

# **AJ LUCAS GROUP LIMITED**

**ABN 12 060 309 104**

## **FINANCIAL REPORT**

**YEAR ENDED 30 JUNE 2010**

# DIRECTORS' REPORT

The Board of directors of AJ Lucas Group Limited (the Company) present their report together with the consolidated financial report of AJ Lucas Group Limited, being the Company, its controlled entities, interests in associates and jointly controlled entities (the Group), for the financial year ended 30 June 2010 and the auditor's report thereon.

## DIRECTORS

The Directors of the Company at any time during the financial year and up to the date of this report are as follows:

Director	Date of appointment/retirement
Allan Campbell	Appointed 6 March 1995
Phillip Arnall	Appointed 10 August 2010
Genelle Coghlan	Appointed 10 August 2010
Martin Green	Appointed 28 May 1999
Andrew Lukas	Retired 10 August 2010
Mike McDermott	Appointed 4 February 2010
Garry O'Meally	Retired 27 November 2009
Ian Stuart-Robertson	Retired 10 August 2010

Details of the current members of the Board, including their experience, qualifications, special responsibilities and term of office are set out below:

### ALLAN CAMPBELL BCom LLB



Executive chairman and CEO  
Age 54  
Director since 1995

After qualifying as a lawyer, Mr Campbell worked for several leading investment banks, initially in Australia and then for ten years in London and New York. During this period, he was given responsibility for corporate advisory and recovery where he gained valuable hands-on experience in the turnaround of distressed companies.

Mr Campbell acquired Lucas in 1995, and listed it on the ASX in 1999. Subsequently, he has been responsible for the Company's strategic direction and has established its position as one of the leading providers of infrastructure, construction and mining services in Australia.

### PHILLIP ARNALL BCom



Independent non-executive director  
Age 65  
Appointed 10 August 2010

Mr Arnall has had a distinguished thirty year career in the mining and steel industries including senior executive responsibility at Smorgon Steel Group, Tubemakers and ANI Limited.

He is currently chairman of Ludowici Limited (since 2003) and a non-executive director of Bradken Limited since 2002 and Macquarie Generation since 2009.

Directorships of other listed companies over the past three years: Capral Limited (Chairman, 2002-2010).

He is a member of the Company's Audit and Risk Committee.

# DIRECTORS' REPORT

## **GENELLE COGHLAN** BCom LLB, LLM



Independent non-executive director

Age 54

Appointed 10 August 2010

Ms Coghlan has many years of business and finance experience domestically and internationally. After qualifying as a lawyer, she established a successful tourism business overseas. Following the sale of this venture, she became the managing director of a company making technical textiles with applications in the mining, water and construction industries.

She is currently president of Composites Australia Inc. She is also a member of the Company's Audit and Risk Committee.

## **MARTIN GREEN** FCA



Independent non-executive director

Age 65

Director since 1999

Mr Green is a Fellow of the Institute of Chartered Accountants and an official liquidator of the Supreme Court of NSW. He has been in public practice for 37 years, mainly specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels.

He is currently a principal at BRI Ferrier (NSW) Pty Ltd Chartered Accountants, a former honorary director/treasurer of the National Trust of Australia (NSW) and has served at various times in many public roles and capacities.

Mr Green also serves as Chairman of the Company's Audit and Risk Committee.

## **MIKE MCDERMOTT**



Non-independent non-executive director

Age 65

Appointed 4 February 2010

Mr McDermott has worked in the drilling industry since 1963. In 1970 he established McDermott Drilling in Sydney, growing it to the State's largest drilling company over the next 36 years.

Lucas acquired McDermott Drilling in 2006, retaining Mike to integrate McDermott's with the rest of the Lucas drilling business.

He is a director of the Australian Drilling Industry Association (ADIA), Australian Drilling Industry Training Committee (ADITC) and is the director representing the drilling industry on the Resources and Infrastructure Industry Skills Council (RIISC).

He is a member of the Company's Audit and Risk Committee.

## **COMPANY SECRETARY**

Mr Nicholas Swan MA, MBA, was appointed as company secretary on 15 November 2001. He has also served as the company secretary of several listed public companies as well as of a responsible entity for managed investment schemes.

# DIRECTORS' REPORT

## DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) held during the financial year, during the period of each director's tenure, and number of such meetings attended by each of the directors is:

	Board of Directors		Audit and Risk Committee	
	Held	Attended	Held	Attended
Allan Campbell	15	14	–	–
Martin Green	15	15	2	2
Andrew Lukas (retired 10/08/2010)	15	12	–	–
Ian Stuart-Robertson (retired 10/08/2010)	15	14	1	1
Mike McDermott (appointed 4/02/2010)	8	8	1	1
Garry O'Meally (retired 27/11/2009)	5	5	1	1

## CORPORATE GOVERNANCE STATEMENT

The Board of directors is responsible for the corporate governance of the Group. This statement outlines the main corporate governance practices. Unless otherwise stated, these practices were in place for the entire year.

### Board of directors

The directors of the Company are accountable to shareholders for the proper management of the business and affairs of the Company.

The key responsibilities of the Board are to:

- establish and monitor the corporate strategies of the Company;
- ensure proper corporate governance;
- monitor the performance of management;
- ensure that appropriate risk management systems, internal controls, reporting systems and compliance frameworks are in place and operating effectively;
- monitor financial results;
- approve decisions concerning investments, acquisitions and dividends; and
- comply with reporting and other requirements of the law.

The Board's role and responsibilities are documented in a written Board charter which is available on the investor page of the Company's website. The Board charter details the functions reserved to the Board and those delegated to the CEO who then engages senior management to assist in those delegated functions. The directors are also subject to a Code of Conduct, a copy of which is also available on the investor page of the Company website.

### Composition of the Board

The constitution of the Company requires between three and ten directors. Currently there are five directors, four of whom are non-executive of whom three are independent.

The table below sets out the independence status of each director as at the date of this annual report.

Director	Status
Allan Campbell	Non-independent chief executive officer and chairman
Phillip Arnall	Independent non-executive director
Genelle Coghlan	Independent non-executive director
Martin Green	Independent non-executive director
Mike McDermott	Non-independent non-executive director

# DIRECTORS' REPORT

Profiles of the current directors including details of their qualifications and experience are found in the Directors' Report.

Directors are appointed for their industry-specific expertise and commercial acumen. The Board believes that all the directors can make, and do make, quality and independent judgements in the best interests of the Company. While the Chairman is non-independent and is also the Chief Executive Officer, his contribution to the Company is considered vital to direct the strategy of the Company as well as its management. He is also a major shareholder and it is considered that his interests are aligned with those of other shareholders.

The directors are able to obtain independent advice at the expense of the Company.

During the financial year ended 30 June 2010, the Company did not have a formal nomination committee, it being the view that one was not necessary while the Board is its current size. The Board recognises the need for the size and composition of the Board to have a balance of skills and experience to allow it to make its decisions having regard to the interests of the various stakeholders of the Company. The analysis of size and composition is undertaken without any formal procedure for selection and appointment of new directors.

Directors are nominated for re-election by rotation.

The Board's performance is assessed on an informal basis given its size. It is noted that with such a small Board, each director has, and is required, to actively participate in the business of the Board. On this basis, no formal evaluation process is undertaken.

## **Ethical and responsible decision making**

The Company has a code of conduct to guide the directors and key executives. It includes disclosure of conflicts of interest and use of information not otherwise publicly known or available. Any director with an interest in matters being considered by the Board must take no part in decisions relating to those matters.

The Directors' Code of Conduct is available in the investor section of the Company's website as is the employee Code of Conduct as provided to each employee on commencing with the Company. These codes address the practices necessary to maintain confidence in the Company's integrity, to take account of legal obligations and expectations of stakeholders and the responsibility and accountability for reporting and investigating unethical practices.

## **Trading in Company securities**

The Company has in place a Securities Trading Policy which restricts the times and circumstances in which directors, senior executives and certain employees may buy or sell shares in the Company. These persons are required to seek approval from the Company Secretary prior to trading.

Directors must also advise the Company, which advises the ASX on their behalf, of any transactions conducted by them in the Company's securities within five business days after the transaction occurs.

The Securities Trading Policy is available in the investor section of the Company's website.

## **Integrity in financial reporting**

The Board has established an Audit and Risk Committee which provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control systems, risk management systems, regulatory compliance and external audit. The Audit and Risk Committee is governed by the Audit and Risk Committee Charter which is available in the investor section of the Company's website.

The Committee must have at least three members. At least one member must have financial expertise and some members shall have an understanding of the industry in which the Company operates. All members must be independent non-executive directors. During the financial year, the Company did not comply with this requirement while it sought qualified persons to be appointed as independent non-executive directors. In the interim, it appointed other directors to the committee to undertake the duties under the Committee's charter. Subsequent to year end, two independent non-executive directors have been appointed to the Board and to the Committee. The Company is now in full compliance with its charter.

The Audit and Risk Committee during the financial year consisted of those directors set out in the following table. Their qualifications and experience is set out in the Directors' Report.

# DIRECTORS' REPORT

<b>Name</b>	<b>Independent/Non-independent</b>
Martin Green (Chairman)	Independent non-executive director
Garry O'Meally <sup>(1)</sup>	Independent non-executive director
Mike McDermott <sup>(2)</sup>	Non-independent non-executive director
Ian Stuart-Robertson <sup>(3)</sup>	Non-independent executive director

(1) Retired 27 November 2009. Mr O'Meally attended all the meetings held during his tenure.

(2) Appointed a director on 4 February 2010. Mr McDermott attended all the meetings held during his tenure.

(3) Appointed to the Audit and Risk Committee on 25 February 2010.

The principal roles of the committee are to:

- assess whether the accounting methods and statutory reporting applied by management are consistent and comply with accounting standards and applicable laws and regulations;
- make recommendations on the appointment of the external auditors, assess their performance and independence and ensure that management responds to audit findings and recommendations;
- discuss the adequacy and effectiveness of the Company's internal control systems and policies to assess and manage business risks and its legal and regulatory compliance programmes; and
- ensure effective monitoring of the Company's compliance with its codes of conduct and Board policy statements.

The Audit and Risk Committee meets with the external auditors at least twice a year. The Committee is authorised to seek information from any employee or external party and obtain legal or other professional advice.

The Audit and Risk Committee cooperates with its external auditors in the selection, appointment and rotation of external audit engagement partners.

The Chief Executive Officer and the Chief Financial Officer have provided assurance in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

## **Timely and balanced disclosure**

The Company has established policies and procedures designed to ensure compliance with ASX listing rules, continuous disclosure requirements and accountability for compliance at a senior level so that investors have equal and timely access to all material information.

The Company has a Continuous Disclosure and Communications Policy, a copy of which is on the investor page of its website.

## **Clear communication with shareholders**

The Continuous Disclosure and Communications Policy promotes effective communication with shareholders and encourages shareholder participation at AGMs.

## **Risk identification and management**

The Board has established policies on risk management. The systems of internal financial controls have been determined by senior management and are designed to provide reasonable but not absolute protection against fraud, material mis-statement or loss. The Chief Executive Officer and Chief Financial Officer provide representation to the Audit and Risk Committee and the Board that the risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Company has, in accordance with the Australian Standard on risk management AS/NZS4360:1999, developed a risk statement and underlying procedures for the key risk areas of People, Environment, Business and Reputation.

A copy of the risk statement is available on the investor page of the Company's website.

As part of the CEO's regular operational reviews, he reports to the Board on key areas of risk and the Company's management of risk.

The Company has had a number of external audits of particular types of risk during the year.

# DIRECTORS' REPORT

## Encourage enhanced performance

The performance of the Audit and Risk Committee, individual directors and key executives is evaluated regularly by the Board.

The Board informally evaluates its performance and that of the individual directors and committees on a regular basis. The Board believes that the individuals on the Board have made quality and independent judgements in the best interests of the Company on all relevant issues during the reporting period. There has been a formal performance evaluation of all key executives (other than the executive directors) during the reporting period.

## Recognise the interests of all stakeholders

The Company has established various codes of conduct to guide compliance with legal and other obligations to stakeholders and the community at large. These include ethical and work standards, employment practices including occupational health and safety and employment opportunities, and environmental protection. The Company's compliance and that of its employees is monitored through internal review.

## Remuneration

Due to the small size of the board, a formal remuneration committee was not considered necessary during the financial year. The independent non-executive directors review the remuneration of the executive directors and senior officers. The remuneration of the non-executive directors is based on the recommendations of independent remuneration consultants and while there is no formal charter for remuneration, the Board seeks independent advice as required. However, since the end of the financial year, a Remuneration Committee has been formed.

The Company's non-executive directors receive fees for acting as a director of the Company. Additional fees are payable for being a member of a sub-committee such as the Audit and Risk Committee. Non-executive directors may receive shares in the Company as part of their fees.

Executive Directors and senior executives are remunerated based on a fixed wage plus incentive payments. The Company has performance and review policies and procedures in place for the evaluation of senior executives and these evaluations take place over the course of the year. The matters delegated to senior executives are such matters as are within the delegated authority of the CEO and delegated based on relevant skills and experience.

Further details in relation to the remuneration of directors and senior executives are set out in the Remuneration Report. The Board also seeks independent advice on the structure of executive pay and has acted in accordance with this advice.

The Company's Securities Trading Policy deals with executives entering into transactions limiting risk on unvested equity, and hedging more generally.

## PRINCIPAL ACTIVITIES

AJ Lucas Group is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater, resources and property sectors.

The Group has in excess of 950 employees and a client base principally comprising State and local governments and major corporations.

The Group is structured into three principal operating segments:

**DRILLING:** Drilling services to the coal and coal seam gas industries for the degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.

**BUILDING, CONSTRUCTION AND INFRASTRUCTURE:** Construction and civil engineering services together with facilities management. The Group is also the market leader in the trenchless installation of conduits and pipes using horizontal directional drilling.

**OIL AND GAS:** Exploration for and commercialisation of unconventional and conventional hydrocarbons in Australia, USA and Europe.

## REVIEW AND RESULTS OF OPERATIONS

### Overview of the Group

The Group experienced another challenging year with the enduring legacy of the economic downturn, continued delays in projects in the Group's chosen sectors, residual restructuring costs following the acquisition of Mitchell Drilling in August 2008 and bad weather all combining to impact the financial result.

Offsetting the disappointing operating performance however, the Company sold its investment in ATP651 for \$98.5 million realising a profit before tax of \$93.0 million. Impairment costs totalling \$39.3 million reduced the benefit from the sale of this investment.

# DIRECTORS' REPORT

The following table summarises the results for the year:

	2010 \$'000	2009 \$'000
Total revenue	358,490	499,177
EBITDA	52,320	201,606
EBIT	24,481	177,717
Profit before tax	8,199	164,213
Net (loss)/profit attributable to members	(7,128)	103,253
Total assets	452,099	515,005
Net assets	193,226	199,757
Basic earnings/(loss) per share (cents)	(11.0)	156.1

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

	2010 \$'000	2009 \$'000
<b>Reconciliation:</b>		
Reported EBITDA	52,320	201,606
Other Income	(101,831)	(221,157)
Impairment of intangible assets	30,817	56,644
Impairment of equity accounted investee	7,911	–
Impairment of investment	532	–
Loss generated by subsidiary during temporary period of control	4,024	–
Share of loss of equity accounted investee	1,634	–
<b>Underlying EBITDA</b>	<b>(4,593)</b>	<b>37,093</b>

The disappointing result was also in part attributable to the difficulties of managing the Group's growth. During the financial year, AJ Lucas marked its 10<sup>th</sup> year as a listed company on the Australian Securities Exchange. During this period, the Company has grown very rapidly, largely through organic growth but also due to a number of strategic acquisitions. The Group is now the largest provider of drilling services to the coal and coal seam gas industries in Australia.

However, the Lucas management systems have not managed to keep up with this pace of expansion. Accordingly, Lucas has embarked on the implementation of a new ERP system. This is planned to go live on 1 July 2011 and is expected to result in an increase in project management and control.

In the interim, the benefit of the restructuring initiatives implemented over the last year and new senior management appointments are now starting to flow through. EBITDA during the last quarter was the highest of the year with margins across the Group trending upwards. This momentum is expected to be maintained in 2010/11 subject to the major coal, coal seam gas and LNG planned projects proceeding without any further significant delays.

## Divisional performance

Contributions from the business divisions were as follows:

	Revenue \$'000	EBITDA \$'000	Margin %
<b>2010</b>			
Drilling	203,207	23,656	11.6
Building, construction & infrastructure	155,282	(19,503)	(12.6)
Oil & gas	–	57,726	N/A
<b>2009</b>			
Drilling	204,272	34,539	16.9
Building, construction & infrastructure	287,395	10,106	3.5
Oil & gas	7,510	164,513	N/A



# DIRECTORS' REPORT

## Drilling

The results of the division for the financial year improved significantly in the second half as shown in the following table:

	2010 Year \$'000	2010 2nd half \$'000	2010 1st half \$'000	2009 Year \$'000	2009/10 Change %
Revenue	203,207	102,765	100,442	204,272	(0.5%)
EBITDA	23,656	14,112	9,544	34,539	(31.5%)
EBITDA margin	11.6%	13.7%	9.5%	16.9%	

The improvement in results was achieved despite the significant expenditure on repairs and maintenance incurred on upgrading the Mitchell drill rig fleet and interruptions caused by the worse than usual wet weather in the second half. Such weather is estimated to have resulted in \$38.9 million lost revenue and a reduction in EBITDA of \$6.3 million.

