AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

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APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2014

(Previous Corresponding Reporting Period: half year ended 31 December 2013)

APPENDIX 4D
Results for Announcement to the Market
for the half year ended 31 December 2014

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change %	Current period $A'000	Previous Corresponding period $A'000
Revenues from ordinary activities	33.7%	79,429	119,872
Profit / (Loss) before interest and tax	97.8%	(1,462)	(66,604)
Profit / (Loss) from ordinary activities after tax attributable to members	83.2%	(13,232)	(78,655)
Profit / (Loss) for the period attributable to members	83.2%	(13,232)	(78,655)

NTA Backing	Current period	Previous Corresponding period
Net tangible asset backing per ordinary security	38.0¢	46.6¢

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 2014 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.

Commentary on the Results

for the half year ended 31 December 2014

Revenue for the period declined 33.7% to $79.4m, reflecting subdued activity in the mining and minerals sectors and reduced activity in the engineering and construction sector following the completion of a significant project undertaken in partnership with Spiecapag Australia Pty Ltd early in the period. Underlying EBITDA however improved to a profit of $6.3 million (Dec 2013: $2.5 million loss) despite the reduced revenue primarily as a result of the cost reduction program and productivity initiatives initiated during 2014.

Net loss before tax was $13.2 million, an 83.2%, or 65.4 million improvement over the comparative period largely due to the absence of any impairment charges (Dec 2013: $53.7 million).

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

	Six months ended		
	Dec 2014 $ million	**Dec 2013 $ million**	**Change %**
Total revenue	**79.4**	**119.9**	**(33.8)**
Underlying EBITDA	6.3	(2.5)	352.0
Reported EBITDA	8.9	(3.3)	369.7
EBIT	**(1.5)**	**(66.6)**	**97.8**
Net loss before income tax	(13.2)	(78.7)	83.2
Loss after tax	**(13.2)**	**(78.7)**	**83.2**
Basic and diluted loss per share (cents)	(4.9)	(29.9)	83.4

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

	Drilling $'000	**E&C $'000**	**Oil & Gas $'000**	**Corporate $'000**	**2014 $'000**	**2013 $'000**
Reconciliation:						
Consolidated profit / (loss) before income tax	**(2,461)**	**4,337**	**5,044**	**(20,152)**	**(13,232)**	(78,655)
Impairment of plant and equipment	–	–	–	–	**–**	11,402
Impairment of intangible assets	–	–	–	–	**–**	39,472
Impairment of other receivables	–	–	–	–	**–**	1,122
Depreciation and amortisation	7,844	1,530	–	970	**10,344**	11,296
Finance costs	–	–	–	13,633	**13,633**	13,684
Finance income	–	–	–	(1,863)	**(1,863)**	(1,633)
Reported EBITDA	5,383	5,867	5,044	(7,412)	**8,882**	(3,312)
Share of (profit) / loss of equity accounted investees	–	–	(3,733)	–	**(3,733)**	(3,316)
Share of overhead - UK investments	–	–	93	–	**93**	4
Exploration asset revenue	–	–	(1,478)	–	**(1,478)**	–
Provisions and settlement of historical projects	–	–	–	1,854	**1,854**	700
Impairment of equity accounted investees	–	–	–	–	**–**	1,659
Redundancy costs	–	–	–	730	**730**	1,316
Advisory fees on balance sheet restructure	–	–	–	–	**–**	544
Other (income) / expense	–	–	–	(36)	**(36)**	(119)
Underlying EBITDA	**5,383**	**5,867**	**(74)**	**(4,864)**	**6,312**	**(2,524)**

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

Commentary on the Results
for the half year ended 31 December 2014

The results by division are as follows:

Drilling Division

	Dec 2014 $'000	Dec 2013 $'000	Change %
Revenue	45,880	49,426	(7.2%)
Underlying EBITDA	5,383	5,155	4.4%
EBITDA margin	11.7%	10.4%	

Despite subdued market conditions and continued capital expenditure reductions by the major coal mining companies, Lucas' revenue experienced a 7.2% decline to $45.9 million, and an increase over the revenue earned in the 6 months ended 30 June 2014 of $44.8 million. This reflects the Company's success in winning significant work in the period and demonstrates the market confidence in the Group's drilling services, particularly around highly technical projects concerning gas drainage.

