,571 | – | 637 | 142 | – | – | 47,350 |
| **Balance 30 June 2012** | **138,506** | **(3,573)** | **637** | **3,481** | **(78)** | **(25,479)** | **113,494** |
| Balance 1 July 2012 | 138,506 | (3,573) | 637 | 3,481 | (78) | (25,479) | 113,494 |
| **Total comprehensive income** | | | | | | | |
| Loss for the year | – | – | – | – | – | (126,996) | (126,996) |
| Other comprehensive income | | | | | | | |
| Effective portion of changes in fair value of hedges | – | – | – | – | 78 | – | 78 |
| Foreign currency translation differences | – | (9) | – | – | – | – | (9) |
| **Total comprehensive income/(loss)** | **–** | **(9)** | **–** | **–** | **78** | **(126,996)** | **(126,927)** |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| Issue of ordinary shares | 137,131 | – | – | – | – | – | 137,131 |
| Issue of options | – | – | – | – | – | – | – |
| Share based payment transactions | – | – | – | 177 | – | – | 177 |
| Total contributions by and distributions to owners | 137,131 | – | – | 177 | – | – | 137,308 |
| **Balance 30 June 2013** | **275,637** | **(3,582)** | **637** | **3,658** | **–** | **(152,475)** | **123,875** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated preliminary financial report.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2013

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

The consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated preliminary financial report.

### 1. Basis of preparation

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The consolidated preliminary financial statements of the Company as at and for the year ended 30 June 2013 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated preliminary financial report is based on the Group's financial statements which are in the process of being audited. This consolidated preliminary financial report has been prepared in accordance with Australian Accounting Standards (AASB's) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001 to the extent required under ASX Listing Rule 4.3A regarding preparation of the preliminary financial report. The accounting policies adopted are consistent with those of the previous financial year.

The financial report is presented in Australian dollars and has been prepared on an historical cost basis, except for available for sale assets and derivative financial assets which have been measured at fair value at reporting date. 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, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated preliminary financial report was authorised by the Board of Directors on 30 August 2013.

#### i) Going concern

The consolidated preliminary financial report has 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 preliminary financial statements are approved.

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

- the Group generated a loss after tax for the year of $127.0 million primarily as a result of non-cash impairment charges of $43.5 million and high financing costs of $39.4 million, together with continued operating losses and restructuring expenses; and
- as at balance date, the Group's current liabilities exceeded its current assets by $88.3 million. The deficit in net current assets is principally due to the classification of $84.6 million due to Kerogen Investments ('Kerogen') and $4.9 million of derivative liabilities in relation to Kerogen share options as current liabilities, reflecting the contractual rights of these third parties to be able to call on these amounts within 12 months from balance date.

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

- The Company has completed an equity entitlement offer through the issue of 55,855,543 ordinary shares at $1.20 per share raising $63.7 million after costs which have primarily been applied as follows:
  - Repayment of US$32.0 million (A$35.0 million) to Kerogen reducing the residual amount owing to Kerogen to US$47.6 million;
  - Repayment of US$5.4 million in borrowings including interest secured against 10.075% of the Company's shareholding, on a fully diluted basis, in its indirectly wholly owned subsidiary, Lucas Bowland (UK) Limited; and
  - Reduction in trade payables of approximately $20.3 million, with surplus cash available for the future working capital requirements of the Group;
- A term sheet was executed on 30 August 2013 with Kerogen which, subject to Lucas shareholder approval, varies the maturity date on its residual facilities to January and February 2017;
- The Company has received US$13.1 million from Cuadrilla Resources Holdings Limited ('Cuadrilla') through redemption of Cuadrilla's A class preference shares.