Coal demand was very strong throughout the year however, demand from coal seam gas was patchy on account of changes in ownership of the promoters of the major Queensland CSG projects and the uncertainty caused by the proposed Resources Super Profits Tax. Delays in the granting of environmental approval for the various projects further impacted on the demand for the Group's drilling services.

The integration of Mitchell Drilling, acquired in August 2008, which initially proved to be so costly, was finally completed towards the end of the financial year with the Division's management substantially overhauled. This is having a major impact with the last quarter's performance showing significant improvement.

## Building, construction and infrastructure

The Building, construction and infrastructure division also had a much improved second half as demonstrated in the following table:

	2010 Year \$'000	2010 2nd half \$'000	2010 1st half \$'000	2009 Year \$'000	2009/10 Change %
Revenue	155,282	89,587	65,695	287,395	(46.0%)
EBITDA	(19,503)	1,144	(20,647)	10,106	(293.0%)
EBITDA margin	(12.6%)	1.3%	(31.4%)	3.5%	

The first half result was impacted by the GFC and execution difficulties with significant provisions made for reduced margin outcomes. Whilst project execution was satisfactory in the second half, the legacy of insufficient work awarded earlier in the year continued to impact on the results. However, the division was successful in winning a large number of school upgrades under the Government's Building the Education Revolution (BER) program. Building works carried out under the BER amounted to \$20.5 million, with a further \$30.6 million of secured work carried over to 2010/11. Other BER works awarded in the current financial year amount to \$8.0 million.

In expectation of winning new work and expected recovery in the performance of the division, the overhead was not pared down proportionate to the reduction in revenue. This compounded the poor financial return from the division but was considered necessary to preserve its skill base and experience. In the interim, a number of personnel have been assigned to the new ERP project to defray these costs. New senior management recently appointed to the division are bringing strong commercial acumen. This management expertise, a record level of tender activity, and the recent accreditation under the Federal Government Building and Construction OHS Accreditation Scheme, is expected to contribute to an improved financial performance in 2010/11.

## Oil and gas

The Company sold its investment in ATP651 in the Surat Basin during the year for \$98.5 million, realising a pre-tax profit of \$93.0 million. The decision to sell the investment was made because the project was about to move into its commercialisation phase where the substantial investment required would cause the Group's return on investment to decline.

The Group invested a further \$33.0 million during the year into Cuadrilla Resources, its European shale gas investment vehicle, bringing its cumulative investment in this entity to \$60.0 million. As a result of this investment, Lucas gained

# DIRECTORS' REPORT

control of Cuadrilla Resources resulting in a \$2.9 million gain on re-measurement to fair value being recognised. A commitment by Riverstone/Carlyle Global Energy and Power Funds (Riverstone) to subscribe US\$58 million for equity in Cuadrilla for an equivalent equity interest (40.93%) to AJ Lucas resulted in the Group recognising a \$5.8 million profit on its deconsolidation.

Cuadrilla has secured one of the largest land holdings in Europe outside of the oil and gas majors with a net 1.12 million acres awarded in the UK, the Netherlands and Poland. The company is well capitalized and has commenced drilling and fracking on its acreage in the UK. The results of these activities will be available early in calendar 2011 at which time a more accurate assessment of the prospectivity of the acreage should be possible.

The Company also invested a further \$30.8 million in its net profit interest (NPI) in oil and gas leasehold interests in the Monument Prospect ("the Prospect") located in Trinity Country, East Texas, USA.

Total acreage now acquired by the Prospect amounts to 62,595 acres. Located in the Austin Chalk, the Prospect is situated between the Eagle Ford and Haynesville shale deposits. While the Prospect is located in the same trend as the aforementioned shale gas discoveries, its principal focus is on liquid hydrocarbons. Drilling is expected to commence shortly. Notably, recent drilling by other companies in close proximity to the Prospect has encountered significant gas and liquids flows.

As the Prospect is structured as a net profit interest, giving it an entitlement to future cash flows rather than a direct equity interest, accounting standards have required that the investment be tested for impairment. Given that the Prospect remains in an early stage of exploration and evaluation, and hence is not currently able to prepare a discounted cash flow analysis to support its carrying value, accounting standards require that the investment be impaired in full. This amounts to \$87.5 million including \$30.8 million invested in the current year. However, the Directors have confidence in the recoverability of this investment.

## LIKELY DEVELOPMENTS

The global demand for coal continues to be very buoyant. Significant investment in coal mines and increases in coal export capacity suggest that demand for drilling services will remain very strong. The possibility of the introduction of a carbon tax, while rendering coal more expensive, is likely to increase the demand for degasification services to reduce the overall level of emissions through reticulation and carbon sequestration. The joint venture with Xtreme Drilling Corp places the Group in a very competitive position to win significant additional drilling work expected to arise.

The outlook in demand for drilling and infrastructure services in the coal seam gas sector also looks very strong as the various Queensland LNG export proponents move towards Financial Investment Decision. However, the ramp up in capital expenditure for these projects is not expected to commence until mid-calendar 2011.

Development of the LNG projects on the North West Shelf is also accelerating, most particularly at Gorgon. These projects will require drilling, carbon sequestration and infrastructure services and the Group is well qualified to deliver these.

The Group is also very well positioned to win significant trenching work for the proposed National Broadband Network (NBN) rollout or its equivalent through its joint venture with Groupe Marais SA. Management considers that the Marais trenching technology gives the joint venture a significant competitive advantage over alternative conduit installation methods. However, the timing of such work remains uncertain.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## REVIEW OF FINANCIAL CONDITION

### Balance Sheet

The balance sheet shows a deficiency in net current assets of \$72.3 million. However, this excludes the investment in Monument Prospect which is currently for sale. As noted above, the Directors have confidence in the underlying value of this investment.

Further, the balance sheet is presented as if the corporation tax payable at balance date of \$55.5 million is all a current liability. An agreement has been reached with the Australian Taxation Office (ATO) to pay this amount over three years however, as this agreement is subject to quarterly review by the ATO, the liability has been reported entirely as a current obligation rather than in accordance with the agreed payment schedule. Assuming continued compliance with the ATO agreement, and the ATO's continued consent to the payment schedule, the tax liabilities shown as a current obligation will be payable over three years with a corresponding improvement in the Group's projected cash flow.

# DIRECTORS' REPORT

## Capital structure

The Company's capital structure is managed in a manner to maximise the return to shareholders subject to consideration of the financing risk of the business and the cash flows generated from operations.

Following the sale of the Company's investment in ATP651, \$45 million was applied to repayment of the senior debt and the covenants attached to the senior banking facility reset until 30 September 2010. The Group is at an advanced stage of negotiation with the Group's senior lender in relation to the setting of revised financial covenants beyond 1 October 2010.

## Cash flows from operations

Cash flow from operations amounted to a net outflow of \$11.0 million (2009: \$11.9 million). This result was impacted by the timing of contracts, notably the delay in commencement of several projects, and the reduced operating profitability of the business.

## Impact of legislation and other external requirements

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Group.

## DIVIDENDS

Dividends paid or declared by the Company since the end of the previous year were:

Declared and paid during the year 2010

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
Final 2009	5.5	3,572	100% franked	28 Sept 2009

Dividends paid during the year were fully franked at a rate of 30%.

No dividends have been paid or declared in respect of financial year 2010.

## STATE OF AFFAIRS

In the opinion of the Directors, other than the sale of the Company's investment in ATP651, the additional investment in the Monument Prospect in Trinity County, East Texas, and the additional equity acquired in Cuadrilla, there were no significant changes in the state of affairs of the Group during the financial year under review.

## ENVIRONMENTAL REGULATIONS & NATIVE TITLE

As infrastructure engineers, meeting stringent environmental and land use regulations, including native title issues, are an important element of our work. Lucas is committed to identifying environmental risks and engineering solutions to avoid, minimise or mitigate them. We work closely with all levels of government, landholders, Aboriginal land councils and other bodies to ensure our activities have minimal or no effect on land use and areas of environmental, archaeological or cultural importance. One of the key benefits of directional drilling is its ability to avoid or substantially mitigate environmental impact.

Group policy requires all operations to be conducted in a manner that will preserve and protect the environment.

The Directors are not aware of any significant environmental incidents, or breaches of environmental regulations during or since the end of the financial year.

## EVENTS SUBSEQUENT TO REPORTING DATE

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.

# DIRECTORS' REPORT

## OTHER DISCLOSURES

### Shares issued on exercise of rights and options

During or since the end of the financial year, the Company issued the following ordinary shares as result of the exercise of rights:

<b>Number of shares</b>	<b>Amount paid on each share</b>
352,251	\$Nil

There were no amounts unpaid on the shares issued.

### Unissued shares under rights and options

At the date of this report, unissued shares of the Company under rights are:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Number of shares</b>
30 June 2011	–	38,686
24 November 2011	\$1.10	550,000
30 June 2012	–	144,787
31 August 2012	–	1,119,063
23 November 2012	\$2.11	250,000
30 June 2013	–	93,861

All rights expire on the earlier of their expiry date, termination of the employee's employment and cessation of the officer's service.

The rights do not entitle the holders to participate in any share issue of the Company.

## DIRECTORS' SHAREHOLDINGS AND OTHER INTERESTS

The relevant interest of each director and their director-related entities in the shares and rights over shares issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report are:

	<b>Ordinary Shares</b>	<b>Rights issued under Management Rights Plan</b>
Allan Campbell	10,140,083	598,648
Ian Stuart-Robertson	1,386,750	220,000
Andrew Lukas	6,204,833	220,000
Martin Green	153,000	–
Mike McDermott	–	–
Phillip Arnall	–	–
Genelle Coghlan	–	–

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

### Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities including expenses to another person or entity (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Group, except where the liability arises out of conduct involving a lack of good faith.

No indemnity has been provided to the auditors of the Company.

### Insurance premiums

Since the end of the previous financial year, the Company has paid premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ending 30 November 2010.

# DIRECTORS' REPORT

## NON-AUDIT SERVICES

During the year, KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants', as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Payments to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year, as set out in note 9 of the consolidated financial statements, amounted to \$283,409 (2009: \$695,228).

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 20 and forms part of the Directors' Report for the financial year ended 30 June 2010.

## ROUNDING OFF

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

## REMUNERATION REPORT – AUDITED

This remuneration report outlines the remuneration policy for key management personnel comprising the directors of the Company and senior executives of the Company and the Group including the five most highly remunerated Company and Group executives. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. The Company Secretary is not considered to be a key management person and has been excluded from key management personnel disclosures in the financial report.

### Remuneration philosophy

The key principle of the Company's executive remuneration policy is to set remuneration at a level that will attract and retain qualified and experienced personnel and motivate and reward them to achieve strategic objectives and improve business results.

Remuneration is structured to reward employees for increasing shareholder value. This is achieved by providing a fixed remuneration component together with short and long-term performance-based incentives.

Through creating goal congruence between directors, executives and shareholders, it is hoped to maximise shareholder value.

AJ Lucas aims to set fixed annual remuneration at market median levels for jobs of comparable size and responsibility using established job evaluation methods and to provide incentives to enable top performers to be remunerated at the upper end of the market, subject always to the performance of the Group.

The aim of the incentive plans is to drive performance to successfully implement annual business plans and increase shareholder value.

The remuneration for executives and staff is reviewed annually, using a formal performance appraisal process and market data derived from independent surveys of people with similar competencies and responsibilities.

### Remuneration structure

Remuneration packages include a mix of fixed and variable remuneration and short and long-term incentives.

### Fixed remuneration

Fixed remuneration consists of base remuneration which is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits including motor vehicles as well as employer contributions to superannuation funds.

# DIRECTORS' REPORT

## Incentive based remuneration

Incentive based remuneration includes short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial objectives.

All incentive based remuneration is subject to the Group achieving certain performance criteria including continued services and, a target level of profit. In certain cases, the criteria may not reflect the Group performance but may be based on a particular project or company's performance. Subject to these performance criteria being met, the short-term incentives (STI) may be received as cash or ordinary shares in the Company. This is generally subject to a minimum percentage being taken in shares but may vary on a case by case basis.

The long-term incentive (LTI) is only available to be taken in ordinary shares and vests after three years subject to the recipient still being employed by the Group at that time.

## Management Rights Plan

The management rights and options plan is available to employees, directors and other persons at the discretion of the Board. Nominated persons are granted rights to acquire shares in the Company. The exercise of rights can be satisfied by either the issue of shares for no consideration or by the monetary equivalent of the underlying shares on the date of grant of the rights. The exercise of options is satisfied by the exercise price as agreed. No rights were issued during the year.

## Deferred Share Plan

The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the Group ceases. No shares were issued in either of the last two years.

## Employee Share Acquisition Plan

The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to \$1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Employees must have been employed by any entity within the Group for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of 3 years from the date of issue or the date their employment with the Group ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares.

## Relationship of remuneration to company performance

In considering the Group's performance and benefits for shareholder wealth, executive management has regard to the following indices in respect of the current financial year and the previous four financial years.

<u>Year ended</u>	<u>30 Jun 2010</u>	<u>30 Jun 2009</u>	<u>30 Jun 2008</u>	<u>30 Jun 2007</u>	<u>30 Jun 2006</u>
Total revenue (\$'000)	358,490	499,177	424,301	216,369	171,232
Net (loss)/profit after tax attributable to members (\$'000)	(7,128)	103,253	14,027	6,396	3,030
(Loss)/earnings per share	(11.0)c	156.1c	25.5c	11.9c	5.9c
Dividend per share	5.5c	9.5c	6.0c	0.0c	0.0c
Share price at balance date	\$2.23	\$3.18	\$6.27	\$2.00	\$0.87
Share price appreciation/(depreciation)	(30%)	(49%)	314%	230%	(33%)

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. No new incentive based remuneration was granted during the year.

# DIRECTORS' REPORT

## Directors and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named highest paid executives of the Company and Group and other key management personnel are as per the table set out below:

		SHORT-TERM BENEFITS				POST	OTHER LONG		SHARE BASED	Total	Proportion of remuneration performance related	Value of options and rights as proportion of remuneration
		Salary/ fees <sup>(1)</sup>	Cash STI <sup>(2)</sup>	Non-monetary benefits <sup>(3)</sup>	Total	EMPLOYMENT	TERM BENEFITS	Long term benefits (long service leave)	PAYMENTS			
		\$	\$	\$	\$	Superannuation benefits	Termination benefit	Value of rights and options <sup>(4)</sup>	\$	%	%	
<b>Executive directors</b>												
Allan Campbell <sup>(5)</sup>	2010	592,686	–	–	592,686	49,541	–	438,265	1,080,492	–	40.6	
	2009	505,000	6,475,000	–	6,980,000	–	–	614,836	7,594,836	85.3	8.1	
Andrew Lukas <sup>(6)</sup>	2010	350,004	–	–	350,004	–	–	44,713	394,717	–	11.3	
	2009	87,498	–	–	87,498	–	–	52,198	139,696	–	37.4	
Ian Stuart-Robertson	2010	349,992	–	–	349,992	–	–	44,713	394,705	–	11.3	
	2009	258,542	–	–	258,542	20,644	–	52,198	331,384	–	15.8	
<b>Non-executive directors</b>												
Martin Green	2010	80,000	–	–	80,000	–	–	–	80,000	–	–	
	2009	80,000	–	–	80,000	–	–	–	80,000	–	–	
Garry O'Meally (retired 27 Nov 2009)	2010	33,000	–	–	33,000	–	–	–	33,000	–	–	
	2009	80,000	–	–	80,000	–	–	–	80,000	–	–	
Mike McDermott <sup>(7)</sup> (appointed 4 Feb 2010)	2010	87,664	–	–	87,664	7,333	–	1,338	96,335	–	–	
<b>Executive officers</b>												
Ian Redfern	2010	284,839	–	–	284,839	26,422	–	27,864	364,852	–	7.1	
General Manager, Construction	2009	284,947	–	–	284,947	26,422	–	58,848	370,217	8.9	15.9	
Kevin Lester	2010	274,164	–	4,500	278,664	24,811	–	7,952	331,675	–	6.1	
General Manager, Pipelines	2009	245,191	–	–	245,191	22,335	–	3,804	311,451	6.4	12.9	
Mark Summergreene <sup>(5)</sup>	2010	241,818	–	4,500	246,318	20,196	–	21,414	306,558	–	6.1	
Chief Financial Officer	2009	225,919	1,295,000	–	1,520,919	21,096	–	36,911	1,578,926	83.2	2.3	
Brett Tredinnick <sup>(5)</sup>	2010	241,617	–	20,291	261,908	21,096	–	3,908	303,500	–	5.5	
General Manager, Drilling	2009	235,727	897,500	–	1,133,227	21,097	–	12,294	1,199,485	76.2	2.7	
Mark Tonkin <sup>(5)</sup>	2010	235,800	–	4,500	240,300	20,642	–	3,490	281,020	–	5.9	
General Manager, Strategy & Planning	2009	225,052	897,500	–	1,122,552	20,642	–	5,813	1,201,718	77.5	4.4	
<b>Former</b>												
Denis O'Brien <sup>(8)</sup>	2010	294,851	–	–	294,851	18,626	29,469	–	342,946	–	–	
General Manager, Queensland	2009	411,108	100,000	8,336	519,444	15,581	–	–	535,025	18.7	–	
Mike Much <sup>(9)</sup>	2010	220,813	–	–	220,813	–	2,920	–	223,733	–	–	
General Manager, Oil & Gas	2009	207,083	1,720,596	–	1,927,679	–	–	–	1,927,679	89.3	–	

## DIRECTORS' REPORT

Amounts disclosed for remuneration of key management persons exclude insurance premiums of \$24,825 (2009: \$23,754) paid by the Group in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers of the Company and its controlled entities, This amount has not been allocated to the individuals covered by the insurance policy as the directors believe that no reasonable basis for such allocation exists.

