AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

PRELIMINARY FINAL REPORT

YEAR ENDED 30 JUNE 2008

APPENDIX 4E

(Previous corresponding period: Year ended 30 June 2007)

Results for Announcement to the Market

for the year ended 30 June 2008

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

			$A'000
Revenues from ordinary activities - Group	Up 96.1%	to	424,301
Profit from ordinary activities after tax benefit attributable to members	Up 110.6%	to	13,468
Net profit for the period attributable to members	Up 110.6%	to	13,468

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per security	56.2¢	29.0¢

Dividends	Amount per security	Franked amount per security
Final dividend	4.5¢	15%
Previous corresponding period	2.5¢	100%

Record date for determining entitlements to the dividend	4 September 2008
Date the dividend is payable	29 September 2008

There is no dividend reinvestment plan

The annual meeting will be held as follows:

Place	Intercontinental Hotel 117 Macquarie Street Sydney
Date	20 November 2008
Time	11.00am
Approximate date the annual report will be available	21 October 2008

Commentary on the Results

for the year ended 30 June 2008

1. Summary of the Financial Results

AJ Lucas Group experienced a record financial year as it continued to benefit from the strong demand for energy and infrastructure services. Group earnings before tax increased four fold to $20.4 million (2007: $4.2 million), with all divisions making strong contributions.

This momentum is expected to be maintained as demand continues to increase for coal seam gas and coal drilling services. The acquisition of Mitchell Drilling, completed on 22 August 2008, adds vital capacity to meet demand and firmly establishes AJ Lucas as the largest provider of these services.

The 2008 consolidated results can be summarised as follows:

	2008 Year $'000	**2008 2nd Half $'000**	**2008 1st Half $'000**	**2007 Year $'000**	**2007/08 Change %**
Revenue	424,301	218,976	205,325	216,369	96.1
EBITDA	37,412	18,587	18,825	14,907	151.0
EBIT	25,961	12,655	13,306	5,941	337.0
Net profit before tax	20,408	9,372	11,036	4,178	388.5
Profit after tax	13,468	5,231	8,237	6,396	110.6

Significantly, despite the substantial improvement in earnings, this was achieved after material legal fees and dispute settlement costs totalling in excess of $7.0 million relating to past contracts. In the absence of such costs, the operating results would have been as shown in the following table:

	2008 Year $'000	**2008 2nd Half $'000**	**2008 1st Half $'000**	**2007 Year $'000**	**2007/08 Change %**
EBITDA (as above)	37,412	18,587	18,825	14,907	151.0
Impairment costs	-	-	-	3,279	N/A
Profit on acquisition of business	-	-	-	(2,723)	N/A
Legal fees and dispute settlements costs	7,120	3,870	3,250	3,573	99.3
Normalised EBITDA	44,532	22,457	22,075	19,036	133.9

These disputes have now been largely resolved and such costs are not expected to occur in future years. Recent court rulings indicate that the Group will be able to recover some of these costs in future years however, no such amount has been recognised as the amount recoverable has not been determined by the court.

Group operating cash flow increased 421% to $50.1 million. This, together with conversion of $23 million of convertible notes issued during the previous year, allowed the Group to invest over $72 million in additional capacity and its own coal seam gas portfolio, without raising any new equity capital from shareholders.

Despite the high investment expenditure and the absence of new equity raised during the year, the Group's debt-to-equity ratio decreased from 61.1% in the previous year to 52.2%. Interest cover decreased to 6.7 times from 8.5 times in the previous year.

Commentary on the Results
for the year ended 30 June 2008

2. Divisional performance

Pipelines

The pipeline division experienced strong growth with revenue increasing by 198% to $218.5 million (2007: $73.2 million). The Western Corridor project ($129 million) in Brisbane accounted for most of the revenue increase with the Brooklyn to Lara gas pipeline in Victoria and the Bonaparte pipeline in Northern Territory responsible for much of the balance.

The adjusted EBITDA margin increased to 9.1% from 8.3% in the previous year as shown in the following table.

	Revenue		EBITDA	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Reported result	218,538	73,219	19,977	4,322
Impairment of intangibles			-	1,786
Underlying result			19,977	6,108
Adjusted EBITDA margin (%)			9.1%	8.3%

The EBITDA margin was adversely affected by difficult ground conditions encountered at Brooklyn to Lara. In the absence of the additional costs arising as a result of these conditions, together with the additional provision booked in the Goro project in the first half of the 2008 financial year, the divisional margin would have been 10.3% consistent with the margin historically achieved.

Drilling

The drilling division maintained its strong growth, reflecting buoyant market demand for coal and coal seam gas drilling services. The Capricorn Weston Drilling Group, acquired in August 2007, added substantial capacity to the Group's Queensland drilling resources and made a significant contribution to the divisional result.

Gross margins increased significantly despite substantial legal fees and dispute resolution costs being incurred relating to the DrillTec and Minerva claims as shown in the following table:

	Revenue		EBITDA	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Group result	127,707	69,000	18,101	14,601
Less: Inter-divisional elimination	(39,290)	1,375	-	-
Reported results	**88,417**	**67,625**	**18,101**	**14,601**
Legal fees and dispute resolution costs			6,121	-
Impairment of plant & equipment			-	500
Profit on business acquisition			-	(2,723)
Underlying result			**24,222**	**12,378**
Adjusted EBITDA margin (%)			27.4%	18.3%

The DrillTec matter, for which significant provision had been made in previous years, was settled during the year, the cost to the Group being mainly exchange rate losses. In respect of Minerva, subsequent to year-end, the Group was awarded contract sums, plus interest and costs in relation to the claim. No amount has been recognised by the Group in relation to the recovery of costs as the final quantum is still subject to court determination.

The second half drilling division results are also estimated to have been reduced by approximately $1.0 million due to work interruptions caused by the unseasonal Queensland heavy rainfall with another $1.1 million margin reduction experienced on a project due to unexpected down hole conditions.

Construction and infrastructure

The construction and infrastructure division recorded strong growth with turnover increasing 55.4% to $117.3 million (2007: $75.5 million). Margins improved, after adjusting for non-recurring and exceptional items, from 2.7% to 3.6% as shown in the following table:

	Revenue		EBITDA	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Reported results	117,346	75,525	3,202	543
Legal fees and dispute resolution costs			999	500
Impairment of intangibles			-	993
Underlying result			**4,201**	**2,036**
Adjusted EBITDA margin (%)			3.6%	2.7%

While the improvement in margins is welcomed, the net margin is still unsatisfactory. The completion of the closure of the Mace facilities maintenance business during the year will allow additional management time to focus on the restructuring of the business to lift margins to an acceptable rate.

