AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

6 MONTHS ENDED 31 DECEMBER 2010

APPENDIX 4D

(Previous Corresponding Reporting Period:
6 months ended 31 December 2009)

Results for Announcement to the Market

for the six months ended 31 December 2010

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change		$A'000
Revenues from ordinary activities	Up 38.3%	to	229,762
Underlying earnings before interest and tax	Up 65.2%	to	(10,922)
(Loss)/profit from ordinary activities after tax attributable to members	Down 412.4%	to	(17,877)
Net (loss)/profit for the period attributable to members	Down 412.4%	to	(17,877)

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	93.7¢	131.7¢

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

1. An interim report for the six months ended 31 December 2010 is provided with the Appendix 4D information.
2. The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.
3. The Appendix 4D information is based on the interim financial report, which has been subject to audit review.
4. The review by the auditor is provided with the interim financial report.

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Company Secretary

NJW Swan

28 February 2011

Commentary on the Results

for the six months ended 31 December 2010

As advised in the trading and operations update released to the market on 5 January 2011, the Group experienced difficult trading conditions in the first half due to project delays and particularly adverse weather. After the initial expectations of a much improved financial performance this financial year, this was disappointing but largely due to circumstances beyond management's control.

However, provided the weather holds, a much improved result can be expected in the second half. The impact of the Queensland floods, while dramatic, has been relatively short lived and the majority of the drilling fleet is now again fully engaged. Further, resources have been mobilised and are in place to commence work on the Group's other projects previously delayed.

Longer term, all of the Group's business sectors, coal and coal seam gas, water and related infrastructure works, are experiencing strong demand and the Group is tendering for record amounts of work. The Drilling Division currently has a full order book and the BC&I Division has been short-listed for a number of significant projects. However, although the lead time for much of the work flowing from the tender activity is relatively short, it is difficult to predict with certainty the timing of the award of such work.

Management recognises that the balance sheet is weak with a deficiency of working capital. Much of this deficiency is attributable to accounting standards with much of the reported loan facilities reported as current obligations actually payable over a number of years, subject to continued compliance with the relevant agreed payment schedule.

Nevertheless, the reported balance sheet is impacting on the Group's ability to secure and perform new works. Accordingly, we commenced several months ago a comprehensive review of the business with the intention of identifying the optimal course to strengthen the balance sheet. While we identified a number of alternative options, none were acted upon as we considered that they all undervalued the Company. However, we continue this analysis and hope to be able to announce a course of action to improve the Group's liquidity and balance sheet strength in the near future.

In the interim, relatively strong cash flow from operations during the period amounting to $25.7 million has sustained the Group's activities despite a significant increase in working capital on account of the project delays.

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

	Six months ended		
	Dec 2010 $ million	**Dec 2009 $ million**	**Change %**
Total revenue	**229.8**	**166.1**	**38.3**
Underlying EBITDA (excludes other income & impairment losses)	3.2	(17.8)	118.0
Reported EBITDA	2.9	42.5	(93.1)
EBIT	**(10.9)**	**28.9**	**(137.8)**
Net (loss)/profit before income tax	(24.9)	20.2	(223.3)
(Loss)/profit after tax	**(17.9)**	**5.7**	**(412.4)**
Basic earnings/(loss) per share (cents)	(27.2)¢	8.8¢	(408.7)
Diluted earnings/(loss) per share (cents)	(27.2)¢	8.5¢	(419.6)

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

	Dec 2010 $'000	**Dec 2009 $'000**
Reported EBITDA	**2,916**	**42,475**
Other income	-	(93,573)
Impairment of intangible assets	301	25,428
Impairment of equity accounted investee	-	7,911
Share of profit of equity accounted investee	(13)	-
Underlying EBITDA	**3,204**	**(17,759)**

The result shows a much improved result in underlying EBITDA although disappointing compared to what had originally been expected at the beginning of the financial year.