**1. Basis of preparation (cont.)**

**i) Going concern(cont.)**

In assessing the appropriateness of using the going concern assumption, the Directors have also had regard to their views in respect of:

- the continuing support of Kerogen, both a substantial debt holder and shareholder of the Group, as evidenced by the variation of the maturity date of its residual facilities as noted above and the participation in equity raisings made both during the financial year and subsequent to year end;
- the reasonableness of the profit and cash flow forecasts of the Group, having regard to the value of the contracts awarded to the Group since mid-June 2013 and their working capital requirements, the order backlog, the status of tenders pending, the ongoing cost reduction programme and reduction in capital commitments in respect of the Company's investment in Cuadrilla as discussed below;
- on 13 June 2013, the Company along with Cuadrilla together sold a 25% interest in the shale gas exploration licence in the Bowland Prospect through a farm-in arrangement to a wholly owned subsidiary of Centrica Plc ('Centrica'). This resulted in £10 million cash being received by the Group during the year, and Centrica committing to pay the next £15 million of exploration expenditure on the Bowland Prospect, with a further £45 million if they do not exercise their put option on the tenement back to the Company and Cuadrilla, as described in Note 7. As a result of the transaction, the Directors have had regard to:
    - the implied value of the Group's investment in Cuadrilla and its remaining direct holding in the Bowland Prospect following the sale to Centrica, and the observed ability to realise this asset to raise additional equity if necessary; and
    - the expectation that no additional cash will be required for the development of the Bowland Prospect until late 2014 calendar year at the earliest; and
- the ability of the Group to raise additional debt and/or equity, if and when required.

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

**ii) Estimates**

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

In preparing these consolidated preliminary financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 June 2012.

Given the nature of the contracts that the Group undertakes, there is exposure to claims and variations for which the Group has made judgements in respect of final outcomes.

## 2. Segment reporting

The Group comprises the following main business segments:

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

| | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **June 2013** | | | | | | | |
| **Reportable segment revenue** | | | | | | | |
| Revenue - services rendered | 163,359 | – | – | 163,359 | – | – | 163,359 |
| Revenue - construction contracts | – | 131,432 | – | 131,432 | – | – | 131,432 |
| Inter-segment revenue | 8,879 | – | – | 8,879 | – | (8,879) | – |
| **Total consolidated revenue** | **172,238** | **131,432** | **–** | **303,670** | **–** | **(8,879)** | **294,791** |
| **EBITDA** | **21,776** | **(29,064)** | **(4,678)** | **(11,966)** | **(7,340)** | **–** | **(19,306)** |
| Less: Depreciation, amortisation and impairment | (54,733) | (8,698) | – | (63,431) | (3,002) | – | (66,433) |
| **Reportable segment profit/(loss)** | **(32,957)** | **(37,762)** | **(4,678)** | **(75,397)** | **(10,342)** | | **(85,739)** |
| Reconciliation: | | | | | | | |
| Interest income | – | 618 | – | 618 | 89 | – | 707 |
| Interest expense | (2,169) | (3,748) | – | (5,917) | (20,280) | – | (26,197) |
| Net change in fair value of derivative liability | – | – | – | – | (901) | – | (901) |
| Net foreign exchange loss | – | – | – | – | (12,308) | – | (12,308) |
| **Consolidated loss before income tax** | | | | | | | **(124,438)** |

### 2. Segment reporting (cont)

| | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Eliminations $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **June 2012** | | | | | | | |
| **Reportable segment revenue** | | | | | | | |
| Revenue - services rendered | 189,640 | – | – | 189,640 | – | – | 189,640 |
| Revenue - construction contracts | – | 314,636 | – | 314,636 | – | – | 314,636 |
| Inter-segment revenue | 11,303 | – | – | 11,303 | – | (11,303) | – |
| **Total consolidated revenue** | **200,943** | **314,636** | **–** | **515,579** | **–** | **(11,303)** | **504,276** |
| **EBITDA** | **11,012** | **(16,078)** | **(3,287)** | **(8,353)** | **(13,164)** | **–** | **(21,517)** |
| Less: Depreciation, amortisation and impairment | (64,127) | (4,187) | – | (68,314) | (3,309) | – | (71,623) |
| **Reportable segment profit/(loss)** | **(53,115)** | **(20,265)** | **(3,287)** | **(76,667)** | **(16,473)** | **–** | **(93,140)** |
| Reconciliation: | | | | | | | |
| Interest income | – | – | – | – | 46 | – | 46 |
| Interest expense | (8,360) | (2,493) | – | (10,853) | (15,062) | – | (25,915) |
| Net change in fair value of derivative liability | – | – | – | – | 2,572 | – | 2,572 |
| Net foreign exchange gain / (loss) | 164 | – | – | 164 | (306) | – | (142) |
| **Consolidated loss before income tax** | | | | | | | **(116,579)** |

