AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

&

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2015

(Previous Corresponding Reporting Period: half year ended 31 December 2014)

Commentary on the Results

for the half year ended 31 December 2015

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	Decrease of 29.0%	56,401	79,429
Loss before interest and tax	Increase of 278.2%	(5,529)	(1,462)
Loss from ordinary activities after tax attributable to members	Increase of 35.6%	(17,945)	(13,232)
Loss for the period attributable to members	Increase of 35.6%	(17,945)	(13,232)
Underlying EBITDA attributable to members (1)	Increase of 33.6%	8,430	6,312
Reported EBITDA attributable to members (2)	Decrease of 64.8%	3,128	8,882

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security (cents per share)	25.4	38.0

Dividends	Amount per security	Franking 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) Underlying EBITDA refers to reported EBITDA adjusted for certain non-operating or non-recurring items. A reconciliation of Loss from ordinary activities after tax to underlying EBITDA is provided within the Commentary on the Results section.

(2) Reported EBITDA refers to earnings before net financing costs, depreciation and amortisation, impairments and tax expense.

An interim financial report for the half year ended 31 December 2015 is provided with the Appendix 4D information.

1. The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.
2. The Appendix 4D information is based on the interim financial report, which has been subject to a review.
3. The Auditors review report includes an emphasis of matter regarding the continuation of the Group as a going concern which is provided with the interim financial report.
4. 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 2015

Trading conditions remained difficult during the period with reduced work offered for tender compared to previous periods and delays in some of the work won, as the mining and constructions sectors remained subdued. Revenue for the period declined 29% to $56.4 million predominantly due to reduced activity in the engineering and construction sector and the completion of a large project in partnership with Spiecapag Australia at the beginning of the period.

Underlying EBITDA improved to $8.4 million (Dec 2014: $6.3 million) despite the reduced revenue, reflecting the success of cost reduction initiatives, productivity improvements and the timing differences in the award, execution and completion of works across periods.

Net loss before tax was $17.9 million, a 35.6%, or $4.7 million increase over the comparative period largely due to the Group's share of Cuadrilla costs as a result of the suspension of the Centrica carry funding pending the appeal outcome on the planning applications to drill, fracture and flow test two wells in the Bowland Basin.

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

	Dec 2015 $'000	Dec 2014 $'000	Change %
Total revenue	56,401	79,429	(29.0%)
Underlying EBITDA	8,430	6,312	33.6%
Reported EBITDA	3,128	8,882	(64.8%)
EBIT	**(5,529)**	**(1,462)**	**(278.2)%**
Loss before tax	(17,945)	(13,232)	(35.6)%
Loss for the year	**(17,945)**	**(13,232)**	**(35.6)%**

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	Dec 2015 $'000	Dec 2014 $'000
Reconciliation:						
Consolidated loss before income tax	**(980)**	**3,722**	**(4,843)**	**(15,844)**	**(17,945)**	**(13,232)**
Depreciation and amortisation	6,976	1,679	–	2	8,657	10,344
Finance costs	–	–	–	12,585	12,585	13,633
Finance income	–	–	–	(169)	(169)	(1,863)
Reported EBITDA	**5,996**	**5,401**	**(4,843)**	**(3,426)**	**3,128**	**8,882**
Share of (profit) / loss of equity accounted investees	–	–	3,732	–	3,732	(3,733)
Exploration asset revenue	–	–	(522)	–	(522)	(1,478)
Share of overhead - UK investments	–	–	1,405	–	1,405	93
Provisions and settlement of historical projects	–	–	–	–	–	1,854
Redundancy costs	–	–	–	341	341	730
Net loss on sales of assets	38	–	–	–	38	–
Cost of options granted	–	–	–	27	27	–
Other (income) / expense	–	–	228	53	281	(36)
Underlying EBITDA	**6,034**	**5,401**	**(0)**	**(3,005)**	**8,430**	**6,312**

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

The results by division are as follows:

Drilling Division

	Dec 2015 $'000	Dec 2014 $'000	Change %
Revenue	38,060	45,880	(17)%
Underlying EBITDA	6,034	5,383	12%
Underlying EBITDA %	15.9%	11.7%	

Challenging market conditions in the coal industry with continued capital expenditure reductions and pressure on costs reductions by the major coal mining companies resulted in a 17% decline in revenue on the corresponding six months last year to $38.1 million. Despite the softer revenues for the period, the division continued to win work which demonstrates the market confidence in the Group’s drilling services, particularly around highly technical projects concerning gas drainage.

