AJ LUCAS GROUP LIMITED FINANCIAL REPORT

YEAR ENDED 30 JUNE 2009

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FINANCIAL REPORT
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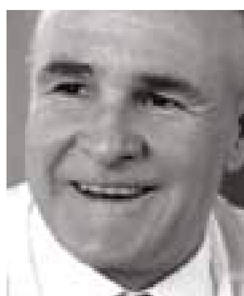
DIRECTORS' REPORT

The Board of directors have pleasure in presenting their report together with the financial report of AJ Lucas Group Limited (the Company) and the consolidated entity, being the Company, its controlled entities, interests in associates and jointly controlled entities (the Group), for the year ended 30 June 2009 and the auditor's report thereon.

DIRECTORS

The Directors of AJ Lucas Group Limited at any time during or since the end of the financial year are as follows:



ALLAN CAMPBELL BCom LLB

EXECUTIVE CHAIRMAN AND CEO
AGE 53
DIRECTOR SINCE 1995

After qualifying as a lawyer, Mr Campbell worked for several leading investment banks, initially in Australia 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, setting the Company on a path 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 provider of infrastructure, construction and mining services in Australia.

IAN STUART-ROBERTSON AAIQS

EXECUTIVE DIRECTOR
AGE 60
DIRECTOR SINCE 1993

Mr Stuart-Robertson is a qualified quantity surveyor with nearly 40 years experience in civil and building construction. He has previously served as a director of several construction companies and been responsible for the delivery of many major projects. He also has considerable expertise in project cost reporting systems and makes a vital contribution to the Group in his role as chairman of the tender review committee.

He is also a non-executive director of quantity surveyors, John Hollis & Partners.

ANDREW LUKAS BE

EXECUTIVE DIRECTOR
AGE 62
DIRECTOR SINCE 1995

Mr Lukas is a qualified civil engineer. He joined Lucas in 1975 after working in the engineering and construction of pipelines in the USA and Australia for the Williams group of companies.

He pioneered the development of horizontal directional drilling in Australia and is an authority on this technology as well as pipelines. He is also a leading proponent of directional drilling in coal seam gas extraction.

He is a past president of the Australian Pipeline Industry Association (APIA) and a director and past president of the International Pipeline and Offshore Contractors Association (IPLOCA).

GARRY O'MEALLY BSc BE

INDEPENDENT NON-EXECUTIVE DIRECTOR
MEMBER OF AUDIT COMMITTEE
AGE 73
DIRECTOR SINCE 1999

Mr O'Meally has over 40 years experience in the oil and gas industries, mainly with Australian Gas Light Company where he served as general manager of AGL Gas Companies and later of AGL Petroleum. He was also general manager of Queensland and Northern Territory for Santos Limited and has consulted to many energy companies.

He was previously president of the Australian Gas Association, councillor and Queensland chairman of the Australian Petroleum Production and Exploration Association and an executive manager of the Australian Pipeline Industry Association. Mr O'Meally's knowledge of the energy industries has been vitally important in the Group's expansion into its coal seam gas activities.

MARTIN GREEN FCA

INDEPENDENT NON-EXECUTIVE DIRECTOR
CHAIRMAN OF AUDIT COMMITTEE
AGE 64
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 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' 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 committee	
	Held	Attended	Held	Attended
Allan Campbell	16	16	–	–
Ian Stuart-Robertson	16	14	–	–
Andrew Lukas	16	16	–	–
Martin Green	16	16	2	2
Garry O'Meally	16	16	2	2

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, two of whom are non-executive and both of whom 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
Andrew Lukas	Non-independent executive director
Ian Stuart-Robertson	Non-independent executive director
Martin Green	Independent non-executive director
Garry O'Meally	Independent non-executive director

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 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. The Chairman and CEO is a major shareholder and it is considered that his interests are aligned with those of other shareholders. While such roles have not been separated at this stage of the Company's growth, the Board is monitoring opportunities for separation of the CEO and chair roles subject to identifying suitable candidates. Similarly, the Board recognises the need for additional non-executive independent input, and is monitoring opportunities.

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

During the financial year ending 30 June 2009, 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. In recent years, the composition of the Board has remained relatively static. 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 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 Committee is governed by the Audit Committee Charter which is available in the investor section of the Company's website.

The Committee must have at least two members. All members must be independent non-executive directors. At least one member must have financial expertise and some members shall have an understanding of the industry the Company operates in. 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 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.

Currently the Audit Committee consists of those directors set out in the following table. Their qualifications and experience is set out in the Directors' Report.

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.

Name	Independent/Non-independent	Meetings attended
Martin Green (Chairman)	Independent non-executive director	2 of 2
Garry O'Meally	Independent non-executive director	2 of 2

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

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 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 Committee and the Board that the risk management system is operating effectively in all material respects in relation to financial 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.

ENCOURAGE ENHANCED PERFORMANCE

The performance of the Audit 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. The independent non-executive directors review the remuneration of the executive directors and senior officers. The remuneration of the non-executives 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.

The Company's non-executive directors receive fees for acting as a director of the Company. Additional fees of $5,000 per

committee are payable for being a member of a sub-committee such as the Audit Committee. In addition to fees, non-executive directors may also receive shares in the Company.

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 1,100 employees and a client base principally comprising State and local governments and major corporations.

The Group is structured into three principal business segments:

DRILLING: Australia's foremost provider of 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. The Group is also the market leader in the trenchless installation of conduits and pipes using horizontal directional drilling.

CONSTRUCTION AND INFRASTRUCTURE: Provision of construction and civil engineering services together with facilities management.

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

REVIEW AND RESULTS OF OPERATIONS

OVERVIEW OF THE CONSOLIDATED ENTITY

The consolidated entity recorded a net profit of $103,253,000 (2008: $14,027,000). A summary of the results is set out in the following table:

Summary of financial results

	2009 $'000	Restated 2008 $'000
Total revenue	499,177	424,301
EBITDA	201,606	38,211
EBIT	177,717	26,760
Profit before tax	164,213	21,207
Net profit attributable to members	103,253	14,027
Total assets	515,005	231,619
Net assets	199,757	66,364
Basic earnings per share	156.1¢	25.5 ¢

Group's consolidated profit after tax increased by 636% to $103.3 million (2008: $14.0 million). This was mainly attributable to the sale of the Group's investment in Gloucester Basin for gross sale proceeds of $259 million realising a net profit after tax of $154.8 million.

Gross revenue increased by 17.6% to $499.2 million. However, operating results were impacted by the adverse economic conditions, an impairment provision for intangibles and trade receivables, unanticipated costs of the integration of Mitchell Drilling, a difficult working environment for several of the Group's projects and bad weather. These factors resulted in the underlying EBITDA decreasing by 2.9% to $37.1 million (2008: $38.2 million).

DIVISIONAL PERFORMANCE

Contributions from the business divisions were as follows:

	Revenue $'000	EBITDA $'000	Margin %
2009			
Drilling	204,272	34,539	16.9
Construction & infrastructure	287,395	10,106	3.4
Oil and gas	7,510	–	–
2008			
Drilling	88,417	18,881	21.4
Construction & infrastructure	335,884	23,179	6.9
Oil and gas	–	–	–

DRILLING

Following the acquisition of Mitchell Drilling, completed in August 2008, the Company established itself as the largest provider of drilling services to the coal and coal seam gas industries in Australia. Drilling revenue increased by 131% to $204.3 million (2008: $88.4 million).

While the divisional performance was very strong in the first part of the financial year, including the contribution from Mitchell Drilling, a fall in demand for coal as a result of the economic downturn resulted in reduced demand for the Group's coal degasification services. Together with weather interruptions, and costs of integrating the Mitchell business, this resulted in a reduction in margin from 21.4% to 16.9%.

However, the improving economy has resulted in the restoration in demand for coal and the Group's drilling fleet is again operating at full capacity. Demand for drilling services in the coal seam gas sector remained strong throughout the financial year.

CONSTRUCTION AND INFRASTRUCTURE

The performance of the construction and infrastructure division was impacted by the adverse economic conditions with revenue reducing by 12% to $287.4 million (2008: $335.9 million).

Arduous working conditions due to poor weather and remote locations, the deferral of several contracts and restructuring costs, resulted in the divisional margin declining to 3.4% from 6.9% in the previous year.

OIL AND GAS

The Company sold its investment in the Gloucester Basin project during the year for $259 million, realising a pre-tax profit of $215.8 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. Likewise, the Company exited its investment in Sydney Gas Limited, following an offer being made for this company by AGL, resulting in a pre-tax profit of $5.4 million.

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.

When the NPI investment was made, management was of the view that it had acquired an exploration and evaluation asset within the scope of AASB 6 *Exploration for and Evaluation of Mineral Resources*. Under this accounting standard, exploration and evaluation assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, or upon transfer to development assets. Unlike other assets, there is no requirement to assess whether an indicator of impairment exists at each reporting date until the Company has sufficient information to reach a conclusion about commercial viability and the feasibility of extraction.

As a result of further advice obtained by the Company and following the negotiation and execution of documentation, the asset was reclassified as an intangible asset within the scope of AASB 138 *Intangible Assets* as it represents a contractual right to future income streams. As a result, the Company was required to test the asset for impairment. Given that the Prospect remains in an early stage of exploration and evaluation, the Company was unable to prepare discounted cash flow analysis to support the carrying value of the Prospect and accordingly, was required to impair this asset ($56.6 million) as at 30 June 2009

It should be noted that the Company considers that further exploration and evaluation activity should allow an assessment of future cash flows to be performed.

INVESTMENTS FOR FUTURE PERFORMANCE

The global demand for coal has rebounded strongly. The Company expects the increased demand to be maintained and in response to new contracts, has recently ordered three new rigs.

The outlook in demand for drilling 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 the end of 2010 / beginning of 2011.

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

REVIEW OF FINANCIAL CONDITION

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 Gloucester Basin and its shareholding in Sydney Gas Limited, the Company is strongly capitalised. The Company has applied some of the sale proceeds to reducing its debt, much of it taken on to acquire the Mitchell business, repaying approximately $75 million in the 2009 calendar year. In addition, the Company has bought back 4.5% of its shares via an on-market buy-back for $8.4 million.

CASH FLOWS FROM OPERATIONS

Cash flow from operations amounted to a net outflow of $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 2009

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Final 2008	4.5	3,038	15% franked	29 Sept 2008
Interim 2009	5.0	3,320	Unfranked	27 Mar 2009
		6,358		

Declared after end of year

After the balance sheet date, the directors have declared a 2009 final ordinary dividend as follows:

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

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2009 and will be recognised in the 2010 financial report.

STATE OF AFFAIRS

In the opinion of the Directors, other than the acquisition of Mitchell Drilling, the sale of the Company's investment in Gloucester Basin and the investment in the Monument Prospect in Trinity County, East Texas, 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

Subsequent to year-end, the Company invested a further $25.1 million in relation to its 10% Net Profit Interest in the Monument Prospect as part of the Company's oil and gas strategy. Refer to Note 19 for further information in relation to the nature of this investment. Subsequent to balance date, the directors have declared a final ordinary dividend of 5.5¢ per share, fully franked.

Other than these matters, 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.

LIKELY DEVELOPMENTS

The Group has successfully established itself as the leading service provider in each of its chosen activities. Its strategy of being an integrated service provider to the energy, water and wastewater, resources and property sectors presents many opportunities to leverage its service offering.

The coal seam gas industry is expected to experience significant growth in preparation for the proposed export of LNG through Gladstone. AJ Lucas is the only company with the full service capability to provide technical services, drilling and management services, well head completions, work overs, well services and gas gathering systems through to pipelines to the LNG plant. This gives the Group a significant strategic advantage over all its competitors.

The complementary nature of the Group's activities will also be drawn upon to perform civil works for the infrastructure works required for the LNG projects. Partnering with selected entities through joint ventures and alliances, and the development and application of innovative technology and practices, are expected to create opportunities to apply the Group's civil works expertise.

The Group will continue to investigate direct investment opportunities in the energy and water and wastewater sectors. These include both conventional and unconventional hydrocarbons (shale gas). The Group will also pursue investment opportunities in renewable energies (geothermal) and other technologies being developed to reduce greenhouse gas emissions by carbon geosequestration.

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.

OTHER DISCLOSURES

SHARES ISSUED ON EXERCISE OF RIGHTS

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

Number of shares	Amount paid on each share
611,429	$Nil

There were no amounts unpaid on the shares issued.