Underlying EBITDA margin improved to 11.7%, partly as a result of measures previously taken to reduce costs and re-focus on the Group's core strength of directional drilling. This is particularly pleasing when viewed in the context of depressed coal prices, and reflects the value the market places on the Group's experience.

The Group's proven delivery capability and multi-disciplined technical based service offering positions the Group well to grow when the market starts to recover.

Engineering & Construction Division

	Dec 2014 $'000	Dec 2013 $'000	Change %
Revenue	33,549	70,446	(52.4%)
Underlying EBITDA	5,867	(1,689)	447.4%
EBITDA margin	17.5%	(2.4%)	

Engineering & Construction revenue decreased by 52.4% to $33.5 million, reflecting timing differences in the award and execution of work.

EBITDA margin however increased substantially from the comparative period to $5.8M, reflecting the positive impact of a restructure of the division, and greater focus on the division's core skill capability of pipeline construction. A renewed emphasis on project execution, and a reduction of legacy projects requiring resolution also benefited the margin.

An improved result is expected in the second half following commencement of the construction of the 300km Eastern Goldfields Pipeline in Western Australia in partnership with Spiecapag Australia, awarded late in the period under review. The Group has also secured several smaller pipeline projects that will be executed in this half.

Commentary on the Results

for the half year ended 31 December 2014

Oil & Gas Investments

The Oil & Gas division encompasses the Group's investments in hydrocarbons in the United Kingdom. This comprises the Group's direct equity interest in the Bowland, Elswick and Bolney prospects, represented by Exploration and Evaluation assets, and its investment in the equity accounted investee, Cuadrilla who also holds equity in the above assets together with rights to pursue exploration in a number of mainland Europe acreages.

A decision by the Lancashire County Council ("LCC") on Cuadrilla's planning applications to drill, fracture and flow test two wells in the Bowland Basin, at Preston New Road and Roseacre Wood, was initially expected to be made at the end of January 2015. Following the Planning Officer's recommendation to the LCC Development Control Committee that the Preston New Road application be refused on the grounds of night time noise and that the Roseacre Wood application be refused on the grounds of noise and traffic concerns, Cuadrilla submitted additional informational detailing further mitigation measures to address these concerns.

Importantly, the Planning Officer concluded that Cuadrilla's applications were satisfactory in all other respects, including "impacts on air quality, archaeology & cultural heritage, greenhouse gas emissions, community and socio-economics, ecology, hydrogeology & ground gas, induced seismicity (including subsidence), land use, landscape & visual amenity, traffic [with respect to the Preston New Road site], resources & waste, water resources or public health (except for noise) would be low or could be mitigated and controlled by condition to make them acceptable."

The decision of the LCC Development Control Committee is now expected to be made in the second quarter of the current calendar year. Assuming the planning applications are approved, Cuadrilla will immediately commence operational work at these sites.

Separately, following an extensive review, the Environmental Agency granted Cuadrilla the environmental permits for its proposed shale gas exploration site both at Preston New Road and Roseacre Wood.

Exploration expenditure will initially be funded from the Centrica farm-in with no material cash funding requirements from the Group this calendar year.

On 12th February 2015, the Infrastructure Act became law. This Act simplifies procedures for the onshore oil, gas and deep geothermal industries to access underground reserves and so makes it easier for companies to drill for shale gas. The Act also makes it a principal objective of the government to maximise the economic recovery of UK petroleum. While the Act sets out certain conditions prior to approval to drill for shale gas, these are considered to be standard industry practice and met by Cuadrilla's planning and work practices.

Cuadrilla submitted multiple bids in the UK's 14th onshore licensing round. The UK Government is expected to announce the awards in the first half of 2015.

Balance Sheet

Gross interest bearing loans and borrowings have increased by $7.2 million to $70.4 million predominantly as a result of unfavourable currency translations between the Australian dollar and US dollar of $6 million. The Group does not have any principal repayment obligations until the expiry of the facility between Jan 2017 and Feb 2017.

Group liquidity is materially unchanged with the current ratio having improved slightly to 1.42 as a result of the continued focus on working capital management. Cash reserves are $26.7 million despite financing and tax payments of $7.6 million, reflecting the significant improvement in cash generated from operations to $4.8 million.

Offsetting the exchange rate loss on borrowings reported in the results was a favourable currency translation on the UK investments of $7.3million recognised in equity.

