

AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

PRELIMINARY FINAL REPORT

YEAR ENDED 30 JUNE 2009

APPENDIX 4E

(Previous corresponding period: Year ended 30 June 2008)

For personal use only

Results for Announcement to the Market

for the year ended 30 June 2009

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

\$A'000

Revenues from ordinary activities – Group	Up 17.6%	to	499,177
Profit from ordinary activities after tax benefit attributable to members	Up 1077.4%	to	165,154
Net profit for the period attributable to members	Up 1077.4%	to	165,154

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per security	210.9¢	56.2¢

Dividends	Amount per security	Franked amount per security
Final dividend - current year	5.5¢	100%
- previous year	4.5¢	15%
Total dividend - current year	10.5¢	
- previous year	8.0¢	

Record date for determining entitlements to the dividend

7 September 2009

Date the dividend is payable

28 September 2009

There is no dividend reinvestment plan

The annual meeting will be held as follows:

Place

To be advised

Date

To be advised

Time

To be advised

Approximate date the annual report will be available

To be advised

Control gained over entities having a material effect

The Company gained control of Mitchell Drilling Corporation during the year. See note 27 for details for the effect of this on the consolidated entity.

Audit

The preliminary final report is based on financial statements which are in the process of being audited.

Commentary on the Results

for the year ended 30 June 2009

AJ Lucas Group achieved many milestones during the past financial year and experienced yet another record year; with revenue increasing by 17.6% to \$499.2 million and EBITDA increasing by 15.3% to \$44.1 million. Despite its achievements, the Company views the overall result as very disappointing.

Increased costs associated with absorbing and integrating Mitchell Drilling, reduced activity as a result of the economic downturn, delays in project commencement and an unsuccessful major restructuring were the principal causes of this poor result. The challenging economic environment at the same time as these restructuring initiatives resulted in a very poor second half.

During the year, the Group sold two of its investments in the energy sector; being its 70% interest in the coal seam gas prospect PEL 285 (the Gloucester Basin) and its 19.99% shareholding in Sydney Gas Limited. These sales generated a further profit before tax of \$221.1 million.

The purchase of Mitchell Drilling nearly doubled the size of the Group's drilling division. The growth in the drilling division, the substantial increase in pipeline and infrastructure activity and the involvement in major projects has seen a 400% increase in employee numbers during the past few years:- the consequence of which, amongst other things, necessitated a reorganisation of the structure of the divisions in order to manage future growth effectively. An attempt to implement this at the end of last year/beginning of this year did not achieve the desired results however, the appropriate restructuring is currently being implemented. A number of key senior appointments have been made which will strengthen the management team considerably. Further appointments are contemplated.

During the last quarter, management initiatives have been taken to address the issues and, coupled with a restoration in demand for the Group's services (particularly in pipelines and infrastructure and the drilling fleet returning to close to full utilisation), the Group is now performing much better. Nevertheless, the legacy of the reduced economic activity in the second half is likely to persist through the first half of the current financial year, with a substantial improvement in profitability only likely to emerge next calendar year.

1. Summary of the Financial Results

The 2009 consolidated results can be summarised as follows:

	2009 Year \$'000	2009 2 nd Half \$'000	2009 1 st Half \$'000	Restated* 2008 Year \$'000	2008/09 Change %
Revenue	499,177	206,376	292,801	424,301	17.6
EBITDA excl profit on sale of CSG assets	44,072	14,143	29,929	38,211	15.3
Reported EBITDA	265,229	16,851	248,378	38,211	594.1
EBIT	241,871	4,886	236,985	26,760	803.9
Net profit before tax	228,367	(879)	229,246	21,207	976.8
Profit after tax	165,154	4,828	160,326	14,027	1,077.4
Basic earnings per share (cents)	249.7				
Diluted earnings per share (cents)	239.7				

* Prior year result restated due to change in accounting policy.

Commentary on the Results

for the year ended 30 June 2009

2. Divisional performance

Drilling

The results of the drilling division are summarised as follows:

	2009 Year \$'000	2009 2 nd Half \$'000	2009 1 st Half \$'000	Restated 2008 Year \$'000	2008/09 Change %
Revenue	204,272	100,911	103,361	88,417	131.0%
EBITDA	34,539	12,519	22,020	18,881	82.9%
EBITDA Margin	16.9%	12.4%	21.3%	21.4%	
Mitchell Drilling Contribution					
Revenue	95,725				
EBITDA	18,011				

* Prior year result restated due to change in accounting policy.

The acquisition of Mitchell Drilling was completed on 22 August 2008. While Mitchell has made a significant contribution to revenue (revenue from the division as a whole increased by 131%), substantial sums were expended on capital expenditure bringing the Mitchell fleet up to a standard deemed appropriate. Similarly, given the existing size, nature and wide geographical spread of operations existing within the Lucas drilling services division, the Group has expended and, is continuing to spend, a great deal of time and money in increasing safety and employee skill sets throughout the division.

The result for the full year was impacted by severe wet weather experienced in Queensland during January and February 2009, costs associated with an incident in February, substantial overhead costs resulting from the demobilisation of SIS rigs in the coal sector (but yet retaining the associated crews), as well as the incurrence of integration and restructuring costs of merging the two businesses.

The impact of the global financial crisis on the coal sector, while being negative for exploration and SIS activity, has been very positive for the Group's underground business – a switch to just-in-time coal degasification measures has seen this activity increase by approximately 45%. During the past three months, confidence appears to have returned to the coal sector and, the Group currently has nearly all of its rigs working. The under-recovery of overhead and plant experienced during the 2009 financial year is therefore not expected to re-occur during the current financial year.

Drilling in the coal seam gas sector is continuing apace however, is mainly directed towards proving reserves to satisfy the domestic gas market. It is expected that CSG drilling activity will substantially increase once the Final Investment Decisions (FID) are made by the principal proponents; which is expected during the second half of calendar 2010, at the earliest. It is interesting to note that Expressions of Interest (EOI) have been and are circulating in relation to the drilling requirements of the major CSG players which indicate substantial drilling and workover requirements. Lucas believes that margin pressure in this area, if it is to occur, will not necessarily come through pricing but in the form of a requirement for speed, efficiency and production. This is part of the reason why Lucas is investing heavily in staff training, better systems and, above all, safety.

Restructuring initiatives have reduced some of the overhead and the integration of Mitchell Drilling is now substantially complete. A major initiative is currently underway to reduce expenditure on repairs and maintenance and major overhauls in the drilling services division. This is expected to yield substantial savings during the existing and forthcoming financial years.

While the result for the drilling services division in the second half is disappointing, we remain very confident about the ability of this division to produce cash and profit in the future.