UNISSUED SHARES UNDER RIGHTS OR OPTIONS

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

Expiry date	Exercise price	Number of shares
30 June 2010	–	21,754
30 June 2011	–	369,183
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 and options expire on the earlier of their expiry date, termination of the employee's employment and cessation of the officer's service.

The rights or options 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 options 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:

	Ordinary Shares	Options issued under Management Rights Plan
Allan Campbell	10,140,083	598,648
Ian Stuart-Robertson	1,386,750	220,000
Andrew Lukas	6,204,833	220,000
Martin Green	125,000	–
Garry O'Meally	219,180	–

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 2009.

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 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 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 7 in the notes to the financial statements, amounted to $695,228 (2008: $353,701).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 15 and forms part of the Directors' Report for the financial year ended 30 June 2009.

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 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.

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 most importantly, a minimum 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.

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 two financial years.

Year ended	30 Jun 2009	30 Jun 2008	30 Jun 2007
Revenue ($'000)	$499,177	$424,301	$216,369
Net profit attributable to equity holders of the Company ($'000)	$103,253	$14,027	$6,396
Earnings per share	156.1¢	25.5¢	11.9¢
Dividend per share	9.5¢	6.0¢	0.0¢
Share price at balance date	$3.18	$6.27	$2.00
Share price appreciation/ (depreciation)	(49%)	314%	230%

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. Over the past three years, the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) has grown at a compound annual growth rate of 288%. During the same period, the average increase in key management's compensation has grown by approximately 191% per annum.

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 EMPLOYMENT	
		Salary/ fees[1] $	Cash STI[2] $	Non-monetary benefits[3] $	Total $	Superannuation benefits $	Termination Benefit $
Executive directors							
Allan Campbell [6]	2009	505,000	6,475,000	–	6,980,000	–	–
	2008	425,000	–	–	425,000	–	–
Andrew Lukas [5]	2009	87,498	–	–	87,498	–	–
	2008	172,915	–	23,972	196,887	12,176	–
Ian Stuart-Robertson	2009	258,542	–	–	258,542	20,644	–
	2008	336,711	–	–	336,711	20,271	–
Non-executive directors							
Martin Green	2009	80,000	–	–	80,000	–	–
	2008	45,000	–	–	45,000	–	–
Garry O'Meally	2009	80,000	–	–	80,000	–	–
	2008	45,000	–	–	45,000	–	–
Executive officers							
Ian Redfern	2009	284,947	–	–	284,947	26,422	–
General Manager, Construction	2008	303,183	–	–	303,183	26,143	–
Kevin Lester	2009	248,995	–	–	248,995	22,335	–
General Manager, Pipelines	2008	286,020	–	24,021	310,041	19,782	–
Mark Summergreene [6]	2009	225,919	1,295,000	–	1,520,919	21,096	–
Chief Financial Officer	2008	232,737	–	–	232,737	21,906	–
Denis O'Brien	2009	411,108	100,000	8,336	519,444	15,581	–
General Manager, Queensland							
Brett Tredinnick [6]	2009	248,021	897,500	–	1,145,521	21,097	–
General Manager, Drilling	2008	199,057	–	7,978	207,035	17,810	–
Mark Tonkin [6]	2009	230,865	897,500	–	1,128,365	20,642	–
General Manager, Strategy & Planning	2008	218,548	–	–	218,548	17,223	–
Nicholas Swan [6]	2009	222,750	1,942,500	–	2,165,250	–	–
Company Secretary							
Mike Much [6]	2009	207,083	1,720,596	–	1,927,679	–	–
General Manager, Oil & Gas							
Former							
Mike Rollo [7]	2009	205,289	–	–	205,289	17,821	200,000
Chief Executive, Lucas Operations							
Paul Bilston [6] [8]	2009	189,219	2,990,000	–	3,179,219	17,030	–
General Manager, CSG							

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.

SHARE BASED PAYMENTS Value of options and rights [4] $	Total $	Proportion of remuneration performance related %	Value of options and rights as proportion of remuneration %
614,836	7,594,836	85.3	8.1
58,483	483,483	–	12.1
52,198	139,696	–	37.4
36,455	245,518	–	14.8
52,198	331,384	–	15.8
36,455	393,437	–	9.3
–	80,000	–	–
–	45,000	–	–
–	80,000	–	–
–	45,000	–	–
58,848	370,217	8.9	15.9
132,823	462,149	21.8	28.7
40,121	311,451	6.4	12.9
85,674	415,497	14.6	20.6
36,911	1,578,926	83.2	2.3
78,822	333,465	16.7	23.6
-	535,025	18.7	–
32,867	1,199,485	76.2	2.7
70,185	295,030	16.8	23.8
52,711	1,201,718	77.5	4.4
50,341	286,112	11.1	17.6
31,194	2,196,444	89.1	1.4
–	1,927,679	89.3	–
–	423,110	–	–
–	3,196,249	93.5	–

Amounts disclosed for remuneration of key management persons exclude insurance premiums of $23,754 (2008: $18,595) 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 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 allocated to this reporting period.
The following factors and assumptions were used in determining the fair value of options and rights issued during the year on grant date:

Grant date	26 Nov 2008	26 Nov 2008
Expiry date	30 Jun 2012	30 Jun 2013
Exercise price	$nil	$nil
Share price on grant date	$4.60	$4.60
Risk free interest rate	3.2%	3.6%
Dividend yield	2.4%	2.4%
Fair value per option or right	$4.42	$4.27

(5) Mr Lukas served as an executive director until 19 March 2008 after which he changed to a non-executive. Effective 1 April 2009, Mr Lukas recommenced as an executive director.

(6) 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 the year resulting in a profit before tax of $215.8 million.

(7) Mr Rollo was appointed Chief Executive - Lucas Operations on 1 January 2009 and ceased this role on 8 May 2009.

(8) Mr Bilston ceased employment with the Group on 31 March 2009.

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors currently each $75,000 per annum, is determined by the Board within the aggregate amount approved by shareholders. $5,000 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 AND OPTIONS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION - AUDITED

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

	Grant date	Number of options granted during 2009	Fair value per option at grant date $	Exercise price per options $	Expiry date	Number of options vested during 2009
Directors						
	26 Nov 2008	144,787	4.42	–	30 Jun 2012	–
AS Campbell	26 Nov 2008	93,861	4.27	–	30 Jun 2013	–
Executives						
I Redfern	–	–	–	–	–	34,239
K Lester	–	–	–	–	–	20,543
M Summergreene	–	–	–	–	–	18,900
B Tredinnick	–	–	–	–	–	16,829
M Tonkin	1 July 2008	6,087	2.05	–	30 June 2010	16,829
M Tonkin	1 July 2008	6,087	1.97	–	30 June 2011	–
M Tonkin	1 July 2008	3,675	1.88	–	30 June 2012	–
N Swan	–	–	–	–	–	14,941

During the financial year, 238,648 options over unissued ordinary shares in the Company were issued to the executive directors as approved by shareholders at the 2008 Annual General Meeting. These options vest on the third anniversary of the grant date. No options or rights have been granted since the end of the financial year.

EXERCISE OF RIGHTS AND OPTIONS GRANTED AS COMPENSATION - AUDITED

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

	2009	
	Number of shares	Amount paid $/share
Executives		
I Redfern	109,239	–
K Lester	20,543	–
M Summergreene	18,900	–
B Tredinnick	16,829	–
M Tonkin	16,829	–
N Swan	14,941	–

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

ANALYSIS OF SHARE-BASED PAYMENTS GRANTED AS REMUNERATION - AUDITED

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

	Options and rights granted Number	Date	Vested in year	Forfeited in year [1]	Financial years in which options or rights vest
Directors			%	%	
AS Campbell	250,000	24 Nov 2006	–	–	2010
	110,000	23 Nov 2007	–	–	2011
	144,787	26 Nov 2008	–	–	2010
	93,861	26 Nov 2008	–	–	2011
I Stuart-Robertson	150,000	24 Nov 2006	–	–	2010
	70,000	23 Nov 2007	–	–	2011
AJ Lukas	150,000	24 Nov 2006	–	–	2010
	70,000	23 Nov 2007	–	–	2011
Company and consolidated entity executives					
I Redfern	34,239	31 Aug 2007	100	–	2009
	61,333	31 Aug 2007	–	–	2010
K Lester	20,543	31 Aug 2007	100	–	2009
	48,271	31 Aug 2007	–	–	2010
M Summergreene	18,900	31 Aug 2007	100	–	2009
	44,409	31 Aug 2007	–	–	2010
B Tredinnick	16,829	31 Aug 2007	100	–	2009
	39,544	31 Aug 2007	–	–	2010
M Tonkin	16,829	31 Aug 2007	100	–	2009
	39,544	31 Aug 2007	–	–	2010
N Swan	14,941	31 Aug 2007	100	–	2009
	39,910	31 Aug 2007	–	–	2010

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

ANALYSIS OF MOVEMENTS IN OPTIONS AND RIGHTS - AUDITED

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

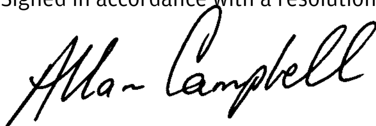
	(i) Granted in year $	(ii) Value of options and rights exercised in year $	(iii) Lapsed in year $
Directors			
AS Campbell	1,041,000	–	–
Executive			
I Redfern	–	550,614	–
K Lester	–	53,617	–
M Summergreene	–	49,239	–
B Tredinnick	–	43,924	–
M Tonkin	–	43,924	–
N Swan	–	38,996	–

(i) The value of options and rights is their fair value calculated at grant date using a Black-Scholes pricing model. The total value of the options and rights is included in the table above. This amount is allocated to remuneration over the vesting period.

(ii) The value of the options and 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 options or rights were exercised after deducting the price paid to exercise the options and rights.

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

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



Allan Campbell, Director
Dated at Sydney, this 30th day of September 2009.

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 2009 there have been:

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

KPMG

Neil Cameron Smith
Partner
Sydney
30 September 2009

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

	Note	Consolidated 2009 $'000	Consolidated Restated* 2008 $'000	Company 2009 $'000	Company 2008 $'000
Revenue	3	499,177	424,301	–	1,500
Total revenue		**499,177**	**424,301**	**–**	**1,500**
Other income	4	221,157	–	221,157	–
Material costs		(126,403)	(123,788)	–	–
Sub-contractor costs		(118,141)	(116,734)	–	–
Employee expenses		(135,905)	(80,627)	–	–
Plant and other construction costs		(71,383)	(55,404)	–	–
Impairment of intangible asset	6	(56,644)	–	(56,644)	–
Depreciation and amortisation expenses	6	(23,889)	(11,451)	–	–
Impairment of receivables	6	(7,510)	–	–	–
Debt recovery and legal costs		(1,050)	(6,500)	–	–
Other expenses		(1,692)	(3,037)	–	(93)
Results from operating activities		**177,717**	**26,760**	**164,513**	**1,407**
Financial income	5	7,908	1,322	12,648	6,591
Financial expenses	5	(21,412)	(6,875)	(2,506)	(5,078)
Net financing (costs)/income	5	**(13,504)**	**(5,553)**	**10,142**	**1,513**
Profit before income tax		**164,213**	**21,207**	**174,655**	**2,920**
Income tax (expense)/income	8	(60,960)	(7,180)	(67,174)	799
Profit attributable to equity holders of the company	27	**103,253**	**14,027**	**107,481**	**3,719**
Earnings per share:					
Basic earnings per share (cents)	9	156.1	25.5		
Diluted earnings per share (cents)	9	149.9	24.9		

* See change of accounting policy note (Note 2)

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2009

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

		Consolidated		Company	
			Restated*		
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Exchange differences on translation of foreign operations	27	277	274	–	–
Effective portion of changes in fair value of cash flow hedges	27	(2,392)	–	–	–
Income and expense recognised directly in equity		(2,115)	274	–	–
Profit for the year	27	103,253	14,027	107,481	3,719
Total recognised income and expense for the year	27	**101,138**	**14,301**	**107,481**	**3,719**

* See change of accounting policy note (Note 2)