Outlook

Despite continuing subdued market conditions, the Drilling division has experienced considerable success in recent months in winning work in the Coal sector and is expected to maintain its operations at current level for the foreseeable future. The Engineering and Construction division has also pre-qualified for several major projects and is hopeful of winning work here in partnership with our leading pipeline partner, Spiecapag Australia.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2014

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 2014 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2014 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 2014

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 2014 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

Russell Eggers

Non-executive

Phillip Arnall

Julian Ball

Andrew Purcell

Ian Meares

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

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 2014.

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
26 February 2015

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Auditor's Independence Declaration to the Directors of AJ Lucas Group Limited

In relation to our review of the financial report of AJ Lucas Group Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ryan Fisk
Partner
Sydney
26 February 2015

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2014

	Note	Dec 2014 $'000	Dec 2013 $'000
Revenue	2	79,429	119,872
Total revenue		**79,429**	**119,872**
Other Income		1,478	–
Material costs		(13,914)	(28,017)
Sub-contractor costs		(13,718)	(22,537)
Employee expenses		(34,779)	(54,056)
Plant and other construction costs		(11,705)	(17,141)
Depreciation and amortisation expenses	4	(10,344)	(11,296)
Advisory fees on balance sheet restructure		–	(544)
Cost of options granted		(89)	(90)
Impairment expense		–	(53,655)
Redundancy costs		(730)	(1,316)
Loss on sale of assets		(12)	(33)
Other expenses		(811)	(1,107)
Results from operating activities		**(5,195)**	**(69,920)**
Finance income	3	1,863	1,633
Finance costs	3	(13,633)	(13,684)
Net finance costs		**(11,770)**	**(12,051)**
Share of profit / (loss) of equity accounted investees	6	3,733	3,316
Loss before income tax		**(13,232)**	**(78,655)**
Income tax expense		–	–
Loss for the period		**(13,232)**	**(78,655)**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		7,293	7,195
Other comprehensive income for the period		**7,293**	**7,195**
Total comprehensive loss for the period		**(5,939)**	**(71,460)**
Total comprehensive loss attributable to owners of the Company		**(5,939)**	**(71,460)**
Earnings per share:			
Basic (loss)/earnings per share (cents)		(4.9)	(29.9)
Diluted (loss)/earnings per share (cents)		(4.9)	(29.9)

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

Condensed Consolidated Statement of Financial Position

as at 31 December 2014

	Note	Dec 2014 $'000	Jun 2014 $'000
Current assets			
Cash and cash equivalents		26,693	29,250
Trade and other receivables		13,596	18,815
Inventories		17,603	29,630
Other assets		1,479	886
Total current assets		**59,371**	**78,581**
Non-current assets			
Property, plant and equipment	4	68,698	79,074
Exploration assets	5	12,673	10,759
Investments in equity accounted investees	6	97,387	87,573
Total non-current assets		**178,758**	**177,406**
Total assets		**238,129**	**255,987**
Current liabilities			
Trade and other payables		29,323	45,232
Interest-bearing loans and borrowings	7	988	864
Current tax liabilities	8	6,875	5,480
Derivative liabilities	10	243	1,765
Employee benefits		4,169	4,796
Total current liabilities		**41,598**	**58,137**
Non-current liabilities			
Interest-bearing loans and borrowings	7	69,366	62,329
Non-current tax liabilities	8	24,881	27,415
Employee benefits		652	624
Total non-current liabilities		**94,899**	**90,368**
Total liabilities		**136,497**	**148,505**
Net assets		**101,632**	**107,482**
Equity			
Share capital		339,670	339,670
Reserves		19,362	11,980
Accumulated losses		(257,400)	(244,168)
Total equity		**101,632**	**107,482**

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 2014

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2014	339,670	7,507	637	3,836	(244,168)	107,482
Total comprehensive income						
Loss for the period	–	–	–	–	(13,232)	(13,232)
Other comprehensive income						
Foreign currency translation differences	–	7,293	–	–	–	7,293
Total comprehensive income/(loss)	–	7,293	–	–	(13,232)	(5,939)
Transactions with owners recorded directly in equity						
Share based payment transactions	–	–	–	89	–	89
Total contributions by and distributions to owners	–	–	–	89	–	89
Balance 31 December 2014	**339,670**	**14,800**	**637**	**3,925**	**(257,400)**	**101,632**
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**

