

Lycopodium Limited

ASX Half-year information - 31 December 2009

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
31 December 2009 Interim financial report

Contents

Results for Announcement to the Market	Page 1
Interim financial report	2

Lycopodium Limited
For the half-year ended 31 December 2009

Results for Announcement to the Market

				\$
Revenue from ordinary activities <i>(Appendix 4D item 2.1)</i>	down	38.5%	to	52,210,752
Profit / (loss) from ordinary activities after tax attributable to members <i>(Appendix 4D item 2.2)</i>	down	49.4%	to	4,168,720
Net profit / (loss) for the period attributable to members <i>for the period attributable to members</i>	down	49.4%	to	4,168,720

Dividends / distributions <i>(Appendix 4D item 2.4)</i>	Amount per security	Franked amount per security
Final dividend <i>(Prior year)</i>	20.0	20.0
Interim dividend recommended but not provided for	5.0	5.0

Key Ratios	2009	2008
	December	December
Net tangible assets per ordinary share (cents)	71	79

Record date for determining entitlements to the interim dividend

1 April 2010

The Directors have recommended the payment of the interim dividend of 5 cents per fully paid ordinary share, fully franked based on a tax paid at 30% to be paid on the 15 April 2010.

Lycopodium Limited
Interim financial report

ABN 83 098 556 159

for the half-year ended 31 December
2009

Lycopodium Limited ABN 83 098 556 159
Interim financial report - 31 December 2009

Contents

	Page
Directors' report	4
Half-year financial report	
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Cash flow statement	10
Notes to the consolidated financial statements	11
Directors' declaration	20
Independent auditor's review report to the members	21

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Lycopodium Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This financial report covers the consolidated entity consisting of Lycopodium Limited and its controlled entities. The financial report is presented in the Australian currency.

Lycopodium Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Lycopodium Limited
Level 5, 1 Adelaide Terrace
East Perth WA 6004

Directors' report

Your directors present their report on the consolidated entity ("the Group") consisting of Lycopodium Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2009.

Directors

The following persons were directors of Lycopodium Limited during the whole of the half-year and up to the date of this report:

Bruno Ruggiero
 Lawrence William Marshall
 Michael John Caratti
 Peter De Leo
 Robert Joseph Osmetti
 Rodney Lloyd Leonard

Mark Bambury Ward resigned as a director on 1 July 2009.

On 18 January 2010 Mr Leonard was appointed Managing Director replacing Mr Marshall. As of 18 January 2010 Mr Marshall holds office as a non executive director of Lycopodium Limited.

Review of operations

A summary of consolidated revenues and results for the financial period by reportable operating segment is set out below:

	Segment revenues		Segment results	
	2009	2008	2009	2008
	\$	\$	\$	\$
Corporate Services	1,618,066	9,422,845	469,624	(549,420)
Minerals	50,458,526	79,577,395	5,088,801	11,610,667
Other	9,334,032	11,357,725	545,635	1,096,015
Intersegment eliminations	<u>(9,199,872)</u>	<u>(15,494,876)</u>	<u>-</u>	<u>-</u>
	52,210,752	84,863,089	6,104,060	12,157,262
Unallocated revenue less unallocated expenses			<u>3,542</u>	<u>15,884</u>
Profit before income tax expense			6,107,602	12,173,146
Income tax expense			<u>(1,938,882)</u>	<u>(3,928,543)</u>
Profit for the half-year			4,168,720	8,244,603
Less: Profit attributable to minority interest			<u>-</u>	<u>(228,797)</u>
Profit attributable to members of Lycopodium Limited			4,168,720	8,015,806

Comments on the operations and the results of those operations are set out below:

- (a) *Corporate Services*
 The Corporate Services segment consists of managerial and legal services provided to the Group in addition to strategic investment holdings.
- (b) *Minerals*
 The Minerals segment consists of engineering and related services provided to the extractive mining industry. The clients, including junior exploration companies and major multinational producers, are developing projects for a wide range of commodities. These projects range in scope from large greenfield projects involving process plant and equipment, civil and building works, control systems, services and infrastructure to small skid-mounted pilot plants.
- (c) *Other*
 All other operating segments of the Group are aggregated on the basis of them being individually immaterial for the purpose of reporting.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the half-year ended 31 December 2009 were as follows:

On 13 July 2009 Lycopodium Limited completed the acquisition of all the minority interests' shares in its subsidiary Lycopodium Minerals QLD Pty Ltd pursuant to the exercise of an existing option, for a consideration of \$2,500,000. In addition, a maximum of five equal installments of \$200,000 per annum is payable on successive anniversary dates of completion of the business combination. These payments are considered to be post acquisition employment benefits and will be recognised as part of employee benefits expense in the period to which the service relates.

