AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

6 MONTHS ENDED 31 DECEMBER 2009

APPENDIX 4D

**(Previous Corresponding Reporting Period:
6 months ended 31 December 2008)**

Results for Announcement to the Market
for the six months ended 31 December 2009

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change		$A'000
Revenues from ordinary activities	Down 43.3%	to	166,137
Underlying earnings before interest and tax	Down 256.2%	to	(31,357)
Profit from ordinary activities after tax attributable to members	Down 96.5%	to	5,722
Net profit for the period attributable to members	Down 96.5%	to	5,722

NTA Backing	Current year	Restated* Previous Corresponding period
Net tangible asset backing per ordinary security	131.7¢	224.3¢

Dividends	Amount per security	Franked amount per security
Interim dividend	0.0¢	N/A
Previous corresponding period	5.0¢	0.0%

1. An interim report for the six months ended 31 December 2009 is provided with the Appendix 4D information.
2. The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.
3. The Appendix 4D information is based on the interim financial report, which has been subject to audit review.
4. The review by the auditor is provided with the interim financial report.

....
Company Secretary

NJW Swan

26 February 2010

* See change of accounting policy note (Note 2 in the financial statements)

Commentary on the Results

for the six months ended 31 December 2009

As advised in the market update released to the market on 1 February 2010, the first half was a challenging period for AJ Lucas. Continued business uncertainty and project delays in the Group's business sectors together with legacy management issues brought forward from the previous financial year combined to impact the Group's results.

However, in recent weeks, there are encouraging signs of a pick up in business confidence. In particular, in response to the resurgence in the global demand for coal, there is likely to be a significant increase in the demand for drilling from the coal industry. Likewise, many of the proponents of the Queensland CSG export projects are in the final stages of their analysis prior to Final Investment Decision (FID) with a commensurate significant increase in tenders.

Lucas' proven and leading capability in the provision of drilling and infrastructure services to the energy and water industries places the Company in a strong position to win much of the new work expected to emerge. The quality of Lucas' product offering and the nature of our product delivery has also been recognised by the market with the award to the Company as the 2009 Sustainable Infrastructure Company of the Year.

The Group's footprint has also expanded to cover the whole country. Corporate offices were opened during the half year in each of Perth and Brisbane and both are active in negotiating additional work in their respective States. Western Australia in particular is seen as a very prospective market for the Group. Projects already secured in this State are the Southern SeaWater desalination project and the landfall drilling at Barrow Island for the Gorgon project.

The imminent receipt of the $98.5 million proceeds from the sale of our 15% investment in ATP651 will be partially applied to the repayment of the Group's borrowings. This will allow the Group's banking facilities to be restructured and restore the Group to compliance with its banking covenants. This will place the Group in a much stronger financial position to pursue and undertake the many new project opportunities being presented.

A summary of the financial results compared with the prior comparative period is as follows:

	Six months ended		
		Restated*	
	Dec 2009 $ million	**Dec 2008 $ million**	**Change %**
Total revenue	166.1	292.8	(43.3)
Underlying EBITDA (excludes other income & impairment losses)	(17.8)	31.5	(156.4)
Reported EBITDA	42.5	249.9	(83.0)
EBIT	28.9	238.5	(87.9)
Net profit before income tax	20.2	230.8	(91.3)
Profit after tax	5.7	161.4	(96.5)
Basic earnings per share (cents)	8.8¢	244.1¢	(96.4)
Diluted earnings per share (cents)	8.5¢	234.3¢	(96.3)

* See change of accounting policy note (Note 2 in the financial statements)

A reconciliation of the reported EBITDA to the underlying EBITDA is as follows:

	Dec 2009 $'000	**Dec 2008 $'000**
Reported EBITDA	42,475	249,919
Sale of ATP651	(93,573)	-
Arawn Energy Limited impairment	7,911	-
Monument Prospect, East Texas impairment	25,428	-
Sale of PEL285	-	(218,449)
Underlying EBITDA	(17,759)	31,470

Commentary on the Results
for the six months ended 31 December 2009

The results by division are as follows:

Drilling Division

2009			Restated* 2008		
Revenue $'000	EBITDA $'000	EBITDA Margin %	Revenue $'000	EBITDA $'000	EBITDA Margin %
100,442	9,544	9.5	103,361	23,009	22.3

Drilling revenues were similar to those in the prior year largely driven by a recovery in the coal business. However, margins declined substantially largely due to the following:

- Following the acquisition of Mitchell Drilling in August 2008, additional overhead was taken on to standardise the operations of the combined businesses with Lucas' other drilling activities. The Group has been progressively rationalising this additional overhead and most has now been removed;
- The acquisition of Mitchell Drilling materially increased the size of the drilling business. The Company under-estimated the quality of the management team required to run the much larger division. This has now been largely addressed;
- The rigs acquired on the Mitchell acquisition were found to be generally much less reliable than the Lucas fleet. Several of the rigs have now been stood down and a rig replacement strategy has been devised to purchase substitute rigs.