- (1) Salary and wages, including accrued leave paid out on retirement.
- (2) Relate to amounts accrued and/or paid for the relevant financial year.
- (3) Non-monetary benefits comprise benefits subject to FBT.
- (4) The fair value of the rights and options has been calculated using a Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights and options allocated to this reporting period. No new issue of options or rights was made during the year.
- (5) During the prior financial year, a specific bonus was provided based on certain agreed hurdles being reached in relation to the development and sale of the Company's investment in Gloucester Basin. The Company sold this investment during 2008/09 resulting in a profit before tax of \$215.8 million.
- (6) Mr Lukas commenced service as an executive director of the Company on 1 April 2009. Prior to that date, he served as a non-executive director.
- (7) Mr McDermott was General Manager of McDermott Drilling Pty Ltd, a wholly owned subsidiary of the Company until his appointment as a non-executive director of the Company on 4 February 2010. Remuneration shown only relates to that earned since his appointment as a non-executive director.
- (8) Mr O'Brien ceased employment with the Group on 31 March 2010.
- (9) Mr Much ceased employment with the Group on 28 April 2010.



# DIRECTORS' REPORT

## Other benefits

The remuneration policy provides that directors and senior executives may obtain loans from the Group. All such loans are made at commercial rates and therefore do not represent a benefit to the recipient or attract fringe benefit tax. No loan amounts have been written down as the balances are considered fully collectible.

## Service agreements

All executive directors and senior executives are employed under a standard contract. The service contract outlines the components of remuneration but does not prescribe how remunerations levels are modified year to year. The Board has the ability to provide discretionary benefits which may fall outside existing incentive programs under the terms of these contracts, for example, in relation to major projects. Remuneration levels are reviewed every year to take into account cost of living changes, any change in the scope of the role performed and any changes required to meet the principles of the remuneration policy.

The service contracts are unlimited in term. All contracts can be terminated without notice by the Company with compensation, if any, payable to the employee in accordance with the law or by negotiated agreement.

## Non-executive directors

The remuneration of the non-executive directors, currently \$75,000 per annum each, is determined by the Board within the aggregate amount approved by shareholders. \$5,000 per annum additional remuneration is paid for serving on any sub-committee of the Board.

In recognition that the amount of the individual fees paid to non-executive directors is less than generally paid to persons in such roles in comparable sized companies, the Company has in the past periodically awarded them shares under its Deferred Share Plan. Such shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their service with AJ Lucas ceases.

## Rights over equity instruments granted as compensation

Details of rights granted as compensation to each director of the Company and each of the named executives during the reporting period and details of the rights that vested during the reporting period are as follows:

	<b>Number of rights vested during 2010</b>
<b>Directors</b>	
AS Campbell	394,787
I Stuart-Robertson	150,000
AJ Lukas	150,000

No options or rights have been granted since the end of the previous financial year.

## Exercise of rights granted as compensation

During the reporting period, the following shares were issued on the exercise of rights previously granted as compensation to the named executives:

	<b>2010</b>	
	<b>Number of shares</b>	<b>Amount paid \$/share</b>
<b>Executives</b>		
I Redfern	34,239	–
K Lester	20,543	–
M Summergreene	18,900	–
B Tredinnick	16,829	–
M Tonkin	16,829	–

There are no amounts unpaid on the shares issued as a result of the exercise of the rights.

# DIRECTORS' REPORT

## Analysis of share-based payments granted as compensation

Details of the vesting profile of the rights granted as compensation to each director of the Company and each of the named executives is detailed below:

	Rights granted		Vested in year	Forfeited in year <sup>(1)</sup>	Financial years in which rights vest
	Number	Date	%	%	
<b>Directors</b>					
AS Campbell	250,000	24-Nov-06	100	–	2010
	110,000	23-Nov-07	–	–	2011
	144,787	26-Nov-08	100	–	2010
	93,861	26-Nov-08	–	–	2011
I Stuart-Robertson	150,000	24-Nov-06	100	–	2010
	70,000	23-Nov-07	–	–	2011
AJ Lukas	150,000	24-Nov-06	100	–	2010
	70,000	23-Nov-07	–	–	2011
<b>Executives</b>					
I Redfern	61,333	31-Aug-07	–	–	2011
K Lester	48,271	31-Aug-07	–	–	2011
M Summergreene	44,409	31-Aug-07	–	–	2011
B Tredinnick	39,544	31-Aug-07	–	–	2011
M Tonkin	39,544	31-Aug-07	–	–	2011

(1) The % forfeited in the year represents the reduction from the maximum number of rights available to vest due to the performance hurdle not being achieved.

## Analysis of movements in rights

The movement during the reporting period, by value, of rights over ordinary shares of the Company held by each Company director and each of the named executives is detailed below:

	(i) Value of rights exercised in year	(ii) Lapsed in year
	\$	\$
<b>Executives</b>		
I Redfern	91,418	–
K Lester	54,850	–
M Summergreene	50,463	–
B Tredinnick	44,933	–
M Tonkin	44,933	–

(i) The value of the rights is calculated as the market price of the Company's shares on the Australian Securities Exchange as at close of trading on the date the rights were exercised after deducting the price paid to exercise the rights.

(ii) The value of the rights that lapsed during the year represents the benefits foregone and is calculated at the date of the right lapses using a Black-Scholes pricing model assuming the performance hurdle has not been met. No rights lapsed in the year.

# DIRECTORS' REPORT

Signed in accordance with a resolution of the directors pursuant to s.298 (2) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read "Allan Campbell". The signature is written in a cursive style with a large initial 'A'.

Allan Campbell,  
Director

Dated at Sydney, this 26th day of August 2010.



***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 audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*KPMG*

KPMG

Tony Nimac  
*Partner*

Sydney

26 August 2010

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$'000	2009 \$'000
Revenue	5	358,490	499,177
<b>Total revenue</b>		<b>358,490</b>	<b>499,177</b>
Other income	6	101,831	221,157
Material costs		(120,399)	(126,403)
Sub-contractor costs		(57,599)	(118,141)
Employee expenses		(125,030)	(135,905)
Plant and other construction costs		(61,320)	(72,433)
Impairment of intangible asset	8	(30,817)	(56,644)
Depreciation and amortisation expenses	8	(27,839)	(23,889)
Impairment of equity accounted investee	8	(7,911)	–
Impairment of investment	8	(532)	–
Impairment of receivables	8	–	(7,510)
Other expenses		(2,759)	(1,692)
<b>Results from operating activities</b>		<b>26,115</b>	<b>177,717</b>
Finance income		2,052	7,908
Finance costs		(18,334)	(21,412)
<b>Net finance costs</b>	7	<b>(16,282)</b>	<b>(13,504)</b>
Share of loss of equity accounted investee	19	(1,634)	–
<b>Profit before income tax</b>		<b>8,199</b>	<b>164,213</b>
Income tax expense	10	(15,327)	(60,960)
<b>(Loss)/profit for the period attributable to the owners of the company</b>		<b>(7,128)</b>	<b>103,253</b>
<b>Other comprehensive income for the period</b>			
Effective portion of changes in fair value of hedges		1,250	(2,392)
Exchange differences on translation of foreign operations		2,082	277
<b>Other comprehensive income for the period</b>		<b>3,332</b>	<b>(2,115)</b>
<b>Total comprehensive income for the period</b>		<b>(3,796)</b>	<b>101,138</b>
<b>Total comprehensive income attributable to owners of the company</b>		<b>(3,796)</b>	<b>101,138</b>
<b>Earnings per share:</b>			
Basic (loss)/earnings per share (cents)	11	(11.0)	156.1
Diluted (loss)/earnings per share (cents)	11	(11.0)	149.9

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	2010 \$'000	2009 \$'000
<b>Current assets</b>			
Cash and cash equivalents	12	9,313	96,317
Trade and other receivables	13	58,640	59,733
Inventories	14	51,083	61,389
Assets classified as held for sale	15	11,841	–
Other assets	16	755	907
<b>Total current assets</b>		<b>131,632</b>	<b>218,346</b>
<b>Non-current assets</b>			
Trade and other receivables	13	21,505	24,029
Property, plant and equipment	17	140,766	138,451
Investments	18	–	1,316
Exploration assets	20	–	4,354
Intangible development assets	21	703	878
Other intangible assets	22	115,071	119,451
Investments in equity accounted investees	19	42,422	8,180
<b>Total non-current assets</b>		<b>320,467</b>	<b>296,659</b>
<b>Total assets</b>		<b>452,099</b>	<b>515,005</b>
<b>Current liabilities</b>			
Trade and other payables	24	78,446	77,038
Interest-bearing loans and borrowings	25	66,474	123,070
Current tax liabilities	26	55,549	50,797
Employee benefits	28	6,448	6,542
<b>Total current liabilities</b>		<b>206,917</b>	<b>257,447</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	25	34,834	45,495
Deferred tax liabilities	23	15,946	11,576
Employee benefits	28	1,176	730
<b>Total non-current liabilities</b>		<b>51,956</b>	<b>57,801</b>
<b>Total liabilities</b>		<b>258,873</b>	<b>315,248</b>
<b>Net assets</b>		<b>193,226</b>	<b>199,757</b>
<b>Equity</b>			
Share capital		91,935	91,935
Reserves		5,006	837
Retained earnings		96,285	106,985
<b>Total equity</b>	29	<b>193,226</b>	<b>199,757</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Share capital \$'000	Translation reserve \$'000	Employee equity benefits reserve \$'000	Hedging reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance 1 July 2008	54,037	580	1,656	–	10,091	66,364
<b>Total comprehensive income</b>						
Profit for the period	–	–	–	–	103,253	103,253
Other comprehensive income						
Effective portion of changes in fair value of hedges	–	–	–	(2,392)	–	(2,392)
Foreign currency translation differences	–	277	–	–	–	277
<b>Total comprehensive income</b>	–	<b>277</b>	–	<b>(2,392)</b>	<b>103,253</b>	<b>101,138</b>
<b>Transactions with owners recorded directly in equity</b>						
Issue of ordinary shares	46,178	–	–	–	–	46,178
Dividends to shareholders	–	–	–	–	(6,359)	(6,359)
Shares bought back and cancelled	(8,361)	–	–	–	–	(8,361)
Share based payment transactions	81	–	716	–	–	797
Total contributions by and distributions to owners	37,898	–	716	–	(6,359)	32,255
<b>Balance 30 June 2009</b>	<b>91,935</b>	<b>857</b>	<b>2,372</b>	<b>(2,392)</b>	<b>106,985</b>	<b>199,757</b>
Balance 1 July 2009	91,935	857	2,372	(2,392)	106,985	199,757
<b>Total comprehensive income</b>						
Loss for the period	–	–	–	–	(7,128)	(7,128)
Other comprehensive income						
Effective portion of changes in fair value of hedges	–	–	–	1,250	–	1,250
Foreign currency translation differences	–	2,082	–	–	–	2,082
<b>Total comprehensive income</b>	–	<b>2,082</b>	–	<b>1,250</b>	<b>(7,128)</b>	<b>(3,796)</b>
<b>Transactions with owners recorded directly in equity</b>						
Dividends to shareholders	–	–	–	–	(3,572)	(3,572)
Share based payment transactions	–	–	837	–	–	837
Total contributions by and distributions to owners	–	–	837	–	(3,572)	(2,735)
<b>Balance 30 June 2010</b>	<b>91,935</b>	<b>2,939</b>	<b>3,209</b>	<b>(1,142)</b>	<b>96,285</b>	<b>193,226</b>

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		390,152	542,314
Cash payments to suppliers and employees		(381,784)	(544,793)
<b>Cash generated from operations</b>		<b>8,368</b>	<b>(2,479)</b>
Interest received		852	7,868
Income taxes paid		(6,038)	–
Interest and other costs of finance paid		(14,145)	(17,287)
<b>Net cash used in operating activities</b>	35(b)	<b>(10,963)</b>	<b>(11,898)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		1,939	596
Proceeds from sale of development asset		–	259,000
Proceeds from sale of exploration asset		98,499	–
Payment of development asset disposal costs		–	(14,115)
Proceeds from sale of shares in listed entity		945	34,216
Proceeds from collecting acquired receivables		165	–
Payments for equity accounted investments		(28,652)	(8,180)
Payment for investments		–	(4,912)
Payment for intangible assets		(30,815)	(41,918)
Payments for plant and equipment		(30,169)	(40,364)
Exploration and evaluation expenditure		(1,499)	(7,384)
Loans to associate		–	(24,029)
Loans to director related entity		–	(9,953)
Loans to other entities		(179)	(3,712)
Proceeds from loans to other entities		2,455	–
Repayment of loan from related party		(4,279)	–
Repayment of loan to other entities		–	697
Acquisition of subsidiary net of cash acquired		–	(119,323)
<b>Net cash from investing activities</b>		<b>8,410</b>	<b>20,619</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		–	28,981
Payments for share buy back		–	(8,361)
Proceeds of borrowings		–	125,053
Repayment of borrowings		(52,352)	(97,109)
Deferred payment for acquisition		(19,382)	(3,250)
Dividends paid		(3,572)	(6,358)
Proceeds from issue of redeemable convertible preference shares		–	42,797
Payment of finance lease liabilities		(11,595)	(9,902)
<b>Net cash (used in)/from financing activities</b>		<b>(86,901)</b>	<b>71,851</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(89,454)</b>	<b>80,572</b>
Cash and cash equivalents at beginning of the year		96,317	15,745
<b>Cash and cash equivalents at end of the year</b>	35(a)	<b>6,863</b>	<b>96,317</b>

The accompanying notes are an integral part of these consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 1. REPORTING ENTITY

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 consolidated financial statements of the Company as at and for the financial year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually referred to as 'Group entities') and the Group's interest in associates and jointly controlled entities.

AJ Lucas is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater, resources and property sectors.

## 2. BASIS OF PREPARATION

### (A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') including Australian interpretations adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 26 August 2010.

### (B) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed in note 4.

### (C) GOING CONCERN

The consolidated 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 consolidated financial statements are approved.

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

- The Group generated a loss after tax for the year of \$7,128,000 and used net cash in operating activities of \$10,963,000. This was in part due to a volatile business environment which resulted in the deferral of, or delays to a number of projects together with poor weather conditions.
- As at balance date, the Group's current liabilities exceeded its current assets by \$75,285,000. The deficit in net current assets was principally due to the following factors:
  - The breach of certain undertakings provided to the holders of its Redeemable Convertible Preference Shares (RCPS) which total \$43,610,000 at balance date. This provides the holders with the right to call the RCPS at any time, and as a result, the RCPS have been classified as current liabilities at balance date;
  - The Group's current income tax liability of \$55,549,000. This income tax liability arose principally as a result of profits made on disposal of the Group's interests in certain oil and gas assets during the current and prior years. Payment of this liability is being made in accordance with a three year deferred instalment arrangement that has been agreed with the Australian Taxation Office (ATO). The terms of the agreement are subject to review by the ATO on a quarterly basis and accordingly, the liability has been classified as current at balance date; and
  - During the year, the Group invested \$59,467,000 in a number of oil and gas related assets which have been recorded as non-current assets or impaired at balance date.
- During the period to 1 April 2010, the Group breached certain financial covenants and undertakings provided under its senior banking facility. During the current year, the Group's bankers agreed to waive breaches that occurred prior to 1 April 2010 and to set revised financial covenants for the quarter ended 30 June 2010. As at balance date, the Group was in compliance with these revised covenants and has accordingly classified the debt between current and non-current liabilities according to their contracted repayment dates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

As at the date of this report, the Group and its bankers are at an advanced stage of setting revised financial covenants that will apply beyond 30 September 2010. These revised financial covenants are yet to be finalised at the date of this report.

The continuation of the Group as a going concern is dependent on the following matters as at the date of this report:

- The continued support of the Group's existing financiers and RCPS holders and the continuation of the deferred payment arrangement that has been agreed with the ATO;
- The Group's ability to secure additional funding from its senior lender or other financiers and/or raise sufficient equity in order to acquire additional plant and equipment and/or fund short term working capital requirements as necessary;
- The Group's ability to realise assets if and when required; and
- The achievement of cash flow forecasts that have been prepared by the Group. These cash flow forecasts have been prepared based on certain assumptions, some of which are outside the control of the Group. These include the Group's success in securing new contracts with customers, obtaining new funding for additional plant and equipment from financiers, as well as being able to complete works in respect of contracted revenues as scheduled.