On 31 August 2009 Lycopodium Limited completed the acquisition of the remaining 60% interest in its associate Sherwood Utilities Pty Ltd for a total maximum consideration of \$2,145,000.

Matters subsequent to the end of the financial period

There is no matter or circumstance that has arisen since 31 December 2009 that has significantly affected or may significantly affect:

- (a) the Group's operations in future financial periods, or
- (b) the results of those operations in future financial periods, or
- (c) the Group's state of affairs in the future financial periods.


Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



Rodney Lloyd Leonard
Director

Perth
22 February 2010

Auditor's Independence Declaration

As lead auditor for the review of Lycopodium Limited for the half year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lycopodium Limited and the entities it controlled during the period.



Pierre Dreyer
Partner
PricewaterhouseCoopers

Perth
22 February 2010

Lycopodium Limited
Statement of comprehensive income
For the half-year ended 31 December 2009

		Half-year	
Notes	2009	2008	
	\$	\$	
Revenue from operations	52,210,752	84,863,089	
Other income	3 909,497	175,062	
Employee benefits expense	(28,689,566)	(34,423,424)	
Depreciation and amortisation expense	(846,283)	(906,217)	
Other project expenses	(901,436)	(3,063,156)	
Equipment and materials used	(261,218)	(212,262)	
Contractors	(11,092,834)	(27,929,308)	
Administration and management costs	(5,112,712)	(6,143,363)	
Loss on disposal of asset	-	(1,974)	
Finance costs	(134,640)	(201,185)	
Share of net profits of associates accounted for using the equity method	26,042	15,884	
Profit before income tax	6,107,602	12,173,146	
Income tax expense	(1,938,882)	(3,928,543)	
Profit for the half-year	4,168,720	8,244,603	
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets	5(a) 10,000	(49,000)	
Exchange differences on translation of foreign operations	5(a) (1,384)	434,277	
Income tax relating to components of other comprehensive income	(3,000)	14,700	
Other comprehensive income for the half-year, net of tax	5,616	399,977	
Total comprehensive income for the half-year	5 4,174,336	8,644,580	
Profit is attributable to:			
Owners of Lycopodium Limited	4,168,720	8,015,806	
Non-controlling interest	-	228,797	
	4,168,720	8,244,603	
Total comprehensive income for the half-year is attributable to:			
Owners of Lycopodium Limited	4,174,336	8,415,783	
Non-controlling interest	-	228,797	
	4,174,336	8,644,580	
	Cents	Cents	
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	10.8	21.2	
Diluted earnings per share	10.8	21.2	

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Lycopodium Limited
Statement of financial position
As at 31 December 2009

	31 December 2009	30 June 2009
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	17,871,972	26,362,861
Trade and other receivables	24,840,557	24,100,564
Other current assets	<u>1,522,067</u>	<u>1,415,308</u>
Total current assets	<u>44,234,596</u>	<u>51,878,733</u>
Non-current assets		
Investments accounted for using the equity method	1	440,344
Available-for-sale financial assets	60,000	50,000
Property, plant and equipment	3,140,147	3,548,705
Deferred tax assets	1,941,883	2,921,830
Intangible assets	<u>7,448,605</u>	<u>5,063,182</u>
Total non-current assets	<u>12,590,636</u>	<u>12,024,061</u>
Total assets	<u>56,825,232</u>	<u>63,902,794</u>
LIABILITIES		
Current liabilities		
Trade and other payables	15,799,629	16,344,344
Borrowings	1,191,992	837,249
Current tax liabilities	921,834	2,849,913
Provisions	<u>1,984,156</u>	<u>1,757,267</u>
Total current liabilities	<u>19,897,611</u>	<u>21,788,773</u>
Non-current liabilities		
Borrowings	1,563,064	1,931,273
Provisions	<u>591,412</u>	<u>455,448</u>
Total non-current liabilities	<u>2,154,476</u>	<u>2,386,721</u>
Total liabilities	<u>22,052,087</u>	<u>24,175,494</u>
Net assets	<u>34,773,145</u>	<u>39,727,300</u>
EQUITY		
Contributed equity	4(a) 18,730,297	17,656,497
Reserves	5(a) (123,798)	(158,143)
Retained profits	5(b) <u>16,166,646</u>	<u>21,622,524</u>
	34,773,145	39,120,878
Minority interest	6 <u>-</u>	<u>606,422</u>
Total equity	<u>34,773,145</u>	<u>39,727,300</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Lycopodium Limited
Statement of changes in equity
For the half-year ended 31 December 2009