## 2. Segment reporting (cont)

Other Segment Information

| | Drilling $'000 | E&C $'000 | Oil & Gas $'000 | Reportable Segments $'000 | Corporate/ unallocated $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **June 2013** | | | | | | |
| Segment assets | 164,706 | 39,288 | 94,317 | 298,311 | 27,300 | 325,611 |
| 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 | – | – | 87,997 | 87,997 | – | 87,997 |
| Capital expenditure | 13,825 | 269 | – | 14,094 | 1,147 | 15,241 |
| Impairment of intangible asset | (27,529) | – | – | (27,529) | – | (27,529) |
| Impairment of plant and equipment | (10,490) | (3,125) | – | (13,615) | – | (13,615) |
| Impairment of equity accounted investee | – | (2,437) | – | (2,437) | – | (2,437) |
| **June 2012** | | | | | | |
| Segment assets | 231,459 | 76,570 | 88,430 | 396,459 | 18,895 | 415,354 |
| Segment liabilities | (122,346) | (75,464) | (68,047) | (265,857) | (36,003) | (301,860) |
| Depreciation and amortisation | (64,127) | (4,187) | – | (68,314) | (3,309) | (71,623) |
| Share of loss of equity accounted investees | – | (377) | (1,969) | (2,346) | – | (2,346) |
| Equity accounted investments | – | 1,246 | 72,357 | 73,603 | – | 73,603 |
| Capital expenditure | 19,664 | 199 | – | 19,863 | 5,648 | 25,511 |
| Impairment of intangible asset | (44,960) | – | – | (44,960) | – | (44,960) |
| Impairment of land and buildings | (1,870) | – | – | (1,870) | – | (1,870) |

### 2. Segment reporting (cont)

**Geographical information**

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

| | Revenues 2013 $'000 | Revenues 2012 $'000 | Non-current assets 2013 $'000 | Non-current assets 2012 $'000 |
|---|---|---|---|---|
| Australia | 294,791 | 504,276 | 149,445 | 203,163 |
| Europe | – | – | 94,317 | 88,430 |
| Asia/Pacific | – | – | – | 84 |
| | **294,791** | **504,276** | **243,762** | **291,677** |

### 3. Other expenses

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

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

### 4. Finance income and finance costs

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

## 5. Income tax benefit

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Recognised in profit or loss** | | |
| **Current tax benefit** | | |
| Current year | (14,201) | (12,187) |
| Tax losses not recognised in current year | 14,201 | 12,187 |
| Prior year adjustments | 187 | – |
| | 187 | – |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | (12,119) | (6,883) |
| Prior year adjustment | (221) | (1,424) |
| Prior year tax losses previously recognised not carried forward | – | 390 |
| Prior year tax losses not recognised | 1,086 | 1,575 |
| Current year temporary differences not recognised | 11,254 | – |
| Derecognition of prior year deferred tax asset | 782 | – |
| **Total income tax expense / (benefit) in profit or loss** | **969** | **(6,342)** |
| | | |
| **Recognised in statement of changes in equity** | | |
| **Current tax expense** | | |
| Current year | 1,589 | – |
| **Total income tax expense in equity** | **1,589** | **–** |
| | | |
| Numerical reconciliation between tax benefit and pre-tax net profit/(loss) | | |
| Accounting loss before income tax | (124,438) | (116,579) |
| Prima facie income tax benefit calculated at 30% (2012: 30%) | (37,331) | (34,974) |
| Adjustment for: | | |
| Equity settled share based payments | (166) | 88 |
| Equity accounted loss | 1,167 | 704 |
| Non-deductible expenses | 487 | 567 |
| Non-deductible option expense | 1,639 | 1,027 |
| Amortisation of customer contracts | – | 97 |
| Effect of tax rate in foreign jurisdictions | (15) | 5 |
| Non-deductible finance cost | 230 | – |
| Impairment expenses | 8,990 | 14,187 |
| Fair value derivative option gain non-assessable | 270 | (771) |
| Prior year tax losses not recognised | 1,271 | 1,965 |
| Current year tax losses not recognised | 14,201 | 12,187 |
| Derecognition of prior year deferred tax asset | 782 | – |
| Current year temporary differences not recognised | 11,254 | – |
| Utilisation of capital losses not previously recognised | – | – |
| | 2,779 | (4,918) |
| Income tax over-provided in prior year | (221) | (1,424) |
| **Income tax expense / (benefit) attributable to operating loss** | **2,558** | **(6,342)** |

