AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

HALF YEAR ENDED 31 DECEMBER 2013

APPENDIX 4D

(Previous Corresponding Reporting Period: half year ended 31 December 2012)

Results for Announcement to the Market
for the half year ended 31 December 2013

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change		$A'000
Revenues from ordinary activities	Down 32.0%	to	119,872
Loss before interest and tax	Up 102.7%	to	(66,604)
Loss from ordinary activities after tax attributable to members	Up 84.8%	to	(78,655)
Loss for the period attributable to members	Up 84.8%	to	(78,655)

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	46.6¢	34.8¢

Dividends		Amount per security	Franked amount per security
Final dividend	- current year	0.0¢	N/A
	- previous year	0.0¢	N/A
Total dividend	- current year	0.0¢	N/A
	- previous year	0.0¢	N/A

1. An interim financial report for the half year ended 31 December 2013 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 a review.
4. The review by the auditor is provided with the interim financial report.
5. The non-IFRS financial information presented in this document has not been audited or reviewed in accordance with Australian Auditing Standards.

....
Company Secretary

NJW Swan

28 February 2014

Commentary on the Results

for the half year ended 31 December 2013

Challenging market conditions caused consolidated revenue to decline by 32.0% to $119.9 million from $176.2 million in the prior year. However, a stringent focus on costs limited the underlying EBITDA loss to $2.5 million, approximately the same as in the preceding comparative period. Although there are signs of the market improving in 2015, having regard to the uncertain timing of the turnaround, the Group made a non-cash impairment charge of $52.0 million including $39.5 million for goodwill and $11.4 million for drilling plant and equipment.

Notwithstanding this result, the Company's balance sheet remains in sound financial condition following its substantial recapitalisation in mid-2013 and rescheduling of its various borrowing facilities. Accordingly, the Company has no material borrowings falling due for repayment over the next three years.

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

	Six months ended		
	Dec 2013 $ million	**Dec 2012 $ million**	**Change %**
Total revenue	**119.9**	**176.2**	**(32.0)**
Underlying EBITDA	(2.5)	(2.3)	(6.7)
Reported EBITDA	(3.3)	(7.6)	56.7
EBIT	**(66.6)**	**(32.9)**	**(102.7)**
Net loss before income tax	(78.7)	(41.5)	(89.7)
Loss after tax	**(78.7)**	**(42.6)**	**(84.8)**
Basic and diluted loss per share (cents)	(29.9)	(36.0)	16.9

A reconciliation of the consolidated loss before income tax to reported EBITDA and to underlying EBITDA is as follows:

	Drilling $'000	Eng & Const $'000	Oil & Gas $'000	Corporate $'000	Dec 2013 $'000	Dec 2012 $'000
Reconciliation:						
Consolidated loss before income tax	**(51,554)**	**(9,501)**	**3,343**	**(20,943)**	**(78,655)**	(41,485)
Impairment of plant and equipment	11,402	-	-	-	**11,402**	13,615
Impairment of intangible assets	35,640	3,832	-	-	**39,472**	-
Impairment of other receivables	-	-	-	1,122	**1,122**	-
Depreciation and amortisation	8,667	1,305	-	1,324	**11,296**	11,626
Finance costs	319	49	-	13,316	**13,684**	8,685
Finance income	(43)	(34)	(25)	(1,531)	**(1,633)**	(57)
Reported EBITDA	4,431	(4,349)	3,318	(6,712)	**(3,312)**	(7,616)
Share of (profit) / loss of equity accounted investees	-	-	(3,316)	-	**(3,316)**	1,423
Impairment of equity accounted investees	-	1,659	-	-	**1,659**	-
Share of overhead - Lucas Energy UK	-	-	4	-	**4**	846
Provisions and settlement of legacy projects	-	700	-	-	**700**	1,400
Redundancy costs	721	317	-	278	**1,316**	1,417
Net loss on sale of assets	3	-	-	30	**33**	-
Other income	-	(16)	(102)	(34)	**(152)**	(163)
Advisory fees on balance sheet restructure	-	-	-	544	**544**	350
Underlying EBITDA	**5,155**	**(1,689)**	**(96)**	**(5,894)**	**(2,524)**	**(2,343)**

The non-IFRS financial information presented in this document has not been audited or reviewed in accordance with Australian Auditing Standards.

The result was also impacted by continuing restructuring costs. In addition, the Group recorded a $4.6 million foreign exchange loss as the majority of the Company's interest bearing borrowings are denominated in US dollars. Offsetting this are the Group's investments in Cuadrilla and its direct investments in the Bowland and Bolney prospects all of which are also carried in US dollars. However, the translation gain on these investments is recognised directly in equity.