Underlying EBITDA margin improved to 15.9%, 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 recovers.

Engineering & Construction Division

	Dec 2015 $'000	Dec 2014 $'000	Change %
Revenue	18,341	33,549	(45)%
Underlying EBITDA	5,401	5,867	(8)%
Underlying EBITDA %	29.4%	17.5%	

The joint venture with Spiecapag Australia continues to deliver value to the company with the completion of a major project at the beginning of the period. No major joint venture contracts were started during the period, however, the joint venture did win a contract prior to the end of the half year with construction expected during the calendar year 2016.

Tendering for small scale infrastructure works remained competitive, however, contracts continued to be awarded and executed efficiently. Engineering & Construction revenue decreased by 45% to $18.3 million, reflecting timing differences in the award and execution of work.

The underlying EBITDA was down 8% on the corresponding period, however, the underlying EBITDA margin at 29% reflected an improvement in the execution of a major JV pipeline construction project.

Oil & Gas Investments

The Oil & Gas division encompasses the Groups’ investments in hydrocarbons in the United Kingdom. This comprises the Groups’ 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.

In May 2015, the Lancashire County Council (“LCC”) development control committee refused Cuadrilla’s planning applications in respect of the monitoring and site restoration at the Grange Hill exploration site near Singleton in Lancashire. The refusal of the applications was despite the LCC planning officer’s recommendation that the application be approved.

Commentary on the Results

for the half year ended 31 December 2015

In June 2015, the LCC refused Cuadrilla's planning applications for each of the two sites, at which Cuadrilla had applied to undertake shale gas exploration and monitoring works including the drilling, hydraulic fracturing and extended well-testing of 4 horizontal wells at each of the two sites. At Preston New Road planning permission was rejected on grounds of noise and visual impact; and, at Roseacre Wood planning permission was rejected on grounds of traffic impact. The refusal of the applications was despite the LCC planning officer's recommendation that the Preston New Road application be approved.

The Environmental Agency granted Cuadrilla environmental permits for the proposed shale gas exploration sites at both Preston New Road and Roseacre Wood.

In August 2015, AJ Lucas, Cuadrilla and Centrica reached an agreement on revised terms of the carry and contingent payment arrangement in relation to the Bowland tenement. Further, it was agreed that Cuadrilla would transfer 5% of its interest in the Bowland tenements to AJ Lucas in exchange for a proportionate transfer in the Carry and Contingent Carry entitlement.

In September 2015, Cuadrilla lodged appeals against the decisions to refuse planning permission for both exploration sites; the monitoring site at Preston New Road; and against one of the conditions imposed on the planning permission for the monitoring array at Roseacre Wood. In addition, Cuadrilla lodged an appeal against the decisions to refuse planning permission at Grange Hill.

Public hearings commenced in Blackpool on 9 February 2016 and are expected to last until mid March 2016. It is expected that the inspector will prepare a report and a set of recommendations which will be forwarded to the Secretary of State for consideration. The Secretary of State for Communities and Local Government has announced that he will determine the outcome on the applications at Preston New Road and Roseacre Wood.

On 23 February 2016, the Planning Inspectorate approved Cuadrilla's appeal in respect of the monitoring and site restoration at the Grange Hill exploration site near Singleton in Lancashire. The permission allows for seismic and pressure testing, followed by well plugging and site restoration

In the period, as part of the UK Government's 14th Round for onshore oil and gas licences, Cuadrilla was offered eighteen new exploration blocks under 8 licences. These licences are located in the South Cleveland Basin and the Gainsborough Trough. Four of the licences were offered to Cuadrilla on a sole basis and four were jointly offered with partner, GDF SUEZ E&P UK Ltd (Engie).

Balance Sheet

Gross interest bearing loans and borrowings have increased by $10.1 million to $88.9 million predominantly as a result of $6.9 million in interest charges and $3.6 million in unfavourable currency translations on US Dollar denominated debt, offset by $0.4 million in repayments. In addition $1.4 million in interest charges was incurred on the income tax liability which is subject to a payment arrangement as described in note 8 to the financial statements.