	Half-year	
Notes	2009	2008
	\$	\$
Total equity at the beginning of the half-year	39,727,300	33,849,700
Total comprehensive income for the half-year	4,174,336	8,644,580
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	4 1,073,800	-
Director performance share reserve	5a 102,529	244,682
Exercise of director performance rights	5a (73,800)	-
Acquisition of minority interest	5b (2,500,000)	-
Dividends provided for or paid	7 (7,731,020)	(7,568,000)
	(9,128,491)	(7,323,318)
Total equity at the end of the half-year	34,773,145	35,170,962
Total recognised income and expense for the half-year is attributable to:		
Members of Lycopodium Limited	4,174,336	8,415,783
Minority interest	-	228,797
	4,174,336	8,644,580

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Lycopodium Limited
Cash flow statement
For the half-year ended 31 December 2009

	Half-year	
Notes	2009	2008
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	52,175,658	80,350,510
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(47,375,868)</u>	<u>(69,347,066)</u>
	4,799,790	11,003,444
Interest received	332,852	373,578
Interest paid	-	(59,063)
Income taxes paid	<u>(2,323,697)</u>	<u>(4,261,683)</u>
Net cash inflow from operating activities	<u>2,808,945</u>	<u>7,056,276</u>
Cash flows from investing activities		
Payment for purchase of business, net of cash acquired	9 (870,132)	-
Payment for acquisition of minority interest	9 (1,500,000)	-
Payments for property, plant and equipment	(63,253)	(706,908)
Proceeds from sale of property, plant and equipment	6,908	-
Payments for intangible assets	<u>(170,691)</u>	<u>(135,651)</u>
Net cash outflow from investing activities	<u>(2,597,168)</u>	<u>(842,559)</u>
Cash flows from financing activities		
Repayment of hire purchase and lease liabilities	(535,905)	(535,192)
Repayment of borrowings	(483,713)	(424,421)
Dividends paid to company's shareholders	7 <u>(7,731,020)</u>	<u>(7,568,000)</u>
Net cash outflow from financing activities	<u>(8,750,638)</u>	<u>(8,527,613)</u>
Net decrease in cash and cash equivalents		
	(8,538,861)	(2,313,896)
Cash and cash equivalents at the beginning of the half-year	26,362,861	9,987,106
Effects of exchange rate changes on cash and cash equivalents	47,972	633,159
Cash and cash equivalents at end of the half-year	<u>17,871,972</u>	<u>8,306,369</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Lycopodium Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of preparation of half-year financial report

The principal accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year and corresponding interim reporting period except as set out below.

Changes in accounting policy

Lycopodium Limited had to change some of its accounting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation - revised AASB 127 *Consolidated and Seperate Financial Statements* and changes made by AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations - revised AASB 3 *Business Combinations*
- Segments - new AASB 8 *Operating Segments*

Principles of consolidation

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must now be remeasured to fair value and a gain or loss is recognised in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.

The Group will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as none of the non-controlling interests have a deficit balance. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

Business combinations

AASB 3 (revised) continues to apply the acquisition method to business combinations, but with some significant changes.

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

1 Summary of significant accounting policies (continued)

If the Group recognises acquired deferred tax assets after the initial acquisition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009 and affected the accounting for the acquisition of Sherwood Utilities Pty Ltd as disclosed in Note 9.

Segment reporting

The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a decrease in the number of reportable segments presented, as the previously reported segments have now been adjusted to adhere to the requirements of AASB 8.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.

2 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board considers the business from both a product and geographic perspective and has identified nine operating segments of which two are reportable in accordance with the requirements of AASB 8.

The Corporate Services segment consists of managerial and legal services provided to the group in addition to strategic investment holdings.

The Minerals segment consists of engineering and related services provided to the extractive mining industry. The clients, including junior exploration companies and major multinational producers, are developing projects for a wide range of commodities. These projects range in scope from large greenfield projects involving process plant and equipment, civil and building works, control systems, services and infrastructure to small skid-mounted pilot plants.