Commentary on the Results

for the half year ended 31 December 2013

The results by division are as follows:

Drilling Division

	Dec 2013 $'000	Dec 2012 $'000	Change
Revenue	49,426	85,988	(42.5%)
Underlying EBITDA	5,155	5,298	(2.7%)
EBITDA margin	10.4%	6.2%	

A reconciliation of underlying EBITDA to the consolidated loss before income tax is provided on page 3.

The drilling division revenue declined by 42.5% to $49.4 million but the underlying EBITDA margin increased to 10.4% from 6.2% in the previous corresponding period. The revenue reduction reflects the continued emphasis by the major coal mining companies on reducing their costs including exploration expenditure. The Company responded to these conditions with additional cost cutting and business rationalisation initiatives resulting in the improved underlying EBITDA margin.

Engineering & Construction Division

	Dec 2013 $'000	Dec 2012 $'000	Change
Revenue	70,446	90,194	(21.9%)
Underlying EBITDA	(1,689)	(6,367)	73.5%
EBITDA margin	(2.4%)	(7.1%)	

A reconciliation of underlying EBITDA to the consolidated loss before income tax is provided on page 3.

Engineering & Construction revenue fell by 21.9% to $70.4 million reflecting continued challenging business conditions and a lack of order backlog brought forward from the previous financial year. Whilst the work undertaken on new contracts was generally satisfactorily performed to expected margin, there continued to be residual remedial costs incurred on the Company's legacy water infrastructure projects brought forward from last year. As a result, the division reported an underlying EBITDA loss of $1.7 million although this was a significant improvement on the $6.4 million loss reported in the previous comparable period.

Oil & Gas Investments

Under the terms of the Centrica farm-in into the Bowland Prospect ("Bowland") completed in June 2013, Centrica committed to fund the next £60 million of expenditure on Bowland provided it did not exercise its option to put back its interest to the sellers (AJ Lucas and Cuadrilla) after incurring a minimum expenditure of £15 million. Accordingly, under this agreement, Lucas effectively has a free carry on the prospect until up to £60 million expenditure on Bowland has been incurred.

During the period, progress continued to be made on addressing the permitting and regulatory issues with increasing evidence of government support to amend the legislation to facilitate the commercialisation of the UK shale gas industry. In the interim, work at Bowland has been limited to engineering, environmental impact studies, community consultation and planning the location of the next proposed wells.

At the Bolney Prospect, a well was satisfactorily drilled at Balcombe in preparation for testing the well later in 2014.

Balance Sheet

The balance sheet was substantially strengthened during the period following the completion of the $148.8 million Entitlement Offer commenced in June 2013. Of this amount, $81.8 million in new equity was subscribed in June 2013 with the balance of $67 million subscribed at the beginning of the current period together with a simultaneous reduction in interest bearing borrowings of $35 million. The Company's various borrowing facilities were rescheduled with no material borrowings now falling due for repayment over the next three years.

As a consequence of these events, the Company has experienced a significant turnaround in its working capital and liquidity with net current assets of $30.9 million at balance date and a current ratio of 145%.

Commentary on the Results

for the half year ended 31 December 2013

Outlook

The markets across all of the Group's operating business activities continue to be very challenging. The expectation of a rebound in activity in the Drilling Division has not materialised so far. Market demand remains at low levels resulting in margin pressure and low rig utilisation. Despite some indications from the coal industry of stabilising demand for drilling services, no material change in operating conditions is expected during the second half of this financial year. There are however, industry expectations for an improvement in FY2015 driven by a need to replenish coal reserves to meet market demand.

Despite a medium term improved outlook for the Engineering & Construction Division, it has secured less new work than previously envisaged or where awarded has experienced commencement delays. Accordingly, the division's result for FY2014 is expected to be lower than previously indicated. The Company is tendering for a significant amount of new work in the infrastructure sector and has partnered with other leading companies to expand the scope of works for which it can tender.

In response to these market circumstances, the Company continues to rationalise its business costs as well as review its operating practices. This will result in the Company having a lower cost base and streamlined operating model better able to respond to an improved business environment in due course.

There are however, encouraging signs for the Company's UK's oil and gas investments with the UK government's public recognition of the opportunity provided by shale gas to meet the country's energy requirements and its preparedness to address local legislation to facilitate the commercialisation of this energy source.