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

BALANCE SHEETS AS AT 30 JUNE 2009

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

		Consolidated		Company	
			Restated *		
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets					
Cash and cash equivalents	10	96,317	16,612	95,083	5,519
Trade and other receivables	11	59,733	56,912	2,897	6,064
Inventories	12	61,389	42,405	–	–
Other assets	13	907	1,717	–	184
Total current assets		**218,346**	**117,646**	**97,980**	**11,767**
Non-current assets					
Trade and other receivables	11	24,029	–	200,008	49,889
Property, plant and equipment	14	138,451	55,986	–	–
Investments	15	1,316	26,156	4,614	26,879
Exploration assets	17	4,354	4,100	–	–
Intangible development assets	18	878	15,452	–	–
Other intangible assets	19	119,451	12,279	2,061	2,061
Deferred tax assets	20	–	–	276	8,405
Investments in equity accounted investees	16	8,180	–	1,504	–
Total non-current assets		**296,659**	**113,973**	**208,463**	**87,234**
Total assets		**515,005**	**231,619**	**306,443**	**99,001**
Current liabilities					
Trade and other payables	21	77,038	83,074	5,546	632
Interest-bearing loans and borrowings	22	123,070	19,996	–	4,500
Current tax liabilities	23	50,797	114	50,454	–
Employee benefits	26	6,542	4,751	–	–
Provisions	24	–	3,799	–	–
Total current liabilities		**257,447**	**111,734**	**56,000**	**5,132**
Non-current liabilities					
Trade and other payables	21	–	–	19,677	29,361
Interest-bearing loans and borrowings	22	45,495	51,036	43,172	18,226
Deferred tax liabilities	20	11,576	1,737	–	–
Employee benefits	26	730	748	–	–
Total non-current liabilities		**57,801**	**53,521**	**62,849**	**47,587**
Total liabilities		**315,248**	**165,255**	**118,849**	**52,719**
Net assets		**199,757**	**66,364**	**187,594**	**46,282**
Equity					
Issued capital	27	91,935	54,037	91,935	54,118
Reserves	27	837	2,236	2,372	–
Retained earnings/(accumulated losses)	27	106,985	10,091	93,287	(7,836)
Total equity	27	**199,757**	**66,364**	**187,594**	**46,282**

* See change of accounting policy note (note 2)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2009

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

		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash flows from operating activities					
Cash receipts from customers		542,314	450,877	–	66
Cash payments to suppliers and employees		(544,793)	(394,407)	–	(277)
Cash generated from operations		**(2,479)**	**56,470**	**–**	**(211)**
Interest received		7,868	547	3,687	465
Income taxes paid		–	(72)	–	–
Interest and other costs of finance paid		(17,287)	(6,875)	(2,479)	(4,112)
Net cash (used in)/from operating activities	32(b)	**(11,898)**	**50,070**	**1,208**	**(3,858)**
Cash flows from investing activities					
Proceeds from sale of plant and equipment		596	1,018	–	–
Proceeds from sale of development asset		259,000	–	259,000	–
Payment of development asset disposal costs		(14,115)	–	(14,115)	–
Proceeds from sale of shares in listed entity		34,216	–	34,216	–
Repayment of loans to controlled entities		–	–	1,847	–
Payments for equity accounted investments		(8,180)	–	(1,504)	–
Payment for investments		(4,912)	(27,858)	(4,949)	(25,243)
Payment for intangible assets		(41,918)	–	(41,918)	–
Loans to controlled entities		–	–	(141,678)	(8,574)
Payments for plant and equipment		(40,364)	(21,472)	–	–
Exploration and evaluation expenditure		(7,384)	(12,513)	–	–
Loans to associate		(24,029)	–	(24,029)	–
Loans to director related entity		(9,953)	(1,578)	(9,953)	(1,578)
Loans to other entities		(3,712)	–	(3,594)	–
Repayment of loan to director related entity		–	292	–	263
Repayment of loan to other entities		697	–	697	–
Acquisition of subsidiary net of cash acquired		(119,323)	(9,993)	–	–
Net cash from/(used in) investing activities		**20,619**	**(72,104)**	**54,020**	**(35,132)**
Cash flows from financing activities					
Proceeds from issue of shares		28,981	–	28,981	–
Payments for share buy back		(8,361)	–	(8,361)	–
Repayment of loans from controlled entities		–	–	(17,913)	–
Proceeds of borrowings -other		125,053	41,690	45,000	22,626
Repayment of borrowings - other		(97,109)	(6,413)	(67,000)	–
Loans from controlled entities		–	–	17,190	13,144
Deferred payment for acquisition		(3,250)	(625)	–	–
Dividends paid		(6,358)	(3,273)	(6,358)	(3,273)
Proceeds from issue of redeemable convertible preference shares		42,797	–	42,797	–
Repayment of convertible notes		–	(1,500)	–	(1,500)
Payment of finance lease liabilities		(9,902)	(4,659)	–	–
Net cash from financing activities		**71,851**	**25,220**	**34,336**	**30,997**
Net increase/(decrease) in cash and cash equivalents		**80,572**	**3,186**	**89,564**	**(7,993)**
Cash and cash equivalents at beginning of the year	32(a)	15,745	12,559	5,519	13,512
Cash and cash equivalents at end of the year	32(a)	**96,317**	**15,745**	**95,083**	**5,519**

NOTES TO THE FINANCIAL STATEMENTS

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1. BASIS OF PREPARATION

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 report of the Company as at and for the financial year ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities.

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 entities in the Group.

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

(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 and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 30 September 2009.

(B) GOING CONCERN

As at 30 June 2009, the Group is in a net current deficiency position of $39,101,000. The net current deficiency is due to the classification of bank loans of $52,645,000 and lease finance facilities of $23,372,000 which are due for repayment in excess of 12 months from balance date, as current liabilities on the balance sheet. This reclassification was due to the Group and the Company being in breach of its borrowing covenants with respect to its Senior Banking Facility ("Finance Facility") with ANZ Bank ("Lender") at 30 June 2009. The breach of borrowing covenants at 30 June 2009 has arisen as a result of the deterioration in operating performance during the second half of the 2009 financial year and an impairment loss recognised in relation to a receivable.

The financial statements are prepared on the basis that the Group is a going concern, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors have reached this conclusion having regard to the following:

- Positive indications received from the Group's Lender that it is willing to review the borrowing covenants which should assist the Group to achieve future covenant compliance with the terms of the Finance Facility and to fund future growth prospects;
- The directors' confidence in the Group's ability to raise additional debt and/or equity from non-bank sources to reduce bank debt if necessary and/or to fund future business requirements having regard to the $74 million new finance raised during the 2009 financial year through the issue of redeemable convertible preference shares ($45.0 million) and the issue of ordinary shares ($29.0 million);
- Positive cash flow projections by the Group taking into account:
  - Significant cash inflows from contracted revenue;
  - The value of the Group's portfolio of energy assets combined with the Group's ability to realise these assets;
  - Further likely contributions to commercialise the Group's energy asset portfolio;

– Actions taken by the Group to reduce operating expenses and enhance cash flows; and
– The significant level of cash reserves held by the Group at 30 June 2009.

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

(C) 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 1 (AA).

(D) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial report is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the Group. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, 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 financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 12 – inventories; Note 18 – intangible development assets; Note 19 – impairment tests for cash generating units containing goodwill; Note 20 – utilisation of tax losses; Notes 24 & 31 – provisions and contingencies; Note 25 – lease classification;
  Note 26 – Measurement of share based payments; Note 28 – Valuation of financial instruments; Note 33 – Acquisition of subsidiary

(F) BASIS OF CONSOLIDATION

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

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

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

JOINTLY CONTROLLED OPERATIONS, ASSETS AND ENTITIES: 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.

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

TRANSACTIONS ELIMINATED ON CONSOLIDATION: Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the 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.

(G) FOREIGN CURRENCY

FOREIGN CURRENCY TRANSACTIONS: Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at

the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

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

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

(H) FINANCIAL INSTRUMENTS

NON-DERIVATIVE FINANCIAL INSTRUMENTS: Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

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

Non-derivative financial instruments, other than "available for-sale financial assets" described below, are measured at amortised cost using the effective interest method, less any impairment losses.

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

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

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

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

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

CASH FLOW HEDGES: The Group holds derivative financial instruments to hedge its interest rate risk exposure. Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective changes in fair value are recognised in profit or loss.

(I) SHARE CAPITAL

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

REDEEMABLE CONVERTIBLE PREFERENCE 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 the profit and loss as accrued.

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

(J) LEASED ASSETS

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

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

(K) REVENUE

SERVICES RENDERED: Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to 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 and expenses are recognised in the income statement in proportion to the stage of completion of the contract.

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

(L) LEASE PAYMENTS

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

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

(M) FINANCE INCOME AND EXPENSES

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, foreign currency losses and impairment losses recognised on financial assets that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method. Transaction costs associated with loans and borrowings were capitalised and are to be expensed over the period of the borrowings.

(N) INCOME TAX

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

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

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

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

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

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

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

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

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

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

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

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

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment

obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(O) EARNINGS PER SHARE

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

(P) SEGMENT REPORTING

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and 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.

(Q) 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 trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

(R) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

SALE OF NON-CURRENT ASSETS: The net gain or loss on disposal is included in the income statement 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 charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment commencing from the time the asset is ready for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

Plant and equipment	Years
Plant and equipment	4-10
Motor vehicles	7
Office equipment	4-8
Computer equipment	3-4
Leased plant and equipment	4-10

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

(S) INTANGIBLE ASSETS

GOODWILL: Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Acquisitions prior to 1 July 2003: As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after 1 July 2003. In respect of acquisitions prior to 1 July 2003, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

Acquisitions on or after 1 July 2003: For acquisitions on or after 1 July 2003, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

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

RESEARCH AND DEVELOPMENT: Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when incurred.

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

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

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

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

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

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

- Other development costs - 5 years
- Customer intangibles:
  - (i) Contracts – are amortised over the life of each contract
  - (ii) Customer relationships – are amortised over a five year period after the expiration of the contract.

(T) EXPLORATION AND EVALUATION ASSETS

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

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

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

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

Exploration and evaluation assets are assessed for impairment if:

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

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

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

(U) GAS ASSETS

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

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

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

(V) IMPAIRMENT

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

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the Income Statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

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, recoverable amount is estimated at each reporting date.

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

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

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

(W) 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 personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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

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

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

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

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

When the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

(X) 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.

(Y) 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.

(Z) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

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

  Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statement.
- Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require a change in the presentation on and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 3). The application of the management approach is not expected to have a significant impact on the disclosure of segment information.
- Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 30 June 2010 financial statements.
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the Interpretation.
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.
- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements. They are not expected to have a significant impact on the financial report.
- AASB 2008-8 *Amendments to Australian Accounting Standard - Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Group's 30 June 2010 financial statements, with retrospective application.
- AI 15 *Agreements for the Construction of Real Estate* provides guidance on the accounting for agreements for the construction of real estate by the seller under AASB 111 Construction Contracts or AASB 118 Revenue and the timing of revenue recognition. AI 15 will become mandatory for the Group's 30 June 2010 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the Interpretation.

- AI 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that net investment hedging can only be applied when the net assets of the foreign operation are recognised in the entity's consolidated financial statements. AI 16 will become mandatory for the Group's 30 June 2010 financial statements. It is not expected to have a significant impact on the financial report.
- AI 17 *Distributions of Non-Cash Assets to Owners* provides guidance in respect of measuring the value of distributions of non-cash assets to owners. AI 17 will become mandatory for the Group's 30 June 2010 consolidated financial statements. It is not expected to have a significant impact on the financial report.
- AI 18 *Transfers of Assets from Customers* provides guidance on the accounting for contributions from customers in the form of transfers of property, plant and equipment (or cash to acquire or construct it). AI 18 will become mandatory for the Group's 30 June 2010 consolidated financial statements. It is not expected to have a significant impact on the financial report.

(AA) 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.

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.

INVESTMENTS IN EQUITY AND DEBT SECURITIES: The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

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.

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).

2. CHANGE IN ACCOUNTING POLICY

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

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

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

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

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

The Group has also elected to change the classification of its business segments. This change followed a reorganisation of the Group's management structure and internal financial reporting arrangements. As a result of the change, the "Pipelines" business segment has now been included within the "Construction and Infrastructure" business segment. In addition a new "Oil and Gas" segment has been introduced which was previously reported as unallocated.

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

There was no effect on the Company.

3. SEGMENT REPORTING

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other income comprises the profits derived from the sale of the Group's investment in its Gloucester development asset and shares held in Sydney Gas Limited. Impairment loss represents a provision recognised in respect of the net profit interest in oil and gas leasehold interests in the Monument Prospect located in Trinity County, East Texas, USA (refer to note 19) and the impairment of a receivable (refer to note 11). Other unallocated items mainly comprise interest-earning assets and revenue, investments in equity accounted investees, interest-bearing loans, borrowings and expenses, and corporate assets and expenses. Inter-segment pricing is determined on an arms length basis.