### 6. Property, plant and equipment

The carrying value for each class of property, plant and equipment and reconciliations of the movement in each class are set out below:

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

| | Leasehold improvements $'000 | Land & buildings $'000 | Plant & equipment $'000 | Enterprise development $'000 | Total $'000 |
|---|---|---|---|---|---|
| **30 June 2013** | | | | | |
| Balance at 1 July 2012 | 1,165 | 3,510 | 120,013 | 8,950 | 133,638 |
| Additions | – | – | 14,537 | 704 | 15,241 |
| Disposals | – | – | (2,580) | – | (2,580) |
| Impairment | – | – | (13,615) | – | (13,615) |
| Depreciation | (576) | (97) | (14,524) | – | (15,197) |
| Amortisation | – | – | (5,792) | (1,723) | (7,515) |
| **Balance at 30 June 2013** | **589** | **3,413** | **98,039** | **7,931** | **109,972** |

### 7. Exploration Assets

The exploration assets comprise the Company's direct equity interest in respectively 18.75% (2012: 25.0%) of the Bowland and 25% of the Bolney prospects in England. Cuadrilla Resources Holdings Limited, in which Lucas held a 44.0% shareholding at balance date, owns 56.25% of the Bowland Prospect and the other 75% of the Bolney Prospect. The reduction in carrying value during the year represents Lucas' direct expenditure on these prospects less the sale of a 6.25% interest in the Bowland Prospect during the year. The Company's shareholding in Cuadrilla increased after balance date to 45.0%.

Subsequent to the sale of 6.25% of the Company's direct interest in the Bowland prospect, the purchaser has a non-cancellable obligation to spend at least the next £15 million of the Bowland prospect exploration expenditure, ensuring the Company continues to receive the benefit of exploration expenditure on this prospect. As such, the Company has recognised this as a 'carry asset' which will revert to 'capitalised exploration expenditure' once the related expenditure has been incurred by the purchaser.

At year end, $5,127,081 remained attributable to the 'carry asset' as defined above, with the remainder being capitalised exploration expenditure as at 30 June 2013.

## 8. Other intangible assets

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

### Impairment tests for cash generating units containing goodwill

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

The aggregate carrying amounts of goodwill allocated to each cash generating unit are:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Drilling | 35,640 | 63,169 |
| Engineering and Construction | 3,832 | 3,832 |
| | **39,472** | **67,001** |

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on the 2014 budget, extended over a five year period using industry growth rates. A post-tax discount rate is applied adjusted for the risk of the industry in which each unit operates.

### Key assumptions used for value in use calculations

Cash flows were projected based on past experience, actual operating results in 2013 and the budget for 2014. Real growth rates of between 3.7% - 8.3% and (2.1)% - 1.7% were applied to the Drilling and Engineering and Construction cash generating units respectively to extrapolate cash flows for years 2015-2018 based on forecast industry growth rates. Long-term growth rates of 3% are used into perpetuity based on expected long range growth rates.

