

**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)
<b>NTA Backing</b>	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	39.9¢	44.6¢
<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 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 %
<b>Total revenue</b>	294,791	118,591	176,200	504,276	(41.5%)
Reported EBITDA	(19,306)	(11,706)	(7,600)	(21,517)	10.3%
<b>EBIT</b>	(85,739)	(52,839)	(32,900)	(93,140)	7.9%
Loss before tax	(124,438)	(82,938)	(41,500)	(116,579)	(6.7%)
<b>Net loss for the year</b>	(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
<b>Reconciliation:</b>						
<b>Reported EBITDA</b>	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
<b>Underlying EBITDA</b>	<b>23,491</b>	<b>(14,585)</b>	<b>–</b>	<b>(5,574)</b>	<b>3,332</b>	<b>3,501</b>

*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

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## Commentary on the Results

For the year ended 30 June 2013

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.

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## 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:

## Commentary on the Results

For the year ended 30 June 2013

	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
<b>CURRENT ASSETS</b>							
<b>Total Current Assets</b>	81,850	32,231	(5,406)	(20,269)	13,100	(1,000)	100,506
<b>NON-CURRENT ASSETS</b>							
<b>Total Non-Current Assets</b>	243,761	–	–	–	(13,100)	–	230,661
<b>Total Assets</b>	325,611	32,231	(5,406)	(20,269)	–	(1,000)	331,167
<b>CURRENT LIABILITIES</b>							
<b>Total Current Liabilities</b>	170,127	(33,200)	(5,406)	(20,269)	–	(50,889)	60,363
<b>NON-CURRENT LIABILITIES</b>							
<b>Total Non-Current Liabilities</b>	31,609	–	–	–	–	51,889	83,498
<b>Total Liabilities</b>	201,736	(33,200)	(5,406)	(20,269)	–	1,000	143,861
<b>Net Assets</b>	123,875	65,431	–	–	–	(2,000)	187,306
<b>EQUITY</b>							
<b>Total Equity</b>	123,875	65,431	–	–	–	(2,000)	187,306

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

### 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
<b>Total Revenue</b>		<b>294,791</b>	<b>504,276</b>
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)
<b>Results from operating activities</b>		<b>(81,881)</b>	<b>(90,794)</b>
Finance income		707	2,618
Finance costs		(39,406)	(26,057)
<b>Net financing costs</b>	4	<b>(38,699)</b>	<b>(23,439)</b>
Share of loss of equity accounted investees	9	(3,858)	(2,346)
<b>Loss before income tax</b>		<b>(124,438)</b>	<b>(116,579)</b>
Income tax (expense) / benefit	5	(2,558)	6,342
<b>Loss for the year</b>		<b>(126,996)</b>	<b>(110,237)</b>
<b>Other comprehensive income</b>			
Effective portion of changes in fair values of hedges		78	638
Exchange differences on translation of foreign operations		(9)	(140)
<b>Other comprehensive income for the year</b>		<b>69</b>	<b>498</b>
<b>Total comprehensive loss for the year</b>		<b>(126,927)</b>	<b>(109,739)</b>
<b>Total comprehensive loss attributable to owners of the company</b>		<b>(126,927)</b>	<b>(109,739)</b>
<b>Earnings per share:</b>			
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
<b>CURRENT ASSETS</b>			
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
<b>Total Current Assets</b>		<b>81,850</b>	<b>123,677</b>
<b>NON-CURRENT ASSETS</b>			
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
<b>Total Non-Current Assets</b>		<b>243,761</b>	<b>291,677</b>
<b>Total Assets</b>		<b>325,611</b>	<b>415,354</b>
<b>CURRENT LIABILITIES</b>			
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
<b>Total Current Liabilities</b>		<b>170,127</b>	<b>254,725</b>
<b>NON-CURRENT LIABILITIES</b>			
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
<b>Total Non-Current Liabilities</b>		<b>31,609</b>	<b>47,135</b>
<b>Total Liabilities</b>		<b>201,736</b>	<b>301,860</b>
<b>Net Assets</b>		<b>123,875</b>	<b>113,494</b>
<b>EQUITY</b>			
Share capital		275,637	138,506
Reserves		713	467
Accumulated losses		(152,475)	(25,479)
<b>Total Equity</b>		<b>123,875</b>	<b>113,494</b>