In considering the impact of the above factors on the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial report, the Directors have had regard to the following:

- The advanced stage of negotiations with the Group's senior lender in relation to the setting of revised financial covenants and undertakings, along with the advanced stage of discussions in respect to an increase in overdraft facilities;
- Ongoing discussions with representatives of the holders of the RCPS in respect of the continuation of this facility. Should the holders demand redemption of the RCPS, the Group has 90 days to negotiate a resolution or source alternate funding;
- The deferred payment arrangement reached with the ATO in respect of the Group's current income tax liabilities;
- The approval of an additional asset financing facility subsequent to year-end with a new lender;
- The Directors' views in respect of the value of the Group's investment of \$87,461,000 in the Monument Prospect which has been fully impaired on the basis set out in note 22 and their plans to dispose of this investment as soon as commercially feasible. The Directors acknowledge the statutory accounting treatment under Australian Accounting Standards, however have confidence in the underlying value of this investment and note that had the investment been structured as a direct equity interest rather than an entitlement to a future income stream, the accounting standards may not have required the investment to be impaired;
- The Directors' views in respect of the value of the Group's investment in Cuadrilla Resources Holdings Limited in which entities associated with Riverstone Holdings LLC subscribed for additional new equity during the year at a premium to the Group's acquisition cost;
- The Directors' views in respect of the reasonableness of the cash flow forecasts prepared by the Group, having regard to the status of tenders outstanding, recent improvements in the performance and profitability of the drilling business and the expected timing of cash flows; and
- The Directors' confidence in the Group's ability to raise additional equity if and when required.

After considering the above factors, the Directors have concluded that the use of the going concern assumption is appropriate.

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

### (D) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Australian dollars which is the Company's functional currency. 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, all financial information presented in Australian dollars has been rounded off to the nearest thousand dollars, unless otherwise stated.

### (E) USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with AASBs 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

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.

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 consolidated financial statements are described in the following notes:

- Note 14 – Inventories
- Note 21 – Intangible development assets
- Note 22 – Impairment tests for cash generating units containing goodwill
- Note 23 – Utilisation of tax losses
- Note 33 – Contingencies
- Note 27 – Lease classification
- Note 28 – Measurement of share based payments
- Note 30 – Valuation of financial instruments
- Note 36 – Acquisition of subsidiary

## (F) CHANGES IN ACCOUNTING POLICIES

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Accounting for business combinations; note 3(A)
- Accounting for acquisitions of non-controlling interests; note 3(A)
- Determination and presentation of operating segments; note 3(K)
- Presentation of financial statements; note 3(N).

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities, except as explained in notes 2(F), 3(A), 3(K) and 3(N).

Certain comparative amounts have been reclassified to conform with current year presentation.

### (A) BASIS OF CONSOLIDATION

#### BUSINESS COMBINATIONS

**CHANGE IN ACCOUNTING POLICY:** The Group has adopted revised AASB 3 Business Combinations (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008) for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

**MEASURING GOODWILL:** The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

**SHARE-BASED PAYMENT AWARDS:** When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

**CONTINGENT LIABILITIES:** A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

**NON-CONTROLLING INTEREST:** The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

**TRANSACTION COSTS:** Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

**ACCOUNTING FOR ACQUISITIONS OF NON-CONTROLLING INTERESTS:** The Group has adopted AASB 3 Business Combinations (2008) and AASB 127 Consolidated and Separate Financial Statements (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 July 2009. Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

**SUBSIDIARIES:** Subsidiaries are entities controlled by the Group. 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.

In the Company's financial statements, investments in subsidiaries are carried at cost.

**INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (EQUITY ACCOUNTED INVESTEEES):** 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. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities 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 the 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 or joint control commences until the date that significant influence or joint control ceases. When 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.

**JOINTLY CONTROLLED OPERATIONS:** A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

**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 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.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## (B) 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 reporting 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, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**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 in other comprehensive income. Since 1 January 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (translation reserve, or 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 as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

## (C) FINANCIAL INSTRUMENTS

**NON-DERIVATIVE FINANCIAL ASSETS:** The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

**LOANS AND RECEIVABLES:** Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. 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.

**AVAILABLE-FOR-SALE FINANCIAL ASSETS:** Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. 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 (see note P), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

**NON-DERIVATIVE FINANCIAL LIABILITIES:** Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

**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 instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

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

**DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING HEDGE ACCOUNTING:** The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

### (D) 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 tax effects. Dividends thereon are recognised as a liability in the period in which they are declared.

**REDEEMABLE CONVERTIBLE PREFERENCE SHARES:** Redeemable convertible preference shares are classified as a liability as they are redeemable on a specific date or at the option of the shareholders, and the dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit and loss as accrued.

### (E) 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

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 statement of financial position.

### (F) LEASE PAYMENTS

Payments made under operating leases are recognised in the profit or loss 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.

### (G) REVENUE

**SERVICES RENDERED:** Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to certification 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 is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future construction activity.

The stage of completion is assessed by reference to surveys of work performed. 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 profit or loss.

### (H) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested, dividend income, gains on hedging instruments and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, 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 costs comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, dividends on preference shares classified as liabilities, foreign currency losses and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### (I) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss 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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively 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 tax 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

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 reviewed at each reporting date and 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.

**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 receivables/(payables) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) 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.

### (J) 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 preference shares and share rights granted to employees.

### (K) SEGMENT REPORTING

**DETERMINATION AND PRESENTATION OF OPERATING SEGMENTS:** As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is 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. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

### (L) 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.

Construction work in progress is presented as part of inventories in the statement of financial position for all contracts on which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as deferred income in the statement of financial position.

### (M) PROPERTY, PLANT AND EQUIPMENT

**RECOGNITION AND MEASUREMENT:** Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

**LEASED ASSETS:** Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets under finance lease 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 profit or loss in "other income" 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 calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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. Land is not depreciated.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

Plant and equipment	Years
Leasehold improvements	5
Buildings	33-40
Plant and equipment	3-15
Leased plant and equipment	3-15

The residual value, useful life and depreciation method applied to an asset are reviewed at each financial year-end and adjusted if appropriate at least annually.

### (N) INTANGIBLE ASSETS

**GOODWILL:** Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and jointly controlled entities.

**CHANGE IN ACCOUNTING POLICY:** As from 1 July 2009, the Group has adopted the revised AASB 3 Business Combinations (2008) and the amended AASB 127 Consolidated and Separate Financial Statements (2008). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009.

The change in accounting policy had no material impact on earnings per share.

**ACQUISITIONS OF NON-CONTROLLING INTERESTS:** Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

**SUBSEQUENT MEASUREMENT:** Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

**RESEARCH AND DEVELOPMENT:** Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

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

Capitalised development expenditure is stated at cost less accumulated amortisation and 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 profit or loss as incurred.

**AMORTISATION:** Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Other development assets – five years
- Customer intangibles:
  - (i) Contracts — are amortised over the life of each contract between one to five years.
  - (ii) Customer relationships — are amortised over a five year period after the expiration of the contract.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### (O) 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 profit or loss.

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.

### (P) IMPAIRMENT

**FINANCIAL ASSETS (INCLUDING RECEIVABLES):** A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An 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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**NON-FINANCIAL ASSETS:** The carrying amounts of the Group's non-financial assets, other than inventories, 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, the recoverable amount is estimated at each year at the same time.

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" or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs 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.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### (Q) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

### (R) EMPLOYEE BENEFITS

**DEFINED CONTRIBUTION SUPERANNUATION FUNDS:** A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

**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 government 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.

**TERMINATION BENEFITS:** Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**SHARE-BASED PAYMENT TRANSACTIONS:** The grant date fair value of share based payment awards 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 awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### (S) 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. The unwinding of the discount is recognised as finance cost.

### (T) 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.

### (U) PRESENTATION OF FINANCIAL STATEMENTS

The Group applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity 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 re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## (V) 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 2010, but have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the Group adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 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 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 - Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (June 2010) affects various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 consolidated financial statements, are not expected to have a significant impact.
- AASB 2010-4 *Further* Amendments to Australian Accounting Standards arising from the Annual Improvements Project (June 2010) affects various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 consolidated financial statements, are not expected to have a significant impact.

## 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**PROPERTY, PLANT AND EQUIPMENT:** The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items when available and replacement cost when appropriate.

**INTANGIBLE ASSETS:** The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**INVENTORIES:** The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

**INVESTMENTS IN EQUITY AND DEBT SECURITIES:** The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

**TRADE AND OTHER RECEIVABLES:** The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**DERIVATIVES:** The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

**NON-DERIVATIVE FINANCIAL LIABILITIES:** Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

**SHARE-BASED PAYMENT TRANSACTIONS:** The fair value of employee stock options and share appreciation rights are measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

**FINANCIAL GUARANTEES:** For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contract, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

### 5. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable 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.
Building, Construction & Infrastructure (BC&I)	Civil engineering services for the construction of infrastructure, pipelines and buildings, together with facilities management.
Oil & gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Australia, USA and Europe.

There are varying levels of integration between the Drilling and Building, Construction & Infrastructure reportable segments. The accounting policies of the reportable segments are the same as described in note 3.

Information regarding the results of each reportable segment is included below. Management measures performance based on Earnings before interest, income tax, depreciation and amortisation (EBITDA) and segment profit before interest and income tax, and after adjusting for amortisation of intangibles associated with acquisitions. Group financing, including finance costs and finance income, and income taxes are managed on a Group basis and are not allocated to operating segments. Inter-segment pricing is determined on an arm's length basis.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

	Drilling \$'000	BC&I \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>2010</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	203,207	–	–	203,207	–	–	203,207
Revenue - construction contracts	–	155,282	–	155,282	–	–	155,282
Inter-segment revenue	2,682	22	–	2,704	–	(2,704)	–
<b>Total reportable segment revenue</b>	<b>205,889</b>	<b>155,304</b>	<b>–</b>	<b>361,194</b>	<b>–</b>	<b>(2,704)</b>	<b>358,490</b>
<b>Consolidated revenue</b>							<b>358,490</b>
<b>EBITDA</b>	<b>23,656</b>	<b>(19,503)</b>	<b>57,726</b>	<b>61,878</b>	<b>(9,558)</b>	<b>–</b>	<b>52,320</b>
Less: Depreciation and amortisation	23,287	2,137	–	25,424	2,415	–	27,839
<b>Reportable segment profit/(loss)</b>	<b>369</b>	<b>(21,640)</b>	<b>57,726</b>	<b>36,454</b>	<b>(11,973)</b>	<b>–</b>	<b>24,481</b>
Reconciliation:							
Interest income	–	–	947	947	881	–	1,828
Interest expense	–	–	–	–	(18,334)	–	(18,334)
Net foreign exchange gain	–	–	–	–	224	–	224
<b>Consolidated profit before income tax</b>							<b>8,199</b>
<b>2009</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	204,272	–	7,510	211,782	–	–	211,782
Revenue - construction contracts	–	287,395	–	287,395	–	–	287,395
Inter-segment revenue	3,172	5,467	–	8,639	–	(8,639)	–
<b>Total reportable segment revenue</b>	<b>207,444</b>	<b>292,862</b>	<b>7,510</b>	<b>507,816</b>	<b>–</b>	<b>(8,639)</b>	<b>499,177</b>
<b>Consolidated revenue</b>							<b>499,177</b>
<b>EBITDA</b>	<b>34,539</b>	<b>10,106</b>	<b>164,513</b>	<b>209,158</b>	<b>(7,552)</b>	<b>–</b>	<b>201,606</b>
Less: Depreciation and amortisation	23,451	438	–	23,889	–	–	23,889
<b>Reportable segment profit/(loss)</b>	<b>11,088</b>	<b>9,668</b>	<b>164,513</b>	<b>185,269</b>	<b>(7,552)</b>	<b>–</b>	<b>177,717</b>
Reconciliation:							
Interest income	–	–	–	–	7,908	–	7,908
Interest expense	–	–	–	–	(20,880)	–	(20,880)
Net foreign exchange loss	–	–	–	–	(532)	–	(532)
<b>Consolidated profit before income tax</b>							<b>164,213</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

### OTHER SEGMENT INFORMATION

	Drilling \$'000	BC&I \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Total \$'000
<b>2010</b>						
Segment assets	279,577	87,284	59,983	426,844	25,255	452,099
Segment liabilities	204,203	42,855	911	247,969	10,904	258,873
Depreciation and amortisation	23,287	2,137	–	25,424	2,415	27,839
Share of loss of equity accounted investees	–	(799)	(835)	(1,634)	–	(1,634)
Equity accounted investments	–	25	42,397	42,422	–	42,422
Capital expenditure	18,741	16,911	–	35,652	–	35,652
Impairment of intangible asset	–	–	30,817	30,817	–	30,817
Impairment of equity accounted investee	–	–	7,911	7,911	–	7,911
Profit on sale of exploration asset	–	–	101,831	101,831	–	101,831
<b>2009</b>						
Segment assets	377,424	85,778	36,874	500,076	14,929	515,005
Segment liabilities	236,515	75,247	–	311,762	3,486	315,248
Depreciation and amortisation	23,451	438	–	23,889	–	23,889
Equity accounted investments	–	267	7,913	8,180	–	8,180
Capital expenditure	37,725	15,344	–	53,069	–	53,069
Impairment of intangible asset	–	–	56,644	56,644	–	56,644
Impairment of receivables	–	–	7,510	7,510	–	7,510
Impairment of equity accounted investee	–	–	–	–	–	–
Profit on sale of development asset	–	–	221,157	221,157	–	221,157

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## GEOGRAPHICAL INFORMATION

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

	Revenues		Segment assets	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Australia	358,490	491,667	392,113	489,353
North America	–	7,510	–	–
Europe	–	–	59,983	25,533
Asia/Pacific	–	–	3	119
	<b>358,490</b>	<b>499,177</b>	<b>452,099</b>	<b>515,005</b>

## 6. OTHER INCOME

	2010 \$'000	2009 \$'000
Profit on sale of exploration asset (refer note 20)	92,957	–
Profit on sale of development asset (refer note 21)	–	215,765
Remeasurement of interest in associate to fair value (refer note 19)	2,953	–
Net gain on deconsolidation (refer note 19)	5,756	–
Profit on disposal of investment in listed entity	165	5,392
	<b>101,831</b>	<b>221,157</b>

## 7. FINANCE INCOME AND FINANCE COSTS

	2010 \$'000	2009 \$'000
Interest income	1,828	7,908
Net foreign exchange gain	224	–
<b>Finance income</b>	<b>2,052</b>	<b>7,908</b>
Interest expense	(18,334)	(20,880)
Net foreign exchange loss	–	(532)
<b>Finance costs</b>	<b>(18,334)</b>	<b>(21,412)</b>
<b>Net finance costs recognised in profit and loss</b>	<b>(16,282)</b>	<b>(13,504)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 8. OTHER EXPENSES

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

	2010	2009
	\$'000	\$'000
Depreciation of property, plant and equipment	17,556	13,250
Amortisation of:		
Leased plant and equipment	5,499	4,588
Development expenditure	228	228
Contracts and customer relationships	4,556	5,809
Tender costs	–	14
Total amortisation	10,283	10,639
<b>Total depreciation and amortisation</b>	<b>27,839</b>	<b>23,889</b>
Impairment of intangible assets (refer note 22)	30,817	56,644
Impairment of investment	532	–
Impairment of equity accounted investee	7,911	–
Impairment of receivables (refer note 13)	–	7,510

## 9. AUDITOR'S REMUNERATION

	2010	2009
	\$	\$
Audit services		
Auditors of the Company — KPMG		
Audit and review of financial reports		
Australia	449,779	347,820
	<b>449,779</b>	<b>347,820</b>
Other services		
Auditors of the Company — KPMG		
Taxation services	118,478	455,746
Other professional services	164,931	239,482
	<b>283,409</b>	<b>695,228</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 10. INCOME TAX

	2010 \$'000	2009 \$'000
<b>Recognised in profit or loss</b>		
<b>Current tax expense</b>		
Current year	10,747	52,574
Foreign tax losses not recognised in current year	–	42
Prior year adjustments	209	(2,033)
	10,956	50,583
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	4,371	10,377
<b>Total income tax expense in profit or loss</b>	<b>15,327</b>	<b>60,960</b>
Numerical reconciliation between tax expense and pre-tax net profit		
Accounting profit before income tax	8,199	164,213
Prima facie income tax expense calculated at 30% (2009:30%)	2,460	49,264
Adjustment for:		
Equity settled share based payments	251	452
Equity accounted loss	490	–
Non-deductible expenses	1,242	344
Amortisation of customer contracts	1,318	1,554
Effect of tax rate in foreign jurisdictions	6	41
Foreign tax loss not recognised	–	42
Investment allowance	–	(725)
Impairment expenses	11,778	16,993
Research and development allowance	(1,053)	(2,008)
Non assessable interest	(284)	–
Utilisation of capital losses not previously recognised	(1,090)	(2,964)
	15,118	62,993
Income tax under/(over) provided in prior year	209	(2,033)
<b>Income tax expense attributable to operating profit</b>	<b>15,327</b>	<b>60,960</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 11. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the loss after tax attributable to ordinary shareholders of \$(7,128,000) (2009: profit after tax of \$103,253,000) and a weighted average number of ordinary shares outstanding of 65,082,055 (2009: 66,128,935) calculated as follows:

	2010 Number	2009 Number
<b>Weighted average number of ordinary shares (basic)</b>		
Issued ordinary shares at 1 July	64,945,877	59,257,134
Effect of shares issued	–	7,589,754
Effect of shares bought back and cancelled	–	(919,882)
Effect of exercise of management rights	136,178	201,929
<b>Weighted average number of ordinary shares (basic) at 30 June</b>	<b>65,082,055</b>	<b>66,128,935</b>

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 was based on the loss after tax attributable to ordinary shareholders of \$(7,128,000) (2009: profit after tax of \$103,273,000) and a weighted average number of shares outstanding of 65,082,055 (2009: 68,903,050) calculated as follows:

	2010 \$'000	2009 \$'000
<b>(Loss)/profit attributable to ordinary shareholders (diluted)</b>		
(Loss)/profit attributable to ordinary shareholders	(7,128)	103,253
Interest expense on convertible notes, net of tax	–	20
<b>(Loss)/profit attributable to ordinary shareholders (diluted) for the year ended 30 June</b>	<b>(7,128)</b>	<b>103,273</b>

	2010 Number	2009 Number
<b>Weighted average number of ordinary shares (diluted)</b>		
Weighted average number of ordinary shares (basic)	65,082,055	66,128,935
Effect of conversion of convertible notes	–	86,745
Effect of share rights on issue	–	2,687,370
<b>Weighted average number of ordinary shares (diluted) at 30 June</b>	<b>65,082,055</b>	<b>68,903,050</b>

At 30 June 2010, 2,196,397 (2009: nil) rights were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## 12. CASH AND CASH EQUIVALENTS

	2010 \$'000	2009 \$'000
Bank balances	9,313	96,317

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

### 13. TRADE AND OTHER RECEIVABLES

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Trade receivables (net of impairment losses)	49,786	50,048
Other receivables	8,232	6,669
Other loans	622	3,016
	<b>58,640</b>	<b>59,733</b>
<b>Non-current</b>		
Receivable from associate	17,586	–
Other receivables	3,919	–
Loans to associate	–	24,029
	<b>21,505</b>	<b>24,029</b>
<b>Total trade and other receivables</b>	<b>80,145</b>	<b>83,762</b>

Trade receivables are shown net of impairment losses of \$48,000 (2009: \$7,568,000). The loan to associate reported at the prior year balance date was to Cuadrilla Resources Limited, a company formed to explore for and develop unconventional hydrocarbons in Europe. During the year, Cuadrilla Resources was restructured and the loan made to this company by the Group converted into equity and preference shares. The preference shares and cumulative interest have been classified as a non-current receivable from an associate at balance date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 14. INVENTORIES

	2010 \$'000	2009 \$'000
Materials and consumables	6,146	5,427
Construction work in progress	44,937	55,962
<b>Total inventories</b>	<b>51,083</b>	<b>61,389</b>
Construction work in progress comprises:		
Contract costs incurred to date	790,256	789,233
Profit recognised to date	165,430	102,935
	955,686	892,168
Less: progress billings	(910,749)	(836,206)
<b>Net construction work in progress</b>	<b>44,937</b>	<b>55,962</b>

## 15. NON-CURRENT ASSETS HELD FOR SALE

During the year, the Group developed for sale a strata title commercial office building. The Group expects to sell this asset over the next year.

An impairment test was conducted on the Group's carrying value of the property and it was determined that no impairment of the asset was required.

## 16. OTHER ASSETS

	2010 \$'000	2009 \$'000
Prepayments	755	907

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Leased plant & equipment \$'000	Capital works in progress \$'000	Total \$'000
<b>30 June 2010</b>						
At cost	2,796	4,411	135,817	58,592	4,363	205,979
Accumulated depreciation/amortisation	(589)	(191)	(46,862)	(17,571)	-	(65,213)
	<b>2,207</b>	<b>4,220</b>	<b>88,955</b>	<b>41,021</b>	<b>4,363</b>	<b>140,766</b>
<b>30 June 2009</b>						
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)
	<b>1,325</b>	<b>4,247</b>	<b>79,112</b>	<b>38,355</b>	<b>15,412</b>	<b>138,451</b>
<b>1 July 2008</b>						
At cost	24	4,306	45,316	31,235	2,750	83,631
Accumulated depreciation/amortisation	(10)	(18)	(18,678)	(8,939)	-	(27,645)
	<b>14</b>	<b>4,288</b>	<b>26,638</b>	<b>22,296</b>	<b>2,750</b>	<b>55,986</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 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
<b>2010</b>						
Carrying amount at 1 July 2009	1,325	4,247	79,112	38,355	15,412	138,451
Additions	1,432	–	27,416	9,822	792	39,462
Disposals	–	–	(594)	(1,657)	–	(2,251)
Transfer to assets classified as held for sale	–	–	–	–	(11,841)	(11,841)
Depreciation	(550)	(27)	(16,979)	–	–	(17,556)
Amortisation	–	–	–	(5,499)	–	(5,499)
Carrying amount at 30 June 2010	<b>2,207</b>	<b>4,220</b>	<b>88,955</b>	<b>41,021</b>	<b>4,363</b>	<b>140,766</b>
<b>2009</b>						
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 business combinations	–	–	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	<b>1,325</b>	<b>4,247</b>	<b>79,112</b>	<b>38,355</b>	<b>15,412</b>	<b>138,451</b>

## 18. INVESTMENTS

	2010 \$'000	2009 \$'000
Investments - listed entities (available-for-sale financial asset)	–	1,000
Investments - other	–	316
	–	<b>1,316</b>

## 19. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES

Name of investee	Ownership		2010 Carrying value \$'000	2009 Carrying value \$'000
	2010	2009		
Cuadrilla Resources Holdings Limited (associate)	40.93%	11.59%	42,397	1,504
Arawn Energy Limited (associate)	–	60%	–	6,409
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50%	50%	25	267
			<b>42,422</b>	<b>8,180</b>

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

Name of investee	Current assets \$'000	Non-current assets \$'000	Total assets \$'000	Current liabilities \$'000	Non-current liabilities \$'000	Total liabilities \$'000	Revenues \$'000	Expenses \$'000	Profit/ (loss) \$'000
	<b>2010</b>								
Cuadrilla Resources Holdings Limited	13,863	65,750	79,613	4,991	77,862	82,853	–	8,678	(8,678)
Marais-Lucas Technologies Pty Limited	49	1,163	1,212	1,725	753	2,478	–	1,598	(1,598)
	13,912	66,913	80,825	6,716	78,615	85,331	–	10,276	(10,276)
<b>2009</b>									
Cuadrilla Resources Limited	10,526	15,641	26,167	22,458	–	22,458	–	–	–
Arawn Energy Limited	423	6,438	6,861	423	–	423	–	–	–
Marais-Lucas Technologies Pty Limited	101	1,776	1,877	327	1,016	1,343	–	–	–
	11,050	23,855	34,905	23,208	1,016	24,224	–	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The Group's share of loss of equity accounted investees is \$1,634,000 (2009: \$nil). During both the current and the prior year, the Group did not receive dividends from any of its investments in equity accounted investees.

### Cuadrilla

During the year, the Group acquired an additional 45.36% interest in Cuadrilla Resources Corporation Limited ("Cuadrilla") for \$33,018,000 in cash and a converted loan, increasing its ownership from 11.59% to 56.95%. As a result, the Group obtained control of Cuadrilla and remeasured its interest to fair value.

The carrying value of Cuadrilla's identifiable net assets as at the date the Group obtained control was \$22,045,000 and their fair value was \$36,652,000. The difference in value was attributed to an exploration and evaluation asset owned by Cuadrilla. Fair value was provisionally determined by the Directors with reference to the consideration paid.

In February 2010, the Group's interest in Cuadrilla was diluted to 40.93% following the restructure of the company to Cuadrilla Resources Holdings Limited and issue of additional share capital to a third party. As a result, the Group lost control of Cuadrilla.

The Group's share of losses of \$4,024,000 generated during the period of control, is included in the results of the Group. The Group recommenced equity accounting for Cuadrilla and remeasured its 40.93% investment to fair value as at the date control was lost. As a result, the Group recognised a net gain on deconsolidation. The fair value of the equity accounted investment was provisionally determined by the Directors with reference to the amount paid by the third party in February 2010.

The following summarises the effect of changes in the Group's ownership interest in Cuadrilla:

	2010 \$'000	2009 \$'000
Equity accounted ownership interest at beginning of year	1,504	–
Acquisition of 11.55% ownership interest (consideration transferred)	–	1,504
Share of equity accounted losses prior to gaining control	(226)	–
Acquisition of 45.36% ownership interest (consideration transferred)	33,018	–
Remeasurement of equity accounted interest (11.59%) to fair value	2,953	–
Net gain on deconsolidation	5,756	–
Share of equity accounted losses subsequent to loss of control	(608)	0
<b>Equity accounted ownership interest at end of the year</b>	<b>42,397</b>	<b>1,504</b>

### Arawn Energy Limited

Arawn Energy Limited (Arawn) ceased operations during the financial year. Accordingly, the Group impaired the entire carrying value of its investment in Arawn.

### Marais-Lucas Technologies Pty Limited

Marais-Lucas Technologies Pty Limited is 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.

## 20. EXPLORATION ASSETS

	2010 \$'000	2009 \$'000
Cost		
Balance at 1 July	4,354	4,100
Acquisitions	1,446	6,663
Disposals	(5,542)	–
Transferred to equity accounted investments	(258)	(6,409)
Balance at 30 June	–	<b>4,354</b>

The exploration assets held in the prior year relate to the Group's interest in ATP651. This asset was sold during the year for \$98,500,000 realising a profit on sale of \$92,957,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 21. INTANGIBLE DEVELOPMENT ASSETS

	Gas assets \$'000	Other \$'000	Total \$'000
<b>Cost</b>			
Balance at 1 July 2008	14,462	2,502	16,964
Acquisitions	–	116	116
Disposals	(14,462)	–	(14,462)
<b>Balance at 30 June 2009</b>	<b>–</b>	<b>2,618</b>	<b>2,618</b>
Balance at 1 July 2009	–	2,618	2,618
Acquisitions	–	53	53
<b>Balance at 30 June 2010</b>	<b>–</b>	<b>2,671</b>	<b>2,671</b>
<b>Amortisation</b>			
Balance at 1 July 2008	–	1,512	1,512
Amortisation for the year	–	228	228
<b>Balance at 30 June 2009</b>	<b>–</b>	<b>1,740</b>	<b>1,740</b>
Balance at 1 July 2009	–	1,740	1,740
Amortisation for the year	–	228	228
<b>Balance at 30 June 2010</b>	<b>–</b>	<b>1,968</b>	<b>1,968</b>
<b>Carrying amounts</b>			
At 1 July 2008	14,462	990	15,452
<b>At 30 June 2009</b>	<b>–</b>	<b>878</b>	<b>878</b>
At 1 July 2009	–	878	878
<b>At 30 June 2010</b>	<b>–</b>	<b>703</b>	<b>703</b>

The gas assets as at 1 July 2008 relate to the Group's interest in the Gloucester Basin coal seam gas reserve. This asset was disposed of during the prior year for \$259,000,000, realising a profit on disposal of \$215,765,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 22. OTHER INTANGIBLE ASSETS

	Customer intangibles \$'000	Goodwill \$'000	Net profit interest <sup>(1)</sup> \$'000	Total \$'000
<b>Cost</b>				
Balance at 1 July 2008	10,263	7,991	–	18,254
Acquisitions	–	–	56,644	56,644
Acquisitions — through business combinations	8,456	104,525	–	112,981
<b>Balance at 30 June 2009</b>	<b>18,719</b>	<b>112,516</b>	<b>56,644</b>	<b>187,879</b>
Balance at 1 July 2009	18,719	112,516	56,644	187,879
Transfers	(868)	868	–	–
Acquisitions	–	177	30,817	30,994
<b>Balance at 30 June 2010</b>	<b>17,851</b>	<b>113,561</b>	<b>87,461</b>	<b>218,873</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 July 2008	4,375	1,600	–	5,975
Amortisation for the year	5,809	–	–	5,809
Impairment loss	–	–	56,644	56,644
<b>Balance at 30 June 2009</b>	<b>10,184</b>	<b>1,600</b>	<b>56,644</b>	<b>68,428</b>
Balance at 1 July 2009	10,184	1,600	56,644	68,428
Amortisation for the year	4,556	–	–	4,556
Impairment loss	–	–	30,817	30,817
<b>Balance at 30 June 2010</b>	<b>14,740</b>	<b>1,600</b>	<b>87,461</b>	<b>103,801</b>
<b>Carrying amounts</b>				
At 1 July 2008	5,888	6,391	–	12,279
<b>At 30 June 2009</b>	<b>8,535</b>	<b>110,916</b>	<b>–</b>	<b>119,451</b>
At 1 July 2009	8,535	110,916	–	119,451
<b>At 30 June 2010</b>	<b>3,111</b>	<b>111,961</b>	<b>–</b>	<b>115,072</b>

(1) Lucas has a 10% net profit interest (NPI) in oil and gas leasehold interests in the Monument Prospect (“the Prospect”) located in Trinity Country, East Texas, USA. The NPI entitles the Company to:

- (i) A 10% interest in the gross production revenue earned from the leases less all costs incurred in acquiring and developing the Prospect and generating the revenue; and
- (ii) A 10% interest in the gross proceeds from the sale or transfer of the leasehold interest less all costs incurred in acquiring and developing the Prospect at the time of sale or transfer.

The investment represents a contractual right to future income streams and has therefore been classified as an intangible asset within the scope of AASB 138 *Intangible Assets*. The Prospect is in an early stage of exploration and evaluation with no recent exploratory drilling conducted. The Company has therefore been unable to prepare a discounted cash flow analysis to support the carrying value of the Prospect. The investment has therefore been impaired in the current year by \$30,817,000 (2009: \$56,444,000) being the additional amount invested during the year. Future exploration and evaluation activity may allow an assessment of future cash flows to be performed and a reassessment made of the carrying value.

Had the investment been structured as a direct equity interest, rather than a net profit interest, it is likely the investment would have been classified as an exploration and evaluation asset within the scope of AASB 6 *Exploration for and Evaluation of Mineral Resources*. Under this accounting standard, given the Prospect is at an early stage of evaluation, no impairment test would have been required if there was no evidence to suggest that the carrying amount of the asset exceeded its recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 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:

	2010 \$'000	2009 \$'000
Drilling	108,129	107,084
Building, construction and infrastructure	3,832	3,832
	<b>111,961</b>	<b>110,916</b>

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on the 2011 and 2012 budget and plan, extended over a five year period. A post-tax discount rate is applied adjusted for the risk of the industry in which each unit operates.

### Key assumptions used for value in use calculations

Cash flows were projected based on past experience, actual operating results and the business plan for each of 2011 and 2012. Growth rates of between 2.2-7.4% were applied to extrapolate cash flows from year 2013-2015 based on forecast industry growth rates. Long-term growth rates of 3% are used into perpetuity based on expected long range growth rates.

A post-tax discount rate of 13.5% has been applied to discount the forecast future attributable post-tax cash flows. The discount rate reflects specific risks relating to the relevant cash-generating units.

The recoverable amount of each cash-generating unit exceeds its carrying amount.

### Sensitivity to changes in assumptions

The following changes in assumptions would lead to the carrying amount of the drilling cash generating unit exceeding the recoverable amount at balance date.

- An increase in the discount rate greater than 1.2%;
- A reduction in revenue growth for 2012-2015 of 2.4%; or
- A terminal growth rate lower than 1.0%.

In these scenarios, all other variables are unchanged.

None of these scenarios indicated a value in use shortfall when applied to the building, construction and infrastructure cash generating unit.