Post-tax discount rates of 12.75% and 13.98% have been applied to the Drilling and Engineering and Construction cash generating units respectively to discount the forecast future attributable post-tax cash flows. The discount rate reflects specific risks relating to the relevant cash generating units. As at 30 June 2013, the recoverable amount of each cash generating unit exceeds its carrying amount. For Drilling, this was achieved through the recognition of an impairment loss of $27.5 million during the year.

### 9. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

| Name of investee | Ownership 2013 | Ownership 2012 | 2013 Carrying value $'000 | 2012 Carrying value $'000 |
|---|---|---|---|---|
| Cuadrilla Resources Holdings Limited (associate) | 44% | 43% | 87,997 | 72,357 |
| Marais-Lucas Technologies Pty Limited (joint controlled entity) | 50% | 50% | – | 1,246 |
| | | | **87,997** | **73,603** |

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cuadrilla Resources Holdings Ltd $'000 | Marais-Lucas Technologies Pty Ltd $'000 | Total $'000 | Cuadrilla Resources Holdings Ltd $'000 | Marais-Lucas Technologies Pty Ltd $'000 | Total $'000 |
| Current assets | 66,723 | 1,923 | 68,646 | 11,524 | 774 | 12,298 |
| Non-current assets | 43,841 | 1,205 | 45,046 | 125,199 | 1,312 | 126,511 |
| **Total assets** | **110,564** | **3,128** | **113,692** | **136,723** | **2,086** | **138,809** |
| Current liabilities | 4,256 | 7,514 | 11,770 | 14,941 | 5,067 | 20,008 |
| Non-current liabilities | 1,431 | - | 1,431 | 1,404 | - | 1,404 |
| **Total liabilities** | **5,687** | **7,514** | **13,201** | **16,345** | **5,067** | **21,412** |
| Income | 623 | 3,747 | 4,370 | 4,000 | 1,775 | 5,775 |
| Expenses | (8,245) | (5,152) | (13,397) | (8,583) | (2,528) | (11,111) |
| **Loss** | **(7,622)** | **(1,405)** | **(9,027)** | **(4,583)** | **(753)** | **(5,336)** |

### 9. Investments in equity accounted investees (cont)

Movement in the carrying value of the Group's investment in associates is as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Equity accounted ownership interest at beginning of year | 73,603 | 52,687 |
| Purchase of additional ownership interest | 20,689 | 23,262 |
| Impairment of investment in associates | (2,437) | – |
| Share of equity accounted losses during the year | (3,858) | (2,346) |
| **Equity accounted ownership interest at end of the year** | **87,997** | **73,603** |

### 10. Interest-bearing loans and borrowings

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

**Other borrowings**

Other borrowings include the mezzanine finance facility provided by Kerogen, a non-current PAYG liability to the Australian Taxation Office that forms part of the payment arrangement described in Note 11 Tax liabilities, and various other miscellaneous loans.

The principal terms of the Kerogen loan facility at balance date are as follows:

| | Tranche 1 ’000 | Tranche 2 ’000 |
|---|---|---|
| Principal Amount | US$53,651 | US$24,280 |
| Repayment date | 31 January 2014 | 22 January 2014 |
| Interest rate per annum | 15% | 10% |

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

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

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

Also included in other borrowings is a secured loan for US$2.4 million (A$2.6 million) used for capital calls made by Cuadrilla Resources Holdings Limited. This loan was made under a Subscription Deed entitling the lender to subscribe for 10.075% of the shares issued by the Company’s indirectly held wholly owned subsidiary, Lucas Bowland (UK) Limited, which in turn owns a 10% interest in the Bowland Prospect, unless repaid before 3 November 2013. The loan was repaid on 29 July 2013 together with all accrued interest and the Subscription Deed cancelled.

### 10. Interest-bearing loans and borrowings (cont)

The majority of the finance leases outstanding at the beginning of the financial year were repaid during the year when the previous Senior Lender was repaid all its facilities in June 2013. Pursuant to repayment of these facilities, the previous lender's first ranking security was released.