Coal Seam Gas assets (Lucas Energy)

The Lucas portfolio of coal seam gas underwent significant change during the year as shown in the following

- Initial reserves certification received at PEL285 in the Gloucester Basin;
- Acquisition of a 17.1% shareholding in Sydney Gas Limited (SGL);
- Initial reserves certification received at ATP651 in the Surat Basin held in conjunction with Queensland Gas Company Limited and BG Limited;
- Investment of $2.9 million in a 60% shareholding in Arawn Energy Limited, a coal seam gas exploration company located in British Columbia in Canada;
- Investment of $0.75 million in Cuadrilla Resources Limited.

Lucas has high expectations of its investment in SGL given its knowledge of the Sydney Basin gained from its extensive drilling experience in the Hunter Valley. Lucas has executed both a Drilling Services Agreement and a Technical Services Agreement with SGL and is assisting in the development of a drilling programme to accelerate the exploration activities being undertaken by SGL.

At Gloucester Basin, exploration activity continues with a number of pilot production wells now in testing with gas flow rates recently averaging in excess of 1 million cubic feet per day. Commercialisation initiatives are well underway, including work on a pipeline to Hexham. Lucas expects to be shipping gas to market by end 2009/beginning 2010.

The Lucas Group has expanded its CSG exploration activities overseas to Canada and Europe through its investments in Arawn Energy and Cuadrilla Resources. The Group has a very positive view on the prospects for unconventional hydrocarbons, particularly shale gas in Europe and, to this end, has taken formative steps to position itself in this sector.

3. Acquisition of Mitchell Drilling

The acquisition of Mitchell Drilling subsequent to year-end, firmly establishes AJ Lucas as the pre-eminent drilling company providing drilling services to the coal and coal seam gas industries. The acquisition was highly complementary to Lucas' operations with Mitchell's operations predominantly located in Queensland while Lucas' are in New South Wales. The combined entity now has 88 rigs and includes almost all the major coal and coal seam gas companies amongst its customers.

4. Outlook

The prospects for the Group are extremely promising with continued strong growth expected.

Pipelines
Lucas is currently engaged in the Eastern Pipeline works of the Western Corridor in Brisbane and the Bonaparte pipeline in Northern Territory project. Both of these projects are due for completion by the end of calendar 2008. Lucas is also currently carrying out a number of smaller pipeline projects, such as the Moomba to Sydney sleeving project.

Commentary on the Results

for the year ended 30 June 2008

The Group is currently tendering on a record number of pipeline and related infrastructure projects. Government expenditure on water infrastructure works is forecast at record levels over the coming decade to ensure certainty of supply. Infrastructure works for the proposed Gladstone LNG plants are also expected to commence shortly. Lucas is the only company in Australia able to offer the coal seam gas producers a full service capability from drilling through gas gathering systems, long distance pipelines and related infrastructure and expects to benefit from this as construction of the LNG facilities commences.

Competition has increased in this activity however, Lucas remains one of only three principal pipeline contracting companies in Australia to offer a full EPC service. Many pipelines and projects requiring trenchless solutions are currently being planned and Lucas expects activity in this sector to remain very strong.

Drilling

The drilling division, with its particular focus on the coal and coal seam gas sectors, is expected to experience continued strong demand. Much of this growth is expected to come from the coal seam gas required for the proposed LNG plants to be constructed in Gladstone. 4,400 development wells and 1,500 core hole wells are forecast to be required by 2015 to meet these needs. Following the acquisition of Mitchell Drilling, Lucas is strongly positioned to benefit from this demand and already provides drilling services to most of the coal seam gas companies involved in the LNG projects.

Forecasts of continued strong global demand for coal, together with increased coal export capacity, will also underpin demand for Lucas' drilling services.

In recognition that the majority of the drilling business is now located in Queensland, the Group has relocated the management of this business from head office in Sydney to Mitchell's premises in Brisbane. Lucas is also investigating diversifying its drilling services to include geothermal drilling. Lucas' market leadership in the coal seam gas drilling, together with its innovative drilling techniques, places it at the forefront of the drilling required to develop this sustainable alternative energy source. The variety of drilling techniques practised by Lucas allows it to adapt to service the different sources of energy as carbon tax legislation is progressively introduced.

Construction and infrastructure

While the Group's current construction activities are strong, market conditions remain very tight. Tender activity is becoming more competitive and margins are shrinking. However, the division continues to make a valuable contribution through the civil works capability. Management is currently shifting the emphasis of this activity away from construction to civil engineering and infrastructure works; where the other skill sets that Lucas possesses can manifest themselves and where projects can produce higher margin, longer term revenue.

Coal Seam Gas

The commercialisation of PEL285 at Gloucester Basin is Lucas' main priority in its CSG portfolio, with continued emphasis on drilling holes to measure gas flow rates and increase gas reserves. Application has been made to the NSW Minister of Planning for project approval and subject to such consent being granted, it is hoped to have gas to market by late 2009/early calendar 2010.

Summary

In summary, the outlook across all the Group's sectors is extremely positive although it is not without its challenges. All of the industries in which we operate are extremely resource stretched and we face the same difficulties. Our biggest challenge is the availability of people but we have in place a plan to retain and incentivise staff. The Company also needs to ensure that its commercial and risk management procedures are adequate for the scale of our business. Again we are investing in the resources to achieve this. We are therefore confident that we will overcome these challenges and be able to sustain and manage our growth.

We continue to focus on the requirements for capital and how best to fund the growth. The Group's cash flow is very strong and has access to significant borrowing facilities. However, management is conscious of the need to preserve a strong balance sheet. In this regard, we believe that there is significant unrealised asset value in the Group's coal seam gas portfolio which is not reflected in the balance sheet and we will be examining restructuring proposals for this asset during the coming year.

In recognition of the Group's favourable outlook and cash flow, the Board has resolved to increase the final dividend to 4.5 cents per share, franked to 15%, an increase of 80% over the prior year's final dividend. Total dividend for the year amounts to 8.0 cents per share, a 220% increase over the 2.5 cents per share declared for 2006/07.

Commentary on the Results
for the year ended 30 June 2008

Compliance statement

1. This report and the financial statements upon which the report is based use the same accounting policies.
2. This report gives a true and fair view of the matters disclosed.
3. This report is based on the financial statements which are in the process of being audited.