Commentary on the Results

for the year ended 30 June 2009

Construction and infrastructure

The construction and infrastructure division experienced a very difficult year. Some contracts were deferred, some (major) contracts were late in starting (principally the SSWA in Perth – which has now started), arduous working conditions impacted by adverse weather and remote locations, and, the impact of the global economical financial crisis – principally in the form of a significant drop in demand for construction and clients experiencing financial challenges through lack of finance or cash flow - all combined to create many challenges for this division during the financial year.

These issues, together with the impact of a major corporate restructuring gone awry, resulted in substantial margin pressure during the middle of the financial year. Project margins in this division have recovered to expected levels during the past few months and the Group's risk management practices are being applied much more effectively. Management of this division will be substantially enhanced during the current financial year as a result of key management appointments and more effective systems and procedures.

The division result was as follows:

	2009 Year \$'000	2009 2 nd Half \$'000	2009 1 st Half \$'000	2008 Year \$'000	2008/09 Change %
Revenue	294,905	105,465	189,440	335,884	(12.2%)
EBITDA	17,616	8,486	9,130	23,179	(24.0%)
EBITDA Margin	6.0%	8.0%	4.8%	6.9%	

Lucas has positioned itself well in relation to the engineering, pipeline and infrastructure aspects of current developments occurring within the Australian oil and gas and water/waste water sectors. There is substantial activity forecast in these areas during the next few years and it is critical that Lucas capitalises upon the position in which it finds itself. This will involve effective senior management and the additional recruitment of experienced and capable project management in the field.

Government spending initiatives as well as the requirement for public infrastructure, ensures a continued and increasing demand for major projects; particularly those projects which involve an amalgamation of Lucas' core skills: engineering, project management, trenchless technology, pipelines and the simultaneous management of engineering and execution, of which the Western Corridor and Perth Desalination projects are very good examples.

Investments

Energy

In December 2008, Lucas and its partner in the Gloucester Basin development sold their respective interests in this coal seam gas play to AGL for \$370 million. This represented a gross profit to Lucas and Molopo of \$338 million, equivalent to a net profit to Lucas of \$216 million. This is considered a most satisfactory outcome.

Consequent upon the acquisition of the Gloucester Basin, AGL launched an unconditional takeover offer for all of the shares in Sydney Gas Limited which Lucas accepted in respect of its 19.99% shareholding in February 2009. At an offer price of 42.5 cents per share, Lucas realised a pre-tax profit on this investment of \$5.4 million. Lucas is of the opinion that the amalgamation of the Gloucester and Sydney Basins under one ownership makes a great deal of commercial sense and should see the availability of substantial amounts of gas into the Sydney market during the crucial period of 2014-2020, to meet forecast NSW demand.

Notwithstanding the sale of these two assets, Lucas continues to hold a number of other interests in the unconventional hydrocarbon sector in Australia, North America and Europe. It is intended to acquire acreage in Asia and negotiations on a number of prospects are being conducted at present. As at the end of the 2009 financial year, Lucas holds direct interests in eight plays in these geographical areas as well as its shareholding in Cuadrilla Resources Limited ("Cuadrilla"), our European shale gas play.

Commentary on the Results

for the year ended 30 June 2009

While any form of oil and gas exploration and development can only be considered as highly speculative and therefore very risky, Lucas believes that Cuadrilla is a very interesting opportunity. The development of unconventional hydrocarbons throughout the world in recent years is principally due to the increase in developments relating to extraction technologies; as opposed to exploration techniques. Lucas is fundamentally involved in some of the degasification technologies and practices. Shale gas as an industry in the USA has gone from zero to billions of dollars of revenue per annum on the back of these technologies – within a five year period. Cuadrilla/Lucas believe that the same phenomenon can occur in Europe and that Europe lags the USA by some years in these areas. This is the *raison d'être* of our involvement with Cuadrilla – combining first-rate science, with the latest in extraction technologies, with a proven management team and drilling techniques superior to others, should see (as happened in the USA) the creation of substantial value in areas previously considered not worthwhile.

Cuadrilla has applied for acreage in the UK, Spain, Netherlands and Poland and is looking to secure other acreage in selected parts of Europe. Prosecution of the business plan is on track.

Lucas has also committed to increase its involvement in North American plays where we believe opportunities exist for relatively quick returns, given the more mature nature of the market and the existing infrastructure that exists within that continent. These plays essentially involve the application of science and advanced drilling technologies in proven oil and gas areas and involve situations where we believe that significant potential has been overlooked in the past. It is the intention of Lucas to further develop these involvements and exit them at an appropriate time.

A major effort is also being undertaken in relation to the development of new drilling techniques which may be applicable to carbon capture, sequestration, geothermal and other renewable energy initiatives. Notwithstanding the research and development expenditure required in the early stages, Lucas believes, as it did at the commencement of the CSG plays (which Lucas initiated in 1995), that such initiatives will pay off in the medium term.

Water and waste water

Opportunity exists within this sector to create profitable opportunities for the re-use of water, waste water in particular, and which is currently being discharged to the ocean. Lucas considers this to be an environmental irresponsibility as well as a commercial opportunity.

As recently reported in the press, the legislative environment (both State and Federal) is more than likely going to change during the next 3-5 year period. To what extent and in which areas is a matter of debate. Lucas has however, taken a view on the likely changes and is therefore intending to position itself to pre-empt the change in legislative circumstances.

A dedicated water group has been created incorporating appropriate engineering and scientific skill sets to create projects and identify and secure relevant water technologies and which, can not only be used to enhance Lucas' traditional engineering/infrastructure business, but also create water projects which may have capital value in the future.

A number of projects have been identified and, in the case of three, negotiations have reached a stage where MOU's are being negotiated. Much work is involved in putting together a water project however, Lucas' understanding of the scientific, engineering and commercial/financial aspects place us in a position whereby a number of projects may be created.

3. Cash Flow and Balance Sheet

Cash generated from operations has reduced, reflecting the timing of contracts and the reduced earnings in the second half. Cash flow is generally best at the commencement of contracts and the delay of some projects into 2009/10 therefore contributed to the reduced cash flow. Operating cash flow is expected to improve in the current financial year as new projects come on stream.

Despite the reduced operating cash flow, the Group maintains a strong balance sheet and liquidity. The sale of our interests in the Gloucester Basin and Sydney Gas realised gross sale proceeds of \$293.2 million; out of which the Group repaid borrowings of \$57 million, made further investments in the Energy sector, invested in new offices and a major initiative in ICT, as well as initiating a share buy-back. The buy-back has involved the purchase of 3,058,487 shares, equivalent to 4.5% of the Company's issued share capital at 31 December 2008, at a cost of \$8.4 million.