Reflecting this increased confidence, Cuadrilla has recently announced the proposed locations for two new exploration sites in Lancashire. Whilst the period of time required to be granted planning permission to drill and hydraulically fracture the wells remains uncertain, the proposed exploration activity represents an important step in understanding the full potential of Lancashire's shale gas resources. Centrica's £60 million carry expenditure commitment is expected to be sufficient to fund all Bowland exploration works through to late quarter 2 of calendar year 2015 with no material financial contribution required from Lucas until after then.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2013

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 2013 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2013 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

Contents **Page**

Directors' Report

for the half year ended 31 December 2013

The directors of AJ Lucas Group Limited (the "Company") present their report together with the consolidated financial report for the half year ended 31 December 2013 and the auditor's review report thereon.

DIRECTORS

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

Executive

Allan Campbell	(Resigned from position of Chairman 29 November 2013, resigned as a director 28 January 2014)

Non-executive

Phillip Arnall	(Appointed Chairman 29 November 2013)
Julian Ball	(Appointed 2 August 2013)
Genelle Coghlan	
Martin Green	
Mike McDermott	

All directors held their position throughout the six months and up to the date of this report unless otherwise noted above.

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 half year ended 31 December 2013.

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

Phil Arnall
Chairman

Sydney
28 February 2014

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 2013 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

Stephen May
Partner

Sydney

28 February 2014

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2013

	Note	Dec 2013 $'000	Dec 2012 $'000
Revenue	2	119,872	176,182
Total revenue		**119,872**	**176,182**
Material costs		(47,811)	(55,499)
Sub-contractor costs		(14,083)	(47,439)
Employee expenses		(46,377)	(54,815)
Plant and other construction costs		(13,745)	(21,755)
Depreciation and amortisation expenses	4	(11,296)	(11,626)
Advisory fees on balance sheet restructure		(544)	(350)
Cost of options granted		(90)	(44)
Impairment of intangible assets	6	(39,472)	-
Impairment of plant and equipment	4	(11,402)	(13,615)
Impairment of receivables		(1,122)	-
Impairment of equity accounted investees		(1,659)	-
Redundancy costs		(1,316)	(1,417)
Loss on sale of assets held for sale		(33)	(422)
Other expenses		(842)	(634)
Results from operating activities		**(69,920)**	**(31,434)**
Finance income		1,633	57
Finance costs		(13,684)	(8,685)
Net finance costs	3	**(12,051)**	**(8,628)**
Share of profit / (loss) of equity accounted investees		3,316	(1,423)
Loss before income tax		**(78,655)**	**(41,485)**
Income tax expense		-	(1,076)
Loss for the period		**(78,655)**	**(42,561)**
Other comprehensive income			
Items that will not be reclassified to profit and loss			
Effective portion of changes in fair values of hedges		-	78
Total items that will not be reclassified to profit and loss		-	78
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		7,195	346
Total items that may be reclassified subsequently to profit and loss		7,195	346
Other comprehensive income for the period		**7,195**	**424**
Total comprehensive loss for the period		**(71,460)**	**(42,137)**
Total comprehensive loss attributable to owners of the Company		**(71,460)**	**(42,137)**
Earnings per share:			
Basic (loss)/earnings per share (cents)		(29.9)	(36.0)
Diluted (loss)/earnings per share (cents)		(29.9)	(36.0)

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

Condensed Consolidated Statement of Financial Position

as at 31 December 2013

	Note	Dec 2013 $'000	Jun 2013 $'000
Current assets			
Cash and cash equivalents		34,358	9,675
Trade and other receivables		26,180	39,430
Inventories		32,583	29,410
Assets classified as held for sale		-	1,357
Other assets		5,869	1,978
Total current assets		**98,990**	**81,850**
Non-current assets			
Property, plant and equipment	4	88,011	109,972
Exploration assets	5	8,684	6,320
Other intangible assets	6	-	39,472
Investments in equity accounted investees	7	90,869	95,762
Total non-current assets		**187,564**	**251,526**
Total assets		**286,554**	**333,376**
Current liabilities			
Trade and other payables	8	53,483	61,743
Interest-bearing loans and borrowings	9	523	88,921
Current tax liabilities	10	5,462	9,020
Derivative liabilities	12	3,571	4,916
Employee benefits		5,018	5,527
Total current liabilities		**68,057**	**170,127**
Non-current liabilities			
Interest-bearing loans and borrowings	9	64,369	5,948
Non-current tax liabilities	10	28,573	24,655
Employee benefits		1,007	1,006
Total non-current liabilities		**93,949**	**31,609**
Total liabilities		**162,006**	**201,736**
Net assets		**124,548**	**131,640**
Equity			
Share capital	13	339,915	275,637
Reserves		15,763	8,478
Accumulated losses		(231,130)	(152,475)
Total equity		**124,548**	**131,640**