Commentary on the Results

for the six months ended 31 December 2010

The results by division are as follows:

Drilling Division

Dec 2010			Dec 2009		
Revenue $'000	EBITDA $'000	EBITDA Margin %	Revenue $'000	EBITDA $'000	EBITDA Margin %
97,107	6,794	7.0	100,442	9,544	9.5

Drilling revenues were very similar to those achieved in the previous year financial period despite the interruptions caused by the unseasonal heavy rainfall. The La Nina conditions commenced in late August and continued through to mid-January causing frequent downtime. The fact that the division was able to match the previous year's revenue reflects the strength of the order book and client relationships and the geographical spread of the drilling fleet throughout the Eastern seaboard. However, by contrast, since mid-January, weather conditions have been much drier than in recent years allowing a more rapid return to work after the Queensland floods in early January than was originally anticipated.

The business interruptions impacted margins but it can be seen that improved contracting conditions (including stand-by arrangements), better business management as well as increased stability in the labour force and employment terms (Lucas' new EBA) have mitigated the losses.

Building, Construction and Infrastructure Division

The BC&I Division reported a much stronger result than in the prior year comparative period as shown in the following table.

Dec 2010			Dec 2009		
Revenue $'000	EBITDA $'000	EBITDA Margin %	Revenue $'000	EBITDA $'000	EBITDA Margin %
132,655	1,097	0.8	65,695	(20,647)	(31.4)

Construction work on the Southern SeaWater desalination project continues to progress satisfactorily and on schedule and preparatory works on the Gorgon HDD landfall project are at an advanced stage of completion. The Group's works on both these projects are expected to be substantially completed this financial year. Works performed under the BER programme also contributed to the result.

The increased volume of work also resulted in an improved margin. However, the amount of work undertaken was still less than expected and retention of resources in expectation of increased works and to tender for new projects further impacted on margins. A loss of $1.7 million on the settlement of the Minerva dispute (principally increased legal fees) also impacted the result.

Energy Investments

Significant progress has been made on the value creation process relating to the Group's European shale gas investments. In addition to the net 1.12 million acres already awarded to Cuadrilla, application has been made for a further 500,000 acres in central Europe. Award of this acreage would make Cuadrilla the largest holder of non-conventional hydrocarbon acreage in Europe outside of the oil and gas majors.

The first well at Cuadrilla's Bowland prospect in England's north west named Preese Hall #1 was completed during the period and drilling is now underway on the second hole at Grange Hill #1. Core samples from Preese Hall taken over approximately 260 feet indicated hard, brittle rock fractured both horizontally and vertically and producing substantial gas flows, as well as the presence of methane and other hydrocarbons. Fraccing of this well has commenced with the results of this exercise due by mid-calendar 2011.

In continental Europe, necessary approvals are being proceeded with to undertake drilling activity in Holland. As the Bowland shale drilling programme has been extended to include additional wells, it is unlikely that drilling will commence in Holland till 2012. Negotiations are also underway to farm-in to acreage in Poland.

Drilling is expected to commence shortly at the Monument Prospect in East Texas where the Company has a 10% Net Profit Interest in 62,595 acres. However, notwithstanding management's high expectations of the prospectivity of this acreage, it has been decided to sell this investment to focus on the European shale gas assets. Discussions are being held with various parties who have shown interest in purchasing Lucas' Net Profit Interest.

Commentary on the Results

for the six months ended 31 December 2010

Balance Sheet

The balance sheet shows a deficiency in net current assets of $124.2 million. However, the current liabilities included tax liabilities of $47.9 million for which the Company has an agreement with the Australian Taxation Office (ATO) to settle over three years. It also excludes any allowance for any sale proceeds from the sale of the Company's investment in the Monument Prospect which cost $87.8 million and has been fully impaired.