.... Date: 26 August 2008

(Company Secretary)
Nicholas Swan

Income statements

for the year ended 30 June 2008

	Note	Consolidated 2008 $'000	2007 $'000
Revenue	2	424,301	216,369
Total revenue		**424,301**	**216,369**
Sub-contractor costs		(116,734)	(75,272)
Material costs		(124,587)	(65,779)
Plant and other construction costs		(55,404)	(16,380)
Employee expenses		(80,627)	(34,707)
Depreciation and amortisation expenses	4	(11,451)	(8,966)
Debt recovery and legal costs		(6,500)	(3,615)
Impairment of assets	4	-	(3,422)
Profit on acquisition of business		-	2,723
Other expenses		(3,037)	(5,010)
Results from operating activities		**25,961**	**5,941**
Financial income	3	1,322	781
Financial expenses	3	(6,875)	(2,544)
Net financing costs	3	**(5,553)**	**(1,763)**
Profit before income tax		**20,408**	**4,178**
Income tax (expense)/benefit	6	(6,940)	2,218
Profit attributable to equity holders of the company	22	**13,468**	**6,396**
Basic earnings per share (cents)	7	24.5	11.9
Diluted earnings per share (cents)	7	24.0	11.8

Statements of recognised income and expense

Full year ended 30 June 2008

		Consolidated	
	Note	2008 $'000	2007 $'000
Exchange differences on translations of foreign operations		274	306
Income and expense recognised directly in equity		274	306
Profit for the year	22	13,468	6,396
Total recognised income and expense for the year	22	**13,742**	**6,702**

The total recognised income and expense for the period is attributable to equity holders of the parent.

Balance sheets
as at 30 June 2008

		Consolidated	
		2008	2007
	Note	$'000	$'000
Current assets			
Cash and cash equivalents	8	16,612	18,222
Trade and other receivables	9	56,912	28,261
Construction work in progress	10	40,685	53,418
Other	11	1,717	435
Total current assets		**115,926**	**100,336**
Non-current assets			
Property, plant and equipment	12	53,861	30,921
Intangible assets	13	12,279	6,805
Deferred tax assets	14	-	5,602
Investments	15	28,281	63
Exploration assets	16	4,100	6,175
Development assets	17	15,452	1,046
Total non-current assets		**113,973**	**50,612**
Total assets		**229,899**	**150,948**
Current liabilities			
Trade and other payables	18	83,074	66,319
Interest-bearing loans and borrowings	19	19,996	10,706
Income tax payable	20	114	75
Provisions	21	8,550	2,702
Total current liabilities		**111,734**	**79,802**
Non-current liabilities			
Interest-bearing loans and borrowings	19	51,036	37,181
Deferred tax liabilities	14	1,221	-
Provisions	21	748	3,527
Total non-current liabilities		**53,005**	**40,708**
Total liabilities		**164,739**	**120,510**
Net assets		**65,160**	**30,438**
Equity			
Issued capital	22	54,037	30,655
Reserves	22	2,236	1,091
Retained earnings/(accumulated losses)	22	8,887	(1,308)
Total equity	22	**65,160**	**30,438**

Statements of cash flows

for the year ended 30 June 2008

	Note	Consolidated 2008 $'000	2007 $'000
Cash flows from operating activities			
Cash receipts from customers		450,877	200,553
Cash payments to suppliers and employees		(394,407)	(187,970)
Cash generated from operations		**56,470**	**12,583**
Interest received		547	60
Income taxes paid		(72)	(497)
Interest and other costs of finance paid		(6,875)	(2,544)
Net cash from operating activities	27(b)	**50,070**	**9,602**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		1,018	457
Payment for investment in other entities		(27,858)	-
Payments for plant and equipment		(21,472)	(5,953)
Exploration and evaluation expenditure		(12,513)	(2,676)
Loans to related entity		(1,578)	(1,608)
Repayment of loan from related entity		292	-
Acquisition of subsidiary net of cash acquired		(9,993)	(3,198)
Net cash (used in) investing activities		**(72,104)**	**(12,978)**
Cash flows from financing activities			
Proceeds of borrowings – other		41,692	4,004
Repayment of borrowings – other		(6,413)	(147)
Deferred payment for acquisition		(625)	-
Dividends paid		(3,275)	-
Proceeds from issue of convertible notes		-	24,188
Repayment of convertible notes		(1,500)	(10,000)
Payment of finance lease liabilities		(4,659)	(3,521)
Net cash from financing activities		**25,220**	**14,524**
Net increase in cash and cash equivalents		**3,186**	**11,148**
Cash and cash equivalents at beginning of the year		12,559	1,411
Cash and cash equivalents at end of the year	27(a)	**15,745**	**12,559**

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1. SIGNIFICANT ACCOUNTING POLICIES

AJ Lucas Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 157 Church Street Ryde, NSW 2112. The preliminary consolidated financial report of the Company for the financial year ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in jointly controlled entities.

The accounting policies set out below have been applied consistently to all periods presented in these preliminary consolidated financial statements, and have been applied consistently by all entities in the Group.

Statement of compliance

The preliminary financial report has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

The preliminary financial statements were approved by the Board of Directors on 26 August 2008.

Basis of measurement

The preliminary consolidated financial statements have been prepared on the historical cost basis.

Functional and presentation currency

The preliminary financial report is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the Group. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the preliminary financial report and commentary on results have been rounded off to the nearest thousand dollars, unless otherwise stated.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 10 – construction work in progress
- Note 13 – intangible assets
- Note 21 – provisions

Basis of consolidation

Associates

Associated are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group hold between 20 and 50 percent of the voting power of another entity.

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences to the date that significant influence ceases. Where the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Jointly controlled operations, assets and entities

The interest of the Company and of the Group in joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the preliminary consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Foreign currency (Cont)

Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 January 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognised directly in equity in the FCTR.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly in a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instruments is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instruments is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial iability are recognised in the profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

Revenue

Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to an assessment of total labour hours and other costs incurred to date as a percentage of estimated total costs for each contract, unless an alternative measurement method provides a more accurate indication of the stage of completion. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Asset sales

The net proceeds of asset sales are recognised at the date an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is recognised in other income.

Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

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

Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and foreign currency gains that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, foreign currency losses and impairment losses recognised on financial assets that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

Income tax

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Income tax (Cont)

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and other assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is AJ Lucas Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The consolidated entity's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

Investments

Investments in controlled entities are carried at cost. Cost includes the purchase price of the entity as well as directly attributable costs associated with the acquisition. Directly attributable costs are capitalised only once there is written agreement to acquire the entity.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to AASBs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, an appropriate proportion of production overheads and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are stated at an amount equal to the lower of fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Sale of non-current assets

The net gain or loss on disposal is included in the income statement at the date control of the asset passes to the buyer, usually when an unconditional contract for sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Property, plant and equipment (Cont)

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment commencing from the time the asset is ready for use.