Commentary on the Results

for the year ended 30 June 2009

4. Outlook

Notwithstanding the unsatisfactory result, Lucas believes that it has achieved much during the past financial year and that it is well placed to benefit from the anticipated increase in economic activity, particularly in the oil and gas, water and waste water and public infrastructure sectors. In order to maximise the returns that can be generated for the Group during the next couple of years, Lucas needs to continue to invest in ICT and supplement middle management skill sets.

Lucas' strategy is undoubtedly correct. A good platform has been achieved and the inherent benefits of Lucas' business model (in terms of cross fertilisation of skills, low overhead, balanced activity and revenue streams and leveraging intellectual horsepower) is now capable of producing superior margins. We do however, anticipate a challenging first half to the 2010 financial year. Calendar 2010 is expected to be a very good year and 2011 is expected to be even better; particularly if the forecast LNG projects in QLD and WA eventuate.

We have noticed during the past three months an increasing return in confidence from our clients (particularly in the coal sector) as well as cautious optimism regarding the business environment in general. We expect this to continue and would hope that the restoration of economic fortune is measured and well thought through and not assume the "V" shape proportions that some commentators are predicting. A more measured and muted economic restoration will ensure a more lasting and productive economic cycle.

We expect the drilling services business to grow by approximately 35% during the next two years which will require significant amounts of capital expenditure, for which we have already budgeted. The construction and infrastructure division is not expected to grow materially in revenue terms however, is expected to develop significantly, both in terms of composition of revenue and production of margins. The operations and maintenance division is now a reality and we would hope that this business advances significantly during the current financial year. The establishment of the joint venture with Groupe Marais Technologies of France in relation to the proposed NBN capital spend is significant in this regard.

Lucas is not expecting the ramp up in CSG capital expenditure to really commence until the end of 2010/beginning of 2011 – following FID decisions from the major proponents. This sector is extremely active and we believe that Lucas has a total solution to offer involving engineering, drilling, upstream field development as well as water management solutions and, we therefore intend to remain very active in this sector in the forthcoming period.

Public infrastructure, particularly in the area of water and waste water, remains a high priority of Government. This area of activity also extends to the Government's initiatives with respect to schools, NBN, and water upgrades at State level. Lucas believes that its experience in alliancing and partnerships as well as its strong engineering base places the Group in a good position to participate in these projects. A lot of these projects require a combination of trenchless solutions, pipes and wires, mechanical and electrical, civil engineering and professional project management and few medium size corporates are set up to deliver this combination of skill sets in professional, non-combatative, user friendly modes of corporate behaviour.

Summary

In summary, with the improvement in the economic environment, the development of the QLD and WA LNG projects, the introduction of a new carbon pricing regime, State and Federal Government capital spending initiatives and developments in the commercialisation of renewable energies suggest a positive outlook for the Lucas Group. However, uncertainty regarding the timing of commencement of works makes forecasting challenging.

The Group expects to continue to develop its energy assets and, all things being equal, is justified in thinking that its realisation programme of some of these investments will continue. Water initiatives, while encouraging, are no means certain but we expect significant progress to be made during the year.

The Group faces a difficult year, although one of expected substantial improvement. Initiatives with respect to ICT, systems and procedures and new management are expected to bear fruit during the year.

Management therefore remains confident that the favourable sector prospects and the Group's competitive position will underwrite its recovery and continued growth. In recognition of this favourable outlook, the Board has resolved to increase the final dividend to 5.5 cents per share, franked to 100%, an increase of 22% over the prior year's final dividend. The total dividend for the year amounts to 10.5 cents per share, a 31% increase over the 8.0 cents per share declared for 2007/08.

Income statement

For the year ended 30 June 2009

	Note	Consolidated	
		2009 \$'000	Restated* 2008 \$'000
Revenue	3	499,177	424,301
Total revenue		499,177	424,301
Other income		221,157	–
Material costs		(118,141)	(123,788)
Sub-contractor costs		(126,403)	(116,734)
Employee expenses		(135,905)	(80,627)
Plant and other construction costs		(71,383)	(55,404)
Depreciation and amortisation expenses	5	(23,889)	(11,451)
Debt recovery and legal costs		(1,050)	(6,500)
Other expenses		(1,692)	(3,037)
Results from operating activities		241,871	26,760
Financial income	4	7,908	1,322
Financial expenses	4	(21,412)	(6,875)
Net financing costs	4	(13,504)	(5,553)
Profit before income tax		228,367	21,207
Income tax expense	7	(63,213)	(7,180)
Profit attributable to equity holders of the company	23	165,154	14,027
Earnings per share:			
Basic earnings per share (cents)	8	249.7	25.5
Diluted earnings per share (cents)	8	239.7	24.9

* See change of accounting policy note (Note 2)

The above consolidated Income statement should be read in conjunction with the accompanying notes.

Statement of recognised income and expense

For the year ended 30 June 2009

	Note	Consolidated	
		2009 \$'000	Restated* 2008 \$'000
Exchange differences on translations of foreign operations	23	277	274
Effective portion of changes in fair value of cash flow hedges		(2,392)	–
Income and expense recognised directly in equity		(2,115)	274
Profit for the year	23	165,154	14,027
Total recognised income and expense for the year	23	163,039	14,301

* See change of accounting policy note (Note 2)

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

The above consolidated Statement of recognised income and expense should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June 2009

	Note	Consolidated	
		2009 \$'000	Restated* 2008 \$'000
Current assets			
Cash and cash equivalents	9	96,317	16,612
Trade and other receivables	10	67,243	56,912
Inventories	11	61,389	42,405
Other	12	907	1,717
Total current assets		225,856	117,646
Non-current assets			
Trade and other receivables	10	24,029	–
Property, plant and equipment	13	138,451	55,986
Investments	16	57,960	26,156
Exploration assets	18	4,354	4,100
Intangible development assets	19	878	15,452
Other intangible assets	14	119,451	12,279
Equity accounted investees	17	8,180	–
Total non-current assets		353,303	113,973
Total assets		579,159	231,619
Current liabilities			
Trade and other payables	20	77,038	83,074
Interest-bearing loans and borrowings	21	47,053	19,996
Income tax payable	15	50,797	114
Provisions	22	6,542	8,550
Total current liabilities		181,430	111,734
Non-current liabilities			
Interest-bearing loans and borrowings	21	121,512	51,036
Deferred tax liabilities		13,829	1,737
Provisions	22	730	748
Total non-current liabilities		136,071	53,521
Total liabilities		317,501	165,255
Net assets		261,658	66,364
Equity			
issued capital	23	91,854	54,037
Reserves	23	918	2,236
Retained earnings	23	168,886	10,091
Total equity	23	261,658	66,364