Cash flow from operations during the period amounted to $25.7 million, after paying $8.1 million to the ATO under the agreed payment schedule. Nevertheless, to facilitate the award of new work, a balance sheet review has been conducted, to strengthen the Group's financial position and to provide additional liquidity. This review includes sale of the investment in the Monument Prospect, an assessment of the return on investment from the Group's operating businesses and a restructuring of the Group's borrowing facilities. Lucas expects to announce actions consequent upon this review during the next few months. Our goal is a recapitalised and reorganised group with a substantially restructured balance sheet; fully addressing the legacy issues of the past 2-3 years, based upon a good operational base from which to move forward.

Outlook

The outlook for the Group looks very encouraging, subject to a return to normal weather patterns and continued recovery in the global economy.

Global coal demand is very buoyant with many new coal mines under development and significant planned increases in coal export capacity. The Queensland CSG industry is also moving into its development stage with investment approval recently given for two of the projects to export LNG through Gladstone. The strength of the coal market and momentum in the CSG export industry is reflected in the Drilling Division having a full order book. The Company's market leadership with its strong and respected OH&S practices is a major contributing factor to this business demand. However, cost pressures are being experienced with tight labour markets presenting a challenge.

The prospects for the Building, Construction and Infrastructure (BC&I) division are also encouraging with a record level of work being tendered. Opportunities in the water sector are particularly bright with the continuing drought in Western Australia and the switch in government emphasis on the Eastern seaboard from water buy backs to infrastructure initiatives to drought proof the economy. The infield activities of the LNG projects, encompassing gathering systems, field compressor stations, civil engineering and water treatment facilities, are expected to commence once these projects achieve financial close. Although competition in this area is increasing, Lucas believes its superior technical and engineering skills in all these areas will result in the award of work.

The proposed broadband rollout both in Australia and New Zealand also present attractive prospects given the Group's leading trenching capability, particularly through the Marais-Lucas joint venture.

Management is therefore confident of a much stronger performance in the second half and barring any unforeseen event, meeting the earnings outlook previously indicated.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR SIX MONTHS ENDED 31 DECEMBER 2010

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report is read in conjunction with the annual report as at 30 June 2010 together with any public announcements made by AJ Lucas Group Limited during the six months ended 31 December 2010 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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Directors' Report

for the six months ended 31 December 2010

The directors of AJ Lucas Group Limited (the "Company") present their report together with the consolidated financial report for the six months ended 31 December 2010 and the review report thereon.

DIRECTORS

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

<u>Executive</u>	
Allan Campbell (Chairman)	Director since 1995
Ian Stuart-Robertson	Retired 10 August 2010
Andrew Lukas	Retired 10 August 2010
<u>Non-executive</u>	
Phillip Arnall	Appointed 10 August 2010
Genelle Coghlan	Appointed 10 August 2010
Martin Green	Director since 1999
Mike McDermott	Appointed 4 February 2010

REVIEW OF OPERATIONS

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

INTERIM DIVIDEND

The Directors have resolved not to pay an interim dividend.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9 and forms part of this report for the six months ended 31 December 2010.