## 23. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Consolidated</b>						
Inventories	–	–	(16,086)	(16,184)	(16,086)	(16,184)
Equity accounted investments	–	–	(2,613)	–	(2,613)	–
Intangibles	–	–	(28)	(77)	(28)	(77)
Intangible development costs	–	–	(213)	(243)	(213)	(243)
Exploration, evaluation and development expenditure	–	–	(696)	(1,239)	(696)	(1,239)
Capitalised interest and borrowing costs	–	–	(63)	–	(63)	–
Property, plant and equipment	(37)	(35)	–	–	(37)	(35)
Impairment of trade debtors	35	2,291	–	–	35	2,291
Provisions for employee benefits	2,286	2,207	–	–	2,286	2,207
Trade creditors	801	1,040	–	–	801	1,040
Other creditors and accruals	362	351	–	–	362	351
Unrealised foreign exchange differences	306	313	–	–	306	313
<b>Tax assets/(liabilities)</b>	<b>3,753</b>	<b>6,167</b>	<b>(19,699)</b>	<b>(17,743)</b>	<b>(15,946)</b>	<b>(11,576)</b>
Set off of tax	(3,753)	(6,167)	3,753	6,167	–	–
<b>Net tax liabilities</b>	<b>–</b>	<b>–</b>	<b>(15,946)</b>	<b>(11,576)</b>	<b>(15,946)</b>	<b>(11,576)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

Movement in temporary differences during the year:

	Balance 01 Jul 09 \$'000	Recognised in profit and loss \$'000	Acquired in business combinations \$'000	Balance 30 Jun 10 \$'000
<b>2010</b>				
Inventories	(16,184)	98	–	(16,086)
Equity accounted investments	–	(2,613)	–	(2,613)
Intangibles	(77)	49	–	(28)
Intangible development costs	(243)	30	–	(213)
Exploration, evaluation and development expenditure	(1,239)	543	–	(696)
Capitalised interest and borrowing costs	–	(63)	–	(63)
Property, plant and equipment	(35)	(2)	–	(37)
Doubtful debts impairment recognised	2,291	(2,256)	–	35
Provisions for employee benefits	2,207	79	–	2,286
Trade creditors	1,040	(239)	–	801
Other creditors and accruals	351	11	–	362
Unrealised foreign exchange differences	313	(7)	–	306
	<b>(11,576)</b>	<b>(4,370)</b>	<b>–</b>	<b>(15,946)</b>
	Balance 01 Jul 08 \$'000	Recognised in profit and loss \$'000	Acquired in business combinations \$'000	Balance 30 Jun 09 \$'000
<b>2009</b>				
Inventories	(10,018)	(6,166)	–	(16,184)
Intangibles	(266)	189	–	(77)
Intangible development costs	(254)	11	–	(243)
Exploration, evaluation and development expenditure	(5,118)	3,879	–	(1,239)
Convertible note issue cost	(5)	5	–	–
Property, plant and equipment	–	(35)	–	(35)
Doubtful debts impairment recognised	2,180	111	–	2,291
Provisions for employee benefits	1,650	19	538	2,207
Trade creditors	1,225	(185)	–	1,040
Other creditors and accruals	224	127	–	351
Unrealised foreign exchange differences	301	12	–	313
Value of carried forward income tax losses recognised	8,344	(8,344)	–	–
	<b>(1,737)</b>	<b>(10,377)</b>	<b>538</b>	<b>(11,576)</b>

## Unrecognised deferred tax assets

As at 30 June 2010, the Group had not recognised deferred tax assets of \$1,158,697 (2009: \$1,158,697) in relation to foreign income tax losses.

## 24. TRADE AND OTHER PAYABLES

	2010 \$'000	2009 \$'000
<b>Current</b>		
Trade payables	38,625	30,866
Other payables and accruals	38,679	39,501
Loan from related party	–	4,279
Hedge liability	1,142	2,392
	<b>78,446</b>	<b>77,038</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 25. INTEREST-BEARING LOANS AND BORROWINGS

	2010 \$'000	2009 \$'000
<b>Current</b>		
Bank overdraft - secured	2,450	–
Deferred subsidiary acquisition consideration - unsecured	2,500	18,500
Bank loans - secured <sup>(1)</sup>	8,740	71,508
Lease liabilities - secured <sup>(1)</sup>	9,174	33,062
Redeemable convertible preference shares - unsecured <sup>(2)</sup>	43,610	–
	<b>66,474</b>	<b>123,070</b>
<b>Non-current</b>		
Lease liabilities - secured <sup>(1)</sup>	23,377	–
Deferred subsidiary acquisition consideration - unsecured	–	2,323
Bank loans - secured <sup>(1)</sup>	11,457	–
Redeemable convertible preference shares - unsecured <sup>(2)</sup>	–	43,172
	<b>34,834</b>	<b>45,495</b>
<b>Financing facilities</b>		
<b>(a) The Group has access to the following lines of credit and bank guarantees</b>		
Bank overdraft - secured	8,500	8,500
Lease liabilities - secured	38,535	41,835
Bank loan - secured	20,197	71,508
	<b>67,232</b>	<b>121,842</b>
Total facilities utilised at balance date:		
Bank overdraft - secured	2,450	–
Lease liabilities - secured	32,550	33,063
Bank loan - secured	20,197	71,508
	<b>55,197</b>	<b>104,570</b>
Total facilities not utilised at balance date:		
Bank overdraft - secured	6,050	8,500
Lease liabilities - secured	5,985	8,772
	<b>12,035</b>	<b>17,272</b>

(1) At 30 June 2009, bank loans and lease liabilities were classified as current due to the breach of borrowing covenants at that date. At 30 June 2010, following restoration of compliance with the banking covenants, these liabilities are classified according to their contracted payment date (refer note 2(C)).

(2) During the year, 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 occurrence 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). Accordingly, the RCPS have been classified as a current liability at the reporting date.

	2010 \$'000	2009 \$'000
<b>(b) Bond and other facilities provided by surety entities</b>		
Bond facilities in aggregate	60,000	50,000
Amount utilised	(34,025)	(34,299)
Unused facilities	<b>25,975</b>	<b>15,701</b>
Bank indemnity guarantee	13,619	6,084
Amount utilised	(3,692)	(3,418)
Unused facilities	<b>9,927</b>	<b>2,666</b>
Bank standby letter of credit	5,900	7,200
Amount utilised	(838)	–
Unused facilities	<b>5,062</b>	<b>7,200</b>

Of the bonds utilised, \$18,613,014 (2009: \$17,046,127) are on projects which are yet to achieve practical completion.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## LOANS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

	Nominal interest rate %	Financial year of maturity	2010 \$'000	2009 \$'000
Bank overdraft	7.07	2011	2,450	–
Secured bank loan	6.41	2013	5,242	7,042
Secured bank loan	6.54	2013	3,350	3,950
Secured bank loan	6.34	2013	4,044	48,001
Secured bank loan	6.94	2011	7,561	10,242
Other borrowings - secured	–	2010	–	2,273
Deferred subsidiary acquisition consideration	–	2009 - 2011	2,500	4,323
Deferred subsidiary acquisition consideration	–	2010	–	1,500
Deferred subsidiary acquisition consideration	–	2010	–	15,000
Redeemable convertible preference shares	Avg 12.29 <sup>(1)</sup>	2013 <sup>(2)</sup>	43,610	43,172
Financial lease liabilities	Avg 7.83	2009 - 2013	32,551	33,062
			<b>101,308</b>	<b>168,565</b>

All loans are denominated in Australian dollars.

(1) Weighted average rate over the year. See below for details.

(2) During the year, 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 occurrence 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). Accordingly, the RCPS have been classified as a current liability at the reporting date.

## 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 principal terms of the Redeemable Convertible Preference Shares (RCPS) are:

Term:	5 years
Maturity Date:	8 November 2013
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:	12% per annum payable semi-annually and cumulative. During the year under review, the dividend rate increased by 1% to 12% per annum following the occurrence of a Trigger Event. The holders retain the right to demand the redemption of the RCPS at any time prior to their maturity date. A 2% per annum penalty applies for the period the dividend is in arrears.
Conversion Price:	\$7.20 per share subject to various anti-dilution terms including on a rights issue or placement where the issue price is less than 90% of the current market price.
Estimate of dilution:	6,250,000 ordinary shares (if converted at conversion price).
Voting Rights:	No right to vote except: <ul style="list-style-type: none"> <li>• when a dividend is in arrears</li> <li>• to vary the rights of the Redeemable Convertible Preference Shares or on certain other resolutions concerning the wind up of the Company</li> <li>• to reduce the share capital</li> <li>• with regards to the disposal of any of the Group's businesses or to approve the terms of a buy-back</li> </ul>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The movement in the carrying value of the RCPS during the year is as follows:

	2010 \$'000	2009 \$'000
Carrying amount at beginning of year	43,172	–
Proceeds of issue of redeemable convertible preference shares	–	45,000
Transaction costs - capitalised	–	(2,203)
Transaction costs - amortised	438	375
<b>Carrying amount at end of year</b>	<b>43,610</b>	<b>43,172</b>

## FINANCE LEASE FACILITIES

The Group's lease liabilities are secured by the leased assets of \$41,021,000 (2009: \$38,355,000) which, in the event of default, revert to the lessor.

	2010 \$'000	2009 \$'000
<b>Finance lease liabilities</b>		
Payments		
Within one year	11,375	11,904
Between one and five years	25,650	25,790
	<b>37,025</b>	<b>37,694</b>
Less: interest		
Within one year	(2,201)	(2,214)
Between one and five years	(2,273)	(2,418)
	(4,474)	(4,632)
<b>Total lease liabilities <sup>(1)</sup></b>	<b>32,551</b>	<b>33,062</b>
Lease liabilities provided for in the financial statements:		
Current	9,174	33,062
Non-current	23,377	–
<b>Total lease liabilities</b>	<b>32,551</b>	<b>33,062</b>

(1) At 30 June 2009, all lease liabilities were classified as current due to the breach of borrowing covenants at that date. At 30 June 2010, following restoration of compliance with the banking covenants, the lease liabilities are classified according to their contracted payment date (refer note 2(C)).

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.

## 26. CURRENT TAX LIABILITIES

The current tax liability for the Group of \$55,549,000 (2009: \$50,797,000) represents the amount of income tax payable in respect of current and prior financial periods. This income tax liability arose principally as a result of profits made on disposal of the Group's interests in certain oil and gas assets during the current and prior years.

The Group has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over three years. Notwithstanding this payment plan, as the arrangement is subject to review on a quarterly basis by the ATO, the entire liability has been reported as a current liability. Interest is payable on this liability at the GIC rate levied by the ATO.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 27. OPERATING LEASES

### LEASES AS LESSEE

	2010 \$'000	2009 \$'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	3,065	3,704
Between one and five years	3,024	6,307
	<b>6,089</b>	<b>10,011</b>

The Group leases property under non-cancellable operating leases expiring from one to three years. The leases generally provide the Group with a right of renewal. During the financial year, \$3,159,000 (2009: \$2,913,000) was recognised as an expense in the profit or loss in respect of operating leases.

### LEASES AS LESSOR

The Group leases out its former head office held under a lease expiring 31 October 2010. The future minimum lease payments under non-cancellable leases are as follows:

	2010 \$'000	2009 \$'000
Less than one year	16	–

During the year ended 30 June 2010, \$39,583 was recognised as rental income in the profit or loss (2009:\$nil).

## 28. EMPLOYEE BENEFITS

	2010 \$'000	2009 \$'000
Provision for employee benefits, including on-costs:		
Current	6,448	6,542
Non-current	1,176	730
	<b>7,624</b>	<b>7,272</b>

### SUPERANNUATION PLANS

Benefits provided under the superannuation funds to which the Group contributes are based on accumulated contributions and earnings for each employee. The Group has a legal obligation to contribute to the funds in accordance with the Superannuation Guarantee Charge legislation. The amount recognised as an expense for the financial year was \$8,057,577 (2009: \$8,262,782).

### EMPLOYEE SHARE PLAN

The Group has three employee incentive schemes that were approved by shareholders in annual general meetings. Total securities granted but unissued under these schemes cannot exceed 15% of the total number of shares on issue.

**A) MANAGEMENT RIGHTS PLAN:** The management rights and options plan is available to employees, directors and other persons at the discretion of the Board. Nominated persons are granted rights to acquire shares in the Company. The exercise of rights can be satisfied by either the issue of shares for no consideration or by the monetary equivalent of the underlying shares on the date of grant of the rights. The exercise of options is satisfied by the exercise price as agreed. No rights or options were issued during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The number and weighted average exercise prices of rights at balance date are as follows:

	Weighted average exercise price 2010	Number of rights and options 2010	Weighted average exercise price 2009	Number of rights 2009
Outstanding at beginning of the period	\$0.44	2,548,648	\$0.39	2,921,429
Exercised during the period	–	(352,251)	–	(611,429)
Granted during the period	–	–	–	238,648
Outstanding at end of the period	\$0.52	2,196,397	\$0.44	2,548,648
Exercisable at end of the period	<b>\$0.82</b>	<b>733,473</b>	–	<b>390,937</b>

The options outstanding at 30 June 2010 have an exercise price in the range of \$nil to \$2.11 and a weighted average contractual life of 2.0 years.

During the financial year, 352,251 share options were exercised (2009: 611,429). The weighted average share price at the dates of exercise was \$2.64 (2009: \$4.01).

During the year the Group recognised as an expense \$837,492 (2009: \$1,507,974) in relation to share based payments. The liability at year end for cash settled rights is \$404,418 (2009: \$404,418). All rights holders electing to exercise their rights entitlements during the year were settled by acquiring shares. No rights were exercised and settled by cash.

The fair value of the rights granted in previous years has been calculated using a Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period.

The following factors and assumptions were used in determining the fair value of rights on grant date for those share based payments granted in previous years:

Grant date	Expiry date	Share price on grant date	Exercise price	Expected volatility	Risk free interest rate	Expected dividend yield	Fair value at grant date
26-Nov-08	30-Jun-13	\$4.60	–	N/A	3.60%	2.40%	\$4.27
26-Nov-08	30-Jun-12	\$4.60	–	N/A	3.20%	2.40%	\$4.42
23-Nov-07	23-Nov-12	\$3.40	\$2.11	51%	6.40%	2.20%	\$1.70
31-Aug-07	31-Aug-12	\$2.11	–	N/A	6.2% - 6.3%	2.80%	\$1.88 - \$2.05
24-Nov-06	24-Nov-11	\$1.08	\$1.10	44%	5.70%	4.80%	\$0.25

**B) DEFERRED SHARE PLAN:** The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the Group ceases. No shares were issued in either of the last two years.

**C) EMPLOYEE SHARE ACQUISITION PLAN:** The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to \$1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Employees must have been employed by any entity within the Group for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of 3 years from the date of issue or the date their employment with the Group ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares.

No shares were issued under this plan in either of the last two years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 29. CAPITAL AND RESERVES

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

### SHARE CAPITAL - ORDINARY SHARES

	Company	
	2010	2009
	No. Of Shares	No. Of Shares
<b>Movements during the year</b>		
On issue at 1 July	64,945,877	59,257,134
Private placement	–	5,500,000
Shares issued for business acquisition	–	2,754,769
Exercise of rights under the Management Rights Plan	352,251	264,000
Shares bought back and cancelled	–	(3,058,487)
Conversion of convertible notes	–	228,461
On issue at 30 June - fully paid	<b>65,298,128</b>	<b>64,945,877</b>

During the year, 352,251 (2009: 264,000) ordinary shares were issued as a result of the exercise of vested options arising from the 2008 Management Rights Plan granted to key management. The options were exercised at an average price of \$nil. All issued shares are fully paid.

The redeemable convertible preference shares are classified as liabilities (see note 25).

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. Holders of redeemable convertible preference shares are entitled to receive dividends as described in note 25.

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. Redeemable convertible preference shares do not carry the right to vote.

### NATURE AND PURPOSE OF RESERVES

**EMPLOYEE EQUITY BENEFITS RESERVE:** The employee equity benefits reserve represents the 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.

### DIVIDENDS

The following dividends were declared and paid by the Company:

	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
<b>2010</b>				
Final 2009	5.5	3,572	100% franked	28 September 2009
<b>2009</b>				
Final 2008	4.5	3,038	15% franked	29 September 2008
Interim 2009	5.0	3,320	unfranked	27 March 2009
	<b>9.5</b>	<b>6,358</b>		

No dividends in respect of the 2010 financial year have been declared or paid. Dividends declared and paid during the year were fully franked at a rate of 30%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## DIVIDEND FRANKING ACCOUNT

After the payment of the current tax liability, the balance of franking credits available to shareholders of the Company is \$63,618,664 (2009: \$50,845,643).

## 30. FINANCIAL INSTRUMENTS

### OVERVIEW

The Group's activities expose it to the following risks from their use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk (including currency and interest rate risks); and
- Operational risk.

### RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

### CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

**TRADE AND OTHER RECEIVABLES:** The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base consists of mainly government, semi-government and major public company customers. The demographics of the Group's customer base, including the default risk of the industry and location in which the customers operate, has less of an influence on credit risk.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, past experience and other factors. This includes all major contracts and tenders approved by the Tender Review Committee.

In monitoring customer credit risk, customers are grouped by operating segment, then by their receivable aging profile. Ongoing monitoring of receivable balances minimises exposure to bad debts.

A provision for impairment is recognised when there is objective evidence that a individual trade receivable is impaired.

**INVESTMENTS:** The Group limits its exposure to credit risk by only investing in liquid securities of short maturity issued by a reputable party or in readily marketable securities listed on a recognisable securities exchange. Given these investment criteria, management does not expect any counterparty to fail to meet its obligations.

**GUARANTEES:** Group policy is to provide financial guarantees only to wholly-owned subsidiaries and joint ventures where the Company owns 50% of the joint venture company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

**EXPOSURE TO CREDIT RISK:** The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2010 \$'000	2009 \$'000
Trade and other receivables	80,145	83,762
Bank balances	9,313	96,317
	<b>89,458</b>	<b>180,079</b>
Maximum exposure to credit risk for trade and other receivables at the reporting date by segment was:		
Drilling	22,177	32,096
Building, construction and infrastructure	39,760	24,739
Oil and gas	17,586	24,029
Unallocated	622	2,898
	<b>80,145</b>	<b>83,762</b>

**IMPAIRMENT LOSSES:** The ageing of the Group's trade and other receivables at the reporting date was:

	Gross 2010 \$'000	Impairment 2010 \$'000	Gross 2009 \$'000	Impairment 2009 \$'000
The ageing of loans and receivables at the reporting date was:				
Not past due	68,498	–	73,490	(7,510)
Past due up to 30 days	3,264	–	7,878	–
Past due 31 to 120 days	5,405	–	5,695	–
Past due 121 days to one year	2,255	–	3,840	–
More than one year	771	(48)	427	(58)
	<b>80,193</b>	<b>(48)</b>	<b>91,330</b>	<b>(7,568)</b>

**IMPAIRMENT ALLOWANCE:** Based on historic default rates, the Group believe that no impairment allowance is required for loans and receivables not past due.