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

Condensed Consolidated Statement of Changes in Equity

for the half year ended 31 December 2013

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Hedging reserve $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2013	275,637	4,183	637	3,658	-	(152,475)	131,640
Total comprehensive income							
Loss for the period	-	-	-	-	-	(78,655)	(78,655)
Other comprehensive income							
Foreign currency translation differences	-	7,195	-	-	-	-	7,195
Total comprehensive income/(loss)	**-**	**7,195**	**-**	**-**	**-**	**(78,655)**	**(71,460)**
Transactions with owners recorded directly in equity							
Issue of ordinary shares	64,278	-	-	-	-	-	64,278
Share based payment transactions	-	-	-	90	-	-	90
Total contributions by and distributions to owners	**64,278**	**-**	**-**	**90**	**-**	**-**	**64,368**
Balance 31 December 2013	**339,915**	**11,378**	**637**	**3,748**	**-**	**(231,130)**	**124,548**
Balance 1 July 2012	138,506	(3,573)	637	3,481	(78)	(25,479)	113,494
Total comprehensive income							
Loss for the period	-	-	-	-	-	(42,561)	(42,561)
Other comprehensive income							
Effective portion of changes in fair value of hedges	-	-	-	-	78	-	78
Foreign currency translation differences	-	346	-	-	-	-	346
Total comprehensive income/(loss)	-	346	-	-	78	(42,561)	(42,137)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	41,891	-	-	-	-	-	41,891
Share based payment transactions	-	-	-	44	-	-	44
Total contributions by and distributions to owners	41,891	-	-	44	-	-	41,935
Balance 31 December 2012	**180,397**	**(3,227)**	**637**	**3,525**	**-**	**(68,040)**	**113,292**

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

Condensed Consolidated Statement of Cash Flows

for the half year ended 31 December 2013

	Dec 2013 $'000	Dec 2012 $'000
Cash flows from operating activities		
Cash receipts from customers	138,329	230,943
Cash paid to suppliers and employees	(149,509)	(235,061)
Cash used in operations	**(11,180)**	**(4,118)**
Interest received	237	57
Income taxes paid	(1,290)	(10,324)
Interest and other costs of finance paid	(2,668)	(1,546)
Net cash used in operating activities	**(14,901)**	**(15,931)**
Cash flows from investing activities		
Proceeds from sale of plant and equipment	-	1,779
Acquisition of plant and equipment	(737)	(6,997)
Payments for exploration, evaluation and development	(2,139)	(3,453)
Payments for equity accounted investees	(2,611)	(12,831)
Proceeds from redemption of equity accounted investments	17,793	-
Proceeds from assets held for sale	1,019	5,735
Advisory fees on balance sheet restructure	-	(921)
Loans to other entities	-	(51)
Net cash from / (used in) investing activities	**13,325**	**(16,739)**
Cash flows from financing activities		
Proceeds from borrowings	-	17,331
Repayment of borrowings	(3,822)	(12,285)
Payment of finance lease liabilities	(1,028)	(8,692)
Net proceeds from issue of shares	31,109	39,316
Net cash from financing activities	**26,259**	**35,670**
Net increase in cash and cash equivalents	24,683	3,000
Cash and cash equivalents at beginning of the period	9,675	(2,300)
Cash and cash equivalents at end of the period	**34,358**	**700**

The accompanying notes are an integral part of these condensed 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 ("interim financial statements") as at and for the half year ended 31 December 2013 comprises the Company and its subsidiaries (together referred to as "Lucas" or the "Group") and the Group's interest in associates and joint arrangements.

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

i) Statement of compliance

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*. 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 2013. 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.

These interim financial statements were approved by the Board of Directors on 27 February 2014.

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 interim financial report has 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 interim 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 $78.7 million primarily as a result of non-cash impairment charges of $52.0 million and finance costs of $13.7 million, together with continued operating losses and restructuring expenses;
- The Group used net cash of $14.9 million in its operating activities during the current period primarily as a result of continued operating losses and restructuring expenses. Whilst the Group has cash and cash equivalents of $34.4 million available as at balance date, it does not presently have access to additional financing facilities; and
- The Group's core markets have remained volatile throughout the current period. The Group's financial performance and its cash flows during 2014 and 2015 will be driven by demand for its drilling, engineering and construction services, which in turn will be impacted by various factors which are outside the control of the Group. As such, forecasting carries an inherent degree of uncertainty.