All other operating segments are not reportable operating segments, as they fall under the quantitative thresholds of AASB 8. The results of these operations are included in the 'Other' column.

2 Segment information (continued)

(b) Segment information provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the half-year ended 31 December 2009 and 2008 are as follows:

31 December 2009	Corporate Services	Minerals	Other	Total
	\$	\$	\$	\$
Total segment revenue	1,618,066	50,458,526	9,334,032	61,410,624
Inter-segment revenue	<u>(1,430,036)</u>	<u>(5,491,566)</u>	<u>(2,278,270)</u>	<u>(9,199,872)</u>
Revenue from external customers	<u>188,030</u>	<u>44,966,960</u>	<u>7,055,762</u>	<u>52,210,752</u>
Profit before tax	<u>469,624</u>	<u>5,088,801</u>	<u>545,635</u>	<u>6,104,060</u>
Total segment assets	<u>7,944,323</u>	<u>34,653,953</u>	<u>9,166,529</u>	<u>51,764,805</u>

31 December 2008	Corporate Services	Minerals	Other	Total
	\$	\$	\$	\$
Total segment revenue	9,422,845	79,577,395	11,357,725	100,357,965
Inter-segment revenue	<u>(8,931,532)</u>	<u>(2,662,763)</u>	<u>(3,900,581)</u>	<u>(15,494,876)</u>
Revenue from external customers	<u>491,313</u>	<u>76,914,632</u>	<u>7,457,144</u>	<u>84,863,089</u>
Profit / (loss) before tax	<u>(549,420)</u>	<u>11,610,667</u>	<u>1,096,015</u>	<u>12,157,262</u>
Total segment assets	<u>9,068,175</u>	<u>44,503,510</u>	<u>10,181,885</u>	<u>63,753,570</u>

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of comprehensive income.

Segment revenue reconciles to revenue from operations as per the statement of comprehensive income as follows:

	Half-year	
	2009	2008
	\$	\$
Reportable segment revenue	61,410,624	100,357,965
Intersegment eliminations	<u>(9,199,872)</u>	<u>(15,494,876)</u>
Revenue as per the statement of comprehensive income	<u>52,210,752</u>	<u>84,863,089</u>

2 Segment information (continued)

(ii) Segment profit before tax

The Board of Directors assesses the performance of the operating segments based on a measure of profit before tax.

A reconciliation of reportable segment profit before tax to the profit before tax in the statement of comprehensive income is provided as follows:

	Half-year	
	2009	2008
	\$	\$
Reportable segment profit before tax	6,104,060	12,157,262
Share of net profit of associate accounted for using the equity method	26,042	15,884
Amortisation of customer relationships	<u>(22,500)</u>	-
Profit before tax as per the statement of comprehensive income	<u>6,107,602</u>	<u>12,173,146</u>

3 Other income

	Half-year	
	2009	2008
	\$	\$
Net gain on disposal of property, plant and equipment	281	-
Fair value uplift on investment in associate on step-up acquisition (note 9)	909,216	-
Foreign exchange gains (net)	-	175,062
	<u>909,497</u>	<u>175,062</u>

4 Contributed equity

	31 December 2009 Shares	30 June 2009 Shares	31 December 2009 \$	30 June 2009 \$
(a) Share capital				
Ordinary shares				
Fully paid	<u>38,655,103</u>	37,840,000	<u>18,730,297</u>	17,656,497
Total contributed equity			<u>18,730,297</u>	<u>17,656,497</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2008	Opening balance	37,840,000		17,656,497
	No movements during the year	-		-
30 June 2009	Balance	<u>37,840,000</u>		<u>17,656,497</u>
1 July 2009	Opening balance	37,840,000		17,656,497
1 July 2009	Exercise of director performance rights	100,000	\$0.73	73,800
20 July 2009	Issue of shares - part consideration for acquisition of 25% of the issued capital of Lycopodium Minerals Qld Pty Ltd	<u>715,103</u>	\$1.39	<u>1,000,000</u>
31 December 2009	Balance	<u>38,655,103</u>		<u>18,730,297</u>