ROUNDING OF AMOUNTS

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

Signed in accordance with a resolution of the directors

Allan Campbell
Chairman

Sydney
25 February 2011

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

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

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

KPMG

KPMG

Tony Nimac
Partner

Sydney

25 February 2011

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2010

	Note	Dec 2010 $'000	Dec 2009 $'000
Revenue	2	229,762	166,137
Total revenue		**229,762**	**166,137**
Other income		-	93,573
Material costs		(90,728)	(52,476)
Sub-contractor costs		(44,348)	(34,538)
Employee expenses		(60,471)	(65,614)
Plant and other construction costs		(30,446)	(30,048)
Depreciation and amortisation expenses		(11,946)	(11,243)
Amortisation of intangible assets		(1,879)	(2,355)
Impairment of intangible asset		(301)	(25,428)
Impairment of equity accounted investee		-	(7,911)
Other expenses		(565)	(1,220)
Results from operating activities		**(10,922)**	**28,877**
Finance income		20	546
Finance costs		(13,983)	(9,255)
Net finance costs		**(13,963)**	**(8,709)**
Share of profit of equity accounted investee		13	-
(Loss)/profit before income tax		**(24,872)**	**20,168**
Income tax benefit/(expense)	3	6,995	(14,446)
(Loss)/profit for the period attributable to the owners of the company		**(17,877)**	**5,722**
Other comprehensive income for the period			
Effective portion of changes in fair value of hedges		194	1,153
Exchange differences on translation of foreign operations		(34)	26
Other comprehensive income for the period		**160**	**1,179**
Total comprehensive income for the period		**(17,717)**	**6,901**
Total comprehensive income attributable to owners of the company		**(17,717)**	**6,901**
Earnings per share:			
Basic (loss)/earnings per share (cents)		(27.2)	8.8
Diluted (loss)/earnings per share (cents)		(27.2)	8.5

The condensed notes on pages 14 to 20 are an integral part of these consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

at 31 December 2010

	Note	Dec 2010 $'000	Jun 2010 $'000
Current assets			
Cash and cash equivalents	5	11,535	9,313
Trade and other receivables		53,883	58,640
Inventories		38,364	51,083
Assets classified as held for sale		13,167	11,841
Other assets		475	755
Total current assets		**117,424**	**131,632**
Non-current assets			
Trade and other receivables		18,198	21,505
Property, plant and equipment	4	140,790	140,766
Exploration assets		3,705	-
Intangible development assets		675	703
Other intangible assets		113,192	115,071
Investments in equity accounted investees	6	43,495	42,422
Total non-current assets		**320,055**	**320,467**
Total assets		**437,479**	**452,099**
Current liabilities			
Trade and other payables		97,183	78,446
Interest-bearing loans and borrowings	7	90,230	66,474
Current tax liabilities	8	47,922	55,549
Employee benefits		6,293	6,448
Total current liabilities		**241,628**	**206,917**
Non-current liabilities			
Interest-bearing loans and borrowings	7	10,148	34,834
Deferred tax liabilities		8,577	15,946
Employee benefits		1,332	1,176
Total non-current liabilities		**20,057**	**51,956**
Total liabilities		**261,685**	**258,873**
Net assets		**175,794**	**193,226**
Equity			
Share capital		91,935	91,935
Reserves		5,451	5,006
Retained earnings		78,408	96,285
Total equity		**175,794**	**193,226**

The condensed notes on pages 14 to 20 are an integral part of these consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 December 2010

	Share capital $'000	Translation reserve $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Retained earnings $'000	Total equity $'000
Balance 1 July 2009	91,935	857	2,372	(2,392)	106,985	199,757
Total comprehensive income						
Profit for the period	-	-	-	-	5,722	5,722
Effective portion of changes in fair value of hedges	-	-	-	1,153	-	1,153
Foreign currency translation differences	-	26	-	-	-	26
Total comprehensive income	**-**	**26**	**-**	**1,153**	**5,722**	**6,901**
Transactions with owners recorded directly in equity						
Dividends to shareholders	-	-	-	-	(3,572)	(3,572)
Share based payment transactions	-	-	419	-	-	419
Total contributions by and distributions to owners	-	-	419	-	(3,572)	(3,153)
Balance 31 December 2009	**91,935**	**883**	**2,791**	**(1,239)**	**109,135**	**203,505**
Balance 1 July 2010	91,935	2,939	3,209	(1,142)	96,285	193,226
Total comprehensive income						
Loss for the period	-	-	-	-	(17,877)	(17,877)
Effective portion of changes in fair value of hedges	-	-	-	194	-	194
Foreign currency translation differences	-	(34)	-	-	-	(34)
Total comprehensive income	**-**	**(34)**	**-**	**194**	**(17,877)**	**(17,717)**
Transactions with owners recorded directly in equity						
Share based payment transactions	-	-	285	-	-	285
Total contributions by and distributions to owners	-	-	285	-	-	285
Balance 31 December 2010	**91,935**	**2,905**	**3,494**	**(948)**	**78,408**	**175,794**