In assessing the appropriateness of using the going concern assumption, the directors have had regard to the following matters:

- The completion in July 2013 of a capital raising which commenced in June 2013 and raised $148.8 million in equity, including cash of $60.5 million after share raising fees and amounts settled via debt to equity swaps;
- The directors' confidence in the continuing support of Kerogen Investments No. 1 (HK) Limited ("Kerogen"), both as a substantial debtholder and shareholder of the Group, as evidenced by the extension of the maturity date of its debt facilities and its participation in the entitlement offer during the current period;
- The reasonableness of the profitability and cash flow forecasts of the Group, which have been prepared by management on the basis of past experience, guidance and commentary provided by customers and competitors together with macroeconomic indicators;
- The arrangement summarised at Note 5 under which Centrica Plc ("Centrica") has provided certain commitments to fund exploration expenditure in respect of the Bowland Prospect ("the Prospect"). The directors are confident that this arrangement will mean that the Group will not be required to provide additional cash in respect of the development of the Prospect and/or other exploration activities by its equity accounted investee, Cuadrilla Resources Holdings Limited ("Cuadrilla") until after April 2015;

1. Basis of preparation (cont.)

ii) Going concern (cont.)

- The implied value of the Group's investment in Cuadrilla and its direct holding in the Prospect, as evidenced by the partial sale of the Group's direct and indirect interests in the Prospect to Centrica during the previous financial year;
- The ability of the Group to determine the extent of its future contributions to Cuadrilla; and
- The ability of the Group to raise additional debt and/or equity, if and when required.

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

iii) Significant accounting policies

Except as described below, the accounting policies applied by the Group in these 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 2013.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013. These changes in accounting policies are expected to be reflected in the Group's consolidated financial statements at and for the year ending 30 June 2014.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interest in Other Entities

AASB 10 introduces a single control model to determine whether an investee should be consolidated. Under AASB 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted.

There has not been any material changes as a result of adopting this new standard.

AASB 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. AASB 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

AASB 13 Fair Value Measurement (2011)

AASB 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout Australian Accounting Standards. Subject to limited exceptions, AASB 13 is applied when fair value measurements or disclosures are required or permitted by other AASBs. There has not been any material changes as a result of adopting this new standard.

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 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 2013.

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.
Engineering and Construction (E&C)	Civil engineering and construction services. 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 Europe, Australia and the USA.

	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
December 2013							
Reportable segment revenue							
Revenue - services rendered	49,426	-	-	49,426	-	-	49,426
Revenue - construction contracts	-	70,446	-	70,446	-	-	70,446
Inter-segment revenue	3,068	-	-	3,068	-	(3,068)	-
Total consolidated revenue	**52,494**	**70,446**	**-**	**122,940**	**-**	**(3,068)**	**119,872**
EBITDA	**4,431**	**(4,349)**	**3,318**	**3,400**	**(6,712)**	**-**	**(3,312)**
Depreciation, amortisation and impairment	(55,709)	(5,137)	-	(60,846)	(2,446)	-	(63,292)
Finance income	43	34	25	102	1,531	-	1,633
Finance cost	(319)	(49)	-	(368)	(13,316)	-	(13,684)
Reportable segment profit / (loss)	**(51,554)**	**(9,501)**	**3,343**	**(57,712)**	**(20,943)**	**-**	**(78,655)**

	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
December 2012							
Reportable segment revenue							
Revenue - services rendered	85,988	-	-	85,988	-	-	85,988
Revenue - construction contracts	-	90,194	-	90,194	-	-	90,194
Inter-segment revenue	3,961	-	-	3,961	-	(3,961)	-
Total consolidated revenue	**89,949**	**90,194**	**-**	**180,143**	**-**	**(3,961)**	**176,182**
EBITDA	**4,500**	**(8,139)**	**(1,891)**	**(5,530)**	**(2,086)**	**-**	**(7,616)**
Depreciation, amortisation and impairment	(18,641)	(4,985)	-	(23,626)	(1,615)	-	(25,241)
Finance income	-	5	-	5	52		57
Finance cost	(498)	(594)	-	(1,092)	(7,556)		(8,648)
Net foreign exchange gain	87	114	61	262	(299)		(37)
Reportable segment profit / (loss)	**(14,552)**	**(13,599)**	**(1,830)**	**(29,981)**	**(11,504)**	**-**	**(41,485)**

3. Finance income and costs

	Dec 2013 $'000	Dec 2012 $'000
Interest income	288	57
Net change in fair value of derivative liability	1,345	-
Finance income	**1,633**	**57**
Interest expense	(7,662)	(3,351)
Net change in fair value of derivative liability	-	(1,139)
Amortisation of options and fees on mezzanine finance facility	(1,390)	(4,158)
Net foreign exchange loss	(4,632)	(37)
Finance costs	**(13,684)**	**(8,685)**
Net finance costs recognised in profit and loss	**(12,051)**	**(8,628)**