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

BUSINESS SEGMENTS

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

Drilling	Drilling services for the recovery and commercialisation of coal seam gas, degasification of underground coal mines, and the trenchless installation of pipes and conduits.
Construction and infrastructure	Civil engineering services for the construction of infrastructure, pipelines and buildings, together with facilities management.
Oil and gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Australia, Canada, USA and Europe.

	Drilling		Construction & infrastructure		Oil and gas		Consolidated	
	2009 $'000	Restated 2008 $'000	2009 $'000	Restated 2008 $'000	2009 $'000	Restated 2008 $'000	2009 $'000	Restated 2008 $'000
Total segment revenue	**204,272**	**88,417**	**287,395**	**335,884**	**7,510**	**–**	**499,177**	**424,301**
Other income	–	–	–	–	221,157	–	221,157	–
Impairment losses	–	–	–	–	(64,154)	–	(64,154)	–
Other segment expenses	(193,184)	(80,506)	(277,727)	(313,186)	–	–	(470,911)	(393,692)
Segment result	**11,088**	**7,911**	**9,668**	**22,698**	**164,513**	**–**	**185,269**	**30,609**
Unallocated expenses							(7,552)	(3,849)
Results from operating activities							177,717	26,760
Net finance costs							(13,504)	(5,553)
Profit before tax							164,213	21,207
Income tax (expense)/benefit							(60,960)	(7,180)
Net profit for the year							**103,253**	**14,027**
Depreciation and amortisation	23,451	10,970	438	481	–	–	23,889	11,451
Assets								
Segment assets	377,424	135,953	85,778	88,771	36,874	–	500,076	224,724
Unallocated assets							14,929	6,895
Total Assets							**515,005**	**231,619**
Liabilities								
Segment liabilities	236,515	116,419	75,247	43,968	–	–	311,762	160,387
Unallocated liabilities							3,486	4,868
Total Liabilities							**315,248**	**165,255**
Capital expenditure	37,725	16,488	15,344	6,990	–	–	53,069	23,478
Unallocated capital expenditure							9,778	–
							62,847	**23,478**

SECONDARY REPORTING – GEOGRAPHICAL SEGMENTS

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

	Operating revenue		Segment assets		Capital expenditure	
	2009 $'000	Restated 2008 $'000	2009 $'000	Restated 2008 $'000	2009 $'000	Restated 2008 $'000
Australia	491,667	421,421	489,353	228,622	62,847	23,478
North America	7,510	–	–	2,897	–	–
Europe	–	–	25,533	–	–	–
Asia/Pacific	–	2,880	119	100	–	–
	499,177	**424,301**	**515,005**	**231,619**	**62,847**	**23,478**

4. OTHER INCOME

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit on sale of development asset (refer note 18)	215,765	–	215,765	–
Profit on disposal of investment in listed entity (refer note 15)	5,392	–	5,392	–
	221,157	**–**	**221,157**	**–**

5. FINANCIAL INCOME AND EXPENSE

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Interest income	7,908	1,173	3,686	1,091
Dividend income	–	–	8,962	5,500
Net foreign exchange gain	–	149	–	–
Financial income	**7,908**	**1,322**	**12,648**	**6,591**
Interest expense	(20,880)	(6,875)	(2,506)	(5,076)
Net foreign exchange loss	(532)	–	–	(2)
Financial expenses	**(21,412)**	**(6,875)**	**(2,506)**	**(5,078)**
Net financing (expense)/income	**(13,504)**	**(5,553)**	**10,142**	**1,513**

6. OTHER EXPENSES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit before income tax has been arrived at after charging the following items:				
Depreciation of property, plant and equipment	13,250	6,074	–	–
Amortisation of:			–	–
Leased plant and equipment	4,588	2,605	–	–
Development expenditure	228	182	–	–
Contracts and customer relationships	5,809	2,590	–	–
Tender costs	14	–	–	–
	10,639	5,377	–	–
Total depreciation and amortisation	**23,889**	**11,451**	**–**	**–**
Impairment of intangible assets (refer note 19)	56,644	–	56,644	–
Impairment of receivables (refer note 11)	7,510	–	–	–

7. AUDITOR'S REMUNERATION

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Audit services				
Auditors of the Company – KPMG				
Audit and review of financial reports				
Australia	347,820	347,990	–	17,500
Overseas	–	7,120	–	–
	374,820	**355,110**	**–**	**17,500**
Other services				
Auditors of the Company – KPMG				
Taxation services	455,746	51,605	–	–
Other professional services	239,482	302,096	–	–
	695,228	**353,701**	**–**	**–**

The audit fees for the Company have been borne by the Group.

8. INCOME TAX

	Consolidated		Company	
	2009 $'000	Restated 2008 $'000	2009 $'000	Restated 2008 $'000
Recognised in the income statement				
Current tax expense/(benefit)				
Current year	52,574	(1,253)	59,045	(2,520)
Foreign tax losses not recognised in current year	42	1,019	–	–
Prior year adjustments	(2,033)	75	–	–
	50,583	(159)	59,045	(2,520)
Deferred tax expense				
Origination and reversal of temporary differences	10,377	7,339	8,129	1,721
Total income tax expense/(benefit) in income statement	**60,960**	**7,180**	**67,174**	**(799)**
Numerical reconciliation between tax benefit and pre-tax net profit				
Accounting profit before income tax	164,213	21,207	174,655	2,920
Prima facie income tax expense calculated at 30% (2008:30%)	49,264	6,362	52,397	876
Adjustment for:				
Equity settled share based payments	452	446	–	–
Non-deductible accounting interest on deferred purchase	–	99	–	–
Non-deductible expenses	344	43	282	–
Amortisation of customer contracts	1,554	411	–	–
Effect of tax rate in foreign jurisdictions	41	323	–	–
Foreign income taxable in Australia	–	–	191	257
Foreign tax loss not recognised	42	1,020	–	–
Investment allowance	(725)	–	–	–
Impairment of intangibles	16,993	–	16,993	–
Research and development allowance	(2,008)	(1,317)	–	–
Dividend received from subsidiaries not assessable	–	–	(2,689)	(1,650)
Acquisition cost deductible for tax purposes	–	(282)	–	(282)
Utilisation of capital losses not previously recognised	(2,964)	–	–	–
	62,993	**7,105**	**67,174**	**(799)**
Income tax (over)/under provided in prior year	(2,033)	75	–	–
Income tax expense/(benefit) attributable to operating profit	**60,960**	**7,180**	**67,174**	**(799)**

9. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of $103,253,000 (2008 restated: $14,027,000) and a weighted average number of ordinary shares outstanding of 66,128,935 (2008: 54,892,487) calculated as follows:

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

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of $103,273,000 (2008 restated: $16,214,000) and a weighted average number of shares outstanding of 68,903,050 (2008: 65,195,367) calculated as follows:

	Consolidated	
		Restated
	2009 $'000	**2008 $'000**
Profit attributable to ordinary shareholders (diluted)		
Profit attributable to ordinary shareholders	103,253	14,027
Interest expense on convertible notes, net of tax	20	2,187
Profit attributable to ordinary shareholders (diluted) for the year ended 30 June	**103,273**	**16,214**

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

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

10. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Bank balances	96,317	16,612	95,083	5,519

11. TRADE AND OTHER RECEIVABLES

		Consolidated		Company	
	Note	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current					
Trade debtors (net of impairment losses)		50,048	50,158	–	–
Retentions		–	66	–	–
Other receivables		6,669	624	–	–
Other loans		3,016	6,789	2,897	–
Impairment loss on other loans		–	(6,789)	–	-
Loan to related entity	34	–	6,064	–	6,064
		59,733	**56,912**	**2,897**	**6,064**
Non-current					
Loans to associate		24,029	–	24,029	–
Loans to controlled entities		–	–	175,979	49,889
		24,029	**–**	**200,008**	**49,889**
Total trade and other receivables		**83,762**	**56,912**	**202,905**	**55,953**

Trade debtors are shown net of impairment losses of $7,568,000 (2008: $349,000). The Company has advanced funds to Cuadrilla Resources Limited, an associate, to develop its acreage which it has acquired or in the process of acquiring in Europe (see note 16 for further details).

12. INVENTORIES

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

During the year ended 30 June 2009, materials, consumables and work in progress recognised as cost of sales have been expensed as part of material costs and sub-contractor costs in the income statement.

13. OTHER ASSETS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Prepayments	907	1,717	–	184

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Total $'000
Consolidated 2009						
At cost	1,364	4,396	110,390	51,125	15,412	182,687
Accumulated depreciation/amortisation	(39)	(149)	(31,278)	(12,770)	–	(44,236)
	1,325	**4,247**	**79,112**	**38,355**	**15,412**	**138,451**
Consolidated 2008						
At cost	24	4,306	45,316	31,235	2,750	83,631
Accumulated depreciation/amortisation	(10)	(18)	(18,678)	(8,939)	–	(27,645)
	14	**4,288**	**26,638**	**22,296**	**2,750**	**55,986**

RECONCILIATIONS

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

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Total $'000
Consolidated 2009						
Carrying amount at 1 July 2008	14	4,288	26,638	22,296	2,750	55,986
Additions	1,350	–	15,446	11,347	23,683	51,826
Acquisitions through 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	**1,325**	**4,247**	**79,112**	**38,355**	**15,412**	**138,451**
Consolidated 2008						
Carrying amount at 1 July 2007	24	–	18,580	12,315	2	30,921
Additions	749	4,306	7,273	8,521	2,748	23,597
Acquisitions through business combinations	–	–	7,057	4,164	–	11,221
Disposals	(743)	–	(232)	(99)	–	(1,074)
Depreciation	(16)	(18)	(6,040)	–	–	(6,074)
Amortisation	–	–	–	(2,605)	–	(2,605)
Carrying amount at 30 June 2008	**14**	**4,288**	**26,638**	**22,296**	**2,750**	**55,986**

15. INVESTMENTS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Investments - listed entities (available-for-sale financial asset)	1,000	24,875	1,000	24,875
Investments - other	316	1,240	3,614	2,004
Deferred expenditure	–	41	–	–
	1,316	**26,156**	**4,614**	**26,879**

The Company's investment in listed entities as at 30 June 2008 comprised its interest in Sydney Gas Limited. This investment was disposed of during the current financial year.

The Group's investments in listed entities are listed on the Australian Securities Exchange. For such investments classified as available-for-sale, a 2% change in the share price at reporting date would have changed equity by $14,000 after tax (2008: an increase of $348,000 after tax).

16. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

		Consolidated		Company	
Name of investee	Ownership	2009 Carrying value $'000	2008 Carrying value $'000	2009 Carrying value $'000	2008 Carrying value $'000
Cuadrilla Resources Limited (associate)	11.5%	1,504	–	1,504	–
Arawn Energy Limited (associate)	60%	6,409	–	–	–
Marais-Lucas Technologies Pty Limited (joint venture)	50%	267	–	–	–
		8,180	**–**	**1,504**	**–**

Summary financial information for the equity accounted investee 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
Cuadrilla Resources Limited (associate)	10,526	15,641	26,167	22,458	–	22,458
Arawn Energy Limited (associate)	423	6,438	6,861	423	–	423
Marais-Lucas Technologies Pty Limited (joint venture)	101	1,776	1,877	327	1,016	1,343
	11,050	**23,855**	**34,905**	**23,208**	**1,016**	**24,224**

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

The Company holds a 60% interest in Arawn Energy Limited, a Canadian company which owns a coal seam gas prospect in British Columbia in Canada. Two wells have been drilled and an assessment is being carried out of the extent of the gas reserves. Lucas does not control this Company.

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

The Group's share of profit of equity accounted investee's for the current year is $nil (2008: $nil).

17. EXPLORATION ASSETS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cost				
Balance at 1 July	4,100	6,175	–	–
Acquisitions	6,663	12,387	–	–
Transferred to equity accounted investments	(6,409)	–	–	–
Transferred to development assets	–	(14,462)	–	–
Balance at 30 June	**4,354**	**4,100**	**–**	**–**

18. INTANGIBLE DEVELOPMENT ASSETS

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

The balance of gas assets as at 30 June 2008 related to the Group's interest in the Gloucester Basin coal seam gas reserve. This asset was disposed of during the year.