In addition to these initiatives, the Group has expended a considerable sum in improving its systems and procedures, in particular in relation to safety. These measures are expected to translate to increased productivity, the benefits of which are likely to be seen in the next few months.

The increasing confidence in coal and the progress in the commercialisation of the various export CSG projects as they move towards FID is expected to further increase the demand for the division's drilling services. This, together with rationalisation of business overheads, should result in a restoration of margins to historical levels.

Construction and Infrastructure Division

Delays in the progress of several major energy projects, and the impact of the GFC generally, particularly the proposed Queensland export CSG projects, substantially impacted on the division's results with turnover declining by 65% as shown in the following table.

2009			2008		
Revenue $'000	EBITDA $'000	EBITDA Margin %	Revenue $'000	EBITDA $'000	EBITDA Margin %
65,695	(20,647)	(31.4)	189,440	9,130	4.8

In addition to the revenue reduction, the division's earnings contribution was impacted by execution difficulties ($6 million). Management also decided to take a cautious approach for the possible unfavourable outcome of various contract negotiations and provide for the non-recovery of an additional $4.5 million of costs. Lucas acknowledges the need for stronger project management and systems to deliver projects at tendered margins and has invested heavily here. The benefits of this are expected to emerge in Q4 2010.

With the delays in oil and gas projects, and the downturn in NSW construction, the Group has mainly pursued public non-residential construction works, most notably water/irrigation rehabilitation work and the Government Schools program, where the Company has been awarded some $20 million of work with high expectations of a further $20 million forthcoming.

Lucas is tendering for a number of water projects, focused on water conservation, financed by the Federal Government. Lucas believes that its combination of engineering expertise and previous experience in water management places it in a strong position to develop such water saving projects with Lucas also acquiring an equity interest in the water at relatively little cost. In the interim, Lucas has expensed the cost of its water management overhead.

The outlook for the second half is also much improved with the continued ramp up of construction activity on Perth's Southern SeaWater desalination project and the commencement of the landfall drilling at Barrow Island.

Further, the division is currently tendering at record levels as the various CSG and LNG projects approach FID or commence construction. Lucas has partnered with experienced partners of world renown and is confident of winning work from these projects in due course.

Energy Investments

The Lucas portfolio of unconventional hydrocarbons continues to mature. During the period, a further $26.6 million was invested in our European shale gas investment, held through Cuadrilla Resources Limited, and $25.8 million in completing the acquisition of the Group's 10% Net Profit Interest in the Monument Prospect in East Texas. Neither of these investments requires any further investment from AJ Lucas.

Cuadrilla has been awarded or made application for acreage of in excess of 2.5 million acres throughout the UK, Holland, Spain, Poland and the Czech Republic. This is one of the largest acreages accumulated in Europe specifically targeting unconventional hydrocarbons and positions the Company at the forefront of such exploration activity in Europe. Following the subscription of US$58.0 million by the Riverstone/Carlyle Global Energy and Power Funds for equity on 16 February 2010, Cuadrilla is well capitalised with the ability to fund its drilling and exploration program for the next three years. The first drilling activity, to be undertaken in the Bowland Basin in the UK, is scheduled to commence in April 2010. Lucas' shareholding amounts to 36.0% on a fully diluted basis.

The Group sold its investment in ATP651 during the period for $98.5 million realising a profit of $93.6 million. This sale continues the pattern set by the successful sale of the Group's investments in Gloucester Basin and in Sydney Gas last financial year. Lucas has however, decided to cease its activities in the Arawn Grizzly prospect in Canada and has provided in full for its investment amounting to $7.9 million including remediation work.