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 2014

	Note	Dec 2014 $'000	Dec 2013 $'000
Cash flows from operating activities			
Cash receipts from customers		105,176	138,329
Cash paid to suppliers and employees		(100,382)	(149,509)
Cash from / (used in) operations		**4,794**	**(11,180)**
Interest received		341	237
Income taxes paid		(2,770)	(1,290)
Interest and other costs of finance paid		(4,872)	(2,668)
Net cash used in operating activities		**(2,507)**	**(14,901)**
Cash flows from investing activities			
Payments for interest in exploration assets		–	(2,139)
Acquisition of plant and equipment		(442)	(737)
Proceeds from sale of plant and equipment		440	–
Proceeds from redemption of preference shares		–	17,793
Payments for equity accounted investees		–	(2,611)
Proceeds from sale of assets held for sale		–	1,019
Net cash from investing activities		**(2)**	**13,325**
Cash flows from financing activities			
Repayment of borrowings		–	(3,822)
Payment of finance lease liabilities		(48)	(1,028)
Net proceeds from issue of shares		–	31,109
Net cash (used in) / from financing activities		**(48)**	**26,259**
Net (decrease) / increase in cash and cash equivalents		(2,557)	24,683
Cash and cash equivalents at beginning of the period		29,250	9,675
Cash and cash equivalents at end of the period		**26,693**	**34,358**

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 2014 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, engineering and construction, and mining services group specialising in providing services to the energy, water and wastewater, and resources 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 2014. These are available upon request from the Company's registered office at Level 2, 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 26 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 consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business, for a period of at least 12 months from the date that these 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 $13.2 million primarily as a result of non-cash depreciation and amortisation charges of $10.3 million, net finance costs of $11.7 million, as well as continued restructuring expenses;
- The Group used net cash of $2.5 million in its operating activities during the year primarily as a result of interest and other costs of finance paid of $4.9 million and income taxes paid of $2.8 million. The Group had cash and cash equivalents of $26.7 million available as at balance date;
- The Group's core markets have remained depressed throughout the period. The Group's future financial performance and cash flows will be driven by demand for its drilling, engineering and construction services, which in turn will be impacted by various factors which are outside its control. As such, forecasting carries an inherent degree of uncertainty; and
- The ongoing exposure to contingent liabilities as disclosed in the most recent annual report.

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

- The ability of the Group to raise additional debt and/or equity, if and when required;
- The continuing support of Kerogen Investments No. 1 (HK) Limited ("Kerogen"), both as a substantial debtholder and shareholder of the Company, as evidenced by a letter of support provided by Kerogen;
- 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 and Elswick prospects;

ii) Going concern (cont.)

- The implied value of the Group's investment in both Cuadrilla and also its direct holding in the Bowland and Elswick prospects, as evidenced by the partial sale of the Group's direct and indirect interests in the Prospects to Centrica in June 2013; and
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla.

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 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 2014. Where necessary, comparatives have been reclassified and repositioned for consistency with current half year disclosures.

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 2014.

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 the United Kingdom.

2. Segment reporting (Cont.)

Dec 2014	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
Reportable segment revenue							
Revenue - services rendered	45,880	–	–	45,880	–	–	45,880
Revenue - construction contracts	–	33,549	–	33,549	–	–	33,549
Inter-segment revenue	3,054	–	–	3,054	–	(3,054)	–
Total consolidated revenue	**48,934**	**33,549**	**–**	**82,483**	**–**	**(3,054)**	**79,429**
EBITDA	**5,383**	**5,867**	**5,044**	**16,294**	**(7,412)**	**–**	**8,882**
Depreciation, amortisation and impairment	(7,844)	(1,530)	–	(9,374)	(970)	–	(10,344)
Finance income	–	–	–	–	1,863	–	1,863
Finance cost	–	–	–	–	(13,633)	–	(13,633)
Reportable segment profit / (loss)	**(2,461)**	**4,337**	**5,044**	**6,920**	**(20,152)**	**–**	**(13,232)**

Dec 2013	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
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	–	–	–	–	1,633	–	1,633
Finance cost	–	–	–	–	(13,684)	–	(13,684)
Reportable segment profit / (loss)	**(51,278)**	**(9,486)**	**3,318**	**(57,446)**	**(21,209)**	**–**	**(78,655)**