19. OTHER INTANGIBLE ASSETS

	Consolidated				Company		
	Customer Relationships $'000	Goodwill $'000	Net profit interest [1] $'000	Total $'000	Goodwill $'000	Net profit interest [1] $'000	Total $'000
Cost							
Balance at 1 July 2007	4,758	5,432	–	10,190	2,061	–	2,061
Acquisitions – through business combinations	5,505	2,559	–	8,064	–	–	–
Balance at 30 June 2008	**10,263**	**7,991**	**–**	**18,254**	**2,061**	**–**	**2,061**
Balance at 1 July 2008	10,263	7,991	–	18,254	2,061	–	2,061
Acquisitions	–	–	56,644	56,644	–	56,644	56,644
Acquisitions – through business combinations	8,456	104,525	–	112,981	–	–	–
Balance at 30 June 2009	**18,719**	**112,516**	**56,644**	**187,879**	**2,061**	**56,644**	**58,705**
Amortisation and impairment losses							
Balance at 1 July 2007	1,785	1,600	–	3,385	–	–	–
Amortisation for the year	2,590	–	–	2,590	–	–	–
Balance 30 June 2008	**4,375**	**1,600**	**–**	**5,975**	**–**	**–**	**–**
Balance at 1 July 2008	4,375	1,600	–	5,975	–	–	–
Amortisation for the year	5,809	–	–	5,809	–	–	–
Impairment loss	–	–	56,644	56,644	–	56,644	56,644
Balance at 30 June 2009	**10,184**	**1,600**	**56,644**	**68,428**	**–**	**56,644**	**56,644**
Carrying amounts							
At 1 July 2007	2,973	3,832	–	6,805	2,061	–	2,061
At 30 June 2008	**5,888**	**6,391**	**–**	**12,279**	**2,061**	**–**	**2,061**
At 1 July 2008	5,888	6,391	–	12,279	2,061	–	2,061
At 30 June 2009	**8,535**	**110,916**	**–**	**119,451**	**2,061**	**–**	**2,061**

(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.

When the NPI investment was made, management was of the view that it had acquired an exploration and evaluation asset within the scope of AASB 6 *Exploration for and Evaluation of Mineral Resources*. Under this accounting standard, exploration and evaluation assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, or upon transfer to development assets. Unlike other assets, there is no requirement to assess whether an indicator of impairment exists at each reporting date until the Company has sufficient information to reach a conclusion about commercial viability and the feasibility of extraction.

As a result of further advice obtained by the Company and following the negotiation and execution of documentation, the asset was reclassified as an intangible asset within the scope of AASB 138 *Intangible Assets* given that it represents a contractual right to future income streams. As a result, the Company was required to test the asset for impairment. Given that the Prospect remains in an early stage of exploration and evaluation, the Company was unable to prepare discounted cash flow analysis to support the carrying value of the Prospect and accordingly, was required to impair this asset at 30 June 2009.

It should be noted that the Company considers that further exploration and evaluation activity should allow an assessment of future cash flows to be performed.

IMPAIRMENT TESTS FOR CASH GENERATING UNITS CONTAINING GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts allocated to each unit are:

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Drilling	107,084	2,559	–	–
Construction and infrastructure	3,832	3,832	2,061	2,061
Oil and gas	–	–	–	–
	110,916	**6,391**	**2,061**	**2,061**

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on the following year's budget and plan extended over a period of 5 years. A post-tax discount rate of 8.65% is applied adjusted for the risk of the industry in which each unit operates. The growth rate used in determining the terminal value of the cash generating units was 2.5%.

20. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 $'000	Restated **2008 $'000**	**2009 $'000**	Restated **2008 $'000**	**2009 $'000**	Restated **2008 $'000**
Consolidated						
Construction work in progress	–	–	(16,184)	(10,018)	(16,184)	(10,018)
Intangibles	–	–	(77)	(266)	(77)	(266)
Intangible development costs	–	–	(243)	(254)	(243)	(254)
Exploration, evaluation and development expenditure	–	–	(1,239)	(5,118)	(1,239)	(5,118)
Convertible note issue cost	–	–	–	(5)	–	(5)
Property, plant and equipment	(35)	–	–	–	(35)	–
Impairment of trade debtors	2,291	2,180	–	–	2,291	2,180
Provisions for employee benefits	2,207	1,650	–	–	2,207	1,650
Trade creditors	1,040	1,225	–	–	1,040	1,225
Other creditors and accruals	351	224	–	–	351	224
Unrealised foreign exchange differences	313	301	–	–	313	301
Tax value of loss carry-forwards recognised	–	8,344	–	–	–	8,344
Tax assets/(liabilities)	**6,167**	**13,924**	**(17,743)**	**(15,661)**	**(11,576)**	**(1,737)**
Set off of tax	(6,167)	(13,924)	6,167	13,924	–	–
Net tax liabilities	**–**	**–**	**(11,576)**	**(1,737)**	**(11,576)**	**(1,737)**

	Assets		Liabilities		Net	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**	**2009 $'000**	**2008 $'000**
Company						
Convertible note issue cost	–	–	–	(5)	–	(5)
Unrealised foreign exchange differences	276	276	–	–	276	276
Tax value of loss carry-forwards recognised	–	8,134	–	–	–	8,134
Tax assets/(liabilities)	**276**	**8,410**	**–**	**(5)**	**276**	**8,405**
Set off of tax	–	(5)	–	5	–	–
Net tax assets	**276**	**8,405**	**–**	**–**	**276**	**8,405**

20. DEFERRED TAX ASSETS AND LIABILITIES (CONT)

Movement in temporary differences during the year:

	Consolidated				Company			
	Restated Balance 01 Jul 08 $'000	Recognised in income $'000	Acquired in business combinations $'000	Balance 30 Jun 09 $'000	Balance 01 Jul 08 $'000	Recognised in income $'000	Utilisation of c/f tax losses $'000	Balance 30 Jun 09 $'000
2009								
Construction work in progress	(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	–	–	(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	276	–	–	276
Value of carried forward income tax losses recognised	8,344	(8,344)	–	–	8,134	(8,134)	–	–
	(1,737)	**(10,377)**	**538**	**(11,576)**	**8,405**	**(8,129)**	**–**	**276**

	Consolidated				Company			
	Balance 01 Jul 07 $'000	Restated Recognised in income $'000	Acquired in business combinations $'000	Restated Balance 30 Jun 08 $'000	Balance 01 Jul 07 $'000	Recognised in income $'000	Utilisation of c/f tax losses $'000	Balance 30 Jun 08 $'000
2008								
Construction work in progress	(6,110)	(3,908)	–	(10,018)	–	–	–	–
Intangibles	(631)	365	–	(266)	–	–	–	–
Intangible development costs	(274)	20	–	(254)	–	–	–	
Exploration, evaluation and development expenditure	(2,082)	(3,036)	–	(5,118)	–	–	–	–
Convertible note issue cost	(244)	239	–	(5)	(244)	239	–	(5)
Property, plant and equipment	15	(15)	–	–	–	–	–	–
Doubtful debts impairment recognised	2,177	3	–	2,180	–	–	–	–
Provisions for employee benefits	974	676	–	1,650	–	–	–	–
Trade creditors	971	254	–	1,225	–	–	–	–
Other creditors and accruals	192	32	–	224	–	–	–	–
Unrealised foreign exchange differences	310	(9)	–	301	276	–	–	276
Value of carried forward income tax losses recognised	10,304	–	(1,960)	8,344	10,094	–	(1,960)	8,134
	5,602	**(5,379)**	**(1,960)**	**(1,737)**	**10,126**	**239**	**(1,960)**	**8,405**

Unrecognised deferred tax assets

As at 30 June 2009, the Group had not recognised deferred tax assets of $1,158,697 (2008: $1,117,811) in relation to foreign income tax losses. The Company did not have any unrecognised deferred tax assets.

21. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Trade payables	30,866	60,048	–	376
Other payables and accruals	39,501	23,026	1,267	256
Loan from related party	4,279	–	4,279	–
Hedge liability	2,392	–	–	–
	77,038	**83,074**	**5,546**	**632**
Non-current				
Other loans - controlled entities	–	–	19,677	29,361

Other than the loan from the Company's Hong Kong subsidiary of $106,732 (2008: $12,337,328), the loans payable to controlled entities were interest free and unsecured. The loans payable to controlled entities are not repayable for at least 12 months from balance date. The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

22. INTEREST-BEARING LOANS AND BORROWINGS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Bank overdraft – secured	–	867	–	–
Other borrowings – unsecured	–	716	–	–
Other borrowings – secured	–	1,779	–	–
Deferred subsidiary acquisition consideration – unsecured	18,500	3,250	–	–
Bank loans – secured (1)	71,508	9,200	–	4,500
Lease liabilities – secured (1)	33,062	4,184	–	–
	123,070	**19,996**	**–**	**4,500**
Non-current				
Lease liabilities – secured	–	13,760	–	–
Other borrowings – secured	–	2,582	–	–
Deferred subsidiary acquisition consideration – unsecured	2,323	5,476	–	–
Bank loans – secured	–	28,492	–	17,500
Redeemable convertible preference shares – unsecured	43,172	–	43,172	–
Convertible notes – unsecured	–	726	–	726
	45,495	**51,036**	**43,172**	**18,226**
Financing facilities				
(a) The Group has access to the following lines of credit and bank guarantees				
Bank overdraft – secured	8,500	8,500	8,500	8,500
Other borrowings – secured	–	4,361	–	–
Lease liabilities – secured	41,835	29,501	–	–
Bank loan – secured	71,508	37,692	–	22,000
	121,842	**80,054**	**8,500**	**30,500**
Total facilities utilised at balance date:				
Bank overdraft – secured	–	867	–	–
Less: Right of set off	–	(867)	–	–
Other borrowings – secured	–	4,361	–	–
Lease liabilities – secured	33,063	17,944	–	–
Bank loan – secured	71,508	37,692	–	22,000
	104,570	**59,997**	**–**	**22,000**
Total facilities not utilised at balance date:				
Bank overdraft – secured	8,500	8,500	8,500	8,500
Other borrowings – secured	–	–	–	–
Lease liabilities – secured	8,772	11,557	–	–
Bank loan – secured	–	–	–	–
	17,272	**20,057**	**8,500**	**8,500**

(1) Bank loans and lease liabilities have been reclassified to current due to the breach of borrowing covenants. Refer note 1 (B).

22. INTEREST-BEARING LOANS AND LIABILITIES (CONT)

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(b) Bond facilities provided by surety entities				
Bond facilities in aggregate	50,000	50,000	–	–
Amount utilised	34,299	30,788	–	–
Unused bond facilities	**15,701**	**19,212**	**–**	**–**
Bank indemnity guarantee	6,084	5,084	2,536	3,557
Amount utilised	3,418	4,381	2,200	–
Unused bond facilities	**2,666**	**703**	**336**	**3,557**
Bank standby letter of credit	7,200	2,900	–	2,900
Amount utilised	–	2,900	–	2,900
Unused bond facilities	**7,200**	**–**	**–**	**–**

Of the bonds utilised, $17,046,127 (2008: $26,931,133) are on projects which are yet to achieve practical completion.

LOANS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

	Nominal interest rate %	Financial year of maturity	2009 $'000	2008 $'000
Consolidated				
Bank overdraft	9.25	2009	–	867
Secured bank loan	6.19	2012 (1)	7,042	8,842
Secured bank loan	6.34	2015 (1)	3,950	4,550
Secured bank loan	7.94	2009	–	20,000
Secured bank loan	7.82	2009	–	2,000
Secured bank loan	5.60	2011 (1)	48,001	–
Secured bank loan	6.16	2010	10,242	2,300
Other borrowings - secured	6.16	2010	2,273	4,265
Other borrowings - secured	9.5	2009	–	96
Other borrowings - unsecured	2.97	2009	–	716
Deferred subsidiary acquisition consideration	–	2009 - 2011	4,323	5,976
Deferred subsidiary acquisition consideration	4.25	2010	1,500	2,750
Deferred subsidiary acquisition consideration	–	2010	15,000	–
Convertible notes	10.00	2010	–	726
Redeemable convertible preference shares	11.00	2014	43,172	–
Financial lease liabilities	Avg 8.90	2009 - 2013 (1)	33,062	17,944
			168,565	**71,032**
Company				
Secured bank loan	7.94	2009	–	20,000
Secured bank loan	7.82	2009	–	2,000
Convertible notes	10.00	2010	–	726
Redeemable convertible preference shares	11.00	2014	43,172	–
			43,172	**22,726**

All loans are denominated in Australian dollars.

(1) Bank loans and lease liabilities have been disclosed as current due to the breach of borrowing covenants. Refer to note 1 (B).

BANK FACILITIES

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

REDEEMABLE CONVERTIBLE PREFERENCE SHARES

The redeemable convertible preference shares were allotted on 8 December 2008 and the issue proceeds applied to repayment of the bridging finance for the acquisition of Mitchell Drilling (Refer to note 33).