* See change of accounting policy note (Note 2)

The above consolidated Balance sheet should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2009

	Note	Consolidated	
		2009 \$'000	2008 \$'000
Cash flows from operating activities			
Cash receipts from customers		542,314	450,877
Cash payments to suppliers and employees		(544,793)	(394,407)
Cash generated from operations		(2,479)	56,470
Interest received		7,868	547
Income taxes paid		–	(72)
Interest and other costs of finance paid		(17,287)	(6,875)
Net cash (used in)/from operating activities	26(b)	(11,898)	50,070
Cash flows from investing activities			
Proceeds from sale of plant and equipment		596	1,018
Proceeds from sale of development asset		238,410	–
Proceeds from sale of shares in listed entity		34,216	–
Payments for equity accounted investments		(8,180)	–
Payment for investments		(50,502)	(27,858)
Payments for plant and equipment		(40,364)	(21,472)
Exploration and evaluation expenditure		(7,384)	(12,513)
Loans to associate		(24,029)	–
Loans to related entity		(1,911)	(1,578)
Loans to other entities		(1,607)	–
Repayment of loan from related entity		697	292
Acquisition of subsidiary net of cash acquired		(119,323)	(9,993)
Net cash from/(used in) investing activities		20,619	(72,104)
Cash flows from financing activities			
Proceeds from issue of shares		28,981	–
Payments for share buy back		(8,361)	–
Proceeds of borrowings – other		125,053	41,690
Repayment of borrowings – other		(97,109)	(6,413)
Deferred payment for acquisition		(3,250)	(625)
Dividends paid		(6,358)	(3,273)
Proceeds from issue of redeemable convertible preference shares		42,797	–
Repayment of convertible notes		–	(1,500)
Payment of finance lease liabilities		(9,902)	(4,659)
Net cash from financing activities		71,851	25,220
Net increase in cash and cash equivalents		80,572	3,186
Cash and cash equivalents at beginning of the year		15,745	12,559
Cash and cash equivalents at end of the year	26(a)	96,317	15,745

The above consolidated Statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

Index to notes

Note		Page
1	Significant accounting policies	12
2	Change in accounting policy	24
3	Segment reporting	24
4	Finance income and expense	26
5	Other expenses	26
6	Auditor's remuneration	26
7	Income tax expense	27
8	Earnings per share	27
9	Cash and cash equivalents	28
10	Trade and other receivables	28
11	Inventories	29
12	Other assets	29
13	Property, plant and equipment	30
14	Other intangible assets	31
15	Income tax payable	32
16	Investments	32
17	Equity accounted investees	32
18	Exploration assets	33
19	Intangible development assets	33
20	Trade and other payables	34
21	Interest-bearing loans and liabilities	34
22	Provisions	35
23	Capital and reserves	36
24	Interests in joint venture operations	37
25	Consolidated entities	38
26	Reconciliation of cash flows from operating activities	39
27	Acquisition of subsidiary	40
28	Events subsequent to balance date	40

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 394 Lane Cove Road, Macquarie Park, NSW 2113. The preliminary consolidated financial report of the Company for the financial year ended 30 June 2009 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.

Certain comparative amounts have been reclassified to conform with current year presentation (see Note 2).

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 2009.

Basis of measurement

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

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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.

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 11 – inventories
- Note 14 – other intangible assets
- Note 19 – intangible development assets
- Note 22 – provisions

Basis of consolidation

Associates

Associates 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 holds 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 until 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 Group 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 unincorporated 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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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.

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.

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.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective changes in fair value are recognised in profit or loss.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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. The equity component of a compound financial instruments is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability 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

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

Redeemable convertible preference share capital

Redeemable convertible preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Dividends

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

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

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

Construction contracts

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

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Lease payments

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

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

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 expense 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet 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 temporary difference 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 are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

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

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

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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.

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. Segment information is presented in respect of the Group's business and geographical 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. Unallocated items comprise mainly investment (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

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.

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 July 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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Property, plant and equipment (Cont)

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 measured 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.

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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for 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	3-4
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 arises on the acquisition of subsidiaries, associates 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 is measured 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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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 when 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 accumulated impairment losses.

Customer relationships and customer contracts

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

Amortisation is recognised in the income statement on a straight line 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

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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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.

As impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. 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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

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

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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 as an expense 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 remeasured 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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

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 2009, but have not been applied in preparing this financial report:

- Revised AASB 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
 - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations
 - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred
 - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss
 - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statement.

- Amended AASB 127 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- 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 a change in the presentation on and 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 3). The application of the management approach is not expected to have a significant impact on the disclosure of segment information.
- Revised AASB 101 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.
- 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. Therefore there will be no impact on prior periods in the Group's 30 June 2010 financial statements.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Group's 30 June 2010 financial statements, with retrospective application. It is not expected to have a significant impact on the financial report.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

New standards and interpretations not yet adopted (Cont)

- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process and 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.
- AASB 2008-7 Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements. They are not expected to have a significant impact on the financial report.
- AASB 2008-8 Amendments to Australian Accounting Standard - Eligible Hedged Items clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Group's 30 June 2010 financial statements, with retrospective application. They are not expected to have a significant impact on the financial report.
- AI 15 Agreements for the Construction of Real Estate provides guidance on the accounting for agreements for the construction of real estate by the seller under AASB 111 Construction Contracts or AASB 118 Revenue and the timing of revenue recognition. AI 15 will become mandatory for the Group's 30 June 2010 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the Interpretation.
- AI 16 Hedges of a Net Investment in a Foreign Operation clarifies that net investment hedging can only be applied when the net assets of the foreign operation are recognised in the entity's consolidated financial statements. AI 16 will become mandatory for the Group's 30 June 2010 financial statements. It is not expected to have a significant impact on the financial report.
- AI 17 Distributions of Non-Cash Assets to Owners provides guidance in respect of measuring the value of distributions of non-cash assets to owners. AI 17 will become mandatory for the Group's 30 June 2010 consolidated financial statements. It is not expected to have a significant impact on the financial report.
- AI 18 Transfers of Assets from Customers provides guidance on the accounting for contributions from customers in the form of transfers of property, plant and equipment (or cash to acquire or construct it). AI 18 will become mandatory for the Group's 30 June 2010 consolidated financial statements. It is not expected to have a significant impact on the financial report.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

2. CHANGE IN ACCOUNTING POLICY

The Group has revised its accounting policy in relation to inventories of spare parts and drilling consumables. Under the revised policy, inventories of such items are capitalised and measured at the lower of cost and net realisable value. The cost of acquiring inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bring them to their existing location and condition. Previously the Group expensed all such items. The change in accounting policy was applied retrospectively to inventories in accordance with AASB 108.