Working Capital

On account of the Group's poor operating performance in the first half, together with the investments made in the energy assets, cash flow has been tight. However, the imminent receipt of the sale proceeds of ATP651 will address this. The Company will apply $45 million to reduction of its senior banking facility. This will allow the banking covenants to be recalibrated and restore the Company to full compliance with financial covenants set out under the banking facility. The Company's banker has confirmed its continuing support of the Group. Additionally, alternative offers of finance have been made to the Group which will be available to supplement its existing borrowings, if necessary.

The Company also caused a Trigger Event on its Redeemable Convertible Preference Share facility (RCPS) during the period by non-payment of the half yearly coupon the required timeframe. Receipt of the sale proceeds from ATP651 will allow any arrears to be settled. However, on account of the Trigger Event, GSJBW PIA on behalf of the holders of the RCPS has the right to request repayment at any time over the balance of the facility, which expires in November 2013. GSJBW PIA has indicated that they do not intend to seek early redemption but wish to retain their rights in this regard.

Largely as a result of these events, the balance sheet at 31 December 2009 showed a working capital deficiency of $98.6 million. This excludes any amount for the purchase of the Company's investment in Monument County in East Texas. Total investment in this prospect amounts to $81.8 million, all of which has been fully impaired in accordance with accounting standards. It is intended to realise this investment this financial year with an objective of realising an amount substantially in excess of our investment.

The balance sheet also does not include any value uplift for the investment in Cuadrilla to match that at which Riverstone has invested in Cuadrilla. The balance sheet therefore arguably understates the true value of Lucas' investment in Cuadrilla.

Outlook

All of the Queensland CSG projects continue to move towards FID with several expected to make their decision by mid-year. We are seeing evidence of this progress with several tender documents released in recent months. Lucas has partnered with companies of world renown and is confident of winning work from these projects.

Similarly, the Gorgon project continues to gather momentum. Drilling on the project landfalls, currently undergoing Front-End Engineering Design (FEED), is scheduled to commence later this financial year. Other related projects linking with the landfall are also under discussion.

Global coal demand has also rebounded with several new mines or increases in mine capacity under consideration. With its established relationship with many of the coal producers, and experienced drilling personnel, Lucas expects to benefit from the corresponding increase in demand for rigs.

The outlook is therefore much more encouraging with the Company expected to experience a much stronger second half, continuing thereafter as the various export gas projects move into production and coal exports increase.

Prospects in the water sector also appear attractive as the Government continues its initiative to conserve Australia's scarce water resources and drought proof the economy.

Having regard to the first half's result and notwithstanding the improved outlook, the Board has resolved not to pay an interim dividend.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR SIX MONTHS ENDED 31 DECEMBER 2009

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report is read in conjunction with the annual report as at 30 June 2009 together with any public announcements made by AJ Lucas Group Limited during the six months ended 31 December 2009 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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Directors' Report

for the six months ended 31 December 2009

The directors present their report together with the consolidated financial report for the six months ended 31 December 2009 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the interim period are:

Executive

Allan Campbell (Chairman)	Director since 1995
Ian Stuart-Robertson	Director since 1993
Andrew Lukas	Director since 1995

Non-executive

Martin Green	Director since 1999
Garry O'Meally	Retired 27 November 2009
Mike McDermott	Appointed 4 February 2010

REVIEW OF OPERATIONS

A review of the Group's operations and the results of those operations are presented on pages 3 to 5 and form part of this report.

INTERIM DIVIDEND

The Directors have resolved not to pay an interim dividend (half year ended 31 December 2008: 5.0 cents per share unfranked).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9 and forms part of this report for the six months ended 31 December 2009.

ROUNDING OF AMOUNTS

The Company is of the kind specified in ASIC class order 98/100. In accordance with that class order, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors

Allan Campbell
Chairman

Sydney
25 February 2010

KPMG

Lead Auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Neil Cameron-Smith
Partner