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

Plant and equipment	Years
Plant and equipment	4-10
Motor vehicles	7
Office equipment	4-8
Computer equipment	4
Leased plant and equipment	4-10

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Intangible assets

Goodwill

Goodwill and negative goodwill arise on the acquisition of subsidiaries and joint ventures.

Acquisitions

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Subsequent measurement

Following initial recognition, goodwill stated at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Development activities involve a plan or design for the production of new or substantially improved products or processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Customer relationships and customer contracts

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

Amortisation is charged to the income statement on a systematic basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

	Years
Other development costs	5
Customer intangibles	5

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Exploration and evaluation assets

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

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

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability; and

(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

When the area of interest enters the development phase, the accumulated exploration and evaluation is transferred to gas assets in development.

Gas assets

Assets in development

When the technical and commercial feasibility of an undeveloped gas field in an area of interest has been demonstrated, the field enters the development phase. The costs of the area of interest field assets in the development phase are separately accounted for as assets and include past exploration and evaluation costs, development drilling and other surface and subsurface expenditure, surface plant and equipment and any associated land and buildings.

When commercial operations commences, the accumulated costs are transferred to gas producing assets.

Producing assets

The costs of gas assets in production are separately accounted for as assets and include past exploration and evaluation costs, pre-production development costs and ongoing costs of continuing to develop resources for production and to expand or replace plant and equipment and any associated land and buildings. These costs will be subject to depreciation and depletion and also tested annually for impairment.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("the cash generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Impairment (Cont)

Non-financial assets (cont)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

Employee benefits

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 2).
- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.
- AI 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. AI 12, which becomes mandatory for the Group's 30 June 2009 financial statements, is not expected to have any effect on the financial report.

2. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segment, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. Inter-segment pricing is determined on an arms length basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

2. SEGMENT REPORTING (CONT)

Business segments

The Group comprises the following main business segments based on the Group's reporting system:

Pipelines	Construction and installation of pipelines conduits and hydrostatic testing
Drilling	Drilling services for degasification of underground coal mines, recovery and commercialisation of coal seam gas and associated services and trenchless installation of pipes and conduits
Construction and infrastructure	Construction and civil engineering, together with facilities management

	Drilling		Pipelines		Construction & infrastructure		Consolidated	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total segment revenue	**88,417**	**67,625**	**218,538**	**73,219**	**117,346**	**75,525**	**424,301**	**216,369**
Segment result	7,112	6,121	19,591	3,965	3,107	414	29,810	10,500
Unallocated expenses							(3,849)	(4,559)
Results from operating activities							25,961	5,941
Net finance costs							(5,553)	(1,763)
Profit before tax							20,408	4,178
Income tax benefit/(expense)							(6,940)	2,218
Net profit for the year							**13,468**	**6,396**
Depreciation and amortisation	10,989	8,480	386	357	95	129	11,470	8,966
Impairment of plant and equipment	-	500	-	-	-	-	-	500
Impairment of intangibles	-	-	-	1,786	-	993	-	2,779
Assets								
Segment assets	134,233	65,995	59,489	50,586	29,282	28,662	223,004	145,243
Unallocated assets							6,895	5,705
Total Assets							**229,899**	**150,948**
Liabilities								
Segment liabilities	115,903	61,816	25,913	35,203	18,055	22,307	159,871	119,326
Unallocated liabilities							4,868	1,184
Total Liabilities							**164,739**	**120,510**
Acquisitions of non-current assets	18,083	22,716	644	202	762	3	19,489	22,921

2. SEGMENT REPORTING (CONT)

Secondary reporting - geographical segments

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

	Australia		Asia/Pacific		Consolidated	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**	**2008 $'000**	**2007 $'000**
Revenue from customers	421,421	190,333	2,880	26,034	424,301	216,367
Other revenue	-	2	-	-	-	2
Total revenue	**421,421**	**190,335**	**2,880**	**26,034**	**424,301**	**216,369**
Assets	226,902	148,939	2,997	2,009	229,899	150,948
Acquisitions of non-current assets	17,272	22,921	2,217	-	19,489	22,921

3. FINANCE INCOME AND EXPENSE

	Consolidated	
	2008 $'000	**2007 $'000**
Interest income	1,173	446
Net foreign exchange gain	149	335
Financial income	**1,322**	**781**
Interest expense	6,875	2,544
Financial expenses	**6,875**	**2,544**
Net financing costs	**5,553**	**1,763**

4. PROFIT FOR THE YEAR

	Consolidated	
	2008 $'000	**2007 $'000**
Profit before income tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	6,074	4,838
Amortisation of:		
Leased plant and equipment	2,605	2,121
Development expenditure	182	222
Contracts and customer relationships	2,590	1,785
	5,377	4,128
Total depreciation and amortisation	**11,451**	**8,966**
Movement in provision for doubtful debts	-	143
Impairment of plant and equipment	-	500
Impairment of intangible assets		
Goodwill	-	993
Impairment of pipeline rights	-	1,786
Total impairment of intangible assets	**-**	**2,779**

5. AUDITORS' REMUNERATION

	Consolidated	
	2008	2007
	$	$
Audit services		
Auditors of the Company – KPMG		
Audit and review of financial reports		
Australia	268,480	244,850
Overseas	13,230	4,866
	281,710	**249,716**
Other services		
Auditors of the Company – KPMG		
Taxation services	34,960	75,939
Other professional services	382,308	17,000
	417,268	**92,939**

6. INCOME TAX

	Consolidated	
	2008	2007
	$'000	$'000
Recognised in the income statement		
Current tax expense/(benefit)		
Current year	940	(2,731)
Foreign tax losses not recognised in current year	1,019	-
Prior years adjustments	75	(347)
	2,034	(3,078)
Deferred tax expense		
Origination and reversal of temporary differences	4,906	2,664
Utilisation of previously unrecognised tax losses	-	(1,804)
	4,906	860
Total income tax expense/(benefit) in income statement	**6,940**	**(2,218)**
Numerical reconciliation between tax expense/(benefit) and pre-tax net profit		
Profit before tax	20,408	4,178
Prima facie income tax expense/(benefit) calculated at 30% (2007:30%)	6,122	1,253
Increase in income tax expense due to:		
Equity settled share based payments	446	-
Non-deductible accounting interest on deferred purchase	99	-
Non-deductible expenses	43	140
Amortisation of customer contracts – non deductible	411	-
Impairment of intangibles	-	298
Impairment of pipeline rights	-	536
Expenses deductible in foreign country only at lower tax rate	323	49
Foreign tax loss not carried forward	1,020	49
Decrease in income tax expense due to:		
Research and development allowance	(1,317)	(1,576)
Gain on acquisition	-	(816)
Acquisition cost deductable for tax purposes	(282)	-
Recognition of previously unrecognised tax losses	-	(1,804)
	6,865	(1,871)
Add: income tax under/(over) provided in prior year	75	(347)
Income tax expense/(benefit) attributable to operating profit	**6,940**	**(2,218)**

7. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the profit attributable to ordinary shareholders of $13,468,000 (2007: $6,396,000) and a weighted average number of shares outstanding of 54,892,487 calculated as follows:

	Consolidated	
	2008 Number	**2007 Number**
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 July	54,200,536	51,981,937
Effect of shares issued	520,679	1,519,239
Effect of exercise of management rights	171,272	169,291
Weighted average number of ordinary shares (basic) at 30 June	**54,892,487**	**53,670,467**

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2008 was based on the profit attributable to ordinary shareholders of $15,655,000 (2007: $6,396,000) and a weighted average number of shares outstanding of 65,195,367 calculated as follows:

	2008 $'000	**2007 $'000**
Profit attributable to ordinary shareholders (diluted)		
Profit attributable to ordinary shareholders	13,468	6,396
Interest expense on convertible notes, net of tax	2,187	-
Profit attributable to ordinary shareholders (diluted) for the year ended 30 June	**15,655**	**6,396**

	2008 Number	**2007 Number**
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares (basic)	54,892,487	53,670,467
Effect of conversion of convertible notes	7,732,764	-
Effect of share options on issue	2,570,116	646,993
Weighted average number of ordinary shares (diluted) at 30 June	**65,195,367**	**54,317,460**

The average market value of the Company's shares for purposes of calculating the dilutive effect of convertible notes was based on quoted market prices for the period that the notes were outstanding.

8. CASH AND CASH EQUIVALENTS

	Consolidated	
	2008 $'000	**2007 $'000**
Bank balances	16,612	18,222

9. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2008 $'000	2007 $'000
Current		
Trade debtors (net of impairment losses)	50,158	22,954
Retentions	66	-
Other receivables	163	755
Other loans	6,789	6,789
Impairment loss on other loans	(6,789)	(6,789)
Sundry debtors	461	429
Loan to related entity	6,064	4,123
	56,912	**28,261**

The loan to the related entity comprises a loan made to Mr Campbell, the Company's Chairman of the Board of Directors and Chief Executive Officer.

10. CONSTRUCTION WORK IN PROGRESS

	Consolidated	
	2008 $'000	2007 $'000
Construction work in progress	40,685	53,418
Construction work in progress comprises:		
Contract costs incurred to date	585,528	296,367
Profit recognised to date	61,218	38,570
	646,746	334,937
Less: progress billings	(606,061)	(281,519)
Net construction work in progress	**40,685**	**53,418**

11. OTHER CURRENT ASSETS

	Consolidated	
	2008 $'000	2007 $'000
Prepayments	1,717	435

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Total $'000
Consolidated 2008						
At cost	24	4,306	45,316	31,235	625	81,506
Accumulated depreciation/amortisation	(10)	(18)	(18,678)	(8,939)	-	(27,645)
	14	**4,288**	**26,638**	**22,296**	**625**	**53,861**
Consolidated 2007						
At cost	105	-	32,284	18,850	2	51,241
Accumulated depreciation/amortisation	(81)	-	(13,704)	(6,535)	-	(20,320)
	24	**-**	**18,580**	**12,315**	**2**	**30,921**

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below.

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Total $'000
Consolidated 2008						
Carrying amount at 01/07/07	24	-	18,580	12,315	2	30,921
Additions	749	4,306	7,273	8,521	623	21,472
Acquisitions through subsidiaries acquired	-	-	7,057	4,164	-	11,221
Disposals	(743)	-	(232)	(99)	-	(1,074)
Depreciation	(16)	(18)	(6,040)	-	-	(6,074)
Amortisation	-	-	-	(2,605)	-	(2,605)
Carrying amount at 30/06/08	**14**	**4,288**	**26,638**	**22,296**	**625**	**53,861**
Consolidated 2007						
Carrying amount at 01/07/06	35	-	11,036	9,841	198	21,110
Additions	-	-	3,773	2,376	(196)	5,953
Acquisitions through subsidiaries acquired	-	-	9,236	621	-	9,857
Disposals	-	-	(354)	(14)	-	(368)
Depreciation	(11)	-	(4,827)	-	-	(4,838)
Amortisation	-	-	-	(2,121)	-	(2,121)
Impairment	-	-	(500)	-	-	(500)
Transfer to non-current assets held for sale	-	-	216	1,612	-	1,828
Carrying amount at 30/06/07	**24**	**-**	**18,580**	**12,315**	**2**	**30,921**

13. INTANGIBLE ASSETS

	Consolidated			
	Customer Relationships $'000	Goodwill $'000	Pipeline rights $'000	Total $'000
Cost				
Balance at 30 June 2006	-	5,432	1,786	7,218
Acquisitions - through business combinations	4,758	-	-	4,758
Balance at 30 June 2007	**4,758**	**5,432**	**1,786**	**11,976**
Acquisitions - through business combinations	5,505	2,559	-	8,064
Balance at 30 June 2008	**10,263**	**7,991**	**1,786**	**20,040**
Amortisation and impairment losses				
Balance at 30 June 2006	-	607	-	607
Amortisation for the year	1,785	-	-	1,785
Impairment loss	-	993	1,786	2,779
Balance 30 June 2007	**1,785**	**1,600**	**1,786**	**5,171**
Amortisation for the year	2,590	-	-	2,590
Balance at 30 June 2008	**4,375**	**1,600**	**1,786**	**7,761**
Carrying amounts				
At 1 July 2006	-	4,825	1,786	6,611
At 30 June 2007	**2,973**	**3,832**	**-**	**6,805**
At 1 July 2007	2,973	3,832	-	6,805
At 30 June 2008	**5,888**	**6,391**	**-**	**12,279**

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 allocated to each unit are:

	Consolidated	
	2008 $'000	2007 $'000
Drilling	2,559	-
Construction and infrastructure	3,832	3,832
	6,391	**3,832**

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on the following year's budget and plan extended over a period of 5 years. A pre-tax discount rate of 12.5% is applied adjusted for the risk of the industry in which each unit operates.

14. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated					
	Assets		Liabilities		Net	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Consolidated						
Construction work in progress	-	-	(9,452)	(6,110)	(9,452)	(6,110)
Intangibles	-	-	(266)	(631)	(266)	(631)
Exploration, evaluation and development expenditure	-	-	(5,372)	(2,356)	(5,372)	(2,356)
Convertible note issue cost	-	-	(5)	(244)	(5)	(244)
Property, plant and equipment	-	15	(51)	-	(51)	15
Impairment of trade debtors	2,180	2,177	-	-	2,180	2,177
Provisions for employee benefits	1,650	974	-	-	1,650	974
Trade creditors	1,225	971	-	-	1,225	971
Other creditors and accruals	224	192	-	-	224	192
Interest-bearing loans and borrowings	301	310	-	-	301	310
Tax value of loss carry-forwards recognised	8,345	10,304	-	-	8,345	10,304
Tax assets/(liabilities)	**13,925**	**14,943**	**(15,146)**	**(9,341)**	**(1,221)**	**5,602**
Set off of tax	(13,925)	(9,341)	13,925	9,341	-	-
Net tax assets/(liabilities)	**-**	**5,602**	**(1,221)**	**-**	**(1,221)**	**5,602**

Movement in temporary differences during the year

	Consolidated			
	Balance 1 July 07 $'000	Recognised in income $'000	Utilisation of c/f tax losses $'000	Balance 30 June 08 $'000
2008				
Construction work in progress	(6,110)	(3,342)	-	(9,452)
Intangibles	(631)	366	-	(266)
Exploration, evaluation and development expenditure	(2,356)	(3,016)	-	(5,372)
Convertible note issue cost	(244)	238	-	(5)
Property, plant and equipment	15	(66)	-	(51)
Doubtful debts impairment recognised	2,177	3	-	2,180
Provisions for employee benefits	974	676	-	1,650
Trade creditors	971	254	-	1,225
Other creditors and accruals	192	32	-	224
Interest-bearing loans and borrowings	310	(8)	-	301
Value of carried forward income tax losses recognised	10,304	-	(1,958)	8,345
	5,602	**(4,863)**	**(1,958)**	**(1,221)**

14. DEFERRED TAX ASSETS AND LIABILITIES (CONT)

	Consolidated		
	Balance 1 July 06 $'000	**Recognised in income $'000**	**Balance 30 June 07 $'000**
2007			
Construction work in progress	(3,679)	(2,431)	(6,110)
Intangibles	-	(631)	(631)
Exploration, evaluation and development expenditure	(1,276)	(1,080)	(2,356)
Convertible note issue cost	(61)	(183)	(244)
Plant and equipment	392	(377)	15
Doubtful debts impairment recognised	2,137	40	2,177
Provisions for employee benefits	584	390	974
Trade creditors	795	176	971
Other creditors and accruals	58	134	192
Interest-bearing loans and borrowings	452	(142)	310
Tax value of loss carry-forwards recognised	5,201	5,103	10,304
	4,603	**999**	**5,602**

15. INVESTMENTS

	Consolidated	
	2008 $'000	**2007 $'000**
Investment – listed entities	24,875	–
Investments - other	3,365	22
Deferred expenditure	41	41
	28,281	**63**

The investment in listed entities comprises an investment in Sydney Gas Limited, a company listed on the Australian Securities Exchange.

16. EXPLORATION ASSETS

	Consolidated	
Cost	**2008 $'000**	**2007 $'000**
Balance at 1 July	6,175	3,819
Acquisitions	12,387	2,356
Transferred to development assets	(14,462)	–
Balance at 30 June	**4,100**	**6,175**

17. DEVELOPMENT ASSETS

	Consolidated		
	Gas assets $'000	Other $'000	Total $'000
Cost			
Balance at 30 June 2006	-	2,276	2,276
Acquisitions	-	92	92
Balance at 30 June 2007	**-**	**2,368**	**2,368**
Acquisitions	-	126	126
Transferred from exploration assets	14,462	-	14,462
Balance at 30 June 2008	**14,462**	**2,494**	**16,956**
Amortisation and impairment losses			
Balance at 30 June 2006	-	1,140	1,140
Amortisation for the year	–	182	182
Impairment loss	-	-	-
Balance at 30 June 2007	**-**	**1,322**	**1,322**
Amortisation for the year	-	182	182
Balance at 30 June 2008	**-**	**1,504**	**1,504**
Carrying amounts			
At 1 July 2006	-	1,136	1,136
At 30 June 2007	**-**	**1,046**	**1,046**
At 1 July 2007	-	1,046	1,046
At 30 June 2008	**14,462**	**990**	**15,452**

18. TRADE AND OTHER PAYABLES

	Consolidated	
	2008 $'000	2007 $'000
Current		
Trade payables	60,048	31,506
Other payables and accruals	23,026	34,813
	83,074	**66,319**

19. INTEREST-BEARING LOANS AND LIABILITIES

	Consolidated	
	2008	**2007**
	$'000	**$'000**
Current		
Bank overdraft – secured	867	5,663
Other borrowings – unsecured	716	277
Other borrowings – secured	1,779	836
Deferred subsidiary acquisition consideration	3,250	1,250
Bank loans - secured	9,200	–
Lease liabilities – secured	4,184	2,680
	19,996	**10,706**
Non-current		
Lease liabilities – secured	13,760	6,727
Other borrowings - secured	2,582	3,516
Deferred subsidiary acquisition consideration	5,476	2,750
Bank loans - secured	28,492	–
Convertible notes – unsecured	726	24,188
	51,036	**37,181**

Bank facilities

The bank overdraft, bank loans, indemnity guarantee and standby letter of credit are all secured by a registered fixed and floating charge over all the assets of the Group.

Finance lease facilities

The Group's lease liabilities are secured by the leased assets of $22,256,000 (2007: $12,315,000) which, in the event of default, revert to the lessor.

	Consolidated	
	2008	**2007**
	$'000	**$'000**
Finance lease liabilities		
Payable:		
Within one year	5,518	3,304
Between one and five years	15,509	7,273
	21,027	**10,577**
Less: interest		
Within one year	(1,334)	(624)
Between one and five years	(1,749)	(546)
	(3,083)	(1,170)
Total lease liabilities	**17,944**	**9,407**
Lease liabilities provided for in the financial statements:		
Current	4,184	2,680
Non-current	13,760	6,727
Total lease liabilities	**17,944**	**9,407**

The Group leases plant and equipment under finance leases expiring from one to four years. At the end of the lease terms, the Group has the option to purchase the plant and equipment.