The change in accounting policy has the following impact on the consolidated financial statements:

	2009 \$'000	2008 \$'000
Income statement for the year ended 30 June		
Decrease in cost of sales	(3,082)	(799)
Increase in income tax expense	925	240
Increase in profit from continuing operations	<u>2,157</u>	<u>559</u>
Recognised income and expense for the year ended 30 June		
Increase in profit for the period	2,157	559
Balance sheet at 30 June		
Increase in construction work in progress and inventories	5,428	1,720
Decrease in goodwill	(438)	–
Increase in deferred tax liability	<u>(1,628)</u>	<u>(516)</u>
Increase in retained earnings	<u>3,362</u>	<u>1,204</u>

The adjustment to retained earnings at 1 July 2007 was an increase of \$645,000 relating to the year ended 30 June 2007.

The change in accounting policy had an impact of 3.3 and 3.1 cents per share (2008: 1.0 and 0.9 cents per share) on basic and diluted earnings per share, respectively.

The Group has also elected to change the classification of its business segments. This change followed a reorganisation of the Group's management structure and internal financial reporting arrangements. As a result of the change, the "Pipelines" business segment has now been included within the "Construction and Infrastructure" business segment.

Comparative information has been restated to reflect this change in accounting policy.

3. 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, investments in equity accounted investees, 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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

3. SEGMENT REPORTING (CONT)

Business segments

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

Drilling	Drilling services for the recovery and commercialisation of coal seam gas, degasification of underground coal mines, and the trenchless installation of pipes and conduits.
Construction and infrastructure	Civil engineering services for the construction of infrastructure, pipelines and buildings, together with facilities management.

	Drilling		Construction & infrastructure		Consolidated	
	2009 \$'000	Restated 2008 \$'000	2009 \$'000	Restated 2008 \$'000	2009 \$'000	Restated 2008 \$'000
Total segment revenue	204,272	88,417	294,905	335,884	499,177	424,301
Segment result	11,088	7,911	17,178	22,698	28,266	30,609
Unallocated income					221,157	–
Unallocated expenses					(7,552)	(3,849)
Results from operating activities					241,871	26,760
Net finance costs					(13,504)	(5,553)
Profit before tax					228,367	21,207
Income tax expense					(63,213)	(7,180)
Net profit for the year					165,154	14,027
Depreciation and amortisation	23,451	10,970	438	481	23,889	11,451
Assets						
Segment assets	377,759	135,953	151,019	88,771	528,778	224,724
Unallocated assets					50,381	6,895
Total Assets					579,159	231,619
Liabilities						
Segment liabilities	242,302	116,419	68,019	43,968	310,321	160,387
Unallocated liabilities					7,179	4,868
Total Liabilities					317,500	165,255
Capital expenditure	37,725	16,488	15,344	6,990	53,069	23,478
Unallocated capital expenditure					9,778	–
					62,847	23,478

Secondary reporting – geographical segments

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

	Operating revenue		Segment assets		Capital expenditure	
	2009 \$'000	Restated 2008 \$'000	2009 \$'000	Restated 2008 \$'000	2009 \$'000	Restated 2008 \$'000
Australia	491,667	421,421	490,892	228,622	62,847	23,478
North America	7,510	–	62,615	2,897	–	–
Europe	–	–	25,533	–	–	–
Asia/Pacific	–	2,880	119	100	–	–
	499,177	424,301	579,159	231,619	62,847	23,478

Notes to the Preliminary Final Report

For the year ended 30 June 2009

4. FINANCE INCOME AND EXPENSE

	Consolidated	
	2009	2008
	\$'000	\$'000
Interest income	7,908	1,173
Net foreign exchange gain	–	149
Financial income	7,908	1,322
Interest expense	20,880	6,875
Net foreign exchange loss	532	–
Financial expenses	21,412	6,875
Net financing expense	(13,504)	(5,553)

5. OTHER EXPENSES

	Consolidated	
	2009	2008
	\$'000	\$'000
Profit before income tax has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	13,250	6,074
Amortisation of:		
Leased plant and equipment	4,588	2,605
Development expenditure	228	182
Contracts and customer relationships	5,809	2,590
Tender costs	14	–
	10,639	5,377
Total depreciation and amortisation	23,889	11,451

6. AUDITOR'S REMUNERATION

	Consolidated	
	2009	2008
	\$	\$
Audit services		
Auditors of the Company – KPMG		
Audit and review of financial reports		
Australia	374,820	347,990
Overseas	–	7,120
	374,820	355,110
Other services		
Auditors of the Company – KPMG		
Taxation services	455,746	51,605
Other professional services	275,446	302,096
	731,192	353,701

Notes to the Preliminary Final Report

For the year ended 30 June 2009

7. INCOME TAX EXPENSE

	Consolidated	
	2009	Restated 2008
	\$'000	\$'000
Recognised in the income statement		
Current tax expense		
Current year	64,650	940
Foreign tax losses not recognised in current year	42	1,019
Prior years adjustments	(2,033)	75
	<u>62,659</u>	<u>2,034</u>
Deferred tax expense		
Origination and reversal of temporary differences	554	5,146
	<u>63,213</u>	<u>7,180</u>
Numerical reconciliation between tax expense and pre-tax accounting profit		
Accounting profit before income tax	228,367	21,207
Prima facie income tax expense at 30% (2008: 30%)	68,510	6,362
Adjusted for:		
Equity settled share based payments	452	446
Non-deductible accounting interest on deferred purchase	–	99
Non-deductible expenses	344	43
Amortisation of customer contracts	1,554	411
Effect of tax rate in foreign jurisdictions	41	323
Foreign tax loss not recognised	42	1,020
Investment allowance	(725)	–
Research and development allowance	(2,008)	(1,317)
Acquisition cost deductible for tax purposes	–	(282)
Utilisation of capital losses not previously recognised	(2,964)	–
	<u>65,246</u>	<u>7,105</u>
Add: income tax (over)/under provided in prior year	(2,033)	75
Income tax expense	<u>63,213</u>	<u>7,180</u>

8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of \$165,154,000 (2008: \$14,027,000) and a weighted average number of shares outstanding of 66,128,935 (2008: 54,892,487) calculated as follows:

	Consolidated	
	2009	Restated 2008
	Number	Number
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 July	59,257,134	54,200,536
Effect of shares issued	7,589,754	520,679
Effect of shares bought back and cancelled	(919,882)	–
Effect of exercise of management rights	201,929	171,272
	<u>66,128,935</u>	<u>54,892,487</u>
Weighted average number of ordinary shares (basic) at 30 June	66,128,935	54,892,487

Notes to the Preliminary Final Report

For the year ended 30 June 2009

8. EARNINGS PER SHARE (CONT)

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of \$165,174,000 (2008: \$16,214,000) and a weighted average number of shares outstanding of 68,903,050 (2008: 65,195,367) calculated as follows:

	2009	Restated 2008
	\$'000	\$'000
Profit attributable to ordinary shareholders (diluted)		
Profit attributable to ordinary shareholders	165,154	14,027
Interest expense on convertible notes, net of tax	20	2,187
Profit attributable to ordinary shareholders (diluted) for the year ended 30 June	165,174	16,214

	2009	2008
	Number	Number
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares (basic)	66,128,935	54,892,487
Effect of conversion of convertible notes	86,745	7,732,764
Effect of share options on issue	2,687,370	2,570,116
Weighted average number of ordinary shares (diluted) at 30 June	68,903,050	65,195,367

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.