Kerogen Investments No. 1 (HK) Limited ("Kerogen"), has continued to support the company through agreeing to defer all interest payments due on the facility since April 2015 until March 2016, with deferred interest and commitments fees totalling $8.1 million at balance date. In addition to quarterly interest obligations under the Kerogen facility, principal repayment is due at the expiry of the facility between Jan 2017 and Feb 2017.

The Group liquidity has reduced resulting in a current ratio of 0.92:1 (Jun 15 1.07:1) as a result of additional funding in Cuadrilla and the Exploration Assets during the period. Despite the additional funding for the UK investments, together with financing and tax payments of $5.1 million, cash reserves increased to $17.1 million (Jun-15 $15.9 million) due to the deferral of interest and commitments of $8.1 million. $8.0 million of these cash reserves are held in the joint venture account.

Offsetting the exchange rate loss on borrowings of $3.6 million reported in the results was a favourable currency translation on the UK investments of $6.4m recognised in equity.

Outlook

The mining and construction sectors are expected to remain challenging in the foreseeable future. The Drilling division will see the completion of a major four year drilling contract in the first half of the calendar year 2016 and will be looking to develop opportunities to utilise existing operating equipment and leverage existing customer relationships.

The pipeline construction joint venture with Spiecapag Australia was awarded a large project in December 2015 with the project starting and completing in calendar year 2016.

The group remains focused on streamlining further its operational capability and support costs with future efficiencies expected in the coming year.

AJ Lucas continues to address the recapitalisation of its balance sheet. Equity funding is being explored to raise short term cash to support working capital requirements of the business whilst a larger funding strategy is being developed to meet the needs of the Group longer term including meeting its commitments for the Cuadrilla shale gas projects.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2015

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 2015 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2015 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 2015

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 2015 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

John O'Neill

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 6 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 10 and forms part of this report for the half year ended 31 December 2015.

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.

SUBSEQUENT EVENTS

In respect of its proposed investment in the Petroleum Exploration Licences with Lawndale Group, the company has decided to transfer its interests in and rights to the Petroleum Exploration Licences to Kerogen in settlement of the PEL loan due to Kerogen.

Following the successful completion of the Australian business's turnaround, managing director and chief executive Russell Eggers will be leaving the company on 29 February 2016 to pursue other opportunities.

Signed in accordance with a resolution of the directors.

Phil Arnall - Chairman
Sydney

26 February 2016

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

As lead auditor for the review of AJ Lucas Group Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of AJ Lucas Group Limited and the entities it controlled during the financial period.

Ernst & Young

Ryan Fisk
Partner
Sydney
26 February 2016

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2015

	Note	Dec 2015 $'000	Dec 2014 $'000
Revenue	2	56,401	79,429
Total revenue		**56,401**	**79,429**
Other income		522	1,478
Material costs		(14,287)	(13,914)
Sub-contractor costs		(3,203)	(13,718)
Employee expenses		(25,422)	(34,779)
Plant and other construction costs		(5,154)	(11,705)
Depreciation and amortisation expenses	4	(8,657)	(10,344)
Share based payments expense		(27)	(89)
Redundancy costs		(341)	(730)
Loss on sale of assets		(38)	(12)
Other expenses		(1,591)	(811)
Results from operating activities		**(1,797)**	**(5,195)**
Finance income	3	169	1,863
Finance costs	3	(12,585)	(13,633)
Net finance costs		**(12,416)**	**(11,770)**
Share of profit/(loss) of equity accounted investees	6	(3,732)	3,733
Loss before income tax		**(17,945)**	**(13,232)**
Income tax expense		–	–
Loss for the period		**(17,945)**	**(13,232)**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		6,416	7,293
Total items that may be reclassified subsequently to profit and loss		6,416	7,293
Other comprehensive income for the period		**6,416**	**7,293**
Total comprehensive loss for the period		**(11,529)**	**(5,939)**
Total comprehensive loss attributable to owners of the Company		**(11,529)**	**(5,939)**
Earnings per share:			
Basic loss per share (cents)		(6.7)	(4.9)
Diluted loss per share (cents)		(6.7)	(4.9)