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

#### Bank facilities

Of the bonds utilised, $8,023,705 (2012: $6,590,697) are on projects which are yet to achieve practical completion.

At 30 June 2013, bank indemnity guarantees are fully cash collateralised, represented by a balance of $1.87 million included in current trade and other receivables.

#### Finance lease facilities

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

## 10. Interest-bearing loans and borrowings (cont)

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

## 11. Tax liabilities

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

## 12. Interests in Joint Ventures

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

## 12. Interests in Joint Ventures (cont)

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

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 3,497 | 3,688 |
| Trade and other receivables | 1,185 | 7,367 |
| Other | 20 | 24 |
| Construction work in progress | 303 | 3,193 |
| **Total assets** | **5,005** | **14,272** |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 4,495 | 11,795 |
| **Total liabilities** | **4,495** | **11,795** |

## 13. Derivative liabilities

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 period was as follows:

| | Number of Options | Current derivative liability $'000 | Non-current derivative liability $'000 | Total derivative liability $'000 |
|---|---|---|---|---|
| As at 1 July 2012 | 18,566,763 | 2,665 | 4,015 | 6,680 |
| Options excercised during the year | (7,407,407) | (2,665) | – | (2,665) |
| Movement in valuation during the year | – | – | 901 | 901 |
| Transfer to current due to lapse of time | – | 4,916 | (4,916) | – |
| **As at 30 June 2013** | **11,159,356** | **4,916** | **–** | **4,916** |

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

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

* The exercise price of the options is the lower of a 20% premium to the five day volume weighted average price (VWAP) of the Company's shares ending on the date prior to exercise and $1.54 per share subject to a minimum exercise price of $1.19 per share. The exercise price was varied, in accordance with the terms of the Option Deed, from the initial exercise price of $1.70 per share on the grant of the options, pursuant to the 1 for 1.25 Entitlement Offer commenced in June 2013 and completing in July 2013. As a rational investor would only exercise the options provided the exercise price is below the share price at exercise date, the exercise price is assumed to be $1.54 per share.

### 14. Share based payments

On 5 September 2012, shareholders approved the grant of management options to each of the Chief Executive Officer and senior management of the Company. The principal terms of these options and their grant date is as follows:

| Terms | Key management personnel | Chief executive officer |
|---|---|---|
| Grant date | 29 November 2012 | 5 September 2012 |
| Expiry date | 7 December 2015 | 7 December 2015 |
| Number of options granted | 1,250,000 | 3,750,000 |
| Exercise price | $1.19 * | $1.19 * |

In order for the options to vest, under both the management and chief executive options the company's share price must close at in excess of $2.34* for at least ten days within a twenty day trading period that occurs at least twelve months after grant date. In addition, the management options will only vest up to 50% following two years of service, or 100% following 3 years of service.

The following factors and assumptions were used in determining the fair value of the options on their grant date:

| Terms | Key management personnel | Chief executive officer |
|---|---|---|
| Grant date | 29 November 2012 | 5 September 2012 |
| AJ Lucas share price | $0.77 | $0.65 |
| Option exercise price | $1.35 * | $1.35 * |
| Risk-free interest rate | 2.68% | 2.59% |
| Dividend yield | 0.00% | 0.00% |
| Term | 2.5 years (2 year service condition)<br>3.02 years (3 year service condition) | 3.25 years |
| Volatility of Lucas shares | 55%-65% | 55%-65% |
| Fair value at grant date (cents per option) | 0.125 | 0.106 |

*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 for the options to vest was reduced from $2.50 applying on the grant of the options to $2.34.

### 15. Share capital

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

## 15. Share based payments (cont)

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

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

The entitlement shares were allotted under a 1 for 1.25 Entitlement Offer commenced in June 2013 at an issue price of $1.20 per share. The Entitlement Offer was completed in July 2013 with the allotment of a further 55,855,543 ordinary shares at $1.20 per share.