The impairment allowance related to specific customers, identified as being in trading difficulties, or where specific debts are in dispute. The impairment allowance does not include debts past due relating to customers with a good credit history, or where payments of amounts due under a contract for such customers are delayed due to works in dispute and previous experience indicated that the amount will be paid in due course.

When the Group is satisfied that no recovery of the amount owing is possible, the amounts considered irrecoverable are written off directly against the financial asset. At 30 June 2010, the Group has collective impairments on its trade receivables of \$48,000 (2009: \$7,568,000).

### LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity is managed to ensure, as far as possible, that sufficient funds are available to meet liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations, by maintaining excess committed credit facilities of at least \$6.0 million. The Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties, with a weighted average duration of at least three years. Refer to note 25 for details of lines of credit available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Carrying amount \$'000	Contractual cash flows					More than 5 years \$'000
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	
<b>2010</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables - unsecured	77,304	(77,304)	(77,304)	–	–	–	–
Bank overdraft - secured	2,450	(2,450)	(2,450)	–	–	–	–
Subsidiary acquisition deferred consideration	2,500	(2,500)	(2,500)	–	–	–	–
Bank loans - secured <sup>(3)</sup>	20,197	(22,861)	(8,903)	(1,121)	(3,970)	(8,867)	–
Lease liabilities - secured <sup>(3)</sup>	32,551	(37,026)	(5,598)	(5,778)	(11,752)	(13,898)	–
Redeemable convertible preference shares - unsecured <sup>(1)</sup>	43,610	(45,000)	(45,000)	–	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swaps used for hedging	1,142	(1,562)	(391)	(375)	(684)	(112)	–
	<b>179,754</b>	<b>(188,703)</b>	<b>(142,146)</b>	<b>(7,274)</b>	<b>(16,406)</b>	<b>(22,877)</b>	–

	Carrying amount \$'000	Contractual cash flows					More than 5 years \$'000
		Total \$'000	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	
<b>2009</b>							
<b>Non-derivative financial liabilities</b>							
Trade and other payables - unsecured	74,646	(74,646)	(74,646)	–	–	–	–
Subsidiary acquisition deferred consideration	20,823	(21,000)	(18,500)	–	(2,500)	–	–
Bank loans - secured <sup>(2)</sup>	71,507	(71,507)	(71,507)	–	–	–	–
Lease liabilities - secured <sup>(2)</sup>	33,063	(33,063)	(33,063)	–	–	–	–
Redeemable convertible preference shares - unsecured	43,172	(69,750)	(2,475)	(2,475)	(4,950)	(59,850)	–
<b>Derivative financial liabilities</b>							
Interest rate swaps used for hedging	2,392	(2,392)	–	–	–	(2,392)	–
	<b>245,603</b>	<b>(272,358)</b>	<b>(200,191)</b>	<b>(2,475)</b>	<b>(7,450)</b>	<b>(62,242)</b>	–

- (1) During the year, the Group caused a Trigger Event under the terms of the RCPS (refer note 25) and accordingly, the RCPS has been disclosed as a current liability at reporting date.
- (2) At 30 June 2009, bank loans and lease liabilities were classified as current due to the breach of borrowing covenants at that date (refer to note 25).
- (3) Following its breach of certain financial covenants and undertakings provided under its senior banking facility (as referred to in note 2(C)), should the Group dispose of its net profit interest in the Monument Prospect (as described in note 22), an amount up to \$20 million of the net proceeds of the sale may be applied to the repayment of the senior banking facility. Given the significant reduction in the amounts owing to the senior lender during the year and the resulting reduced exposure of the senior lender, the Directors are of the view that no net proceeds from the sale of Monument Prospect would be required to be repaid on the senior banking facility.

### MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

**CURRENCY RISK:** The Group operates internationally and is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily with respect to the US dollar.

The Group's major foreign currency exposure relates to sales of services and purchases of raw materials, consumables and equipment. The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group's executive team actively monitors foreign currency exposures and where appropriate establishes financial instruments which ensure that sound management of currency risk is maintained.

### EXPOSURE TO CURRENCY RISK

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts in Australian dollars (in thousands):

	Euro	USD	XPF	NZD	HKD	GBP	CAD
<b>2010</b>							
Trade and other receivables	–	17,586	–	–	–	622	–
Trade payables	(4)	(823)	(62)	(2)	–	(50)	(25)
Net balance sheet exposure	<b>(4)</b>	<b>16,763</b>	<b>(62)</b>	<b>(2)</b>	–	<b>572</b>	<b>(25)</b>
<b>2009</b>							
Trade payables	(263)	(564)	(64)	(13)	(11)	–	–
Net balance sheet exposure	<b>(263)</b>	<b>(564)</b>	<b>(64)</b>	<b>(13)</b>	<b>(11)</b>	–	–

### SENSITIVITY ANALYSIS

At 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the respective foreign currencies with all other variables held constant, the Group post-tax loss and equity would have been \$1,567,000 lower/\$1,567,000 higher.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
Euro	0.6355	0.5419	0.6979	0.5751
USD	0.8821	0.7461	0.8523	0.8114
XPF	77.25	64.62	85.09	64.69
HKD	6.8456	5.7947	6.6340	6.2884
NZD	1.2552	1.2286	1.2308	1.2428
GBP	0.5585	0.4621	0.5666	0.4872
CAD	0.9308	0.8623	0.8976	0.9379

**INTEREST RATE RISK:** The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the group to fair value interest rate risk. The Group entered into interest rate hedges during the prior year to cap exposure to increases in interest rate volatility.

	2010 \$'000	2009 \$'000
<b>Fixed rate instruments</b>		
Financial assets	–	1,409
Financial liabilities	(83,648)	(76,235)
	<b>(83,648)</b>	<b>(74,826)</b>
<b>Variable rate instruments</b>		
Financial assets	9,313	96,317
Financial liabilities	(18,802)	(73,007)
	<b>(9,489)</b>	<b>23,310</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

At reporting date, the Group had the following variable rate borrowings:

	30 June 2010		30 June 2009	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdraft	7.07	(2,450)	–	–
Deferred subsidiary acquisition consideration	–	(2,500)	4.25	(1,500)
Bank loans	6.28	(13,852)	5.68	(71,507)
Net exposure to cash flow interest rate risk		<b>(18,802)</b>		<b>(73,007)</b>

## FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss for the Group.

## CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by \$548,391 for the Group (2009: \$567,330). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed consistently from year to year.

**OTHER MARKET PRICE RISK:** Equity price risk arises from available-for-sale equity securities held in a quoted corporation. The Group's investments are managed on an individual basis and all buy and sell decisions are approved by the Group's senior executives.

## FAIR VALUES

**FAIR VALUES VERSUS CARRYING AMOUNTS:** The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying amount \$'000	Fair value \$'000
<b>2010</b>		
Bank balances	9,313	9,313
Trade and other receivables	80,145	80,145
Trade and other payables	(78,446)	(78,446)
Bank overdraft - secured	(2,450)	(2,450)
Deferred subsidiary acquisition consideration	(2,500)	(2,500)
Bank loans	(20,197)	(20,197)
Lease liabilities	(32,551)	(32,551)
Redeemable convertible preference shares	(43,610)	(43,610)
	<b>(90,296)</b>	<b>(90,296)</b>
<b>2009</b>		
Bank balances	96,317	96,317
Trade and other receivables	83,762	83,762
Investments	1,316	1,316
Trade and other payables	(77,038)	(77,038)
Deferred subsidiary acquisition consideration	(20,823)	(20,823)
Bank loans	(71,507)	(71,507)
Lease liabilities	(33,063)	(33,063)
Redeemable convertible preference shares	(43,172)	(43,172)
	<b>(64,208)</b>	<b>(64,208)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The following methods and assumptions are used in estimating the fair values of financial instruments:

- Loans and borrowings, and finance leases – present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date
- Trade and other receivables and payables – carrying amount equals fair value

**CAPITAL MANAGEMENT:** The Board policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board's target is for employees (excluding directors) of the Group to hold 4% of the Company's ordinary shares by 2013. At present, employees hold approximately 1.5% of the Company's ordinary shares, or just under 4% assuming that all outstanding share rights vest and are exercised. Management is considering structures for extending the Group's employee share schemes beyond key management and other senior employees; at present other employees are only periodically allotted shares under the Employee Share Acquisition Plan (ESAP) under which eligible employees are granted up to \$1,000 of free shares per annum.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of between 12% and 16%. In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 6.4% (2009: 5.7%).

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2010 \$'000	2009 \$'000
Total liabilities	258,872	315,248
Less: cash and cash equivalents	(9,313)	(96,317)
<b>Net debt</b>	<b>249,559</b>	<b>218,931</b>
Total equity	193,226	199,757
Less: amounts accumulated in equity relating to cash flow hedges	(1,142)	(2,392)
Adjusted capital	192,084	197,365
<b>Debt to adjusted capital ratio at 30 June</b>	<b>1.30</b>	<b>1.09</b>

**FAIR VALUE HIERARCHY:** The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2010</b>				
Derivative financial liabilities	–	1,142	–	1,142
	–	<b>1,142</b>	–	<b>1,142</b>

In order to determine the fair value of derivative financial liabilities, management used a valuation technique in which all significant inputs were based on observable market data.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 31. INTERESTS IN JOINT VENTURE OPERATIONS

Joint venture name	Principal activities	Participation interest		Contribution to Operating results of the Group profit/(loss)	
		2010 %	2009 %	2010 \$'000	2009 \$'000
Queensland Gas Company	Exploration for methane gas (ATP651P)	–	15	–	–
Amec Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	–	21
Eastern Pipeline Alliance	Pipe laying and related construction activities	46	46	(676)	7,345
Southern SeaWater Alliance	Construction and operation of desalination plant	19	19	4,594	133

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

	2010 \$'000	2009 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,418	627
Trade and other receivables	9,677	2,934
Other	1	95
Construction work in progress	1,629	2,038
<b>Total current assets</b>	<b>12,725</b>	<b>5,694</b>
<b>Non-current assets</b>		
Exploration assets	–	4,133
Investment	4,350	92
<b>Total non-current assets</b>	<b>4,350</b>	<b>4,225</b>
<b>Total assets</b>	<b>17,075</b>	<b>9,919</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	11,847	2,423
<b>Total liabilities</b>	<b>11,847</b>	<b>2,423</b>

The exploration and intangible development assets shown in the prior year relates to the Group's interests in ATP651 in the Surat Basin. This was sold during the year for \$98,500,000 realising a profit of \$92,957,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 32. CONSOLIDATED ENTITIES

The financial statements at 30 June 2010 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	
		2010 %	2009 %
<b>Parent entity</b>			
AJ Lucas Group Limited			
<b>Controlled entities</b>			
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
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	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	100	99
257 Clarence Street Pty Limited	Australia	100	100
Lucas SARL	New Caledonia	100	100
Lucas Energy (Holdings) Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Energy (Holdings) Pty Limited			
Lucas (Arawn) Pty Limited	Australia	100	100
Lucas Energy (WA) Pty Limited	Australia	100	100
Lucas Power Holdings Pty Limited	Australia	100	100
Lucas Cuadrilla Pty Limited	Australia	100	–
AJ Lucas (USA) Inc.	USA	–	100

## 33. CONTINGENCIES AND COMMITMENTS

### CONTINGENCIES

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

- (i) Under the joint venture agreements (see note 31), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint ventures. As at 30 June 2010, the assets of the joint venture were sufficient to meet such liabilities. The liabilities of the joint ventures not included in the consolidated financial statements amounted to \$11,847,000 (2009: \$2,423,000).
- (ii) During the normal course of business, entities within the Group may incur contractor's liability in relation to their performance obligations for specific contracts. Such liability includes the potential costs to carry out further works and/or litigation by or against those Group entities. Provision is made for the potential costs of carrying out further works based on known claims and previous claims history, and for legal costs where litigation has been commenced. While the ultimate outcome of these claims cannot be reliably determined at the date of this report, based on previous experience, amounts specifically provided, and the circumstances of specific claims outstanding, no additional costs are anticipated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

(iii) Under the terms of the Class Order described in note 39, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

### COMMITMENTS

At 30 June 2010, the Group had commitments contracted but not provided for and payable within one year of \$1,354,703 (2009: \$1,729,060) for the purchase of new plant and equipment under finance leases.

### 34. PARENT ENTITY DISCLOSURES

For the financial years ended 30 June 2010 and 2009, the parent entity of the Group was AJ Lucas Group Limited.

	2010 \$'000	2009 \$'000
<b>Results of the parent entity</b>		
Profit for the year	33,844	107,481
<b>Total comprehensive income for the year</b>	<b>33,844</b>	<b>107,481</b>
<b>Financial position of the parent entity at year end</b>		
Current assets	10,569	97,980
<b>Total assets</b>	<b>279,583</b>	<b>306,443</b>
Current liabilities	60,881	56,000
<b>Total liabilities</b>	<b>60,881</b>	<b>118,849</b>
<b>Total equity of the parent entity comprises:</b>		
Share capital	91,935	91,935
Employee equity benefit reserve	3,209	2,372
Retained earnings	123,558	93,287
<b>Total equity</b>	<b>218,702</b>	<b>187,594</b>
<b>Parent entity capital commitments for acquisition of property, plant and equipment</b>		
Contracted but not yet provided for and payable:		
Within one year	-	-
One year or later and no later than five years	-	-

### Parent entity commitments and contingencies

There were no commitments or contingencies in respect of the current year.

### PARENT ENTITY GUARANTEES IN RESPECT OF DEBTS OF ITS SUBSIDIARIES

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.

The directors of subsidiaries who are parties to the Deed of Cross Guarantee detailed in note 39 have given an undertaking that they will provide financial assistance to the Company and that they guarantee each creditor payment in full. The effect of this undertaking is to ensure sufficient financial assistance is provided to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 35. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2010 \$'000	2009 \$'000
<b>(a) Reconciliation of cash</b>			
For the purposes of the statement of cash flows, cash includes cash at bank, cash on hand and bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:			
Cash assets	12	9,313	96,317
Bank overdraft	25	(2,450)	–
<b>Total cash</b>		<b>6,863</b>	<b>96,317</b>
<b>(b) Reconciliation of cash flows from operating activities</b>			
(Loss)/profit for the year		(7,128)	103,253
Adjustments for:			
Interest on capitalised leases		1,790	2,501
Interest on deferred acquisition consideration		882	104
Loss on sale of non-current assets		312	110
Depreciation		17,556	13,250
Gain on sale of intangible development asset		(92,958)	(215,765)
Gain on sale of other investments		(165)	–
Loss/(gain) on sale of listed shares		98	(5,392)
Remeasurement of interest in associate to fair value		(2,953)	–
Net gain on deconsolidation		(5,756)	–
Share of loss of equity accounted investees		1,634	–
Share of equity accounted expenses		4,024	–
Impairment of intangible assets		30,816	56,644
Impairment of equity accounted investee		7,911	–
Impairment of investments		532	–
Amortisation of:			
Leased assets		5,499	4,588
Intangibles		4,556	5,809
Development expenditure		228	228
Borrowing cost (included in finance cost)		1,481	1,264
<b>Operating loss before changes in working capital and provisions</b>		<b>(31,641)</b>	<b>(33,406)</b>
Change in receivables		(6,143)	(4,805)
Change in other current assets		152	810
Change in inventories		10,306	(18,359)
Change in payables		6,025	(17,477)
Change in other liabilities		–	53
Change in provisions for employee benefits		351	(668)
Change in tax balances		9,124	60,961
Change in employee equity benefit reserve		837	716
Change in reserves		26	277
<b>Net cash used in operating activities</b>		<b>(10,963)</b>	<b>(11,898)</b>

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

During the year, the Group acquired plant and equipment with an aggregate fair value of \$9,822,000 (2009: \$11,347,000) by means of finance leases. These purchases are not reflected in the Statement of Cash Flows.

### (d) Financing arrangements

Refer note 25.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 36. ACQUISITION OF SUBSIDIARY

### 2010

Refer to note 19 on acquisition of Cuadrilla.

### 2009

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. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 July 2008.

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

	Recognised values on acquisition	Fair value adjustments	Pre-acquisition carrying amounts
<b>2009</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
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.

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see note 4 for methods used in determining fair values).

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.