9. CASH AND CASH EQUIVALENTS

	Consolidated	
	2009	2008
	\$'000	\$'000
Bank balances	96,317	16,612

10. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2009	2008
	\$'000	\$'000
Current		
Trade debtors (net of impairment losses)	57,558	50,158
Other receivables	6,669	624
Other loans	1,607	6,789
Loan to related entity	1,409	6,064
Impairment loss on other loans	-	(6,789)
Retentions	-	66
	67,243	56,912
Non-Current		
Loans to associate	24,029	-

Notes to the Preliminary Final Report

For the year ended 30 June 2009

11. INVENTORIES

	Consolidated	
	2009	Restated 2008
	\$'000	\$'000
Materials and stores	5,427	1,720
Construction work in progress	55,962	40,685
	61,389	42,405
<i>Construction work in progress comprises:</i>		
Contract costs incurred to date	789,233	585,528
Profit recognised to date	102,935	61,218
	892,168	646,746
Less: progress billings	(836,206)	(606,061)
Net construction work in progress	55,962	40,685
<i>Net construction work in progress comprises:</i>		
Amounts due from customers – work in progress	55,962	40,685
	55,962	40,685

12. OTHER ASSETS

	Consolidated	
	2009	2008
	\$'000	\$'000
Current		
Prepayments	907	1,717

Notes to the Preliminary Final Report

For the year ended 30 June 2009

13. 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 2009						
At cost	1,364	4,396	110,390	51,125	15,412	182,687
Accumulated depreciation/amortisation	(39)	(149)	(31,278)	(12,770)	–	(44,236)
	1,325	4,247	79,112	38,355	15,412	138,451
Consolidated 2008						
At cost	24	4,306	45,316	31,235	2,750	83,631
Accumulated depreciation/amortisation	(10)	(18)	(18,678)	(8,939)	–	(27,645)
	14	4,288	26,638	22,296	2,750	55,986

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 2009						
Carrying amount at 1 July 2008	14	4,288	26,638	22,296	2,750	55,986
Additions	1,350	–	15,446	11,347	23,683	51,826
Acquisitions through subsidiaries acquired	–	–	39,548	10,314	–	49,862
Disposals	–	–	(371)	(1,014)	–	(1,385)
Transfer between classes of assets	–	–	11,021	–	(11,021)	–
Depreciation	(39)	(41)	(13,170)	–	–	(13,250)
Amortisation	–	–	–	(4,588)	–	(4,588)
Carrying amount at 30 June 2009	1,325	4,247	79,112	38,355	15,412	138,451
Consolidated 2008						
Carrying amount at 1 July 2007	24	–	18,580	12,315	2	30,921
Additions	749	4,306	7,273	8,521	2,748	23,597
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 June 2008	14	4,288	26,638	22,296	2,750	55,986

Notes to the Preliminary Final Report

For the year ended 30 June 2009

14. OTHER INTANGIBLE ASSETS

	Consolidated		
	Customer relationships/ contracts \$'000	Goodwill \$'000	Total \$'000
Cost			
Balance at 30 June 2007	4,758	5,432	10,190
Acquisitions – through business combinations	5,505	2,559	8,064
Balance at 30 June 2008	10,263	7,991	18,254
Balance at 1 July 2008	10,263	7,991	18,254
Acquisitions – through business combinations	8,456	104,525	112,981
Balance at 30 June 2009	18,719	112,516	131,235
Amortisation and impairment losses			
Balance at 30 June 2007	1,785	1,600	3,385
Amortisation for the year	2,590	–	2,590
Balance at 30 June 2008	4,375	1,600	5,975
Balance at 1 July 2008	4,375	1,600	5,975
Amortisation for the year	5,809	–	5,809
Balance at 30 June 2009	10,184	1,600	11,784
Carrying amounts			
At 1 July 2007	2,973	3,832	6,805
At 30 June 2008	5,888	6,391	12,279
At 1 July 2008	5,888	6,391	12,279
At 30 June 2009	8,535	110,916	119,451

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	
	2009 \$'000	2008 \$'000
Drilling	107,084	2,559
Construction & infrastructure	3,832	3,832
	110,916	6,391

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 tax discount rate of 8.65% is applied adjusted for the risk of the industry in which each unit operates.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

15. INCOME TAX PAYABLE

Current tax liabilities

The current tax liability for the Group of \$50,797,000 (2008: \$114,000) represents the amount of income taxes payable in respect of current and prior financial periods represented as follows:

	Consolidated	
	2009 \$'000	2008 \$'000
Balance at 1 July	114	75
Acquired on purchase of subsidiary	229	35
Income tax paid	–	(72)
Current year income tax expense	64,650	–
Foreign tax losses not utilised	42	–
Utilisation of carried forward tax losses	(12,205)	–
(Over)/under provision in prior year	(2,033)	76
Balance at 30 June	50,797	114

16. INVESTMENTS

	Consolidated	
	2009 \$'000	2008 \$'000
Investment – listed entities	1,000	24,875
Investments - other	56,960	1,281
	57,960	26,156

Other investments relates to the Group's investment in the Monument Prospect in Trinity County, Texas, USA in which the Group holds a 10% net profit interest. The operator intends to develop and realise such interests during the 2010 financial year.

17. EQUITY ACCOUNTED INVESTEEES

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

Name of investee	Ownership	Carrying value
Cuadrilla Resources Limited	11.5%	1,504
Arawn Energy Limited	60%	6,409
Marais-Lucas Technologies Pty Ltd	50%	267
		8,180

During the year, the Group acquired an 11.5% shareholding in Cuadrilla Resources Limited. The company was established to search for shale gas in Europe and has applied for acreage in the UK, Spain, Netherlands and Poland.