The principal terms of the Redeemable Convertible Preference Shares are:

Term: 5 years

Ranking: In priority to ordinary shares for the payment of dividends and the payment of capital on a winding up of the Company

Dividend Rate: 11% per annum payable semi-annually and cumulative

Conversion Price: $7.20 per share subject to various anti-dilution terms including on:

- A bonus issue of Ordinary Shares
- A rights issue or placement where the issue price is less than 90% of the current market price
- A special dividend or return of capital in excess of an annual yield of 3.5% of the VWAP
- A buy-back at greater than 110% of the VWAP

Estimate of dilution: 6,250,000 ordinary shares (if converted)

Voting Rights: No right to vote except:

- when a dividend is in arrears
- to vary the rights of the Redeemable Convertible Preference Shares or on certain other resolutions concerning the wind up of the Company
- to reduce the share capital
- with regards to the disposal of any of the Group's businesses or to approve the terms of a buy-back

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Proceeds of issue of redeemable convertible preference shares	45,000	–	45,000	–
Transaction costs - capitalised	(2,203)	–	(2,203)	–
Transaction costs - amortised	375	–	375	–
Carrying amount at end of year	**43,172**	**–**	**43,172**	**–**

CONVERTIBLE NOTES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Carrying amount at beginning of year	726	24,188	726	24,188
Accreted interest capitalised	–	–	–	–
Redemption of notes	–	(1,500)	–	(1,500)
Conversion of notes	(726)	(22,756)	(726)	(22,756)
Proceeds of issue of convertible notes	–	–	–	–
Transaction costs	–	794	–	794
Carrying amount at end of year	**–**	**726**	**–**	**726**

22. INTEREST-BEARING LOANS AND LIABILITIES (CONT)

FINANCE LEASE FACILITIES

The Group's lease liabilities are secured by the leased assets of $38,355,000 (2008: $22,256,000) which, in the event of default, revert to the lessor.

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

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

(1) Lease liabilities were reclassified as current due to the breach of borrowing covenants. Refer to note 1 (B).

23. CURRENT TAX LIABILITIES

The current tax liability for the Group of $50,797,000 (2008: $114,000) and for the Company of $50,454,000 (2008: $nil) represents the amount of income tax payable in respect of current and prior financial periods. The Company's liability includes the income tax payable by all members of the tax consolidated group.

24. PROVISIONS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Provision for contractual dispute	–	3,799	–	–

The contractual dispute which was provided for as at 30 June 2008 was settled during the financial year.

25. OPERATING LEASES

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	3,704	985	–	–
Between one and five years	6,307	1,164	–	–
	10,011	**2,149**	**–**	**–**

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, $2,913,000 (2008: $1,109,000) was recognised as an expense in the income statement in respect of operating leases.

26. EMPLOYEE BENEFITS

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Provision for employee benefits, including on-costs:				
Current	6,542	4,751	–	–
Non-current	730	748	–	–
	7,272	**5,499**	**–**	**–**

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 $8,262,782 (2008: $4,375,341). The Company has no employees and accordingly no defined contribution plans were sponsored by the Company.

EMPLOYEE SHARE PLAN

The Company has three employee incentive schemes for employees of the Group 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 plan (MRP) 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 issue of these rights can take the form of the award of shares for no monetary consideration, traditional priced options or performance rights (which have no exercise price).

Each right is convertible to one ordinary share. There are no voting or dividend rights attaching to the rights nor are there voting rights attaching to the unissued ordinary shares.

The terms and conditions of grants made during the year ended 30 June 2009 are as follows:

Grant date	Number of rights	Vesting conditions	Vesting date	Expiry date
26 Nov 2008	144,787	Remain in service to vesting date	30 Jun 2010	30 Jun 2012
26 Nov 2008	93,861	Remain in service to vesting date	30 Jun 2011	30 Jun 2013

The fair value of services received in return for the rights granted was calculated using a Black-Scholes pricing model with the following inputs:

Grant date	No. of rights	Expiry date	Share price on grant date	Exercise price	Risk-free interest rate	Expected dividend yield	Fair value at grant date
26 Nov 2008	144,787	30 Jun 2012	$4.60	–	3.2%	2.4%	$4.42
26 Nov 2008	93,861	30 Jun 2013	$4.60	–	3.6%	2.4%	$4.27

As the rights have no exercise price, the valuation took no account of the expected volatility of the underlying share price as this does not influence the value of the rights.

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

	Weighted average exercise price 2009	Number of rights 2009	Weighted average exercise price 2008	Number of rights 2008
Outstanding at beginning of the period	$0.39	2,921,429	$0.58	1,048,333
Forfeited during the period	–	–	–	–
Exercised during the period	–	(611,429)	–	(234,333)
Granted during the period	–	238,648	$0.25	2,107,429
Outstanding at end of the period	$0.44	2,548,648	$0.39	2,921,429
Exerciseable at end of the period	**–**	**390,937**	**–**	**633,183**

26. EMPLOYEE BENEFITS (CONT)

The options outstanding at 30 June 2009 have an exercise price in the range of $nil to $2.11 and a weighted average contractual life of 2.9 years.

During the financial year, 611,429 share options were exercised (2008: 234,333). The weighted average share price at the dates of exercise was $4.01 (2008: $2.63).

During the year the Group recognised as an expense $1,507,974 (2008: $1,494,000) in relation to share based payments. The liability at year end for cash settled rights is $404,418 (2008: $613,873). The carrying amount of the liability at 30 June 2008 was settled during the year ended 30 June 2009. 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
23 Nov 2007	23 Nov 2012	$3.40	$2.11	51%	6.4%	2.2%	$1.70
31 Aug 2007	31 Aug 2012	$2.11	–	49% - 56%	6.2% - 6.3%	2.8%	$1.88 - $2.05
24 Nov 2006	24 Nov 2011	$1.08	$1.10	44%	5.7%	4.8%	$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.

27. CAPITAL AND RESERVES

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

	Employee equity benefit reserve $'000	Translation reserve $'000	Share capital $'000	Hedging reserve $'000	Restated Retained earnings/ (accumulated losses) $'000	Total equity $'000
CONSOLIDATED						
Balance at 1 July 2007	785	306	30,655	–	(663)	31,083
Total recognised income and expense	–	274	–	–	14,027	14,301
Dividends to equity holders	–	–	–	–	(3,273)	(3,273)
Issue of ordinary shares	–	–	23,382	–	–	23,382
Equity settled share based payments	871	–	–	–	–	871
Balance at 30 June 2008	**1,656**	**580**	**54,037**	**–**	**10,091**	**66,364**
Balance at 1 July 2008	1,656	580	54,037	–	10,091	66,364
Total recognised income and expense	–	277	–	(2,392)	103,253	101,138
Dividends to equity holders	–	–	–	–	(6,358)	(6,358)
Issue of ordinary shares	–	–	46,178	–	–	46,178
Share bought back and cancelled	–	–	(8,361)	–	–	(8,361)
Equity settled share based payments	716	–	81	–	–	797
Balance at 30 June 2009	**2,372**	**857**	**91,935**	**(2,392)**	**106,985**	**199,757**
COMPANY						
Balance at 1 July 2007	–	–	30,736	–	(8,282)	22,454
Total recognised income and expense	–	–	–	–	3,719	3,719
Dividends to equity holders	–	–	–	–	(3,273)	(3,273)
Issue of ordinary shares	–	–	23,382	–	–	23,882
Balance at 30 June 2008	**–**	**–**	**54,118**	**–**	**(7,836)**	**46,282**
Balance at 1 July 2008	–	–	54,118	–	(7,836)	46,282
Total recognised income and expense	–	–	–	–	107,481	107,481
Dividends to equity holders	–	–	–	–	(6,358)	(6,358)
Issue of ordinary shares	–	–	46,178	–	–	46,178
Share bought back and cancelled	–	–	(8,361)	–	–	(8,361)
Equity settled share based payments	2,372	–	–	–	–	2,372
Balance at 30 June 2009	**2,372**	**–**	**91,935**	–	**93,287**	**187,594**

NATURE AND PURPOSE OF RESERVES

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

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

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

27. CAPITAL AND RESERVES (CONT)

SHARE CAPITAL - ORDINARY SHARES

	Company	
	2009 No. of Shares	2008 No. of Shares
Movements during the year		
On issue at 1 July	59,257,134	54,200,536
Private placement	5,500,000	–
Shares issued for business acquisition	2,754,769	285,550
Exercise of rights under the Management Rights Plan	264,000	234,333
Shares bought back and cancelled	(3,058,487)	–
Conversion of convertible notes	228,461	4,536,715
On issue at 30 June - fully paid	**64,945,877**	**59,257,134**

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

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

DIVIDENDS

Dividends recognised by the Company during the current year are:

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Final 2008	4.5	3,038	15% franked	29 September 2008
Interim 2009	5.0	3,320	unfranked	27 March 2009
		6,358		

DIVIDEND NOT RECOGNISED AT YEAR END

Since the year end, the directors have recommended a fully franked final dividend of 5.5 cents (2008: 4.5 cents) per share payable on 28 September 2009. The declaration and subsequent payment of the dividend has no income tax consequences.

The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2009 and will be recognised in subsequent financial reports.

DIVIDEND FRANKING ACCOUNT

After the payment of the dividend recognised at year end and tax payments due within the next financial year, the balance of franking credits available to shareholders of the Company for subsequent financial years is $50,845,643 (2008: $48,312). The impact on the dividend franking account of dividends proposed after balance date but not recognised as a liability will reduce this balance by $3,572,023.

28. FINANCIAL INSTRUMENTS

OVERVIEW

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

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

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management 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 Company and 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 Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and 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. For the Company, it arises principally from receivables due from subsidiaries.

TRADE AND OTHER RECEIVABLES: The Company's and 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 Group Tender Committee.

In monitoring customer credit risk, customers are grouped by business segment, then by their debtor 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.

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:

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loans and receivables	83,762	56,912	202,905	55,953
Bank balances	96,317	16,612	95,083	5,519
	180,079	**73,524**	**297,988**	**61,472**
Maximum exposure to credit risk for loans and receivables at the reporting date by business segment was:				
Drilling	32,096	15,853	148,875	28,265
Construction and infrastructure	24,739	34,305	27,104	6,577
Oil and gas	24,029	–	24,029	–
Unallocated	2,898	6,754	2,897	21,111
	83,762	**56,912**	**202,905**	**55,953**

IMPAIRMENT LOSSES: The ageing of the Group and Company's loans and receivables at the reporting date was:

	Consolidated			
	Gross 2009 $'000	Impairment 2009 $'000	Gross 2008 $'000	Impairment 2008 $'000
The ageing of loans and receivables at the reporting date was:				
Not past due	73,490	(7,510)	44,889	–
Past due up to 30 days	7,878	–	7,826	–
Past due 31 to 120 days	5,695	–	2,953	–
Past due 121 days to one year	3,840	–	1,253	(9)
More than one year	427	(58)	7,187	(7,187)
	91,330	**(7,568)**	**64,108**	**(7,196)**

At year end the balance of impairment in respect of loans and receivables for the Group as at 30 June 2009 was $7,568,000 (2008: $7,196,000). A loan of $6,789,000 and a receivable of $349,000 were written off during the prior year. In addition, an impairment loss for receivables of $7,510,000 was recognised during the current year.

28. FINANCIAL INSTRUMENTS (CONT)

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 2009, the Group has collective impairments on its trade receivables of $7,568,000 (2008: $7,196,000).

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 $8.5 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 note 22 for details of lines of credit available.