19. INTEREST-BEARING LOANS AND LIABILITIES (CONT)

Convertible notes

In June 2007, the Company issued 25,000,000 $1.00 unsecured redeemable convertible notes. The notes carry a fixed coupon of 10.0% per annum and have a term of three years unless converted or redeemed beforehand. Interest is cumulative in the event that an interest payment is not made.

	Consolidated	
	2008	**2007**
	$'000	**$'000**
Carrying amount at beginning of year	24,188	9,923
Accreted interest capitalised	-	77
Redemption of notes	(1,500)	(10,000)
Conversion of notes	(22,756)	-
Proceeds from issue of convertible notes	-	25,000
Transaction costs	794	(812)
Carrying amount at end of year	**726**	**24,188**

From 2 June 2008, note holders have the right to convert the notes into ordinary shares at a 15% discount to the volume weighted average sale price of the shares over the 30 day period prior to conversion. Alternatively, if the Company decided to spin off and list its equity interests in coal seam gas assets including the Gloucester Basin project, the notes are convertible into ordinary shares in the new company at a 15% discount to the Initial Public Offering issue price. During the year, $22,756,459 of the notes were converted into ordinary shares at an average conversion price of $5.02 per share and $1,500,000 of the notes were redeemed at a premium of 1.75%. The notes mature on 28 June 2010.

On or after 28 June 2008, the Company may redeem up to 50% of the notes. The Company's right of redemption prevails over the conversion rights of the holder. The notes carry no voting rights.

20. CURRENT TAX LIABILITIES

The current tax liability for the Group of $114,000 (2007: $75,000) represents the amount of income tax payable in respect of current and prior financial periods.

21. PROVISIONS

	Consolidated	
	2008	**2007**
	$'000	**$'000**
Current		
Employee benefits	4,751	2,702
Provision for contractual dispute	3,799	-
	8,550	**2,702**
Non-current		
Employee benefits	748	586
Provision for contractual dispute	-	2,941
	748	**3,527**

The provision for the contractual dispute relates to a contract undertaken in Hong Kong in 2000 and 2001 and has been settled since year end.

22. CAPITAL AND RESERVES

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

	Consolidated entity				
	Share capital $'000	Employee equity benefit reserve $'000	Translation reserve $'000	Retained profits/ (Accumulated losses) $'000	Total equity $'000
Balance at 1 July 2006	29,236	704	-	(7,704)	22,236
Total recognised income and expense	-	-	306	6,396	6,702
Issue of ordinary shares	1,419	-	-	-	1,419
Equity settled share based payments	-	81	-	-	81
Balance at 30 June 2007	**30,655**	**785**	**306**	**(1,308)**	**30,438**
Balance at 1 July 2007	30,655	785	306	(1,308)	30,438
Total recognised income and expense	-	-	274	13,468	13,742
Dividends to equity holders	-	-	-	(3,273)	(3,273)
Issue of ordinary shares	23,382	-	-	-	23,382
Equity settled share based payments	-	871	-	-	871
Balance at 30 June 2008	**54,037**	**1,656**	**580**	**8,887**	**65,160**

Nature and purpose of reserves

Employee equity benefits reserve

The employee equity benefits reserve represents expense associated with equity settled compensation under the employee management rights and short-term and long-term incentive plans.

Translation reserve

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

	Company	
	2008 No. of Shares	2007 No. of Shares
Share capital - ordinary shares		
Movements during the year		
Balance at beginning of year	54,200,536	51,981,937
Shares issued for business acquisition	285,550	1,333,333
Exercise of rights under the Management Rights Plan	234,333	343,666
Equity settled share based payments	-	100,000
Payment of fees and costs	-	441,600
Conversion of convertible notes	4,536,715	-
Balance at end of year	**59,257,134**	**54,200,536**

Holders of ordinary shares are entitled to receive dividends and, in the event of a winding up of the Company, to any proceeds of liquidation after all creditors and other stockholders.

On a show of hands, every holder of ordinary shares present at a shareholder meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote.

Subsequent event

In July 2008 the Company issued 109,266 shares at $5.72 per share as the second instalment for the deferred consideration for the acquisition of McDermott Drilling Pty Limited purchased in July 2006.

Also in July 2008, the Company issued 5,500,000 shares at $5.30 per share for cash to partially fund the acquisition of the business of Mitchell Drilling. In August 2008, the Company issued 2,645,503 shares to the vendors of Mitchell Drilling at an issue price of $5.67 per share on settlement of the acquisition.

22. CAPITAL AND RESERVES (CONT)

Dividends

Dividends recognised by the Company during the current year are:

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payments
Final 2007	2.5	1,362	100% franked	28 September 2007
Interim 2008	3.5	1,911	100% franked	28 March 2008
		3,273		

Dividend not recognised at year end

Since the year end, the directors have recommended of a final dividend of 4.5 cents (2007: 2.5 cents) per share franked to 15% payable on 29 September 2008. The declaration and subsequent payment of the dividend has no income tax consequences.

The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2008 and will be recognised in subsequent financial reports.

Dividend franking account

After the payment of the dividend referred to above, the balance of franking credits available to shareholders of the Company for subsequent financial years is $48,312 (2007: $1,738,000).

23. OPERATING LEASES

	Consolidated	
	2008 $'000	2007 $'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	985	532
Between one and five years	1,164	226
	2,149	**758**

The Group leases properties under non-cancellable operating leases expiring from one to three years. The leases generally provide the Group with a right of renewal.

During the financial year, $1,109,000 (2007: $839,000) was recognised as an expense in the income statement in respect of operating leases.

24. CONTINGENCIES

Contingent liabilities not considered remote

The Group has received a claim from a customer in relation to a construction contract which was completed by the Group in 2001. While liability is not admitted, if defence against the claim is unsuccessful, claims could amount to $2,098,000 plus legal and rectification costs. Based on legal advice, the directors do not expect the outcome of the action to have a material impact on the Group's financial position.

In the directors' opinion, disclosure of any further information would be prejudicial to the interests of the Group.

Contingent assets not considered remote

The Group has claimed amounts from a previous customer in relation to works on a construction contract which was completed in 2003. Subsequent to year-end, the Group was awarded contract sums, plus interest and costs in relation to the claim. Amounts recognised by the Group as being receivable in relation to the claim are materially consistent with the contract sums and interest awarded. No amounts have been recognised by the Group in relation to recovery of costs as the quantum is subject to court determination.

In the directors' opinion, disclosure of any further information would be prejudicial to the interests of the Group.