Sydney

25 February 2010

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2009

	Note	Consolidated Dec 2009 $'000	Consolidated Restated* Dec 2008 $'000
Revenue	3	166,137	292,801
Total revenue		166,137	292,801
Other income	4	93,573	218,449
Sub-contractor costs		(34,538)	(45,739)
Material costs		(52,476)	(110,186)
Plant and other construction costs		(30,048)	(30,570)
Employee expenses		(65,614)	(70,687)
Depreciation expenses		(11,243)	(8,131)
Amortisation of intangible assets		(2,355)	(3,262)
Debt recovery and legal costs		(789)	(732)
Impairment of intangible assets	5	(25,428)	-
Impairment of investment in associate	6	(7,911)	-
Other expenses		(431)	(3,417)
Operating profit before net financing costs		28,877	238,526
Finance income		546	934
Finance costs		(9,255)	(8,673)
Net finance costs		(8,709)	(7,739)
Profit before income tax		20,168	230,787
Income tax expense	7	(14,446)	(69,382)
Profit for the period		5,722	161,405
Other comprehensive income for the period			
Effective portion of changes in fair value of hedges		1,153	-
Exchange differences on translation of foreign operations		26	194
Other comprehensive income for the period		1,179	194
Total comprehensive income for the period		6,901	161,599
Total comprehensive income attributable to owners of the company		6,901	161,599
Basic earnings per share (cents)		8.8	244.1
Diluted earnings per share (cents)		8.5	234.3

* See change of accounting policy note (Note 2)

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

Condensed Consolidated Statement of Financial Position

at 31 December 2009

		Consolidated	
		Dec 2009	Jun 2009
	Note	$'000	$'000
Current assets			
Cash and cash equivalents		2,027	96,317
Trade and other receivables	9	156,621	59,733
Inventories		43,731	61,389
Other assets		63	907
Total current assets		202,442	218,346
Non-current assets			
Trade and other receivables	9	33,938	24,029
Property, plant and equipment		141,094	138,451
Investments		272	1,316
Exploration assets	10	-	4,354
Intangible development assets		817	878
Other intangible assets		117,185	119,451
Investments in equity accounted investees	11	19,395	8,180
Total non-current assets		312,701	296,659
Total assets		515,143	515,005
Current liabilities			
Trade and other payables		75,846	77,038
Interest-bearing loans and borrowings	12	149,309	123,070
Current tax liabilities	13	69,771	50,797
Employee benefits		6,122	6,542
Total current liabilities		301,048	257,447
Non-current liabilities			
Interest-bearing loans and borrowings	12	2,412	45,495
Deferred tax liabilities		7,080	11,576
Employee benefits		1,098	730
Total non-current liabilities		10,590	57,801
Total liabilities		311,638	315,248
Net assets		203,505	199,757
Equity			
Issued capital		91,935	91,935
Reserves		2,435	837
Retained earnings		109,135	106,985
Total equity		203,505	199,757

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

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 December 2009

	Share capital $'000	Translation reserve $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Restated* Retained earnings $'000	Total equity $'000
Balance 1 July 2008	54,037	580	1,656	-	10,091	66,364
Total comprehensive income						
Profit for the period	-	-	-	-	161,405	161,405
Other comprehensive income						
Foreign currency translation differences	-	194	-	-	-	194
Total comprehensive income	-	194	-	-	161,405	161,599
Transactions with owners recorded directly in equity						
Shares issued for business acquisitions	17,139	-	-	-	-	17,139
Issue of ordinary shares	28,276	-	-	-	-	28,276
Dividends to shareholders	-	-	-	-	(3,038)	(3,038)
Conversion of convertible notes	744	-	-	-	-	744
Share based payment transactions	-	-	792	-	-	792
Total contributions by and distributions to owners	46,159	-	792	-	(3,038)	43,913
Balance 31 December 2008	100,196	774	2,448	-	168,458	271,876
Balance 1 July 2009	91,935	857	2,372	(2,392)	106,985	199,757
Total comprehensive income						
Profit for the period	-	-	-	-	5,722	5,722
Other comprehensive income						
Effective portion of changes in fair value of hedges	-	-	-	1,153	-	1,153
Foreign currency translation differences	-	26	-	-	-	26
Total comprehensive income	-	26	-	1,153	5,722	6,901
Transactions with owners recorded directly in equity						
Dividends to shareholders	-	-	-	-	(3,572)	(3,572)
Share based payment transactions	-	-	419	-	-	419
Total contributions by and distributions to owners	-	-	419	-	(3,572)	(3,153)
Balance 31 December 2009	91,935	883	2,791	(1,239)	109,135	203,505

* See change of accounting policy note (Note 2)