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

		Contractual cash flows					
	Carrying amount $'000	Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2009							
Consolidated							
Non-derivative financial liabilities							
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	71,507	(80,931)	(4,886)	(18,664)	(10,259)	(47,122)	–
Lease liabilities - secured	33,063	(37,695)	(6,273)	(5,631)	(8,827)	(16,964)	–
Redeemable convertible preference shares - unsecured	43,172	(69,750)	(2,475)	(2,475)	(4,950)	(59,850)	–
Derivative financial liabilities							
Interest rate swaps used for hedging	2,392	(2,392)	–	–	–	(2,392)	–
	245,603	**(286,414)**	**(106,780)**	**(26,770)**	**(26,536)**	**(126,328)**	**–**
2009							
Company							
Redeemable convertible preference shares - unsecured	43,172	(69,750)	(2,475)	(2,475)	(4,950)	(59,850)	–
Trade and other payables - unsecured	5,546	(5,546)	(5,546)	–	–	–	–
Loans from subsidiaries - unsecured	19,677	(19,677)	–	–	–	–	(19,677)
	68,395	**(94,973)**	**(8,021)**	**(2,475)**	**(4,950)**	**(59,850)**	**(19,677)**

	Carrying amount $'000	Contractual cash flows Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2008							
Consolidated							
Trade and other payables - unsecured	83,074	(83,074)	(83,074)	–	–	–	–
Bank overdraft - secured	867	(867)	(867)	–	–	–	–
Other borrowings - unsecured	716	(716)	(716)	–	–	–	–
Other borrowings - secured	4,361	(4,735)	(2,013)	(691)	(1,383)	(648)	–
Subsidiary acquisition deferred consideration	8,726	(9,250)	(3,250)	–	(3,500)	(2,500)	–
Bank loans - secured	37,692	(43,295)	(2,376)	(9,523)	(21,725)	(9,671)	–
Lease liabilities - secured	17,944	(21,027)	(2,873)	(2,645)	(6,377)	(9,132)	–
Convertible notes - unsecured	726	(892)	(37)	(37)	(818)	–	–
	154,106	**(163,856)**	**(95,206)**	**(12,896)**	**(33,803)**	**(21,951)**	**–**
2008							
Company							
Trade and other payables - unsecured	632	(632)	(632)	–	–	–	–
Bank loans - secured	22,000	(24,609)	(732)	(5,327)	(18,550)	–	–
Loans from subsidiaries - unsecured	29,361	(29,361)	–	–	–	–	(29,361)
Convertible notes - unsecured	726	(892)	(37)	(37)	(818)	–	–
	52,719	**(55,494)**	**(1,401)**	**(5,364)**	**(19,368)**	**–**	**(29,361)**

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.

CURRENCY RISK: The Group and the Company operate internationally and are 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, Euro, Hong Kong dollar and Pacific francs.

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 establish 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
2009					
Consolidated					
Trade payables	(263)	(564)	(64)	(13)	(11)
Net balance sheet exposure	**(263)**	**(564)**	**(64)**	**(13)**	**(11)**
2008					
Consolidated					
Trade receivables and other receivables	–	9	–	–	–
Trade payables	(4,956)	(724)	(64)	(12)	–
Net balance sheet exposure	**(4,956)**	**(715)**	**(64)**	**(12)**	**–**

28. FINANCIAL INSTRUMENTS (CONT)

Sensitivity analysis

At 30 June 2009, had the Australian dollar weakened/strengthen by 10% against the respective foreign currencies with all other variables held constant, the Group post-tax profit and equity would have been $91,500 lower/$91,500 higher had the Australian dollar weakened/strengthened against the respective currencies.

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
	2009	**2008**	**2009**	**2008**
Euro	0.5419	0.6102	0.5751	0.6055
USD	0.7461	0.8968	0.8114	0.9583
XPF	64.62	70.36	64.6930	71.6165
HKD	5.7947	6.9897	6.2884	7.4380
NZD	1.2286	1.1678	1.2428	1.2569

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 year to cap exposure to increases in interest rate volatility.

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Fixed rate instruments				
Financial assets	1,409	6,064	1,409	6,064
Financial liabilities	(76,235)	(17,420)	(43,172)	(726)
	(74,826)	**(11,356)**	**(41,763)**	**5,338**
Variable rate instruments				
Financial assets	96,317	16,612	95,083	5,519
Financial liabilities	(73,007)	(50,862)	–	(22,000)
	23,310	**(34,250)**	**95,083**	**(16,481)**

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

	30 June 2009		30 June 2008	
	Weighted average interest rate %	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Consolidated				
Bank overdraft	–	–	11.75	(867)
Other borrowings	–	–	10.25	(5,077)
Deferred subsidiary acquisition consideration	4.25	(1,500)	10.50	(7,226)
Bank loans	5.68	(71,507)	7.93	(37,692)
Net exposure to cash flow interest rate risk		**(73,007)**		**(50,862)**
Company				
Bank loans	–	–	7.93	(22,000)
Net exposure to cash flow interest rate risk		**–**		**(22,000)**

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 effect profit or loss for the Group or the Company.

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 $567,330 for the Group (2008: $859,704) and $nil for the Company (2008: $331,000). 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 investment is managed on an individual basis and all buy and sell decisions are approved by the Risk Management Committee.

FAIR VALUES

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

	Consolidated		Company	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
2009				
Bank balances	96,317	96,317	95,083	95,083
Loans and receivables	83,762	83,762	202,905	202,905
Investments	1,316	1,316	4,614	4,614
Trade and other payables	(77,038)	(77,038)	(5,546)	(5,546)
Deferred subsidiary acquisition consideration	(20,823)	(20,823)	–	–
Bank loans	(71,507)	(71,507)	–	–
Lease liabilities	(33,063)	(33,063)	–	–
Loans from subsidiaries	–	–	(19,677)	(19,677)
Redeemable convertible preference shares	(43,172)	(43,172)	(43,172)	(43,172)
	(64,208)	**(64,208)**	**234,207**	**234,207**

	Consolidated		Company	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
2008				
Bank balances	16,612	16,612	5,519	5,519
Loans and receivables	56,912	56,912	55,953	55,953
Investments	26,156	29,020	26,879	29,743
Trade and other payables	(83,074)	(83,074)	(632)	(632)
Bank overdraft	(867)	(867)	–	–
Other borrowings	(5,077)	(5,077)	–	–
Deferred subsidiary acquisition consideration	(8,726)	(8,726)	–	–
Bank loans	(37,692)	(37,692)	(22,000)	(22,000)
Lease liabilities	(17,944)	(17,944)	–	–
Convertible notes	(726)	(726)	(726)	(726)
Loans from subsidiaries	–	–	(29,361)	(29,361)
	(54,426)	**(51,562)**	**35,632**	**38,496**

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

28. FINANCIAL INSTRUMENTS (CONT)

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, excluding non-redeemable preference shares and minority interests. 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 five percent of the Company's ordinary shares by 2012. At present employees hold approximately 1.5% of the Company's ordinary shares, or just under 4% assuming that all outstanding share options vest and are exercised. Currently management is considering structure 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%; during the year ended 30 June 2009 the return was 15.4% (2008: 15.3%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 5.7% (2008: 5.4%).

From time to time, the Group purchases its own shares on market as part of its capital management program and under a defined share buy-back plan. The timing of these purchases depends on market prices. Alternatively, shares may be purchased on-market to satisfy the Group's obligations under its employee share schemes. Buy and sell decisions are made on a specific transaction basis by the Board. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. INTERESTS IN JOINT VENTURES

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

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

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Assets				
Current assets				
Cash and cash equivalents	627	3,270	–	–
Trade and other receivables	2,934	15,079	–	–
Other	95	131	–	–
Construction work in progress	2,038	5,615	–	–
Total current assets	**5,694**	**24,095**	**–**	**–**
Non-current assets				
Exploration assets	4,133	1,582	–	–
Investment	92	–	–	–
Intangible development assets	–	14,462	–	–
Total non-current assets	**4,225**	**16,044**	**–**	**–**
Total assets	**9,919**	**40,139**	**–**	**–**
Liabilities				
Current liabilities				
Trade and other payables	2,423	16,018	–	–
Total liabilities	**2,423**	**16,018**	**–**	**–**

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

30. CONSOLIDATED ENTITIES

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

Name of entity	Country of incorporation	Ownership interest 2009 %	2008 %
Parent entity			
AJ Lucas Group Limited			
Controlled entities			
AJ Lucas Operations Pty Limited	Australia	100	100
AJ Lucas Plant & Equipment Pty Limited	Australia	100	100
AJ Lucas Drilling Pty Limited	Australia	100	100
AJ Lucas Pipelines Pty Limited	Australia	100	100
AJ Lucas Testing Pty Limited	Australia	100	100
Smart Electrical & Power Services Pty Limited	Australia	100	100
AJ Lucas Joint Ventures Pty Limited	Australia	100	100
Coastal Sand Technologies Pty Limited	Australia	100	100
Lucas Energy Pty Limited	Australia	–	100
AJ Lucas (Hong Kong) Limited	Hong Kong	100	100
AJ Lucas (USA) Inc.	USA	100	100
AJ Lucas Coal Technologies Pty Limited	Australia	100	100
Wholly owned subsidiary of AJ Lucas Coal Technologies Pty Limited			
Mitchell Drilling Corporation Pty Limited	Australia	100	–
Lucas Contract Drilling Pty Limited	Australia	100	100
Wholly owned subsidiary of Lucas Contract Drilling Pty Limited			
McDermott Drilling Pty Limited	Australia	100	100
Lucas Stuart Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Stuart Pty Limited			
Ketrim Pty Limited	Australia	100	100
Stuart Painting Services Pty Limited	Australia	100	100
Lucas Stuart Projects Pty Limited	Australia	100	100
Jaceco Drilling Pty Limited	Australia	100	100
Geosearch Drilling Service Pty Limited	Australia	100	100
Lucas Energy (UK) Limited	England	99	99
257 Clarence Street Pty Limited	Australia	100	100
Lucas SARL	New Caledonia	100	100
Lucas Energy (Holdings) Pty Limited	Australia	100	–
Wholly owned subsidiaries of Lucas Energy (Holdings) Pty Limited			
Lucas (Arawn) Pty Limited	Australia	100	–
Lucas Energy (WA) Pty Limited	Australia	100	–
Lucas Energy (ATP651P) Pty Limited	Australia	100	–

31. 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 29), the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint ventures. As at 30 June 2009, 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 $2,423,000 (2008: $16,018,000)

(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.

(iii) Under the terms of the Class Order described in the note on AJ Lucas Group Limited and controlled entities, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies (refer to note 36 for further information).

COMMITMENTS

At 30 June 2009 the Group had commitments contracted but not provided for and payable within one year of $1,729,060 (2008: $nil) for the purchase of new plant and equipment under finance leases.

32. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	Consolidated 2009 $'000	Consolidated Restated 2008 $'000	Company 2009 $'000	Company 2008 $'000
(a) Reconciliation of cash					
For the purposes of the statements 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 statements of cash flows is reconciled to the related items in the balance sheet as follows:					
Cash assets	10	96,317	16,612	95,083	5,519
Bank overdraft	22	–	(867)	–	–
Total cash		**96,317**	**15,745**	**95,083**	**5,519**
(b) Cash flows from operating activities					
Profit for the year		103,253	14,027	107,481	3,719
Adjustments for:					–
Interest on capitalised leases		2,501	1,193	–	–
Interest on deferred acquisition consideration		104	–	–	–
Loss/(gain) on sale of non-current assets		110	(24)	–	–
Interest income receivable		–	(626)	–	(626)
Dividend income from controlled entity		–	–	(8,961)	–
Depreciation		13,250	6,074	–	–
Gain on sale of intangible development asset		(215,765)	–	(215,765)	–
Gain on sale of listed shares		(5,392)	–	(5,392)	–
Impairment of intangible assets		56,644	–	56,644	–
Amortisation of:					
Leased assets		4,588	2,605	–	–
Intangibles		5,809	2,590	–	–
Development expenditure		228	183	–	–
Borrowing cost		1,264	794	–	794
Operating profit/(loss) before changes in working capital and provisions		**(33,406)**	**26,816**	**(65,993)**	**3,887**
Change in receivables		(4,805)	(25,222)	–	66
Change in other current assets		810	(655)	184	(184)
Change in inventories		(18,359)	12,173	–	–
Change in payables		(17,477)	18,856	(157)	172
Change in other liabilities		53	7,897	–	–
Change in provisions for employee benefits		(668)	2,211	–	–
Change in other provisions		–	858	–	–
Change in loans to controlled entities		–	–	–	(9,520)
Change in tax balances		60,961	6,862	67,174	1,721
Change in employee equity benefit reserve		716	–	–	–
Change in reserves		277	274	–	–
Net cash from operating activities		**(11,898)**	**50,070**	**1,208**	**(3,858)**

(c) Non-cash financing and investment activities

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

(d) Financing arrangements

Refer note 22.

33. ACQUISITION OF SUBSIDIARY

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 $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Cash and cash equivalents	1,409	–	1,409
Trade and other receivables	1,081	–	1,081
Stock	625	625	–
Plant and equipment	49,862	11,034	38,828
Deferred tax asset	538	(188)	726
Intangibles	8,456	8,456	–
Trade and other payables	(92)	–	(92)
Tax liabilities	(229)	–	(229)
Provisions	(1,827)	–	(1,827)
Net identifiable assets and liabilities	59,823	19,927	39,896
Goodwill on acquisition	104,525		
Consideration	164,348		
Cash acquired	(1,409)		
Liabilities assumed	(12,082)		
Deferred cash consideration	(15,000)		
Share consideration	(16,534)		
Net cash outflow	119,323		

The consideration above includes acquisition costs of $14.3 million.