### 16. Reconciliation of cash flow from operating activities

For the purposes of the statement of cash flows, cash includes cash at bank, cash on hand and bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | | |
|---|---|---|
| Cash assets | 9,675 | 4,343 |
| Bank overdraft | – | (6,643) |
| **Total cash** | **9,675** | **(2,300)** |

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

| | | |
|---|---|---|
| Loss for the year | (126,996) | (110,237) |
| Adjustments for: | | |
| Interest on capitalised leases | 2,891 | 3,073 |
| Interest capitalised | 25,198 | – |
| Loss on sale of non-current assets | 689 | 276 |
| Interest income receivable | (73) | (47) |
| Cost of issue of options | 177 | 627 |
| Loss on sale of assets held for sale | 237 | 365 |
| Loss on sale of exploration assets | 181 | – |
| Loss on foreign currency loan | 12,296 | 63 |
| Fair value adjustment in derivative liability | 901 | (2,572) |
| Foreign exchange gain on restatement of equity accounted investee | – | 140 |
| Net foreign exchange loss on other loans | – | (23) |
| Net foreign exchange loss on restatement of exploration assets | (65) | 440 |
| Share of prior year overhead expenses exploration assets | – | 343 |
| Share of overhead expenses exploration assets | 1,427 | – |
| Share of loss of equity accounted investees | 3,858 | 2,253 |
| Advisory fees on balance sheet restructure | 1,450 | 5,252 |
| Impairment of intangible asset | 27,529 | 44,960 |
| Impairment of property, plant and equipment | 13,615 | – |
| Impairment of equity accounted investees | 2,437 | – |
| Impairment of other receivables | – | 459 |
| Impairment of land and buildings | – | 1,870 |
| Depreciation and amortisation | 22,852 | 24,793 |
| Amortisation of borrowing costs (included in Interest bearing liabilities) | 857 | 717 |
| Accounting interest and fees on mezzanine debt | 5,287 | 3,239 |
| Unrecognised tax loss | 1,295 | – |
| **Operating loss before changes in working capital and provisions** | **(3,957)** | **(24,009)** |
| Change in receivables | 16,096 | (542) |
| Change in other current assets | (1,116) | 6,097 |
| Change in inventories | 26,508 | (2,972) |
| Change in payables | (58,605) | 30,689 |
| Change in provisions for employee benefits | (2,555) | 528 |
| Change in tax balances | 1,765 | (21,689) |
| Change in employee equity benefit reserve | – | 142 |
| Change in reserves | – | 498 |
| **Net cash used in operating activities** | **(21,864)** | **(11,258)** |

**16. Reconciliation of cash flows from operating activities (Cont)**

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

There were no non-cash financing and investing activities.

**(d) Financing arrangements**

Refer to note 10.

**17. Contingent Liabilities**

i) 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.

ii) Under the terms of the class order 98/1418 (as amended) dated 13 August 1998, the Company has entered into approved deeds of Indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

**iii) Subsequent Events**

Subsequent to balance date:

- The Company has completed an equity entitlement offer through the issue of 55,855,543 ordinary shares at $1.20 per share raising $63.7 million after costs which have primarily been applied as follows:
  - Repayment of US$32.0 million (A$35.0 million) to Kerogen reducing the residual amount owing to Kerogen to US$47.6 million;
  - Repayment of US$5.4 million in borrowings including interest secured against 10.075% on a fully diluted basis of the Company's shareholding, on a fully diluted basis, in its indirectly wholly owned subsidiary, Lucas Bowland (UK) Limited; and
  - Reduction in trade payables of approximately $20.3 million, with surplus cash available for the future working capital requirements of the Group;
- A term sheet was executed on 30 August 2013 with Kerogen which, subject to Lucas shareholder approval, varies the maturity date on its residual facilities to January and February 2017;
- The Company has received US$13.1 million from Cuadrilla Resources Holdings Limited ('Cuadrilla') through redemption of Cuadrilla's A class preference shares.

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