In determining the fair value of customer contracts and relationships, the Group applied a discount rate of 12% to discount the future cash flows of the customer intangibles.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## 37. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

### EXECUTIVE DIRECTORS

- Allan Campbell
- Andrew Lukas
- Ian Stuart-Robertson

### NON-EXECUTIVE DIRECTORS

- Martin Green
- Mike McDermott (appointed 4 February 2010)
- Garry O'Meally (resigned 27 November 2009)

### EXECUTIVES

Ian Redfern	General Manager, Construction
Kevin Lester	General Manager, Pipelines
Mark Summergreene	Chief Financial Officer
Brett Tredinnick	General Manager, Drilling
Mark Tonkin	General Manager, Strategy & Planning
Denis O'Brien <sup>(1)</sup>	General Manager, Queensland
Mike Much <sup>(2)</sup>	General Manager, Oil & Gas

(1) Ceased employment on 31 March 2010

(2) Ceased employment on 28 April 2010

### KEY MANAGEMENT PERSONNEL COMPENSATION

	2010	2009
	\$	\$
The key management personnel compensation is:		
Short-term employee benefits	3,321,039	19,789,757
Other long term benefits	65,966	21,911
Post-employment benefits	188,668	182,668
Termination benefits	32,388	200,000
Share based payments	625,472	971,884
	<b>4,233,533</b>	<b>21,166,220</b>

### INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' Report. Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The aggregate amounts recognised during the year relating to key management personnel and their related parties, were as follows:

Key management persons	Contracting entity	Transactions	Note	2010	2009
				\$	\$
Allan Campbell	Argyll Capital Partners Pty Ltd	Executive director services	(i),(iii)	–	505,000
Andrew Lukas	AJ Lucas Equipment Pty Ltd	Executive director services	(i)	350,004	87,498
Ian Stuart-Robertson	Urban Enterprises Pty Ltd	Executive director services	(i)	349,992	29,166
Ian Stuart-Robertson	John Hollis & Partners	Quantity surveyors	(ii)	14,240	123,100
Garry O'Meally	Narwood Pty Ltd	Non-executive director services	(i)	33,000	80,000
Martin Green	BRI Ferrier (NSW) Pty Ltd	Non-executive director services	(i)	80,000	80,000

- (i) Services are provided through the contracting entity. Such services were provided in the ordinary course of business and on normal terms and conditions. Mr Lukas recommenced as an executive director of the Company on 1 April 2009 having previously being a non-executive director. Mr Stuart-Robertson ceased employment with the Group on 31 May 2009 and commenced providing services via the contracting entity on 1 June 2009. The amount payable for these services is shown in the Remuneration Report.
- (ii) Mr Stuart-Robertson is a director of John Hollis & Partners which provided quantity surveying services. Amounts were charged at normal market rates for such services and were due and payable under normal payment terms.
- (iii) From 1 July 2009, Mr Campbell ceased to provide services via his private company and became an employee of the Group.

### Loans and transactions with key management personnel

During the year, a loan of \$4,279,000 was repaid to Mr Campbell. No interest was payable on the loan.

### EQUITY HOLDINGS AND TRANSACTIONS

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

2010	Held at	Received on	Net other	Held at
	1 July 2009	exercise of rights	change	30 June 2010
<b>Directors</b>				
Allan Campbell	10,140,083	–	–	10,140,083
Ian Stuart-Robertson	1,386,750	–	–	1,386,750
Andrew Lukas	6,204,833	–	–	6,204,833
Martin Green	125,000	–	28,000	153,000
Garry O'Meally (retired 27 November 2009) <sup>(1)</sup>	219,180	–	(219,180)	–
<b>Executives</b>				
Ian Redfern	109,239	34,239	(46,374)	97,104
Kevin Lester	193,234	20,543	(20,680)	193,097
Mark Summergreene	18,900	18,900	–	37,800
Brett Tredinnick	84,399	16,829	–	101,228
Mark Tonkin	355,146	16,829	(354,576)	17,399

- (1) Shares sold after retiring as a director.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

<b>2009</b>	<b>Held at 1 July 2008</b>	<b>Received on exercise of rights</b>	<b>Net other change</b>	<b>Held at 30 June 2009</b>
<b>Directors</b>				
Allan Campbell	10,140,083	–	–	10,140,083
Ian Stuart-Robertson	1,386,750	–	–	1,386,750
Andrew Lukas	6,204,833	–	–	6,204,833
Martin Green	125,000	–	–	125,000
Garry O’Meally	219,180	–	–	219,180
<b>Executives</b>				
Ian Redfern	–	109,239	–	109,239
Kevin Lester	180,570	20,543	(7,879)	193,234
Mark Summergreene	–	18,900	–	18,900
Brett Tredinnick	79,570	16,829	(12,000)	84,399
Mark Tonkin	338,317	16,829	–	355,146

### RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

The movement during the reporting period in the number of rights or options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

<b>2010</b>	<b>Held at 1 July 2009</b>	<b>Cancelled</b>	<b>Exercised</b>	<b>Granted as compensation</b>	<b>Held at 30 June 2010</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 30 June 2010</b>
<b>Directors</b>							
Allan Campbell	598,648	–	–	–	598,648	394,787	394,787
Ian Stuart-Robertson	220,000	–	–	–	220,000	150,000	150,000
Andrew Lukas	220,000	–	–	–	220,000	150,000	150,000
<b>Executives</b>							
Ian Redfern	95,572	–	(34,239)	–	61,333	–	–
Kevin Lester	68,814	–	(20,543)	–	48,271	–	–
Mark Summergreene	63,309	–	(18,900)	–	44,409	–	–
Brett Tredinnick	56,373	–	(16,829)	–	39,544	–	–
Mark Tonkin	56,373	–	(16,829)	–	39,544	–	–

  

<b>2009</b>	<b>Held at 1 July 2008</b>	<b>Cancelled</b>	<b>Exercised</b>	<b>Granted as compensation</b>	<b>Held at 30 June 2009</b>	<b>Vested during the year</b>	<b>Vested and exercisable at 30 June 2009</b>
<b>Directors</b>							
Allan Campbell	360,000	–	–	238,648	598,648	–	–
Ian Stuart-Robertson	220,000	–	–	–	220,000	–	–
Andrew Lukas	220,000	–	–	–	220,000	–	–
<b>Executives</b>							
Ian Redfern	204,811	–	(109,239)	–	95,572	34,239	34,239
Kevin Lester	89,357	–	(20,543)	–	68,814	20,543	20,543
Mark Summergreene	82,209	–	(18,900)	–	63,309	18,900	18,900
Brett Tredinnick	73,202	–	(16,829)	–	56,373	16,829	16,829
Mark Tonkin	57,353	–	(16,829)	15,849	56,373	16,829	16,829

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

### 38. NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The Group has a related party relationship with its subsidiaries (see note 32) and joint ventures (see note 31). These entities trade with each other from time to time on normal commercial terms.

Other than amounts owing to/from AJ Lucas (Hong Kong) Limited, on which interest is paid/receivable at 7.0% per annum, no interest is payable on inter-company balances. The aggregate amounts included in the profit from ordinary activities before income tax that resulted from transactions between entities in the Group are:

	2010 \$'000	2009 \$'000
Dividend revenue from wholly-owned controlled entity	–	8,962
Interest expense	–	636
<b>Receivables:</b>		
Aggregate amount receivable from wholly owned entities of the Company:		
AJ Lucas Joint Ventures Pty Limited	–	4,269
AJ Lucas (Hong Kong) Limited	20	–
AJ Lucas Operations Pty Limited	83,422	22,552
Lucas Stuart Pty Limited	–	242
AJ Lucas Coal Technologies Pty Limited	173,311	148,875
Lucas Cuadrilla Pty Limited	53,131	–
Smart Electrical & Power Services Pty Limited	–	14
AJ Lucas (USA) Inc.	–	27
	<b>309,884</b>	<b>175,979</b>
<b>Payables:</b>		
Aggregate amount payable to wholly owned entities of the Company:		
Lucas Stuart Pty Limited	4,708	–
McDermott Drilling Pty Limited	11,504	3,978
AJ Lucas (Hong Kong) Limited	–	106
Geosearch Drilling Service Pty Limited	14,090	15,593
	<b>30,302</b>	<b>19,677</b>

### 39. DEED OF CROSS GUARANTEE

On 16 June 2008, several of the entities in the Group entered into a Deed of Cross Guarantee. Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the Group's wholly owned subsidiaries entering into the Deed are relieved from the Corporations Act 2001 requirements to prepare, have audited and lodge financial reports, and directors' reports.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

The subsidiaries subject to the Deed are:

### **Name of entity**

---

AJ Lucas Operations Pty Limited  
AJ Lucas Plant & Equipment Pty Limited  
AJ Lucas Drilling Pty Limited  
AJ Lucas Pipelines Pty Limited  
AJ Lucas Testing Pty Limited  
Smart Electrical & Power Services Pty Limited  
AJ Lucas Joint Ventures Pty Limited  
AJ Lucas Coal Technologies Pty Limited  
Lucas Contract Drilling Pty Limited  
McDermott Drilling Pty Limited  
Lucas Stuart Pty Limited  
Ketrim Pty Limited  
Stuart Painting Services Pty Limited  
Lucas Stuart Projects Pty Limited  
Jaceco Drilling Pty Limited  
Geosearch Drilling Service Pty Limited  
Lucas Energy Holdings Pty Limited  
Lucas Energy (WA) Pty Limited  
Lucas (Arawn) Pty Limited  
Lucas Power Holdings Pty Limited  
Mitchell Drilling Corporation Pty Limited

A consolidated summarised statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2010 are set out as follows:

### **SUMMARISED STATEMENT OF COMPREHENSIVE INCOME**

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before tax	8,218	170,885
Income tax expense	(15,326)	(60,838)
(Loss)/profit after tax	(7,108)	110,047
Retained profit at beginning of the year	105,774	2,085
Dividends recognised during the year	(3,572)	(6,358)
Retained profit at end of year	95,094	105,774

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont)

## STATEMENT OF FINANCIAL POSITION

	2010 \$'000	2009 \$'000
<b>Current assets</b>		
Cash and cash equivalents	9,312	96,317
Trade and other receivables	58,660	59,732
Construction work in progress	51,083	61,389
Assets classified as held for sale	11,841	–
Other assets	755	907
<b>Total current assets</b>	<b>131,651</b>	<b>218,345</b>
<b>Non-current assets</b>		
Trade and other receivables	21,505	23,922
Development assets	703	878
Exploration assets	–	4,354
Investments	–	1,305
Equity accounted investees	42,422	8,180
Intangible assets	115,071	119,451
Property, plant and equipment	140,766	138,451
<b>Total non-current assets</b>	<b>320,467</b>	<b>296,541</b>
<b>Total assets</b>	<b>452,118</b>	<b>514,886</b>
<b>Current liabilities</b>		
Trade and other payables	78,446	77,037
Interest-bearing loans and borrowings	66,474	123,070
Income tax payable	55,549	50,797
Provisions	6,448	6,542
<b>Total current liabilities</b>	<b>206,917</b>	<b>257,446</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	34,834	45,495
Deferred tax liabilities	16,048	11,576
Provisions	1,176	730
<b>Total non-current liabilities</b>	<b>52,058</b>	<b>57,801</b>
<b>Total liabilities</b>	<b>258,975</b>	<b>315,247</b>
<b>Net assets</b>	<b>193,143</b>	<b>199,639</b>
<b>Equity</b>		
Issued capital	91,935	91,935
Reserves	6,114	1,930
Retained earnings	95,094	105,774
<b>Total equity</b>	<b>193,143</b>	<b>199,639</b>

## 40. EVENTS SUBSEQUENT TO BALANCE DATE

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.



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## DIRECTORS' DECLARATION

- 1 In the opinion of the directors of AJ Lucas Group Limited (the Company):
  - (a) the consolidated financial statements and notes, that are contained in pages 21 to 78 and the Remuneration Report included in the Directors' Report, set out on pages 13 to 18, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 There are reasonable grounds to believe that the Company and the group entities identified in note 38 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
- 3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.
- 4 The directors draw attention to note 2(A) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "Allan Campbell".

Allan Campbell  
Director  
26 August 2010



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

### **Report on the financial report**

We have audited the accompanying financial report of the Group comprising AJ Lucas Group Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 40 and the Directors' declaration.

### ***Directors' responsibility for the financial report***

The Directors of the Company are responsible for the preparation and fair presentation of the 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 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. In note 2 (A), the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.





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

### **Report on the financial report (continued)**

#### ***Auditor's responsibility (continued)***

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Independence***

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

#### ***Auditor's opinion***

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2 (A).

#### ***Emphasis of matter regarding going concern***

Without qualifying our opinion, we draw attention to Note 2 (C) in the financial report which indicates that the Group incurred a net loss after tax of \$7,128,000 during the year ended 30 June 2010 and, as of that date, the Group's current liabilities exceeded its current assets by \$75,285,000. These conditions along with other matters set forth in Note 2 (C), 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 senior lender and Redeemable Convertible Preference Shareholders, the continuation of the deferred instalment arrangement with the Australian Taxation Office, the achievement of forecast cash flows and the ability to raise sufficient equity and/or dispose of assets if and when required.



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

### **Report on the remuneration report**

We have audited the Remuneration Report included on pages 13 to 18 of the Directors' Report for the year ended 30 June 2010. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### ***Auditor's opinion***

In our opinion, the remuneration report of AJ Lucas Group Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

*KPMG*

KPMG

Tony Nimac  
*Partner*

Sydney

26 August 2010

# AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

## DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 5 AUGUST 2010)

### Number of Security Holders

Securities held	Number of Security Holders		Rights
	Ordinary shares	Redeemable convertible preference shares	
1 - 1,000	1,104	–	–
1,001 - 5,000	1,585	–	–
5,001 - 10,000	549	–	1
10,001 - 100,000	450	4	33
100,001 and over	37	1	3
<b>Total</b>	<b>3,725</b>	<b>5</b>	<b>37</b>

220 shareholders held less than a marketable parcel of ordinary shares.

## TWENTY LARGEST ORDINARY SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Andial Holdings Pty Limited	13,485,590	20.65
National Nominees Limited	4,059,085	6.22
HSBC Custody Nominees (Australia) Limited	3,695,662	5.66
JP Morgan Nominees Australia Limited	3,547,855	5.43
ANZ Nominees Limited <Cash Income A/C>	3,178,333	4.87
Amalgamated Dairies Limited	2,254,000	3.45
Citicorp Nominees Pty Limited	1,930,173	2.96
Forty Traders Limited	1,566,348	2.40
Cogent Nominees Pty Limited	1,560,009	2.39
Mitchell Drilling Contractors Pty Ltd <Trustee Of Tanson Account>	1,399,580	2.14
HSBC Custody Nominees (Australia) Limited - A/C 2	932,538	1.43
Gwynvill Trading Pty Limited	834,363	1.28
HSBC Custody Nominees (Australia) Limited-GSCO ECA	635,282	0.97
Australian Reward Investment Alliance	605,777	0.93
Forbar Custodians Limited <Forsyth Barr Ltd-Nominee A/C>	568,152	0.87
UBS Nominees Pty Ltd	291,336	0.45
NZ Guardian Trust Company Ltd <01035700 A/C>	290,950	0.45
Queensland Investment Corporation	253,789	0.39
Amalgamated Dairies Ltd (Charitable & Educational A/C)	230,000	0.35
Imaj Pty Ltd <Super Fund A/C>	230,000	0.35
<b>Total</b>	<b>41,548,822</b>	<b>63.64</b>

# AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

## SUBSTANTIAL SHAREHOLDERS

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Name	Number of ordinary shares held	% of Issued shares
Andial Holdings Pty Limited	17,490,000	26.78
Schroder Investment Management Australia Limited	4,304,632	6.59
Amalgamated Dairies Group	4,230,348	6.48
Wellington Management Company, LLP	4,033,047	6.18

**ON-MARKET BUY BACK:** There is no current on-market buy back.

**UNQUOTED EQUITY SECURITIES:** As at 5 August 2010, there were 2,196,397 rights over unissued ordinary shares in the Company.

**REDEEMABLE CONVERTIBLE PREFERENCE SHARES:** The following entities held 20% or more of the number of redeemable convertible preference shares on issue:

---

Name	Number of shares held	% of shares
Perpetual Nominees Limited	414,623	92.1

## VOTING RIGHTS

Ordinary shares - Refer to note 29 of the financial statements.

Redeemable convertible preference shares - Refer to note 25 of the financial statements.

Rights - These are no voting rights attached to the rights.

# DIRECTORY

## COMPANY SECRETARY

Nicholas Swan MA, MBA

## REGISTERED OFFICE

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MACQUARIE PARK NSW 2113  
Tel +61 2 9490 4000  
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## SHARE REGISTRY

Computershare Investor Services Pty Limited  
Level 5, 115 Grenfell Street  
ADELAIDE SA 5000  
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ADELAIDE SA 5001

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9615 5970

Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

Website: [www.computershare.com](http://www.computershare.com)

## STOCK EXCHANGE

The Company is listed on the Australian Securities Exchange with the code 'AJL'. The Home Exchange is Sydney.

## AUDITORS

KPMG  
10 Shelley Street  
Sydney NSW 2000

## BANKERS

ANZ Bank  
20 Martin Place  
Sydney NSW 2000

## QUALITY CERTIFIERS (AS/NZS ISO 9001:2000)

Bureau Veritas

## AUSTRALIAN BUSINESS NUMBER

12 060 309 104

## OTHER INFORMATION

AJ Lucas Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.