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 1 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.

2008

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

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

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

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

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

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

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

34. 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
- Garry O'Meally

EXECUTIVES

Ian Redfern	General Manager, Construction
Kevin Lester	General Manager, Pipelines
Mark Summergreene	Chief Financial Officer
Denis O'Brien	General Manager, Queensland
Brett Tredinnick	General Manager, Drilling
Mark Tonkin	General Manager, Strategy & Planning
Mike Much	General Manager, Oil & Gas
Paul Bilston	General Manager, CSG (ceased employment on 31 March 2009)
Mike Rollo	Chief Executive, Lucas Operations (appointed 1 January 2009; ceased employment on 8 May 2009)

34. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT)

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is:	Consolidated 2009 $	2008 $
Short-term employee benefits	19,811,668	2,548,353
Post-employment benefits	182,668	153,332
Termination benefits	200,000	–
Share based payments	971,884	626,346
	21,166,220	**3,328,031**

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 Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

LOANS TO AND TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES (CONSOLIDATED)

Details regarding loans outstanding at the reporting date to key management personnel and their related parties, where the individual's aggregate loan balance exceeds $100,000 at any time in the reporting period, are as follows:

	Balance 1 July 2008 $	Balance 30 June 2009 $	Interest payable in the reporting period $	Highest balance in period $
Allan Campbell	6,063,617	nil	nil[1]	9,753,659

(1) Interest was payable and accrued at 8.5% per annum for the period from 1 July 2008 until 30 June 2009. This was lower than the interest rate for the period to 30 June 2008 as the Company adjusted the rate of interest to market as from 1 July 2008. Prior to the end of 30 June 2009, interest of $661,115 that had accrued to 30 June 2009 under the loan was reversed to Nil (see below).

The loan was due for repayment on 30 June 2009. During this period, the loan was secured. The loan was advanced to Mr Campbell as agent for the Company to acquire a 10% net profit interest in oil and gas leasehold interests in Trinity County, East Texas, USA (Trinity Investment). Mr Campbell received no financial benefit personally as a result of the loan and entered into the arrangement solely for the benefit of the Group. Mr Campbell, however, remained principally liable for repayment of the loan.

Prior to 30 June 2009, the loan was fully discharged and the loan agreement with Mr Campbell was terminated. The obligation of Mr Campbell to repay the loan was fully satisfied and discharged by Mr Campbell and the Company agreeing to recognise that the Trinity Investment was a direct investment of the Company in which Mr Campbell had no personal interest and no right to receive any personal financial benefit.

OTHER 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.

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

Key management persons	Contracting Entity	Transaction	Note	2009 $	2008 $
Allan Campbell	Argyll Capital Partners Pty Ltd	Executive director services	(i)	505,000	483,483
Andrew Lukas	AJ Lucas Equipment Pty Ltd	Executive director services	(i)	87,498	–
Ian Stuart-Robertson	Urban Enterprises Pty Ltd	Executive director services	(i)	29,166	–
Ian Stuart-Robertson	John Hollis & Partners	Quantity surveyors	(ii)	123,100	190,036
Garry O'Meally	Narwood Pty Ltd	Non-executive director services	(i)	80,000	45,000
Martin Green	BRI Ferrier (NSW) Pty Ltd	Non-executive director services	(i)	80,000	45,000

(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.

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:

2009	Held at 1 July 2008	Received on exercise of rights	Received as part of compensation	Net other change	Held at 30 June 2009
Directors					
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
Executives					
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

2008	Held at 1 July 2007	Received on exercise of rights	Received as part of compensation	Net other change	Held at 30 June 2008
Directors					
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	189,180	–	–	30,000	219,180
Executives					
Ian Redfern	–	–	–	–	–
Kevin Lester	570	180,000	–	–	180,570
Mark Summergreene	–	–	–	–	–
Brian Burden	570	–	–	–	570
Brett Tredinnick	60,570	–	–	19,000	79,570
Mark Tonkin	120,000	–	–	218,317	338,317

OPTIONS AND 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:

2009	Held at 1 July 2008	Cancelled	Exercised	Granted as compensation	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
Allan Campbell	360,000	–	–	238,648	598,648	–	–
Ian Stuart-Robertson	220,000	–	–	–	220,000	–	–
Andrew Lukas	220,000	–	–	–	220,000	–	–
Executives							
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

34. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT)

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION (CONT)

2008	Held at 1 July 2007	Cancelled	Exercised	Granted as compensation	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors							
Allan Campbell	250,000	–	–	110,000	360,000	–	–
Ian Stuart-Robertson	150,000	–	–	70,000	220,000	–	–
Andrew Lukas	150,000	–	–	70,000	220,000	–	–
Executives							
Ian Redfern	75,000	–	–	129,811	204,811	34,239	109,239
Kevin Lester	180,000	–	(180,000)	89,357	89,357	20,543	20,543
Mark Summergreene	–	–	–	82,209	82,209	18,900	18,900
Brian Burden	30,000	–	–	80,422	110,422	18,489	48,489
Brett Tredinnick	–	–	–	73,202	73,202	16,829	16,829
Mark Tonkin	–	–	–	57,353	57,353	10,742	10,742

35. NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The Group has a related party relationship with its subsidiaries (see note 30) and joint ventures (see note 29). These entities trade with each other from time to time on normal commercial terms.

Other than amounts owing to AJ Lucas (Hong Kong) Limited, on which interest is paid 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:

	2009 $'000	2008 $'000
Dividend revenue from wholly-owned controlled entity	8,962	–
Interest expense	636	857
Receivables:		
Aggregate amount receivable from wholly owned entities of the Company:		
AJ Lucas Joint Ventures Pty Limited	4,269	3,910
AJ Lucas Operations Pty Limited	22,552	24,314
Lucas Energy Pty Limited	–	15,047
Lucas Stuart Pty Limited	242	–
AJ Lucas Coal Technologies Pty Limited	148,875	4,731
McDermott Drilling Pty Limited	–	1,846
Smart Electrical & Power Services Pty Limited	14	14
AJ Lucas (USA) Inc.	27	27
	175,979	**49,889**
Payables:		
Aggregate amount payable to wholly owned entities of the Company:		
Lucas Stuart Pty Limited	–	14,643
McDermott Drilling Pty Limited	3,978	–
AJ Lucas (Hong Kong) Limited	106	12,337
Geosearch Drilling Service Pty Limited	15,593	2,381
	19,677	**29,361**

36. 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. The subsidiaries subject to the Deed are:

36. DEED OF CROSS GUARANTEE (CONT)

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
Coastal Sand Technologies Pty Limited
Lucas Energy 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 Energy (ATP651P) Pty Limited
Mitchell Drilling Corporation Pty Limited

A consolidated summarised income statement and consolidated balance sheet, 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 2009 are set out as follows:

SUMMARISED INCOME STATEMENT AND RETAINED PROFITS

	Consolidated	
		Restated
	2009 $	2008 $
Profit before tax	170,885	22,592
Income tax expense	(60,838)	(7,180)
Profit after tax	110,047	15,412
Retained profit at beginning of the year	2,085	(10,054)
Dividends recognised during the year	(6,358)	(3,273)
Retained profit at end of year	105,774	2,085
Attributable to:		
Equity holders of the company	110,047	15,412
Profit for the period	110,047	15,412

BALANCE SHEET

	Consolidated	
		Restated
	2009 $	2008 $
Current assets		
Cash and cash equivalents	96,317	16,448
Trade and other receivables	59,732	56,847
Construction work in progress	61,389	42,405
Other assets	907	1,263
Total current assets	**218,345**	**116,963**
Non-current assets		
Trade and other receivables	23,922	–
Development assets	878	15,452
Exploration assets	4,354	4,750
Investments	1,305	23,992
Equity accounted investees	8,180	–
Intangible assets	119,451	12,279
Property, plant and equipment	138,451	55,986
Total non-current assets	**296,541**	**112,459**
Total assets	**514,886**	**229,422**
Current liabilities		
Trade and other payables	77,037	79,273
Interest-bearing loans and borrowings	123,070	17,696
Income tax payable	50,797	115
Provisions	6,542	8,550
Total current liabilities	**257,446**	**105,634**
Non-current liabilities		
Trade and other payables	–	12,399
Interest-bearing loans and borrowings	45,495	51,036
Deferred tax liabilities	11,576	1,827
Provisions	730	748
Total non-current liabilities	**57,801**	**66,010**
Total liabilities	**315,247**	**171,644**
Net assets	**199,639**	**57,778**
Equity		
Issued capital	91,935	54,037
Reserves	1,930	1,656
Retained earnings	105,774	2,085
Total equity	**199,639**	**57,778**

37. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to year-end, the Company invested a further $25.1 million in relation to its 10% Net Profit Interest in the Monument Prospect as part of the Company's oil and gas strategy. Refer to Note 19 for further information in relation to the nature of this investment.

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

Other than these matters, 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 financial statements and notes, set out on pages 16 to 63 and the Remuneration Report included in the Directors' Report, set out on pages 9 to 14, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their 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;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1; and

(c) 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 36 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 2009.

Signed in accordance with a resolution of the directors:

Allan Campbell
Director
30 September 2009

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 AJ Lucas Group Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 37 and the Directors' Declaration of the Group comprising the Company and the entities it controlled at year end or from time to time during the financial year.

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 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, 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.

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 Company's and the Group's financial position and of their 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 AJ Lucas Group Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their 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 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included within the Directors' Report for the year ended 30 June 2009. 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 Auditing Standards.

AUDITOR'S OPINION

In our opinion, the Remuneration Report of AJ Lucas Group Limited for the year ended 30 June 2009, complies with Section 300A of the Corporations Act 2001.

KPMG

Neil Cameron Smith
Partner
Sydney
30 September 2009

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 AUGUST 2009)

	Number of Security Holders		
Securities held	Ordinary shares	Redeemable convertible preference shares	Options / rights
1 - 1,000	1,128	–	–
1,001 - 5,000	1,707	–	–
5,001 - 10,000	584	–	1
10,001 - 100,000	472	4	35
100,001 and over	38	1	3
Total	**3,929**	**5**	**39**

68 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	20.76
National Nominees Limited	5,789,313	8.91
HSBC Custody Nominees (Australia) Limited	3,962,215	6.10
Mitchell Drilling Contractors Pty Limited Trustee of Tanson Account	2,645,503	4.07
Amalgamated Dairies Limited	2,254,000	3.47
JP Morgan Nominees Australia Limited	2,091,488	3.22
Forty Traders Limited	1,976,348	3.04
Cogent Nominees Pty Limited	1,090,930	1.68
Citycorp Nominees Pty Limited CFS Developing Companies A/C	1,064,672	1.64
Citicorp Nominees Pty Limited	910,337	1.40
Gwynvill Trading Pty Limited	834,363	1.28
ANZ Nominees Limited	819,210	1.26
Forbar Nominees Limited	523,837	0.81
Cogent Nominees Pty Limited SMP Account	419,967	0.65
UBS Nominees Pty Limited	390,982	0.60
Viewjet Pty Limited	352,769	0.54
Barrijag Pty Limited The Hadley Family A/C	327,621	0.50
NZ Guardian Trust Company Limited 01035700 A/C	290,950	0.45
Citicorp Nominees Pty Limited CFSIL CWLTH AUST SHS 23 A/C	290,706	0.45
Queensland Investment Corporation	251,933	0.39
Total	**39,772,734**	**61.22**

SUBSTANTIAL SHAREHOLDERS

Name	Number of ordinary shares held	% of Issued shares
Andial Holdings Pty Limited	17,490,000	26.93
Amalgamated Dairies Group	4,230,348	6.51

ON-MARKET BUY BACK: There is an on-market buy back currently in place.
UNQUOTED EQUITY SECURITIES: As at 31 August 2009, there were 2,548,648 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 27 of the financial statements.
Redeemable convertible preference shares - Refer to note 22 of the financial statements.
Options and rights - These are no voting rights attached to the options and rights.

DIRECTORY

COMPANY SECRETARY
Nicholas Swan MA, MBA

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SHARE REGISTRY
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ADELAIDE SA 5001
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Enquiries outside Australia: +61 3 9615 5970
Email: web.queries@computershare.com.au
Website: 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.

AJ LUCAS GROUP LIMITED

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from 1 November 2009