5 Reserves and retained profits

	31 December 2009 \$	30 June 2009 \$
(a) Reserves		
Director performance share reserve	273,411	244,682
Foreign currency translation reserve	(355,209)	(353,825)
Available-for-sale investments revaluation reserve	(42,000)	(49,000)
	(123,798)	(158,143)
	31 December 2009 \$	30 June 2009 \$
Movements:		
<i>Director performance share reserve</i>		
Balance 1 July	244,682	-
Director performance share plan expense	102,529	244,682
Transfer to issued capital (rights exercised)	(73,800)	-
Balance 31 December / 30 June	273,411	244,682
	31 December 2009 \$	30 June 2009 \$
Movements:		
<i>Foreign currency translation reserve</i>		
Balance 1 July	(353,825)	(703,788)
Currency translation differences arising during the half year / year	(1,384)	349,963
Balance 31 December / 30 June	(355,209)	(353,825)
	31 December 2009 \$	30 June 2009 \$
Movements:		
<i>Available-for-sale investments revaluation reserve</i>		
Balance 1 July	(49,000)	(14,700)
Revaluation - gross	10,000	(49,000)
Deferred tax	(3,000)	14,700
Balance 31 December / 30 June	(42,000)	(49,000)

5 Reserves and retained profits (continued)

(b) Retained profits

Movements in retained profits were as follows:

	31 December 2009 \$	30 June 2009 \$
Balance 1 July	21,622,524	16,912,106
Profit for the half-year / year	4,168,720	14,170,418
Dividends provided for or paid	(7,731,020)	(9,460,000)
Transfer from minority interest (note 6)	606,422	-
Acquisition of minority interest	(2,500,000)	-
Balance 31 December / 30 June	<u>16,166,646</u>	<u>21,622,524</u>

6 Minority interest

	31 December 2009 \$	30 June 2009 \$
Interest in:		
Share capital	35	35
Retained profits	606,387	606,387
Transfer to retained profits	(606,422)	-
	<u>-</u>	<u>606,422</u>

The minority interest was transferred to retained profits following the acquisition of the remaining 25% minority interest in Lycopodium Minerals Qld Pty Ltd as noted in Note 9.

7 Dividends

	Half-year	
	2009 \$	2008 \$
(a) Ordinary shares		
Dividends provided for or paid during the half-year	<u>7,731,020</u>	<u>7,568,000</u>

(b) Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 5 cents per fully paid ordinary share (2008 - 5 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 April 2010 out of Group retained profits at 31 December 2009, but not recognised as a liability at year end, is

<u>1,932,755</u>	<u>1,892,000</u>
------------------	------------------

8 Contingencies

Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 31 December 2009 in respect of:

Claims

A claim was made by the Tanzanian Revenue Authority ('TRA') on Lycopodium Minerals Pty Ltd and its subsidiary Lycopodium Tanzania Ltd, that it was of the view that these companies had not paid the appropriate level of Tanzanian PAYE taxes during the years 2007, 2008 and 2009. The claim is for 11.1 billion Tanzanian Shillings (approximately \$8.4 million). It is the company's view that the employee PAYE taxes remitted by Lycopodium Tanzania Ltd were correctly calculated and Lycopodium Minerals Pty Ltd has no liability for PAYE as it is not a resident of Tanzania. Furthermore the company disputes the methodology used by the TRA in formulating the claim. The company has calculated a potential liability of \$2.965 million if the TRA case is proven. This amount has been reflected in the accounts for the half-year. Lycopodium has fully cooperated with the TRA and continues to provide information in response to ongoing requests from the TRA in an attempt to resolve the matter.

Guarantees

Guarantees are given in respect of a rental bond for \$723,344 (2008 - \$573,301).

These guarantees may give rise to liabilities in the event that the company defaults on its obligations under the terms of the lease agreement for its premises at 1 Adelaide Terrace, East Perth, 163 Wharf Street, Spring Hill and 156-163 Leichhardt Street, Spring Hill.

No material losses are anticipated in respect of any of the above contingent liabilities.

9 Business combination

Acquisition of remaining 60% interest in Sherwood Utilities Pty Ltd

(a) Summary of acquisition

On 31 August 2009 Lycopodium Ltd acquired the remaining 60% of the issued share capital of its associate Sherwood Utilities Pty Ltd not held by it.