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2009

	Note	Consolidated Dec 2009 $'000	Dec 2008 $'000
Cash flows from operating activities			
Cash receipts from customers		178,777	279,336
Cash payments to suppliers and employees		(176,452)	(272,803)
Cash flows from operating activities		2,325	6,533
Interest received		546	386
Interest paid		(4,741)	(6,311)
Net cash (used in)/from operating activities		(1,870)	608
Cash flows from investing activities			
Proceeds from sale of plant and equipment		87	50
Acquisition of plant and equipment		(9,318)	(23,985)
Payments for exploration, evaluation and development		(516)	(7,161)
Loans to related entity		-	(9,861)
Payment of deferred purchase consideration		(18,500)	(2,625)
Payments for equity accounted investments		(18,386)	-
Acquisition of subsidiary, net of cash acquired		-	(118,877)
Proceeds from sale of intangible development assets		-	259,000
Payment of transaction costs relating to sale of intangible development assets		-	(7,134)
Payment of development asset disposal costs		(1,148)	-
Proceeds from sale of shares in listed entity		938	-
Repayment of loans to related party		(4,279)	-
Payment for intangible assets		(25,125)	-
Loans to other entities		(78)	-
Loans to associate		(9,909)	-
Proceeds received from repayment of loans to other entities		2,566	-
Purchase of investments		-	(11,438)
Net cash (used in)/from investing activities		(83,668)	77,969
Cash flows from financing activities			
Proceeds of issue of capital		-	28,276
Proceeds from borrowings		1,711	128,399
Payment of borrowing costs		-	(4,613)
Repayment of borrowings		(4,006)	(4,230)
Repayment of convertible notes		-	(726)
Payment of finance lease liabilities		(6,715)	(4,580)
Dividends paid		(3,572)	(3,038)
Net cash (used in)/from financing activities		(12,582)	139,488
Net (decrease)/increase in cash and cash equivalents		(98,120)	218,065
Cash and cash equivalents at beginning of the period		96,317	15,745
Cash and cash equivalents at end of the period	8	(1,803)	233,810

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

1. Basis of preparation

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as "Lucas" or the "Group") and the Group's interest in associates and jointly controlled entities.

i) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2009. These are available upon request from the Company's registered office at Level 3, 394 Lane Cove Road, Macquarie Park, NSW 2113 or at www.lucas.com.au.

The condensed consolidated interim financial statements were approved by the Board of Directors on 25 February 2010.

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

ii) Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business for a period of at least 12 months from the date that these financial statements are approved.

As at 31 December 2009, the Group's current liabilities exceeded its current assets by $98.6 million and net cash used in operating and investing activities totalled $85.5 million during the period then ended. The deficit in net current assets was primarily due to the reclassification of the Group's finance facilities, finance leases and Redeemable Convertible Preference Shares (RCPSs) as current liabilities at period-end following breaches in certain financial covenants and undertakings provided under the relevant agreements. The breaches arose primarily as a result of the decline in earnings by the Group.

In addition, the Group has a current Australian income tax liability of $69.8 million. This income tax liability arose principally from the profits made on disposal of the Group's interest in the Gloucester Basin coal bed methane reserve (last financial year) and the sale of ATP651 during the current period. Payment of this liability will be made in accordance with a three year deferred instalment arrangement with the Australian Tax Office (ATO). Under this arrangement, the ATO will review the terms on a quarterly basis commencing in July 2010 and may alter future instalments depending on the Group's financial performance and position (refer Note 16).

The continuation of the Group as a going concern is dependent on the successful renegotiation of terms relating to the Group's finance and leasing facilities, and RCPSs and/or the waiver of current and potential future breaches of the Group's financial covenants and undertakings.

Despite the deficit in net current assets, the directors have reached their conclusion that the use of the going concern assumption is appropriate having regard to the following:

- The imminent receipt of $98.5 million in cash following the sale of the Group's investment in ATP651 during the period. It is expected that at least $45.0 million of the proceeds from the disposal will be used to offset a portion of the Group's finance facilities, with the remaining balance used to fund working capital requirements and the growth of the business;
- The advanced stage of discussions with the Group's lenders, who have expressed a willingness to renegotiate the terms relating to the Group's finance facilities and review the financial covenants and undertakings and to assist the Group to achieve ongoing covenant compliance;
- Ongoing discussions with representatives of the noteholders regarding the RCPSs. Should the noteholders demand redemption of the RCPS's, the Group has 90 days to negotiate a resolution with the noteholders or source alternative funding;
- The status of discussions with various parties concerning the provision of sufficient additional funding for future contract and capital commitments;
- An agreement reached with the ATO in relation to the deferred payment of the Group's outstanding current and future income tax liabilities over a three year period;