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
<b>Total comprehensive income</b>							
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)
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>(140)</b>	<b>–</b>	<b>–</b>	<b>638</b>	<b>(110,237)</b>	<b>(109,739)</b>
<b>Transactions with owners recorded directly in equity</b>							
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
<b>Balance 30 June 2012</b>	<b>138,506</b>	<b>(3,573)</b>	<b>637</b>	<b>3,481</b>	<b>(78)</b>	<b>(25,479)</b>	<b>113,494</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 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)
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>(9)</b>	<b>–</b>	<b>–</b>	<b>78</b>	<b>(126,996)</b>	<b>(126,927)</b>
<b>Transactions with owners recorded directly in equity</b>							
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
<b>Balance 30 June 2013</b>	<b>275,637</b>	<b>(3,582)</b>	<b>637</b>	<b>3,658</b>	<b>–</b>	<b>(152,475)</b>	<b>123,875</b>

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
<b>Cash flows from operating activities</b>			
Cash receipts from customers		365,638	554,348
Cash payments to suppliers and employees		(375,397)	(534,081)
<b>Cash (used) / generated from operations</b>		<b>(9,759)</b>	<b>20,267</b>
Interest received		634	–
Income taxes paid		(11,466)	(15,229)
Interest and other costs of finance paid		(1,273)	(16,296)
<b>Net cash used in operating activities</b>	16	<b>(21,864)</b>	<b>(11,258)</b>
<b>Cash flows from investing activities</b>			
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)
<b>Net cash used in investing activities</b>		<b>(21,328)</b>	<b>(52,198)</b>
<b>Cash flows from financing activities</b>			
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)
<b>Net cash from financing activities</b>		<b>55,167</b>	<b>67,542</b>
<b>Net increase in cash and cash equivalents</b>		<b>11,975</b>	<b>4,086</b>
Cash and cash equivalents at beginning of the year		(2,300)	(6,386)
<b>Cash and cash equivalents at end of the year</b>	16	<b>9,675</b>	<b>(2,300)</b>

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

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# Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

## 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.

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# Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

## 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.

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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
<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>
Less: Depreciation, amortisation and impairment	(54,733)	(8,698)	–	(63,431)	(3,002)	–	(66,433)
<b>Reportable segment profit/(loss)</b>	<b>(32,957)</b>	<b>(37,762)</b>	<b>(4,678)</b>	<b>(75,397)</b>	<b>(10,342)</b>	<b>–</b>	<b>(85,739)</b>
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)
<b>Consolidated loss before income tax</b>							<b>(124,438)</b>

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 2. Segment reporting (cont)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>June 2012</b>							
<b>Reportable segment revenue</b>							
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)	–
<b>Total consolidated revenue</b>	<b>200,943</b>	<b>314,636</b>	<b>–</b>	<b>515,579</b>	<b>–</b>	<b>(11,303)</b>	<b>504,276</b>
<b>EBITDA</b>	<b>11,012</b>	<b>(16,078)</b>	<b>(3,287)</b>	<b>(8,353)</b>	<b>(13,164)</b>	<b>–</b>	<b>(21,517)</b>
Less: Depreciation, amortisation and impairment	(64,127)	(4,187)	–	(68,314)	(3,309)	–	(71,623)
<b>Reportable segment profit/(loss)</b>	<b>(53,115)</b>	<b>(20,265)</b>	<b>(3,287)</b>	<b>(76,667)</b>	<b>(16,473)</b>	<b>–</b>	<b>(93,140)</b>
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)
<b>Consolidated loss before income tax</b>							<b>(116,579)</b>