25. INTERESTS IN JOINT VENTURE OPERATIONS

Joint venture name	Principal activities	Participation interest		Contribution to operating results of the Group	
		2008 %	2007 %	2008 $'000	2007 $'000
Clough Lucas	Pipe laying and related construction activities	50	50	-	(77)
Clough Lucas Bundeena	Pipe laying and related construction activities	20	20	-	4
Amec Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	121	157
Lucas Molopo	Exploration for methane gas	70	70	-	-
Eastern Pipeline Alliance	Pipe laying and related construction activities	47.5	47.5	16,340	4,848

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

	Consolidated	
	2008 $'000	2007 $'000
Assets		
Current assets		
Cash assets	3,270	493
Receivables	15,079	40
Other debtors	131	-
Work in progress	5,615	28,791
Total current assets	**24,095**	**29,324**
Non-current assets		
Exploration and development assets	16,044	6,175
Total assets	**40,139**	**35,499**
Liabilities		
Current liabilities		
Payables	16,018	24,068
Total liabilities	**16,018**	**24,068**

The exploration and development assets relate to the Group's interests in the Gloucester and Bowen Basins. The recoverability of their carrying amounts is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

26. CONSOLIDATED ENTITIES

The financial statements at 30 June 2008 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

		Ownership interest	
	Country of	2008	2007
Name of entity	**incorporation**	**%**	**%**
Parent entity			
AJ Lucas Group Limited			
Controlled entities			
AJ Lucas Operations Pty Limited	Australia	100	100
AJ Lucas Plant & Equipment Pty Limited	Australia	100	100
AJ Lucas Drilling Pty Limited	Australia	100	100
AJ Lucas Pipelines Pty Limited	Australia	100	100
AJ Lucas Testing Pty Limited	Australia	100	100
Smart Electrical & Power Services Pty Limited	Australia	100	100
AJ Lucas Joint Ventures Pty Limited	Australia	100	100
Coastal Sand Technologies Pty Limited	Australia	100	100
AJ Lucas (Hong Kong) Limited	Hong Kong	100	100
Lucas Energy Pty Limited	Australia	100	100
AJ Lucas Coal Technologies Pty Limited	Australia	100	100
AJ Lucas (USA) Inc.	USA	100	100
Lucas Contract Drilling Pty Ltd	Australia	100	100
Wholly owned subsidiary of Lucas Contract Drilling Pty Ltd			
McDermott Drilling Pty Ltd	Australia	100	100
Lucas Stuart Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Stuart Pty Ltd			
Ketrim Pty Limited	Australia	100	100
Stuart Painting Services Pty Ltd	Australia	100	100
Lucas Stuart Projects Pty Ltd	Australia	100	100
Jaceco Drilling Pty Ltd	Australia	100	-
Geosearch Drilling Service Pty Ltd	Australia	100	-
Arawn Energy Ltd	Canada	60	-
Lucas Energy (UK) Limited	England	99	-
257 Clarence Street Pty Ltd	Australia	100	-

27. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000
(a) Reconciliation of cash			
For the purposes of the statements of cash flows, cash includes cash at bank and on hand. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:			
Cash assets	8	16,612	18,222
Bank overdraft	18	(867)	(5,663)
Total cash		**15,745**	**12,559**
(b) Cash flows from operating activities			
Profit for the year		13,468	6,396
Adjustments for:			
Interest on capitalised leases		1,193	767
Gain on sale of non-current assets		(24)	(87)
Interest income receivable		(626)	-
Depreciation		6,074	4,838
Impairment of plant and equipment		-	500
Impairment losses		-	144
Amortisation of:			
Leased assets		2,605	2,121
Intangibles		2,590	1,785
Development expenditure		182	222
Borrowing cost for convertible note		795	-
Share based payments		-	473
Discount on acquisition of subsidiary		-	(2,723)
Change in provisions for employee entitlements		2,211	1,339
Change in other provisions		858	(405)
Impairment of intangible asset		-	2,779
Change in tax balances		6,823	(924)
Change in reserves		274	-
Change in provision for income tax		39	-
Operating profit before changes in working capital and provisions		**36,462**	**17,225**
Change in receivables		(25,223)	(6,453)
Change in other current assets		(655)	74
Change in construction work in progress		12,733	(27,848)
Change in payables		18,856	26,604
Change in other liabilities		7,897	-
Net cash provided by operating activities		**50,070**	**9,602**

(c) Non-cash financing and investment activities

During the year, the Group acquired plant and equipment with an aggregate fair value of $8,521,000 (2007: $2,376,000) by means of finance leases. These purchases are not reflected in the Statements of Cash Flows.

28. ACQUISITION OF SUBSIDIARY

On 10 August 2007, the Company acquired 100% of the issued capital of each of Jaceco Drilling Pty Limited and Geosearch Drilling Services Pty Limited trading as a partnership known as Capricorn Weston Drilling Group, a Queensland based drilling group, for a purchase consideration of $21.0 million including assumption of existing debt of $4.6 million. The consideration is payable in instalments with $10.0 million paid at settlement and the balance payable over three years in annual instalments. The initial consideration was paid entirely out of borrowings. Deferred consideration has been discounted using a market rate of interest for similar securities.

In the period to 30 June 2008, Capricorn Weston Drilling Group contributed net profit before interest and tax of $6.2 million. If the acquisition had occurred on 1 July 2007, management estimates that consolidated revenue would have been $426.0 million and net profit before interest and tax would have been $26.6 million.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Cash and cash equivalents	277	-	277
Trade and other receivables	1,516	-	1,516
Plant and equipment	11,221	1,567	9,654
Other assets	627	-	627
Intangibles	5,505	5,505	-
Trade and other payables	(479)	-	(479)
Other financial liabilities	(4,763)	-	(4,763)
Provisions	(216)	-	(216)
Net identifiable assets and liabilities	13,688	7,072	6,616
Goodwill on acquisition	2,559		
Consideration	16,247		
Less deferred consideration payable	(5,977)		
Less debt funding	(9,993)		
Net cash inflow	277		

The consideration above includes acquisition costs of $182,000.

The Company commissioned an independent expert to conduct an analysis of the fair value of the assets and liabilities of Capricorn Weston Drilling Group on its acquisition. Following this analysis, the Company has determined a carrying value of $5.5 million for customer contracts and relationships.

29. EVENTS SUBSEQUENT TO BALANCE DATE

On 23 July 2008, the Company acquired the business of Mitchell Drilling for a purchase consideration of $150 million. Mitchell Drilling is a leading drilling and speciality services provider to the natural resources industry. The acquisition was partially funded by a $15 million equity placement to the vendor, with the balance out of an equity placement to institutional shareholders of $29 million and increased debt facilities.

Other than this matter, 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.