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

Condensed Consolidated Statement of Financial Position

as at 31 December 2015

	Note	Dec 2015 $'000	Jun 2015 $'000
Current assets			
Cash and cash equivalents		17,125	15,955
Trade and other receivables		13,104	26,866
Inventories		11,587	13,445
Other assets		1,370	1,269
Total current assets		**43,186**	**57,535**
Non-current assets			
Property, plant and equipment	4	44,856	53,193
Exploration assets	5	18,188	16,543
Investments in equity accounted investees	6	108,425	103,997
Total non-current assets		**171,469**	**173,733**
Total assets		**214,655**	**231,268**
Current liabilities			
Trade and other payables		25,421	37,408
Interest-bearing loans and borrowings	7	9,635	3,927
Current tax liabilities	8	8,247	8,247
Derivative liabilities	10	–	31
Employee benefits		3,729	4,159
Total current liabilities		**47,032**	**53,772**
Non-current liabilities			
Interest-bearing loans and borrowings	7	79,292	74,937
Non-current tax liabilities	8	19,475	22,234
Employee benefits		865	832
Total non-current liabilities		**99,632**	**98,003**
Total liabilities		**146,664**	**151,775**
Net assets		**67,991**	**79,493**
Equity			
Share capital		339,670	339,670
Reserves		35,650	29,207
Accumulated losses		(307,329)	(289,384)
Total equity		**67,991**	**79,493**

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

Condensed Consolidated Statement of Changes in Equity

for the half year ended 31 December 2015

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2015	339,670	24,563	637	4,007	(289,384)	79,493
Total comprehensive income						
Loss for the period	–	–	–	–	(17,945)	(17,945)
Other comprehensive income						
Foreign currency translation differences	–	6,416	–	–	–	6,416
Total comprehensive income/(loss)	–	6,416	–	–	(17,945)	(11,529)
Transactions with owners recorded directly in equity						
Issue of ordinary shares, net of transaction costs						
Share based payment transactions	–	–		27	–	27
Total contributions by and distributions to owners	–	–	–	27	–	27
Balance 31 December 2015	**339,670**	**30,979**	**637**	**4,034**	**(307,329)**	**67,991**
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**

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

Condensed Consolidated Statement of Cash Flows

for the half year ended 31 December 2015

	Dec 2015 $'000	Dec 2014 $'000
Cash flows from operating activities		
Cash receipts from customers	77,011	105,176
Cash paid to suppliers and employees	(66,035)	(100,382)
Cash generated in operations	**10,976**	**4,794**
Interest received	138	341
Income taxes paid	(4,125)	(2,770)
Interest and other costs of finance paid	(1,139)	(4,872)
Net cash generated / (used) in operating activities	**5,850**	**(2,507)**
Cash flows from investing activities		
Proceeds from sale of plant and equipment	73	440
Acquisition of plant and equipment	(430)	(442)
Payments for interest in exploration assets	(547)	–
Payments for equity accounted investees	(2,840)	–
Net cash from / (used in) investing activities	**(3,744)**	**(2)**
Cash flows from financing activities		
Corporate advisory fees	(885)	–
Payment of finance lease liabilities	(51)	(48)
Net cash from financing activities	**(936)**	**(48)**
Net increase / (decrease) in cash and cash equivalents	**1,170**	**(2,557)**
Cash and cash equivalents at beginning of the period	15,955	29,250
Cash and cash equivalents at end of the period	**17,125**	**26,693**

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

1. Basis of preparation

AJ Lucas Group Limited ("the Company") is a company domiciled in Australia. The condensed consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2015 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 2015. 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 2016.

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 $17.9 million primarily as a result of non-cash depreciation and amortisation charges of $8.7 million and net finance costs of $12.4 million including unfavourable currency movement on the US dollar loan of $3.6 million as well as continued restructuring;
- The Group generated net cash of $5.8 million in its operating activities during the year primarily as a result of deferring interest and other costs of finance paid of $8.1 million. The Group had cash and cash equivalents of $17.1 million available as at balance date. $8.0 million of these cash reserves are held in the joint venture account;
- 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 debt holder 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 once planning approvals are granted from Lancashire Council;

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;
- The expected value of the Group's interest in the other minor tenements; 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 2015. 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 2015.

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.)