The Company holds a 60% interest in Arawn Energy Limited, a Canadian company which owns a coal seam gas prospect in British Columbia in Canada. Two wells have been drilled and an assessment is being carried out of the extent of the gas reserves.

During the year, the Group incorporated a joint venture company with Groupe Marais SA of France to promote the use of Marais' specialist trenching machines for the installation of telecommunications networks in Australia and certain Asian countries. The joint venture company is equally owned by both investors, with neither having control. The investee purchased its first machine during the year but otherwise did not trade.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

18. EXPLORATION ASSETS

	Consolidated	
	2009	2008
Cost	\$'000	\$'000
Balance at 1 July	4,100	6,175
Acquisitions	6,664	12,387
Transferred to equity accounted investments	(6,410)	–
Transferred to development assets	–	(14,462)
Balance at 30 June	4,354	4,100

19. INTANGIBLE DEVELOPMENT ASSETS

	Consolidated		
	Gas assets \$'000	Other \$'000	Total \$'000
Cost			
Balance at 30 June 2007	–	2,376	2,376
Acquisitions	–	126	126
Transferred from exploration assets	14,462	–	14,462
Balance at 30 June 2008	14,462	2,502	16,964
Acquisitions	–	116	116
Disposals	(14,462)	–	(14,462)
Transferred from exploration assets	–	–	–
Balance at 30 June 2009	–	2,618	2,618
Amortisation and impairment losses			
Balance at 30 June 2007	–	1,330	1,330
Amortisation for the year	–	182	182
Balance at 30 June 2008	–	1,512	1,512
Amortisation for the year	–	228	228
Balance at 30 June 2009	–	1,740	1,740
Carrying amounts			
At 1 July 2007	–	1,046	1,046
At 30 June 2008	14,462	990	15,452
At 1 July 2008	14,462	990	15,452
At 30 June 2009	–	878	878

Notes to the Preliminary Final Report

For the year ended 30 June 2009

20. TRADE AND OTHER PAYABLES

	Consolidated	
	2009 \$'000	2008 \$'000
Current		
Trade payables	30,866	60,048
Other payables and accruals	39,501	23,026
Loan from related party	4,279	–
Hedge liability	2,392	–
	77,038	83,074

21. INTEREST-BEARING LOANS AND LIABILITIES

	Consolidated	
	2009 \$'000	2008 \$'000
Current		
Bank overdraft – secured	–	867
Other borrowings – unsecured	–	716
Other borrowings – secured	–	1,779
Deferred subsidiary acquisition consideration	18,500	3,250
Bank loans – secured	18,863	9,200
Lease liabilities – secured	9,690	4,184
	47,053	19,996
Non-current		
Lease liabilities – secured	23,372	13,760
Other borrowings – secured	–	2,582
Deferred subsidiary acquisition consideration	2,323	5,476
Bank loans – secured	52,645	28,492
Redeemable convertible preference shares	43,172	–
Convertible notes – unsecured	–	726
	121,512	51,036

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.

Redeemable convertible preference shares

The redeemable convertible preference shares were allotted on 8 December 2008 and the issue proceeds applied to repayment of the bridging finance for the acquisition of Mitchell Drilling (Refer to Note 27)

The principal terms of the Redeemable Convertible Preference Shares are:

- Term: 5 years
- Ranking: In priority to ordinary shares for the payment of dividends and the payment of capital on a winding up of the Company.
- Dividend Rate: 11% per annum payable semi-annually and cumulative.
- Conversion Price: \$7.20 per share subject to various anti-dilution terms including on:
- A bonus issue of Ordinary Shares
 - A rights issue or placement where the issue price is less than 90% of the current market price
 - A special dividend or return of capital in excess of an annual yield of 3.5% of the VWAP
 - A buy-back at greater than 110% of the VWAP

Notes to the Preliminary Final Report

For the year ended 30 June 2009

21. INTEREST-BEARING LOANS AND LIABILITIES (CONT)

Redeemable convertible preference shares (Cont)

- Voting Rights: No right to vote except:
- when a dividend is in arrears
 - to vary the rights of the Redeemable Convertible Preference Shares or on certain other resolutions concerning the wind up of the Company
 - to reduce the share capital
 - with regards to the disposal of any of the Group's businesses or to approve the terms of a buy-back

Finance lease facilities

The Group's lease liabilities are secured by the leased assets of \$38,355,000 (2008: \$22,296,000) which, in the event of default, revert to the lessor.

	Consolidated	
	2009	2008
	\$'000	\$'000
Finance lease liabilities		
Payments:		
Within one year	11,904	5,518
Between one and five years	25,790	15,509
	37,694	21,027
Less: interest		
Within one year	(2,214)	(1,334)
Between one and five years	(2,418)	(1,749)
	(4,632)	(3,083)
Total lease liabilities	33,062	17,944
Lease liabilities provided for in the financial statements:		
Current	9,690	4,184
Non-current	23,372	13,760
Total lease liabilities	33,062	17,944

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.

22. PROVISIONS

	Consolidated	
	2009	2008
	\$'000	\$'000
Current		
Employee benefits	6,542	4,751
Provision for contractual dispute	–	3,799
	6,542	8,550
Non-current		
Employee benefits	730	748

Notes to the Preliminary Final Report

For the year ended 30 June 2009

23. CAPITAL AND RESERVES

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

	Consolidated entity					Total equity \$'000
	Share capital \$'000	Employee equity benefit reserve \$'000	Translation reserve \$'000	Hedging Reserve \$'000	Retained profits/ (Accumulated losses) \$'000	
Balance at 1 July 2008	54,037	1,656	580	–	10,091	66,364
Total recognised income and expense	–	–	277	(2,392)	165,154	163,039
Dividends to equity holders	–	–	–	–	(6,359)	(6,359)
Issue of ordinary shares	46,178	–	–	–	–	46,178
Share bought back and cancelled	(8,361)	–	–	–	–	(8,361)
Equity settled share based payments	–	797	–	–	–	797
Balance at 30 June 2009	91,854	2,453	857	(2,392)	168,886	261,658
Balance at 1 July 2007	30,655	785	306	–	(663)	31,083
Total recognised income and expense	–	–	274	–	14,027	14,301
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	–	10,091	66,364

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.

Hedging reserve

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

	Company	
	2009 No. of Shares	2008 No. of Shares
Share capital – ordinary shares		
Movements during the year		
Balance at beginning of year	59,257,134	54,200,536
Private placement	5,500,000	–
Shares issued for business acquisition	2,754,769	285,550
Exercise of rights under the Management Rights Plan	264,000	234,333
Shares bought back and cancelled	(3,058,487)	–
Conversion of convertible notes	228,461	4,536,715
Balance at end of year	64,945,877	59,257,134

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.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

23. 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 2008	4.5	3,038	15% franked	29 September 2008
Interim 2009	5.0	3,321	unfranked	27 March 2009
		6,359		

Dividend not recognised at year end

Since the year end, the directors have recommended of a final dividend of 5.5 cents (2008: 4.5 cents) per share 100% franked payable on 28 September 2009. 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 2009 and will be recognised in subsequent financial reports.