The condensed notes on pages 14 to 20 are an integral part of these consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2010

	Note	Dec 2010 $'000	Dec 2009 $'000
Cash flows from operating activities			
Cash receipts from customers		254,386	178,777
Cash paid to suppliers and employees		(218,272)	(176,452)
Cash generated from operations		**36,114**	**2,325**
Interest received		20	546
Income taxes paid		(8,085)	-
Interest and other costs of finance paid		(2,386)	(4,741)
Net cash from/(used in) operating activities		**25,663**	**(1,870)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		1,818	87
Acquisition of plant and equipment		(7,018)	(9,318)
Payments for exploration, evaluation and development		(2,457)	(516)
Payment of deferred purchase consideration		-	(18,500)
Payments for equity accounted investments		(2,047)	(18,386)
Payments for assets held for sale		(782)	-
Payment of development asset disposal costs		-	(1,148)
Proceeds from sale of shares in listed entity		-	938
Repayment of loans to related party		-	(4,279)
Payment for intangible assets		(301)	(25,125)
Loans to other entities		(31)	(78)
Loans to associate		-	(9,909)
Proceeds received from repayment of loans to other entities		-	2,566
Net cash used in investing activities		**(10,818)**	**(83,668)**
Cash flows from financing activities			
Proceeds from borrowings		376	1,711
Repayment of borrowings		(1,200)	(4,006)
Deferred payment for acquisition		(2,500)	-
Payment of finance lease liabilities		(6,849)	(6,715)
Dividends paid		-	(3,572)
Net cash used in financing activities		**(10,173)**	**(12,582)**
Net increase/(decrease) in cash and cash equivalents		4,672	(98,120)
Cash and cash equivalents at beginning of the period		6,863	96,317
Cash and cash equivalents at end of the period	5	**11,535**	**(1,803)**

The condensed notes on pages 14 to 20 are an integral part of these consolidated interim financial statements.

1. Basis of preparation

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as "Lucas" or the "Group") and the Group's interest in associates and jointly controlled entities.

i) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting* and the Corporations Act 2001. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2010. These are available upon request from the Company's registered office at Level 3, 394 Lane Cove Road, Macquarie Park, NSW 2113 or at www.lucas.com.au.

The condensed consolidated interim financial statements were approved by the Board of Directors on 25 February 2011.

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

ii) Going concern

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

- The Group generated a loss after tax for the period of $17.7 million. This was due to delays in a number of projects together with poor weather conditions, particularly in Queensland. As a result, the Group has forecast short term working capital funding requirements amounting to $10 million which are presently being addressed.
- As at reporting date, the Group's current liabilities exceeded its current assets by $124.2 million. The deficit was principally due to:
  - The classification of the following debts and payables as current liabilities:
    - Redeemable Convertible Preference Shares (RCPS) totalling $43.8 million maturing on 8 November 2013 but which are due and payable at 90 days notice due to a previous breach;
    - Income tax liabilities totalling $47.9 million which were subject to a three year deferred instalment arrangement agreed with the Australian Taxation Office (ATO) last year. This arrangement was subject to quarterly review and was accordingly classified as a current liability. Subsequent to reporting date, the Group has requested a temporary moratorium of payments under this arrangement; and
    - Bank and hire purchase liabilities totalling $30.5 million. Whilst the Group's financiers issued breach waivers for the period ended 31 December 2010, the inclusion of a review event has resulted in liabilities being classified as current at balance date. Subsequent to period-end, the review event has been waived subject to certain conditions, which are in the process of being met.
  - The Company previously impairing its $87.8 million investment in the Monument County prospect which is held for sale and in the directors' opinion will ultimately be realised for significant economic value. The Group is actively seeking to dispose of this interest however the timing of such disposal cannot be estimated.