3. Finance income and costs

	Dec 2014 $'000	Dec 2013 $'000
Interest income	341	288
Net change in fair value of derivative liability	1,522	1,345
Finance income	**1,863**	**1,633**
Interest expense	(7,210)	(7,662)
Amortisation of options and fees on debt facilities	(455)	(1,390)
Net foreign exchange loss	(5,968)	(4,632)
Finance costs	**(13,633)**	**(13,684)**
Net finance costs recognised in profit and loss	**(11,770)**	**(12,051)**

4. Property, plant and equipment

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Enterprise development $'000	Total $'000
31 December 2014					
At cost	7	3,977	142,995	11,249	158,228
Accumulated depreciation, amortisation and impairment	(6)	(652)	(83,545)	(5,327)	(89,530)
Carrying amount	**1**	**3,325**	**59,450**	**5,922**	**68,698**
30 June 2014					
At cost	7	3,912	143,632	11,162	158,713
Accumulated depreciation, amortisation and impairment	(5)	(597)	(74,647)	(4,390)	(79,639)
Carrying amount	**2**	**3,315**	**68,985**	**6,772**	**79,074**

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 2014	2	3,315	68,985	6,772	79,074
Additions	–	65	288	87	440
Disposals	–	–	(472)	–	(472)
Depreciation and amortisation	(1)	(55)	(9,351)	(937)	(10,344)
Carrying amount at 31 December 2014	**1**	**3,325**	**59,450**	**5,922**	**68,698**

5. Exploration assets

	Dec 2014 $'000	Jun 2014 $'000
Cost		
Carry asset	–	1,256
Bowland prospect	7,798	4,931
Elswick prospect	2,317	2,110
Bolney prospect	2,558	2,462
	12,673	**10,759**

The exploration assets comprise the Group's equity interest ("direct interest") in the above prospects and represents expenditure incurred. The Group is beneficially entitled to an additional interest ("indirect interest") in these prospects through its shareholding in the equity accounted associate, Cuadrilla Resources Holdings Limited ("Cuadrilla") as shown below:

	Indirect interest %	Direct interest %	TOTAL Dec 2014 %	TOTAL Jun 2014 %
Beneficial interest				
Bowland prospect	25.31	18.75	44.06	44.06
Elswick prospect	25.31	18.75	44.06	44.06
Bolney prospect	33.75	25.00	58.75	58.75

The indirect interest comprises Cuadrilla's equity interest in the respective prospect multiplied by the Group's equity interest in Cuadrilla as shown in note 6.

Future Expenditure on the Bowland and Elswick tenements

In June 2013 the existing owners, Cuadrilla and the Group, each sold 25% of their interest in the Bowland and Elswick prospects to Centrica Plc ("Centrica"). Consideration for the interest included a deferred consideration component and contingent consideration.

Deferred consideration comprised £60.0 million of the future expenditure on the tenements which will be paid by Centrica. At balance date £36.0 million in deferred consideration remained to be incurred and paid by Centrica. The Group's direct interest in the remaining deferred consideration is £6.8 million ($12.9 million) and will be recognised as an increase in the carrying value of the Group's direct interest.

The contingent consideration comprises a further £60.0 million, of which £15.0 million ($28.6 million) is payable to the Group and £45.0 million is payable to Cuadrilla. Payment is contingent on Centrica not exercising its option to put its equity interest back to the vendors. The put option can be exercised at Centrica's discretion until certain operational conditions are met. The Group has not recognised the contingent consideration at balance date.

6. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

	Ownership		Carrying value	
Name of investee	Dec 2014 %	Jun 2014 %	Dec 2014 $'000	Jun 2014 $'000
Cuadrilla Resources Holdings Limited (associate)	45.0	45.0	97,387	87,573
Marais-Lucas Technologies Pty Limited (joint venture)	50.0	50.0	–	–
Lucas Xtreme Drilling Pty Ltd (joint venture)	50.0	50.0	–	–
			97,387	**87,573**

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

	$'000
Balance at 1 July 2014	87,573
Movement of foreign currency translation recognised in equity	6,081
Share of equity accounted profits / (losses) during the period	3,733
Balance at 31 December 2014	**97,387**