24. INTERESTS IN JOINT VENTURE OPERATIONS

Joint venture name	Principal activities	Participation interest		Contribution to operating results of the Group	
		2009	2008	2009	2008
		%	%	\$'000	\$'000
Queensland Gas Company	Exploration for methane gas (ATP651P)	15	15	–	–
Amec Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	21	121
Eastern Pipeline Alliance	Pipe laying and related construction activities	46.39	46.83	7,345	16,340
Southern SeaWater Alliance	Construction and operation of desalination plant	19	–	133	–

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

	Consolidated	
	2009	2008
	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	627	3,270
Trade and other receivables	2,934	15,079
Other	95	131
Construction work in progress	2,038	5,615
Total current assets	5,694	24,095
Non-current assets		
Exploration assets	4,133	1,582
Investment	92	–
Intangible development assets	–	14,462
Total assets	9,919	40,139
Liabilities		
Current liabilities		
Trade and other payables	2,423	16,018
Total liabilities	2,423	16,018

The exploration asset relates to the Group's interests in the Surat Basin. The recoverability of its carrying amounts is dependent on the successful development and commercial exploitation or sale of the area of interest.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

25. CONSOLIDATED ENTITIES

The financial statements at 30 June 2009 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

Name of entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
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
AJ Lucas Coal Technologies Pty Limited	Australia	100	100
Wholly owned subsidiary of AJ Lucas Coal Technologies Pty Limited			
Mitchell Drilling Corporation Pty Limited	Australia	100	–
Lucas Contract Drilling Pty Limited	Australia	100	100
Wholly owned subsidiary of Lucas Contract Drilling Pty Limited			
McDermott Drilling Pty Limited	Australia	100	100
Lucas Stuart Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Stuart Pty Limited			
Ketrim Pty Limited	Australia	100	100
Stuart Painting Services Pty Limited	Australia	100	100
Lucas Stuart Projects Pty Limited	Australia	100	100
Jaceco Drilling Pty Limited	Australia	100	100
Geosearch Drilling Service Pty Limited	Australia	100	100
Lucas Energy (UK) Limited	England	99	99
257 Clarence Street Pty Limited	Australia	100	100
Lucas SARL	New Caledonia	100	100
Lucas Energy (Holdings) Pty Limited	Australia	100	–
Wholly owned subsidiaries of Lucas Energy (Holdings) Pty Limited			
Lucas (Arawn) Pty Limited	Australia	100	–
Lucas Energy (WA) Pty Limited	Australia	100	–
Lucas Energy (ATP651P) Pty Limited *	Australia	100	–

* Company changed its name to Lucas Power Holdings Pty Limited on 1 July 2009

Notes to the Preliminary Final Report

For the year ended 30 June 2009

26. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Notes	Consolidated	
	2009 \$'000	2008 \$'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:		
	9	16,612
Cash assets	96,317	
Bank overdraft	21	(867)
Total cash	96,317	15,745
(b) Cash flows from operating activities		
Profit for the year	165,154	14,027
Adjustments for:		
Interest on capitalised leases	2,501	1,193
Interest on deferred acquisition consideration	104	–
Loss /(gain) on sale of non-current assets	110	(24)
Interest income receivable	–	(626)
Depreciation	13,250	6,074
Gain on sale of intangible development asset	(215,765)	–
Gain on sale of listed shares	(5,392)	–
<i>Amortisation of:</i>		
Leased assets	4,588	2,605
Intangibles	5,809	2,590
Development expenditure	228	182
Borrowing costs	1,264	795
Operating profit before changes in working capital and provisions	(28,149)	26,816
Change in receivables	(12,315)	(25,222)
Change in other current assets	810	(655)
Change in inventories	(18,359)	12,173
Change in payables	(17,477)	18,856
Change in other liabilities	53	7,897
Change in provisions for employee entitlements	(668)	2,211
Change in other provisions	–	858
Change in tax balances	63,214	6,862
Change in employee equity benefit reserve	716	–
Change in reserves	277	274
Net cash from operating activities	(11,898)	50,070
(c) Non-cash financing and investment activities		

During the year, the Group acquired plant and equipment with an aggregate fair value of \$11,347,000 (2008: \$8,521,000) by means of finance leases. These purchases are not reflected in the Statements of Cash Flows.

Notes to the Preliminary Final Report

For the year ended 30 June 2009

27. ACQUISITION OF SUBSIDIARY

On 22 August 2008, the Group completed the acquisition of the business of Mitchell Drilling, one of the largest drilling and speciality services provider to the natural resources sector, most particularly coal seam gas in Queensland. The purchase price excluding acquisition costs amounted to \$150.0 million and was satisfied by the issue of 2,645,503 ordinary shares in AJ Lucas Group to the vendor, \$15.0 million in deferred consideration payable one year after acquisition, and the balance from a combination of the cash resources of the Group and increased borrowings.

From 22 August 2008 to 30 June 2009, the Mitchell Drilling business contributed profit before tax of \$2.69 million. If the acquisition had occurred on 1 July 2008, management estimates that for the year ended 30 June 2009, the consolidated revenue would have been \$518.1 million and consolidated profit before tax would have been \$231.3 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	1,409	–	1,409
Trade and other receivables	1,081	–	1,081
Stock	625	625	–
Plant and equipment	49,862	11,034	38,828
Deferred tax asset	538	(188)	726
Intangibles	8,456	8,456	–
Trade and other payables	(92)	–	(92)
Tax liabilities	(229)	–	(229)
Provisions	(1,827)	–	(1,827)
Net identifiable assets and liabilities	59,823	19,927	39,896
Goodwill on acquisition	104,525		
Consideration	164,348		
Cash acquired	(1,409)		
Liabilities assumed	(12,082)		
Deferred cash consideration	(15,000)		
Share consideration	(16,534)		
Net cash outflow	119,323		

The consideration above includes acquisition costs of \$14.3 million.

The Group commissioned an independent expert to conduct an analysis of the fair value of the assets and liabilities of the Mitchell Drilling business on its acquisition. Following this analysis, the Group has determined a carrying value of \$8.5 million for customer contracts and relationships, separate from the goodwill on acquisition.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' workforce and the synergies expected to be achieved from integrating the business into the existing consolidated entity.

28. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the directors have declared a final ordinary dividend of 5.5 cents per share, fully franked.

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.