The continuation of the Group as a going concern is dependent on the following matters:

- The Group's ability to realise assets and/or secure additional short term funding from financiers and/or raise additional equity in order to fund its working capital and other funding requirements;
- The continued support of the Group's existing financiers and RCPS holders along with gaining agreement with the ATO of a moratorium on the deferred payment arrangement; and
- The achievement of cash flow forecasts prepared by the Group in relation to its underlying business operations which are based on certain assumptions, some of which are outside the control of the Group.

1. Basis of preparation (cont)

ii) Going concern (cont)

In considering the impact of the above factors on the going concern assumption, the Directors have had regard to the following factors:

- The Group is at an advanced stage of conducting a balance sheet review in order to determine an optimal strategy to deleverage its balance sheet. In determining the strategy, the Directors have had regard to their:
    - Views in respect of the value of the Group's assets and operating businesses and its ability to realise these if necessary at relatively short notice and confidence in the Group's ability to refinance debt as evidenced by discussions held with third parties; and
    - Confidence in the Group's ability to raise additional equity, if and when required;
- The ongoing support of the Group's senior lender as evidenced by negotiations in respect of an increase in facilities of $10 million to fund short term working capital requirements, and a waiver of breaches during the period;
- Ongoing discussions with representatives of the holders of the RCPSs in respect to the continuation of this facility and continuing discussions with the ATO in respect of its deferred payment arrangement;
- The significant amount of secured and/or contracted revenues, particularly in the Drilling Division and actions being taken by the Group to reduce operating expenses; and
- The Directors' views in respect of the value of the Group's portfolio of oil and gas assets combined with its ability to realise such investments.

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

iii) Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2010.

iv) Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2010.

Given the nature of the contracts that the Group undertakes, there is exposure to claims and variations for which the Group has made judgements in respect of final outcomes.

2. Segment reporting

The Group comprises the following main business segments:

Drilling	Drilling services to the coal and coal seam gas industries for the degasification of coal mines and the recovery and commercialisation of coal seam gas, and associated services.
Building, construction and infrastructure (BC&I)	Construction and civil engineering services together with facilities management. The group is also the market leader in the trenchless installation of pipes and conduits using horizontal directional drilling.
Oil and gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Australia, USA and Europe.

2. Segment reporting (cont)

	Drilling $'000	BC&I $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Elimination $'000	Total $'000
Dec 2010							
Reportable segment revenue							
Revenue - services rendered	97,107	-	-	97,107	-	-	97,107
Revenue - construction contracts	-	132,655	-	132,655	-	-	132,655
Inter-segment revenue	2,932	(4)	-	2,928	-	(2,928)	-
Total reportable segment revenue	**100,039**	**132,651**	**-**	**232,690**	**-**	**(2,928)**	**229,762**
Consolidated revenue							**229,762**
EBITDA	**6,794**	**1,097**	**(105)**	**7,786**	**(4,871)**	**-**	**2,915**
Less: depreciation and amortisation	11,410	1,065	-	12,475	1,349	-	13,824
Reportable segment profit/(loss)	**(4,616)**	**32**	**(105)**	**(4,689)**	**(6,220)**	**-**	**(10,909)**
Reconciliation:							
Interest income	-	-	-	-	20	-	20
Interest expense	-	-	-	-	(11,735)	-	(11,735)
Net foreign exchange loss	-	-	-	-	(2,248)	-	(2,248)
Consolidated loss before income tax							**(24,872)**