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 2. Segment reporting (cont)

#### Other Segment Information

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Total \$'000
<b>June 2013</b>						
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)
<b>June 2012</b>						
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)



# Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

## 2. Segment reporting (cont)

### Geographical information

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

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

## 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
<b>Total depreciation and amortisation</b>	<b>22,852</b>	<b>24,793</b>
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
<b>Total impairments</b>	<b>45,725</b>	<b>49,182</b>

## 4. Finance income and finance costs

	2013 \$'000	2012 \$'000
Interest income	707	46
Net change in fair value of derivative liability	–	2,572
<b>Finance income</b>	<b>707</b>	<b>2,618</b>
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)
<b>Finance costs</b>	<b>(39,406)</b>	<b>(26,057)</b>
<b>Net finance costs recognised in profit and loss</b>	<b>(38,699)</b>	<b>(23,439)</b>

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 5. Income tax benefit

	2013 \$'000	2012 \$'000
<b>Recognised in profit or loss</b>		
<b>Current tax benefit</b>		
Current year	(14,201)	(12,187)
Tax losses not recognised in current year	14,201	12,187
Prior year adjustments	187	–
	187	–
<b>Deferred tax expense</b>		
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	–
<b>Total income tax expense / (benefit) in profit or loss</b>	<b>969</b>	<b>(6,342)</b>
<b>Recognised in statement of changes in equity</b>		
<b>Current tax expense</b>		
Current year	1,589	–
<b>Total income tax expense in equity</b>	<b>1,589</b>	<b>–</b>
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)
<b>Income tax expense / (benefit) attributable to operating loss</b>	<b>2,558</b>	<b>(6,342)</b>

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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
<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>589</b>	<b>3,413</b>	<b>98,039</b>	<b>7,931</b>	<b>109,972</b>
<b>30 June 2012</b>					
At cost	2,888	3,912	225,807	9,865	242,472
Accumulated depreciation/amortisation	(1,723)	(402)	(105,794)	(915)	(108,834)
	<b>1,165</b>	<b>3,510</b>	<b>120,013</b>	<b>8,950</b>	<b>133,638</b>
	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
<b>30 June 2013</b>					
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)
<b>Balance at 30 June 2013</b>	<b>589</b>	<b>3,413</b>	<b>98,039</b>	<b>7,931</b>	<b>109,972</b>

### 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.

# Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

## 8. Other intangible assets

	Customer intangibles \$'000	Goodwill \$'000	Net profit interest \$'000	Total \$'000
<b>Cost</b>				
Balance at 1 July 2011	17,851	113,561	87,762	219,174
<b>Balance at 30 June 2012</b>	<b>17,851</b>	<b>113,561</b>	<b>87,762</b>	<b>219,174</b>
Balance at 1 July 2012	17,851	113,561	87,762	219,174
<b>Balance at 30 June 2013</b>	<b>17,851</b>	<b>113,561</b>	<b>87,762</b>	<b>219,174</b>
<b>Amortisation and impairment losses</b>				
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
<b>Balance at 30 June 2012</b>	<b>17,851</b>	<b>46,560</b>	<b>87,762</b>	<b>152,173</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>
<b>Carrying amounts</b>				
<b>At 30 June 2012</b>	<b>–</b>	<b>67,001</b>	<b>–</b>	<b>67,001</b>
<b>At 30 June 2013</b>	<b>–</b>	<b>39,472</b>	<b>–</b>	<b>39,472</b>

### 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
	<b>39,472</b>	<b>67,001</b>

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.