4. Property, plant and equipment

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Enterprise development $'000	Total $'000
31 December 2013					
At cost	2,888	3,912	146,083	10,568	163,451
Accumulated depreciation, amortisation and impairment	(2,589)	(548)	(68,783)	(3,520)	(75,440)
Carrying amount at 31 December 2013	**299**	**3,364**	**77,300**	**7,048**	**88,011**
30 June 2013					
At cost	2,888	3,912	145,346	10,568	162,714
Accumulated depreciation, amortisation and impairment	(2,299)	(499)	(47,307)	(2,637)	(52,742)
Carrying amount at 30 June 2013	**589**	**3,413**	**98,039**	**7,931**	**109,972**

Acquisitions, disposals and impairment

An impairment charge of $11.4 million has been recognised against the carrying value of plant and equipment, principally drilling rigs and associated equipment, reflecting the reduced demand for the Group's drilling services.

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	Enterprise development $'000	Total $'000
Carrying amount at 1 July 2013	589	3,413	98,039	7,931	109,972
Additions	-	-	737	-	737
Impairment	-	-	(11,402)	-	(11,402)
Depreciation and amortisation	(290)	(49)	(10,074)	(883)	(11,296)
Carrying amount at 31 December 2013	**299**	**3,364**	**77,300**	**7,048**	**88,011**

5. Exploration assets

	Dec 2013 $'000	Jun 2013 $'000
Cost		
Bowland carry asset	3,831	5,127
Bowland exploration asset	2,357	1,061
Bolney exploration asset	2,496	132
	8,684	**6,320**

5. Exploration assets (cont.)

The exploration assets comprise the Group's direct equity interest in 18.75% of the Bowland and 25% of the Bolney prospects in the United Kingdom, following the Group selling a 6.25% interest in the Bowland prospect during the financial year ended 30 June 2013 to a subsidiary of Centrica Plc ("the Purchaser"). Cuadrilla Resources Holdings Limited, in which Lucas held a 45.0% (June 2013: 43.7%) shareholding at balance date, owns 56.25% of the Bowland Prospect and 75% of the Bolney Prospect.

On completion of the sale, the purchaser had a non-cancellable obligation to spend at least the first £15 million of the Bowland prospect expenditure, ensuring the Group continued to receive the benefit of this expenditure. As such, the Group recognises its beneficial interest in this as a 'carry asset' which converts to 'capitalised exploration expenditure' as the expenditure is incurred by the Purchaser.

At balance date, a further £45 million exploration expenditure was also required to be spent by the purchaser provided it does not exercise its put option entitling it to transfer its equity interest back to the Group and Cuadrilla Resources Holdings Limited. The expiry date of the put option depends on the occurrence of either certain events or lapse of time relating to defined appraisal or operational milestones. Based on current planning, it is not expected that this deferred consideration would become payable to the Group for at least 18 months from period end.

If the option is not put to the Group and expires, further consideration of £60 million will become payable to the Group and Cuadrilla, of which AJ Lucas share will be £15 million.

6. Other intangible assets

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 that are allocated to each of the cash generating unit (CGU) are:

	Drilling $'000	E&C $'000	Total $'000
Balance at 1 July 2013	35,640	3,832	39,472
Impairment charge	(35,640)	(3,832)	(39,472)
Balance at 31 December 2013	**-**	**-**	**-**

During the period, the Group reassessed the recoverable amount of each Cash Generating Unit ("CGU") resulting in goodwill being fully impaired. An impairment provision was also recognised against property, plant and equipment as disclosed in Note 4.

The recoverable amount of each CGU is based on their value in use and was determined by discounting the future cash flows to be generated from the continuing operation of the CGUs. The calculation used actual results for the 6 months ended 31 December 2013 together with management's forecast for the remainder of the financial year extended over a period of five years based on management's estimate of future growth rates. Cash flows into perpetuity are extrapolated using a terminal growth factor relevant to the sector and business plan. A post tax discount rate is applied adjusted for the industry in which each CGU operates.

EBITDA growth, capital expenditure, terminal value growth rates, discount rate, revenue security and cost rationalisation were key drivers for determining cash flows. These assumptions were projected based on past experience, actual operating results, the forecast operating result for the next 18 months and management's outlook for future years taking into account forecast industry growth rates.

Growth rates are determined after considering factors including the nature of the industry, the overall market including competition, past performance and the economic outlook. A long term growth rate into perpetuity of 3% has been used. This rate is considered to be within the range of long term growth rates for the industries in which the CGUs operate.