1. Basis of preparation (cont)

- The value of the Group's portfolio of energy assets combined with the Group's proven ability to realise these assets. In assessing this value, the directors have had regard to the significant cash generated on disposal of the Gloucester Basin coal bed methane reserve for $259.0 million in the 2009 financial year, the disposal of the Group's interest in ATP651 for $98.5 million during the current period, and the recent commitment of US$58.0 million in additional capital by a third party to the Group's Cuadrilla investment. This is expected to allow Cuadrilla to fund its exploration and evaluation program for the next three years without additional cash contributions by the Group;
- The Group's investment of $81.8 million in the Monument County prospect (which has been impaired on the basis outlined in Note 5) and its intention to realise this investment this financial year;
- The director's confidence in the Group's ability to raise additional equity if required; and
- Positive operating cash flow projections by the Group, taking into account:
  - $98.5 million in cash following the sale of the Group's investment in ATP651;
  - The deferral of the Group's Australian current income tax payment obligations;
  - Significant levels of secured and/or contracted revenues; and
  - Actions taken by the Group to reduce operating expenses and funding commitments in respect of the Group's energy assets.

Had the going concern basis not been used, adjustment would need to be made relating to the recoverability and classification of recorded assets, and the classification and measurement of certain liabilities to reflect the fact that the Group may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the financial report.

iii) Accounting Standards and Interpretations not previously applied

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to the Group's operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations have resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior periods:

Determination and presentation of operating segments

From 1 July 2009, the Group determines and presents operating segments based on information that is internally provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8: *Operating Segments*. Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure, there is no impact on profit or earnings per share.

Presentation of financial statements

The Group applied revised AASB 101: *Presentation of Financial Statements* from 1 July 2009. The consolidated statement of changes in equity includes all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been represented in conformity with the transitional requirements of AASB 101. As this change in accounting policy only impacts presentation and disclosure, there is no impact on profit or earnings per share.

iv) Significant accounting policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2009.

1. Basis of preparation (cont)

v) Estimates

The preparation of interim financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2009.

2. Change in accounting policy

During the previous period, the Group 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 bringing 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:

	December 2008 $'000
Condensed consolidated statement of comprehensive income for the period ended 31 December	
Decrease in cost of sales	(1,541)
Increase in income tax expense	462
Increase in profit from continuing operations	**1,079**
Increase in profit for the period	1,079
Condensed consolidated statement of financial position at 31 December	
Increase in construction work in progress and inventories	1,541
Increase in deferred tax liability	(462)
Increase in retained earnings	**1,079**

The change in accounting policy had an impact of 1.6 cents per share on both basic and diluted earnings per share.

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

The Group has adopted AASB 8: *Operating Segments* and AASB 2008-3: *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports used by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess the segment performance.

The Group comprises the following main business segments:

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.
Oil and gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Australia, Canada, USA and Europe.

	Drilling	Construction & Infrastructure	Oil & Gas	Total
	$'000	$'000	$'000	$'000
Half-year ended 31 December 2009				
External revenues	100,442	65,695	-	166,137
Inter-segment revenue	658	1,801	-	2,459
Total segment revenue	101,100	67,496	-	168,596
Reportable segment profit before income tax	(10,363)	(21,200)	60,213	28,650
Half-year ended 31 December 2008				
External revenues	103,361	189,440	-	292,801
Inter-segment revenue	5,347	-	-	5,347
Total segment revenue	108,708	189,440	-	298,148
Reportable segment profit before income tax	6,985	9,130	218,449	234,564

	31 December 2009	31 December 2008
	$'000	$'000
Reconciliation of reportable segment revenue		
Revenue for reportable segments	168,596	298,148
Inter-segment revenue	(2,459)	(5,347)
Consolidated revenue	166,137	292,801
Reconciliation of reportable segment profit or loss		
Total profit or loss for reportable segments	28,650	234,564
Unallocated amounts – other corporate expenses	(8,482)	(3,777)
Consolidated profit before income tax	**20,168**	**230,787**

4. Other income

Other income comprises the net gain before tax on the sale of the Group's investment in ATP651 disclosed as an intangible development asset as at 30 June 2009. In the prior year, other income comprises the net gain before tax on the sale of the Group's investment in Gloucester Basin.

5. Impairment of intangible assets

During the period, Lucas invested a further $25.4 million in completing the acquisition of its 10% net profit interest (NPI) in oil and gas leasehold interests in the Monument Prospect ("the Prospect") located in Trinity County, East Texas.