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 9. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

Name of investee	Ownership	Ownership	2013	2012
	2013	2012	Carrying value \$'000	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
			<b>87,997</b>	<b>73,603</b>

	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
<b>Total assets</b>	<b>110,564</b>	<b>3,128</b>	<b>113,692</b>	<b>136,723</b>	<b>2,086</b>	<b>138,809</b>
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
<b>Total liabilities</b>	<b>5,687</b>	<b>7,514</b>	<b>13,201</b>	<b>16,345</b>	<b>5,067</b>	<b>21,412</b>
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)
<b>Loss</b>	<b>(7,622)</b>	<b>(1,405)</b>	<b>(9,027)</b>	<b>(4,583)</b>	<b>(753)</b>	<b>(5,336)</b>

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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)
<b>Equity accounted ownership interest at end of the year</b>	<b>87,997</b>	<b>73,603</b>

### 10. Interest-bearing loans and borrowings

	2013 \$'000	2012 \$'000
<b>Current</b>		
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
	<b>88,921</b>	<b>91,171</b>
<b>Non-current</b>		
Lease liabilities - secured	148	–
Other borrowings - secured	5,800	–
Other borrowings - unsecured	–	41,881
	<b>5,948</b>	<b>41,881</b>

#### 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.

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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.

<b>Financing facilities</b>	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) The Group has access to the following lines of credit and bank guarantees</b>		
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
	<b>94,869</b>	<b>139,993</b>
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
	<b>94,869</b>	<b>133,052</b>
Total facilities not utilised at balance date:		
Bank overdraft - secured	–	1,857
Lease liabilities - secured	–	5,084
	–	<b>6,941</b>
<b>(b) Bond and other facilities provided by surety entities</b>		
Bond facilities in aggregate	10,609	16,529
Amount utilised	(10,609)	(15,044)
Unused bond facilities	–	<b>1,485</b>
Bank indemnity guarantee	1,869	4,000
Amount utilised	(1,869)	(2,464)
Unused facilities	–	<b>1,536</b>
Bank standby letter of credit	–	2,900
Amount utilised	–	–
Unused facilities	–	<b>2,900</b>

#### 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.

# Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

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

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

## 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

	Principal activities	Participation interest		Contribution to operating results of the Group profit/(loss)	
		2013	2012	2013	2012
		%	%	\$'000	\$'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	-



## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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
<b>Assets</b>		
<b>Current assets</b>		
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
<b>Total assets</b>	<b>5,005</b>	<b>14,272</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	4,495	11,795
<b>Total liabilities</b>	<b>4,495</b>	<b>11,795</b>

### 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 exercised 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)	–
<b>As at 30 June 2013</b>	<b>11,159,356</b>	<b>4,916</b>	<b>–</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 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.

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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) 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	30 June 2012
	No. Of Shares	No. Of Shares
<b>Movements during the year</b>		
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	<b>211,528,273</b>	<b>103,027,291</b>

## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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
		\$	\$000
<b>Placements</b>			
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
<b>Total</b>	<b>42,134,839</b>		<b>57,623</b>
<b>Entitlements</b>			
June 2013	58,864,875	1.20	70,638
<b>Total</b>	<b>58,864,875</b>		<b>70,638</b>
<b>Exercise of options</b>			
September 2012	7,407,407	1.35	10,000
<b>Total</b>	<b>7,407,407</b>		<b>10,000</b>
<b>less debt for equity conversion</b>			
June 2013			(49,680)
<b>Total</b>			<b>(49,680)</b>
<b>Less share raising costs</b>			
Share raising costs			(5,092)
<b>Total</b>			<b>(5,092)</b>
<b>Total cash received from equity issue of shares</b>			<b>83,489</b>

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.

# Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

## 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)
<b>Total cash</b>	<b>9,675</b>	<b>(2,300)</b>

### (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	–
<b>Operating loss before changes in working capital and provisions</b>	<b>(3,957)</b>	<b>(24,009)</b>
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
<b>Net cash used in operating activities</b>	<b>(21,864)</b>	<b>(11,258)</b>

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## Notes to the Consolidated Preliminary Financial Report

For the year ended 30 June 2013

### 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.