	Drilling $'000	BC&I $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Elimination $'000	Total $'000
Dec 2009							
Reportable segment revenue							
Revenue - services rendered	100,442		-	100,442	-	-	100,442
Revenue - construction contracts	-	65,695	-	65,695	-	-	65,695
Inter-segment revenue	658	1,801	-	2,459	-	(2,459)	-
Total reportable segment revenue	**101,100**	**67,496**	**-**	**168,596**	**-**	**(2,459)**	**166,137**
Consolidated revenue							**166,137**
EBITDA	**9,544**	**(20,647)**	**60,213**	**49,110**	**(6,635)**	**-**	**42,475**
Less: depreciation and amortisation	11,687	807	-	12,494	1,104	-	13,598
Reportable segment profit/(loss)	**(2,143)**	**(21,454)**	**60,213**	**36,616**	**(7,738)**	**-**	**28,877**
Reconciliation:							
Interest income	-	-	-	-	545	-	545
Interest expense	-	-	-	-	(9,425)	-	(9,425)
Net foreign exchange gain	-	-	-	-	171	-	171
Consolidated profit before income tax							**20,168**

3. Income tax (benefit)/expense

Income tax (benefit)/expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2010 was -28 percent (for the six months ended 31 December 2009: 72 percent). This change in effective tax rate was caused mainly by tax deductions for research and development expenditure.

	Dec 2010 $'000	Dec 2009 $'000
Recognised in profit or loss		
Current tax expense		
Current year	(1,965)	19,557
Prior year adjustments	475	(1,102)
	(1,490)	18,455
Deferred tax expense		
Origination and reversal of temporary differences	(5,505)	(4,009)
Total income tax (benefit)/expense in profit or loss	**(6,995)**	**14,446**
Numerical reconciliation between tax expense and pre-tax net profit		
Accounting (loss)/profit before income tax	(24,872)	20,168
Prima facie income tax (benefit)/expense calculated at 30% (2009:30%)	(7,462)	6,050
Adjustment for:		
Equity settled share based payments	150	126
Equity accounted gain	(4)	-
Non-deductible expenses	25	12
Amortisation of customer contracts	541	706
Foreign tax loss not recognised	5	-
Impairment expenses	90	10,002
Research and development allowance	(1,053)	(803)
Write back of interest receivable	238	-
Utilisation of capital losses not previously recognised	-	(545)
	(7,470)	15,548
Income tax under/(over) provided in prior year	475	(1,102)
Income tax (benefit)/expense attributable to operating (loss)/profit	**(6,995)**	**14,446**

4. Property, plant and equipment

Acquisitions and disposals

Property, plant and equipment acquired and disposed of during the six months ended 31 December 2010 are as set out in the table below. During the six months ended 31 December 2010, the Group acquired assets with a cost, excluding capitalised borrowing costs, of $16.5 million (six months ended 31 December 2009: $13.8 million).

Assets with a carrying amount of $4.6 million were disposed of during the six months ended 31 December 2010 (six months ended 31 December 2009: $0.02million) at approximately their written down value. $2.8 million of the proceeds of this disposal is a current receivable.

4. Property, plant and equipment (cont)

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Total $'000
31 December 2010						
At cost	2,796	5,850	137,540	60,663	11,018	217,867
Accumulated depreciation/amortisation	(869)	(325)	(55,245)	(20,638)	-	(77,077)
	1,927	**5,525**	**82,295**	**40,025**	**11,018**	**140,790**
30 June 2010						
At cost	2,796	4,411	135,817	58,592	4,363	205,979
Accumulated depreciation/amortisation	(589)	(191)	(46,862)	(17,571)	-	(65,213)
Carrying amount at 30 June 2010	**2,207**	**4,220**	**88,955**	**41,021**	**4,363**	**140,766**

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
31 December 2010						
Carrying amount at 1 July 2010	2,207	4,220	88,955	41,021	4,363	140,766
Additions	-	-	7,961	1,930	6,655	16,546
Disposals	-	-	(4,582)	(21)	-	(4,603)
Transfer between classes of assets	-	1,355	(1,529)	174	-	-
Depreciation	(280)	(50)	(8,510)	-	-	(8,840)
Amortisation	-	-	-	(3,079)	-	(3,079)
Carrying amount at 31 Dec 2010	**1,927**	**5,525**	**82,295**	**40,025**	**11,018**	**140,790**

Capital works in progress includes leased assets of $7.6 million.