Post-tax discount rates of 14% have been applied to both the Drilling and Engineering & Construction cash generating units to discount the forecast future attributable post-tax cash flows. The discount rates have been calculated after assessing the relevant risks applicable to each CGU, the current risk free rate of return and the volatility of the Group performance compared to the sectors in which it operates.

7. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

Name of investee	Ownership Dec 2013	Ownership Jun 2013	Dec 2013 Carrying value $'000	Jun 2013 Carrying value $'000
Cuadrilla Resources Holdings Limited (associate)	45.0%	43.7%	90,869	95,762
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50.0%	50.0%	-	-
			90,869	**95,762**

The following summarises the changes in the Group's interest in Cuadrilla Resources Holdings Limited:

	Dec 2013 $'000
Movements during the period	
Balance at 1 July 2013	95,762
Capital return	(17,793)
Purchase of additional ownership interest	2,611
Movement of foreign currency translation recognised in equity	6,973
Share of equity accounted profits	3,316
Balance at 31 December 2013	**90,869**

8. Trade and other payables

	Dec 2013 $'000	Jun 2013 $'000
Current		
Trade payables	18,578	34,408
Other payables and accruals	34,905	27,335
	53,483	**61,743**

9. Interest-bearing loans and borrowings

	Dec 2013 $'000	Jun 2013 $'000
Current		
Other borrowings - unsecured	121	310
Lease liabilities - secured	402	1,406
Other borrowings - secured	-	87,205
	523	**88,921**
Non-current		
Lease liabilities - secured	124	148
Other borrowings - secured	64,245	5,800
	64,369	**5,948**

9. Interest-bearing loans and borrowings (cont.)

(a) Loans and borrowings terms and maturities

	Financial year of maturity	Dec 2013 $'000	Jun 2013 $'000
Current other borrowings - secured (1)	N/A	-	82,778
Non-current other borrowings - secured (1)	2017	58,767	-
Non-current other borrowings - secured (2)	2020-2021	5,478	5,800
Current other borrowings - secured	N/A	-	4,427
Other borrowings - unsecured	2014	121	310
Current lease liability - secured	2014-2015	402	1,406
Non-current lease liability - secured	2014-2015	124	148

(1) Relates to finance facilities provided by Kerogen ("Kerogen debt"), which were restructured during the period. The principal terms of the restructured facilities are:

	Tranche 1	Tranche 2
Principal Amount ('000)	US$30,000	US$20,802
Repayment date	31 January 2017	28 February 2017
Interest rate per annum	15%	15%

Both tranches 1 and 2 are secured by a first ranking fixed and floating charge over the Company and each of its operating and investment subsidiaries.

(2) Relates to a non-current PAYG liability to the Australian Taxation Office (ATO) that forms part of the payment arrangement agreed with the ATO as described in Note 10, Tax Liabilities.

(b) Financing facilities

	Dec 2013 $'000	Jun 2013 $'000
(i) The Group has access to the following lines of credit and bank guarantees		
Other borrowings - secured	64,245	93,005
Other borrowings - unsecured	121	310
Lease liabilities - secured	526	1,554
	64,892	**94,869**
Total facilities utilised at balance date:		
Other borrowings - secured	64,245	93,005
Other borrowings - unsecured	121	310
Lease liabilities - secured	526	1,554
	64,892	**94,869**
(ii) Bond and other facilities provided by surety entities		
Bond facilities in aggregate	9,590	10,609
Amount utilised	(9,590)	(10,609)
Unused bond facilities	-	-
Bank indemnity guarantee	809	1,869
Amount utilised	(809)	(1,869)
Unused facilities	-	-

10. Tax liabilities

The tax liabilities represent the amount of income tax payable in respect of prior financial periods. The Company has entered into an instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over five years, ceasing in the 2016/2017 financial year. The payment arrangement also covers a PAYG liability disclosed in Note 9 (a), Interest-bearing loans and borrowings and is expected to be completely repaid by 2021. The ATO has a second ranking fixed and floating charge over the Group's assets. Interest is payable on this liability at the General Interest Charge (GIC), levied by the ATO. The tax payable has been classified according to the period in which it is due for payment in accordance with the instalment arrangement.