7. Interest-bearing loans and borrowings

	Dec 2014 $'000	Jun 2014 $'000
Current		
Lease liabilities	135	149
Loans from related party	853	715
	988	**864**
Non-current		
Lease liabilities	88	122
Other borrowings	5,194	5,165
Loans from related party	64,084	57,042
	69,366	**62,329**

Loans and borrowings terms and maturities

	Currency	Interest Rate	Year of maturity	Dec 2014 $'000	Jun 2014 $'000
Loans from related party	USD	15.0%	2017	64,937	57,757
Other borrowings - secured	AUD	9.6%	2021	5,194	5,165
Finance lease liability	AUD	5.9%	2015-2017	223	271

8. 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 2020 financial year. The payment arrangement also covers a PAYG liability included in Other borrowings in Note 7, Interest-bearing loans and borrowings, and is expected to be 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.

9. Interests in joint operations

			Participation interest		Contribution to operating results	
	Principal activities	Principal place of business	Dec 2014 %	Dec 2013 %	Dec 2014 $'000	Dec 2013 $'000
Southern SeaWater Alliance	Construction and operation of desalination plant	Level 2, 1 Adelaide Terrace East Perth 6004	19	19	405	232
VSL Australia - AJ Lucas Operations Joint Venture	Construction of water related infrastructure	6 Pioneer Avenue, Thornleigh 2120	50	50	266	473
AJ Lucas - Spiecapag Joint Venture - QGC	Construction of gas infrastructure	616 Boundary Road Richlands 4077	50	50	3,647	3,181
AJ Lucas - Spiecapag Joint Venture - APA Goldfields	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	–	–	–

The Group's share of results of the above joint arrangements are 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 operations:

	Dec 2014 $'000	Jun 2014 $'000
Assets		
Current assets		
Cash and cash equivalents	2,596	7,416
Trade and other receivables	214	208
Construction work in progress	32	1,600
Other	34	31
Total assets	**2,876**	**9,255**
Liabilities		
Current liabilities		
Trade and other payables	1,239	5,583
Total liabilities	**1,239**	**5,583**

10. 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	Carrying amount $'000
As at 1 July 2014	11,159,356	1,765
Change in valuation	–	(1,522)
As at 31 December 2014	**11,159,356**	**243**

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	$0.77
Option exercise price	1.54*
Risk-free interest rate	2.42%
Dividend yield	0.0%
Expiry date	22 December 2015
Volatility of AJ Lucas shares	45%-55%

* 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.

11. Financial instruments fair value disclosure

The fair value of financial instruments recognised in the condensed consolidated statement of financial position approximates their carrying amount.

12. Subsequent events

On 22 January 2015, the Lancashire County Council ("LCC") Planning Officers recommended that the Council's Development Control Committee (DCC) refuse consent for the applications made by Cuadrilla to drill, fracture and flow test wells in the Bowland Basin on the grounds of night time noise at Preston New Road and noise and traffic concerns at Roseacre Wood.

Subsequently, Cuadrilla wrote to the Chair of the DCC detailing information of additional mitigation measures to address these concerns. Cuadrilla and its expert advisers believe that the mitigations address all the issues raised by the Planning Officers.

The decision on the applications was originally expected to be made by the end of January 2015. In order to allow time for detailed consideration of the additional mitigation measures addressing the noise and traffic concerns, Cuadrilla requested a deferral of the determination of the planning applications by the DCC. Council agreed to this request with the decision of the DCC now expected in the second quarter of the current calendar year.

There are no other any items, transactions or events of a material or unusual nature that have arisen in the interval between the end of the half year and the date of this report, 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 9 to 21 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 2014 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
26 February 2015

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To the members of AJ Lucas Group Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of AJ Lucas Group Limited, which comprises the statement of financial position as at 31 December 2014, the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year 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 half-year 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 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 2014 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 AJ Lucas Group Limited and the entities it controlled during the half-year, 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. 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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 AJ Lucas Group 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 2014 and of its performance for the half-year ended on that date; and

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

Emphasis of matter regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1 (ii) in the condensed consolidated interim financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern.

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 and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business without the ongoing financial support of Kerogen Investments No.1 (HK) Limited as a substantial shareholder and financier.

Ernst & Young

Ernst & Young

Ryan Fisk
Partner
Sydney
26 February 2015