Consistent with the accounting treatment of previous payments made for this investment as reported at 30 June 2009, this investment has been classified as an intangible asset as at balance date as it represents a contractual right to future income streams. As a result, the Group was required to test the asset for impairment. Given that the Prospect remains at an early stage of exploration and evaluation with extensive drilling yet to be undertaken, the Group was unable to prepare a discounted cash flow analysis to support the carrying value of the investment. Accordingly, the entire value of the additional investment made during the period has been impaired.

The Group has now completed its investment in acquiring the 10% NPI. It is intended to realise this investment this financial year.

6. Impairment of investment in associate

The Company conducted an impairment test of its investment in Arawn Energy Limited, a Canadian company drilling for coal seam gas in British Columbia. While gas flows have been recorded, it was considered that these were insufficient to be commercialised. Accordingly, the expenditure has been impaired in full and provision recognised for additional expenditure required for remediation work.

7. Income tax expense

The Group's consolidated effective tax rate of its operations for the six months ended 31 December 2009 was 72% (six months ended 30 June 2008: 30%). This increase in effective tax rate was principally caused by the non tax deductibility of impairment writedowns of $33.3 million.

8. Cash and cash equivalents

	31 December 2009 $'000	31 December 2008 $'000
For the purposes of the statement of cash flows, cash includes cash on hand, at bank and short term deposits at call, net of outstanding overdrafts. Cash as at reporting date as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	2,027	234,010
Bank overdraft (included in loans and borrowings)	(3,830)	(200)
Net cash	(1,803)	233,810

9. Trade and other receivables

Current

Current trade and other receivables includes $98.5 million being the net sale proceeds from the sale of the Company's interest in ATP651. Settlement of this sale is expected to occur in early March 2010.

Non-current

Non-current trade and other receivables comprises monies advanced to Cuadrilla Resources Limited, an associate company formed to explore for and develop unconventional hydrocarbons in Europe.

At the same time as Riverstone/Carlyle Global Energy and Power Funds invested in Cuadrilla Resources Holding Limited (Refer Note 16 – Events subsequent to balance sheet date), these loans were converted into equity resulting in Lucas having 36.0% of Cuadrilla's issued equity on a fully diluted basis.

10. Exploration assets

Exploration assets comprises the Company's investment in ATP651, a coal seam gas prospect in the Surat Basin in Queensland. This asset was sold during the period for $98.5 million.

11. Investments in equity accounted investees

Investments in equity accounted investees comprises the following:

	31 Dec 2009 $'000	30 June 2009 $'000
Cuadrilla Resources Limited	18,568	1,504
Arawn Energy Limited	-	6,409
Marais-Lucas Technologies Pty Ltd	827	267
	19,395	8,180

The investment in Arawn Energy Limited was fully impaired for during the period (refer to Note 6).

An additional shareholding in Cuadrilla Resources Limited was acquired during the period. Subsequent to the commitment on 16 February 2010 by Riverstone/Carlyle Global Energy and Power Funds to subscribe for equity in Cuadrilla, and following conversion of Lucas' loan to Cuadrilla into equity (refer to Notes 9 and 16), Lucas' shareholding in Cuadrilla was reduced on a fully diluted basis to 36.0% of its fully diluted issued share capital.

12. Loans and borrowings

Movements in loans and borrowings during the six months ended 31 December 2009 were as follows:

	Deferred subsidiary acquisition consideration	Bank loans & Overdrafts	Lease liabilities	Redeemable convertible preference shares	Total
Current					
Balance 1 July 2009	18,500	71,508	33,062	-	123,070
New issues	-	5,541	4,481	-	10,022
Repayments	(18,500)	(4,006)	(5,195)	-	(27,701)
Amortisation of borrowings	-	525	-	221	746
Reclassified from non-current	-	-	-	43,172	43,172
Balance 31 December 2009	-	73,568	32,348	43,393	149,309
Non-current					
Balance 1 July 2009	2,323	-	-	43,172	45,495
Reclassified to current	-	-	-	(43,172)	(43,172)
Unwinding of discount	89	-	-	-	89
Balance 31 December 2009	2,412	-	-	-	2,412

The Group's debt and finance lease agreements contain covenants and restrictions requiring the Group to meet certain financial ratios. As at 30 June 2009, the Group was in breach of some of these borrowing covenants with respect to its Senior Facility with ANZ Bank. This resulted in the classification of bank loans of $52.6 million and finance leases of $23.4 million due for repayment in excess of 12 months from balance date as current liabilities. The Group continues to be in breach of some of its Senior Facility covenants. As a result, facilities not otherwise due for repayment within 12 months of reporting date, being $51.6 million of bank loans and $23.5 million of finance lease liabilities, continue to be classified as current liabilities at reporting date.