11. Interests in joint arrangements

		Participation interest		Contribution to Operating results	
		Dec 2013	Dec 2012	Dec 2013	Dec 2012
	Principal activities	**%**	**%**	**$'000**	**$'000**
Southern SeaWater Alliance	Construction and operation of desalination plant	19	19	232	2,493
VSL Australia - AJ Lucas Operations Joint Venture	Construction of water related infrastructure	50	50	473	843
Spiecapag Lucas Engineering and Construction Joint Venture	Construction of pipeline	50	-	3,181	-

The results of the above joint arrangements are proportionately consolidated in the results of the Group. Included in the assets and liabilities of the Group are the following assets and liabilities employed in the joint arrangements:

	Dec 2013 $'000	Jun 2013 $'000
Assets		
Current assets		
Cash and cash equivalents	10,963	3,497
Trade and other receivables	896	1,185
Other	1,132	20
Construction work in progress	2,806	303
Total assets	**15,797**	**5,005**
Liabilities		
Current liabilities		
Trade and other payables	11,730	4,495
Total liabilities	**11,730**	**4,495**

12. Derivative liability

The derivative liability represents the fair value of the options granted over ordinary shares in the Company as a condition of the Mezzanine Facility provided to the Company in December 2011. The movement in the fair value of these options during the period was as follows:

	Number of Options	Total derivative liability $'000
As at 1 July 2013	11,159,356	4,916
Change in valuation	-	(1,345)
As at 31 December 2013	**11,159,356**	**3,571**

In order to determine the fair value of these options, management used a Monte Carlo valuation model based on observable market inputs. As such, these options fall within level two of the fair value hierarchy. The following factors and assumptions were used in determining the fair value:

AJ Lucas share price on valuation date	$1.10
Option exercise price	variable*
Risk-free interest rate	2.64%
Dividend yield	0.0%
Expiry date	22 December 2015
Volatility of AJ Lucas shares	65%-75%

* The exercise price of the options is the lower of a 20% premium to the five day volume weighted average price (VWAP) of the Company's shares ending on the date prior to exercise and $1.54 per share subject to a minimum exercise price of $1.19 per option. As a rational investor would only exercise the options provided the exercise price is below the share price at exercise date, the exercise price is assumed to be $1.54 per share.

13. Share capital

	Dec 2013 No. of Shares	Jun 2013 No. of Shares
Movements during the period		
On issue at 1 July	211,528,273	103,027,291
Exercise of options	-	7,501,268
Entitlement shares	55,855,543	58,864,875
Placements	-	42,134,839
On issue at balance date - fully paid	**267,383,816**	**211,528,273**

The entitlement offer was completed in July 2013 with shares issued at $1.20 per share. Net proceeds of $31.1 million disclosed in the condensed consolidated statement of cash flows are determined after deducting $2.7 million in share raising costs and $33.2 million of Kerogen debt conversion.

14. Financial instruments fair value disclosure

The fair values of financial assets and liabilities, together with the carrying amounts shown in the condensed consolidated statement of financial position, are as follows:

	Carrying amount $'000	Fair Value $'000
December 2013		
Bank balances	34,358	34,358
Trade and other receivables	26,180	26,180
Trade and other payables	(53,483)	(53,483)
Other borrowings - secured	(64,245)	(64,245)
Other borrowings - unsecured	(121)	(121)
Lease liabilities - secured	(526)	(526)
Derivative liability	(3,571)	(3,571)
	(61,408)	**(61,408)**

	Carrying amount $'000	Fair Value $'000
June 2013		
Bank balances	9,675	9,675
Trade and other receivables	39,430	39,430
Trade and other payables	(61,743)	(61,743)
Other borrowings - secured	(93,005)	(93,005)
Other borrowings - unsecured	(310)	(310)
Lease liabilities - secured	(1,554)	(1,554)
Derivative liability	(4,916)	(4,916)
	(112,423)	**(112,423)**

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

15. Contingencies

The directors are of the opinion that provisions are not required in respect of the following 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, the relevant Group company is jointly and severally liable for all the liabilities incurred by the joint arrangements. As at 31 December 2013, the assets of each joint arrangement were sufficient to meet such liabilities.

(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. Certain claims and counterclaims are outstanding but not detailed on the basis that further disclosure may seriously prejudice the Group's position in regards to these matters. Provisions have been made for such claims to the extent required under Australian Accounting Standards

(iii) The Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with its participating Australian subsidiary companies.

16. Subsequent events

There has not arisen in the interval between the end of the half 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.

AJ LUCAS GROUP LIMITED

DIRECTORS' DECLARATION

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

1. the condensed consolidated financial statements and notes set out on pages 10 to 24 are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the Group's financial position of the Group as at 31 December 2013 and of its performance for the six month period 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.

Phil Arnall
Chairman

Sydney
28 February 2014

KPMG

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 2013, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 16 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 internal 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 2013 and its performance for the half-year 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 2013 and of its performance for the half-year ended on that date; and

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

KPMG

KPMG

Stephen May
Partner

Sydney

28 February 2014