The acquired business contributed revenues of \$2,352,531 and net profit of \$244,460 to the Group for the period from 31 August 2009 to 31 December 2009. If the acquisition had occurred on 1 July 2009, consolidated revenue and consolidated profit for the half-year ended 31 December 2009 would have been \$53,282,129 and \$4,237,149 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets (customer contracts and relationships) had applied from 1 July 2009, together with the consequential tax effects.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$
Purchase consideration	
Cash paid	1,400,000
Earn out right (discounted)	<u>663,402</u>
Total purchase consideration	<u>2,063,402</u>
Fair value of net identifiable assets acquired (60% of \$1,238,284 - refer to (c) below)	<u>(742,971)</u>
Goodwill in respect of 60% interest acquired	<u>1,320,431</u>

The goodwill arises on the acquisition of the remaining 60% interest in Sherwood Utilities Pty Ltd.

The goodwill is attributable to Sherwood Utilities Pty Ltd's profitability and synergies expected to arise after the company's acquisition of the new subsidiary.

Based on the above purchase consideration, the value of the previously equity accounted investment was revalued. A gain of \$909,216 is included in the profit for the half-year.

9 Business combination (continued)

(b) Purchase consideration

	Half-year	
	2009	2008
	\$	\$
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	<u>1,400,000</u>	-
Less: Balances acquired		
Cash	<u>529,868</u>	-
Outflow of cash	<u>870,132</u>	-

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	\$	\$
Cash and cash equivalents	529,868	529,868
Receivables	841,858	841,858
Property, plant and equipment	121,356	121,356
Intangibles	390	390
Customer contracts and relationships	-	315,000
Payables	(251,705)	(251,705)
Employee benefit liabilities, including superannuation	(231,591)	(231,591)
Borrowings	(61,869)	(61,869)
Net deferred tax asset (liability)	<u>69,477</u>	<u>(25,023)</u>
Net assets	<u>1,017,784</u>	<u>1,238,284</u>
Net identifiable assets acquired		<u>1,238,284</u>

Earn out right

The earn out right arrangement requires Lycopodium Limited to pay the former owners of Sherwood Utilities Pty Ltd 60% of five times the after tax profit of Sherwood Utilities Pty Ltd for the financial year ending 30 June 2010 up to a maximum undiscounted amount of \$745,000.

The potential undiscounted amount of future payment that Lycopodium Limited could be required to make under this arrangement is between \$0 and \$745,000. The fair value of the earn out right arrangement of \$663,402 was estimated by applying the income approach. The fair value estimate was calculated using a discount rate of 12.3%.

Acquired receivables

The fair value of trade and other receivables is \$841,858 and includes trade receivables with a fair value of \$811,768. The gross contractual amount for trade receivables due is \$811,768, of which the full amount is expected to be collectible.

9 Business combination (continued)

Acquisition of remaining 25% minority interest in Lycopodium Minerals Qld Pty Ltd

(a) Summary of acquisition

On 13 July 2009 Lycopodium Limited completed the acquisition of all the minority interests' shares in its subsidiary Lycopodium Minerals Qld Pty Ltd pursuant to the exercise of an existing option, for a total consideration of \$2,500,000.

	\$
Purchase consideration	
Cash paid	1,500,000
Fully paid ordinary shares in Lycopodium Limited	<u>1,000,000</u>
Total purchase consideration	<u>2,500,000</u>

In addition, a maximum of five equal installments of \$200,000 per annum is payable on successive anniversary dates of completion of the business combination. These payments are considered to be post acquisition employment benefits and will be recognised as part of employee benefits expense in the period to which the service relates.

The Group recognised a decrease in minority interest of \$606,422 as noted in Note 6.

10 Events occurring after the balance sheet date

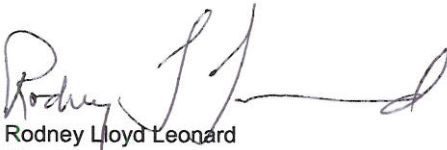
There is no matter or circumstance that has arisen since 31 December 2009 that has significantly affected or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in the future financial periods.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 19 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Rodney Lloyd Leonard
Director

Perth
22 February 2010

Independent auditor's review report to the members of Lycopodium Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Lycopodium Limited, which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Lycopodium Limited Group (the consolidated entity). The consolidated entity comprises both Lycopodium Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lycopodium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

**Independent auditor's review report to the members of
Lycopodium Limited (continued)**

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half-year ended 31 December 2009 included on Lycopodium Limited's web site. The company's directors are responsible for the integrity of the Lycopodium Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PricewaterhouseCoopers



Pierre Dreyer
Partner

Perth
22 February 2010