12. Loans and borrowings (cont)

Following receipt of the sale proceeds of ATP651 expected in early March 2010, the Company will apply $45 million to reduction of its senior banking facility. This will allow the banking covenants to be recalibrated and restore the Group to full compliance with the financial covenants set out under the amended banking facility.

During the period under review, the Group caused a Trigger Event under the terms of its Redeemable Convertible Preference Shares (RCPS) by non-payment of the half-yearly coupon by the due date. Following the incurrence of this Trigger Event, the holders of the RCPS are able to demand their redemption at any time prior to their maturity date (8 November 2013) even though the Trigger Event has been rectified. Accordingly, the RCPS have been reclassified as a current liability at the reporting date.

13. Current tax liabilities

The Group has reported income tax liabilities of $69.8 million as a current liability including $14.5 million relating to the Group's operations for the period under review. The Group has entered into a three year deferred instalment arrangement with the ATO to pay the amount owing. The arrangement is subject to review on a quarterly basis by the ATO (refer Note 16).

14. Dividends

The following dividends were declared and paid by the Group:

	Dec 2009 $'000	Dec 2008 $'000
Final dividend of 5.5 cents (2008: 4.5 cents) per share, 100% franked paid on 28 September 2009	3,572	3,038
Total dividends paid	3,572	3,038
Dividends not recognised at the half year		
The Directors have resolved not to pay an interim dividend (2008: 5.0 cents unfranked).	-	3,378

15. Contingent assets and liabilities

There were no material changes in contingent assets and liabilities during the period.

16. Events subsequent to balance sheet date

On 16 February 2010, Riverstone/Carlyle Global Energy and Power Funds committed to subscribe US$58.0 million for equity in Cuadrilla Resources Holding Ltd, the holding company established by Lucas to hold its investment for unconventional hydrocarbons exploration and development in Europe. At the same time, Lucas converted its loan to Cuadrilla into equity. Following this subscription and the conversion of Lucas' loan to equity, Lucas' shareholding in Cuadrilla will be reduced on a fully diluted basis to 36.0% of Cuadrilla's issued ordinary equity. Cuadrilla will then be well capitalised with sufficient resources and the ability to fund its drilling and exploration program for the next three years.

On 25 February 2010, the Group entered into a deferred instalment arrangement with the ATO over three years to pay its current income tax liabilities. Under this arrangement, the ATO will review the terms on a quarterly basis commencing in July 2010 and may alter future instalments depending on the Group's financial performance and position.

Other than the above, there have been no significant events subsequent to reporting date.

AJ LUCAS GROUP LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of AJ Lucas Group Limited (the 'Company'):

1. the financial statements and notes set out on pages 10 to 20 are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the financial position of the Group as at 31 December 2009 and of its performance for the six months ended on that date; and

   b. complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Allan Campbell
Chairman

Sydney
25 February 2010

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

We have reviewed the accompanying interim financial report of AJ Lucas Group Limited, which comprises the consolidated statement of financial position as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 16 and the directors' declaration set out on pages 10 to 21, of the Group, comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2009 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AJ Lucas Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

KPMG

Independent auditor's review report to the members of AJ Lucas Group Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of AJ Lucas Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter regarding going concern

Without qualifying our conclusion, we draw attention to Note 1(ii) in the interim financial report which indicates that as at 31 December 2009, the Group's current liabilities exceeded its current assets by $98.6 million. This deficit in net current assets was primarily due to the reclassification of the Group's finance and leasing facilities and Redeemable Convertible Preference Shares (RCPS) as current liabilities at period end, following breaches in financial covenants and undertakings provided under the relevant agreements.

These conditions, along with other matters detailed in Note 1 (ii), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without the ongoing financial support of the Group's financiers and RCPS holders and the continuation of the deferred instalment arrangement with the Australian Taxation Office.

KPMG

KPMG

Neil Cameron Smith
Partner

Sydney

25 February 2010