5. Cash and cash equivalents

	31 December 2010 $'000	30 June 2010 $'000
Bank balances	**11,535**	**9,313**

6. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

	31 December 2010 Ownership	30 June 2010 Ownership	31 December 2010 $'000	30 June 2010 $'000
Cuadrilla Resources Holdings Limited (associate)	40.93%	40.93%	43,006	42,397
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50.00%	50.00%	489	25
			43,495	**42,422**

7. Loans and borrowings

Movements in loans and borrowings during the six months ended 31 December 2010 were as follows:

	Deferred subsidiary acquisition consideration $'000	Bank loans & Overdrafts $'000	Lease liabilities $'000	Redeemable convertible preference shares $'000	Total $'000
Balance 1 July 2010	2,500	22,647	32,551	43,610	101,308
New issues	-	376	9,526	-	9,902
Repayments	(2,500)	(3,650)	(5,429)	-	(11,579)
Amortisation of borrowings	-	526	-	221	747
Balance 31 December 2010	**-**	**19,899**	**36,648**	**43,831**	**100,378**

The Redeemable Convertible Preference Shares (RCPS) have a maturity date of 8 November 2013 but are reported as a current liability because of the holders' rights to demand their redemption at any time following the occurrence of a Trigger Event.

8. Current tax liabilities

The current tax liability represents the amount of income tax payable in respect of prior financial periods. The Group has entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over three years. Notwithstanding that only a portion of the amount owing is payable over the next 12 months, as the arrangement is subject to review on a quarterly basis by the ATO, the entire liability has been reported as a current liability. Interest is payable on this liability at the GIC rate levied by the ATO.

9. Share capital – ordinary shares

	Company	
	31 December 2010 No. Of Shares	**30 June 2010 No. Of Shares**
Movements during the period		
On issue at beginning of the period	65,298,128	64,945,877
Exercise of rights under the Management Rights Plan	819,536	352,251
On issue at period end	**66,117,664**	**65,298,128**

During the period, 819,536 (June 2010: 352,251) ordinary shares were issued as a result of the exercise of vested options arising from the 2008 Management Rights Plan granted to key management. The options were exercised at an average price of $nil. All issued shares are fully paid.

10. Dividends

The following dividends were declared and paid by the Company:

	31 December 2010 $'000	31 December 2009 $'000
Final dividend of nil cents (2009: 5.5 cents) per share, 100% franked paid on 28 September 2009	**-**	**3,572**

11. Contingent assets and liabilities

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

AJ LUCAS GROUP LIMITED

DIRECTORS' DECLARATION

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

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

   a. giving a true and fair view of the financial position of the Group as at 31 December 2010 and of its performance for the six months ended on that date; and

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

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

Signed in accordance with a resolution of the directors.

Allan Campbell
Chairman

Sydney
25 February 2011

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

We have reviewed the accompanying interim financial report of AJ Lucas Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group, comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AJ Lucas Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

KPMG

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the interim period ended on that date; and

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

Emphasis of matter regarding going concern

Without qualifying our opinion, we draw attention to Note 1(ii) in the condensed consolidated interim financial report which indicates that the Group recorded a net loss of $17.7 million during the period ended 31 December 2010 and, as of that date, the Group's current liabilities exceeded its current assets by $124.2 million. These conditions along with other matters set forth in Note 1(ii), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without the ongoing financial support of the Group's senior lender and Redeemable Convertible Preference Shareholders, the agreement of a temporary moratorium on the instalment payment arrangement with the Australian Taxation Office, the achievement of forecast cash flows and the ability to dispose of assets, secure sufficient debt and/or raise sufficient equity, if and when required.

KPMG

KPMG

Tony Nimac
Partner

Sydney

25 February 2011