	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
December 2015							
Reportable segment revenue							
Revenue - services rendered	38,060	–	–	38,060	–	–	38,060
Revenue - construction contracts	–	18,341	–	18,341	–	–	18,341
Inter-segment revenue	2,738	–	–	2,738	–	(2,738)	–
Total consolidated revenue	**40,798**	**18,341**	**–**	**59,139**	**–**	**(2,738)**	**56,401**
EBITDA	**5,996**	**5,401**	**(4,843)**	**6,554**	**(3,426)**	**–**	**3,128**
Depreciation, amortisation and impairment	(6,976)	(1,679)	–	(8,655)	(2)	–	(8,657)
Finance income	–	–	–	–	169	–	169
Finance cost	–	–	–	–	(12,585)	–	(12,585)
Reportable segment profit / (loss)	**(980)**	**3,722**	**(4,843)**	**(2,101)**	**(15,844)**	**–**	**(17,945)**

	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Eliminations $'000	Total $'000
December 2014							
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)**

3. Finance income and costs

	Dec 2015 $'000	Dec 2014 $'000
Interest Income	138	341
Net change in fair value of derivative liability	31	1,522
Finance income	**169**	**1,863**
Interest expense	(8,383)	(7,210)
Amortisation of options and fees on debt facilities	(544)	(455)
Net foreign exchange loss	(3,658)	(5,968)
Finance costs	**(12,585)**	**(13,633)**
Net finance costs recognised in profit and loss	**(12,416)**	**(11,770)**

4. Property, plant and equipment

	Leasehold improvements $'000	Land & buildings $'000	Plant & equipment $'000	Enterprise Development $'001	Total $'000
31 December 2015					
At cost	7	3,977	143,081	11,254	158,319
Accumulated depreciation/amortisation	(7)	(763)	(101,439)	(11,254)	(113,463)
Carrying amount at 31 December 2015	**–**	**3,214**	**41,642**	**–**	**44,856**
30 June 2015					
At cost	7	3,977	142,889	11,254	158,127
Accumulated depreciation/amortisation	(6)	(707)	(92,967)	(11,254)	(104,934)
Carrying amount at 30 June 2015	**1**	**3,270**	**49,922**	**–**	**53,193**

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 $'001	Total $'000
Carrying amount at 1 July 2015	1	3,270	49,922	–	53,193
Additions	–	–	430	–	430
Disposals	–	–	(110)	–	(110)
Impairment				–	–
Depreciation and amortisation	(1)	(56)	(8,600)	–	(8,657)
Carrying amount at 31 December 2015	**0**	**3,214**	**41,642**	**–**	**44,856**

5. Exploration Assets

	Dec 2015 $'000	Jun 2015 $'000
Cost		
Bowland exploration asset	10,130	10,940
Elswick exploration asset	4,776	2,481
Bolney exploration asset	3,282	3,122
	18,188	**16,543**

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 Holding Limited ("Cuadrilla") as shown below:

	Indirect Interest %	Direct Interest %	Dec 2015 %	Jun 2015 %
Beneficial interest				
Bowland tenement	23.10	23.75	46.85	44.06
Elswick tenement	22.62	22.06	44.68	41.89
Bolney tenement	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 voting interest in Cuadrilla as shown in note 6.

Relinquishment requirements

Exploration licences contain conditions relating to achieving certain milestones on agreed deadlines. Where milestones are not achieved within agreed deadlines, the terms of the license may require partial relinquishment of the licence area or be withdrawn. Applications can be made to alter or extend exploration license conditions.

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 farm in arrangement and consideration that was contingent upon certain appraisal and operational milestones being achieved.

In August 2015 a revised arrangement was agreed between Centrica, Cuadrilla and Lucas with respect to the outstanding farm in arrangement (Carry) and Contingent Consideration. The remaining portion of Centrica's farm in funding is £30.6 million has been deferred until planning approval for either of the exploration sites at Preston New Road or Roseacre Wood is obtained. In the interim, until determination of the planning appeal, the Bowland Joint Venture partners will fund Cuadrilla's operations in proportion to their respective equity interests. The contingent consideration payable by Centrica of £60 million was renegotiated into a £46.7 million Contingent farm in (Carry) to be applied against various appraisal and development activities. The Contingent Carry is subject to the same appraisal and operational milestones previously agreed in respect of the original Contingent Consideration.

Concurrently, Lucas has agreed to increase its interest in the Bowland Joint Venture by 5.00% from 18.75% to 23.75% and Cuadrilla will reduce its interest from 56.25% to 51.25% whilst maintaining majority ownership and operatorship. Correspondingly, Lucas' entitlement to the Carry and Contingent Carry will be reduced proportionately.

Cuadrilla has submitted appeals in respect of Lancashire County Council's Development Control Committee's decisions to refuse planning consent for the exploration sites at Preston New Road and Roseacre Wood.

6. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

	Voting Ownership		Carrying value	
	Dec 2015	Jun 2015	Dec 2015	Jun 2015
Name of investee	%	%	$'000	$'000
Cuadrilla Resources Holdings Limited (associate)	45.08%	45.00%	108,425	103,997
Marais-Lucas Technologies Pty Limited (joint venture)	50.00%	50.00%	-	-
Lucas Xtreme Drilling Pty Ltd (joint venture)	50.00%	50.00%	-	-
			108,425	**103,997**

At 31 December 2015, the liabilities of Marais-Lucas Technologies Pty Ltd exceeded its assets. As a result, the Group investment in Marais-Lucas Technologies Pty Ltd is fully impaired and has a nil carrying value. The Group does not have any obligation to settle the liabilities of the investee.

Lucas Xtreme Drilling Pty Ltd is a dormant company with $1 share capital and net assets.

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

	2015 $'000
Balance at 1 July 2015	103,997
Purchase of additional ownership interest	2,840
Movement of foreign currency translation recognised in equity	5,320
Share of equity accounted losses during the year	(3,732)
Balance at 31 December 2015	**108,425**

7. Interest-bearing loans and borrowings

	Dec-15 $'000	Jun-15 $'000
Current		
Lease liabilities	98	164
Loans from related party	9,537	3,763
	9,635	**3,927**
Non-current		
Lease liabilities	77	56
Other borrowings	5,100	5,269
Loans from related party	74,115	69,612
	79,292	**74,937**

Loans and borrowings terms and maturities

	Currency	Interest Rate	Year of maturity	Dec-15 $'000	Jun-15 $'000
Loans from related party	USD	15.0%	2017	83,102	72,875
Loans from related party	AUD	17.1%	2015	550	500
Other borrowings - secured	AUD	9.1%	2020	5,100	5,269
Finance lease liability	AUD	5.9%	2015-2017	175	220

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.

	Dec-15 $'000	Jun-15 $'000
Income tax payable	8,247	8,247
Current Liabilities	**8,247**	**8,247**
Interest Bearing - Other borrowings	5,100	5,269
Income Tax liabilities	19,475	22,234
Non Current Liabilities	**24,575**	**27,503**
Total Tax Liabilities	**32,822**	**35,750**

9. Interests in joint operations

			Participation interest		Contribution to operating results	
	Principal activities	**Principal place of business**	**Dec 2015 %**	**Dec 2014 %**	**Dec 2015 $'000**	**Dec 2014 $'000**
Southern Seawater Alliance	Construction and operation of desalination plant	Level 2, 1 Adelaide Terrace East Perth 6004	19	19	388	405
VSL Australia - AJ Lucas Operations Joint Venture	Construction of water related infrastructure	6 Pioneer Avenue, Thornleigh 2120	50	50	–	266
AJ Lucas - Spiecapag Project 1	Construction of gas infrastructure	616 Boundary Road Richlands 4077	50	50	339	3,647
AJ Lucas - Spiecapag Project 2	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	40	5,625	–
AJ Lucas - Spiecapag Project 3	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	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-15 $'000	Jun-15 $'000
Assets		
Current assets		
Cash and cash equivalents	7,989	4,293
Trade and other receivables	9	8,608
Construction work in progress	23	–
Other	6	9
Total assets	**8,027**	**12,910**

	Dec-15 $'000	Jun-15 $'000
Liabilities		
Current liabilities		
Trade and other payables	1,463	8,176
Total liabilities	**1,463**	**8,176**

10. Derivative liability

The derivative liability represented 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 options expired on 22 December 2015.

	Number of Options	Carrying amount $'000
As at 1 July 2015	11,159,356	31
Expiry of options	(11,159,356)	(31)
As at 31 December 2015	**–**	**–**

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

In respect of its proposed investment in the Petroleum Exploration Licences with Lawndale Group, the company has decided to transfer its interests in and rights to the Petroleum Exploration Licences to Kerogen in settlement of the PEL loan due to Kerogen.

Following the successful completion of the Australian business's turnaround, managing director and chief executive Russell Eggers will be leaving the company on 29 February 2016 to pursue other opportunities.

Other than the above there has not arisen any other events 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 11 to 22 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 2015 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 2016

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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 2015, 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 2015 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 2015 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

Ryan Fisk
Partner
Sydney
26 February 2016