

**AJ LUCAS GROUP LIMITED**

ABN: 12 060 309 104

**INTERIM REPORT**

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**APPENDIX 4D**

**HALF YEAR ENDED 31 DECEMBER 2016**

**(Previous Corresponding Reporting Period:  
half year ended 31 December 2015)**

## Appendix 4D

for the half year ended 31 December 2016

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 8.9% to	51,407	56,401
Loss before interest and tax	Increase of 59.5% to	(8,821)	(5,529)
Loss from ordinary activities after tax attributable to members	Increase of 40.2% to	(25,162)	(17,945)
Loss for the period attributable to members	Increase of 40.2% to	(25,162)	(17,945)
Underlying EBITDA attributable to members	Decrease of 108.1% to	(684)	8,430
Reported EBITDA attributable to members	Decrease of 283.0% to	(5,723)	3,128
<b>NTA Backing</b>		Current Period	Previous Corresponding period
Net tangible asset backing per ordinary security (cents per share)		22.8	25.4
<b>Dividends</b>		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

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 2016 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 Auditor's 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 2016

Trading conditions remained difficult during the period. As previously foreshadowed there has been fewer large cross country pipeline opportunities on offer, and the completion of a significant take or pay contract in the drilling division in the June quarter impacted revenues which were down 8.9% on the comparative period.

Against this backdrop management has invested significant time and resource into business development activities, covering existing and new markets. Part of this investment targeted re-entry back into the oil and gas market specifically CSG drilling services. The initial targeted returns were anticipated to be lower than traditional coal mining drilling services however over time it is expected margins will improve as service delivery becomes more efficient. Both businesses have a strong order book which is materially higher than that of 6 months earlier.

Underlying EBITDA loss of \$0.7 million compared to a positive underlying EBITDA of \$8.4 million in the comparative period was disappointing. It is however important to note that the 6-month result was impacted by a number of short term factors that are not expected to continue to impact performance in future. Unseasonal wet weather and flooding delayed the delivery of a major pipeline project which impacted the results. Client delays on existing contracts and delays in expected opportunities coming to market further contributed to the below expectation result. Finally, investment in business development activities, and additional costs associated with entry into new markets also contributed negatively to the results.

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

	Dec 2016 \$'000	Dec 2015 \$'000	Change %
<b>Total revenue</b>	51,407	56,401	(8.9%)
Underlying EBITDA	(684)	8,430	(108.1%)
Reported EBITDA	(5,723)	3,128	(283.0%)
<b>EBIT</b>	(8,821)	(5,529)	(59.5%)
Profit / (loss) before tax	(25,162)	(17,945)	(40.2%)
<b>Net profit / (loss) for the year</b>	(25,162)	(17,945)	(40.2%)
Total assets	241,092	214,655	12.3%
Net assets	66,440	67,991	(2.3%)
Basic loss per share (cents)	(6.6)	(6.7)	1.5%

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 2016 \$'000	Dec 2015 \$'000
<b>Reconciliation:</b>						
<b>Consolidated loss before income tax</b>	<b>(831)</b>	<b>(845)</b>	<b>(4,953)</b>	<b>(18,533)</b>	<b>(25,162)</b>	<b>(17,945)</b>
Depreciation and amortisation	2,392	695	—	11	3,098	8,657
Finance costs	—	—	—	16,465	16,465	12,585
Finance income	—	—	—	(124)	(124)	(169)
<b>Reported EBITDA</b>	<b>1,561</b>	<b>(150)</b>	<b>(4,953)</b>	<b>(2,181)</b>	<b>(5,723)</b>	<b>3,128</b>
Share of loss of equity accounted investees	—	—	3,994	—	3,994	3,732
Exploration asset revenue	—	—	(87)	—	(87)	(522)
Share of overhead - UK investments	—	—	1,046	—	1,046	1,405
Settlement of legal disputes	—	—	—	(17)	(17)	—
Redundancy costs	—	—	—	184	184	341
Net (profit) / loss on sales of assets	—	—	—	(85)	(85)	38
Share based payment expense	—	—	—	—	—	27
Other expense	—	—	—	4	4	281
<b>Underlying EBITDA</b>	<b>1,561</b>	<b>(150)</b>	<b>—</b>	<b>(2,095)</b>	<b>(684)</b>	<b>8,430</b>

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## Commentary on the Results

for the half year ended 31 December 2016

*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 2016 \$'000	Dec 2015 \$'000	Change %
Revenue	34,610	38,060	(9.1%)
Underlying EBITDA	1,561	5,050	(69.1%)
EBITDA margin	4.5%	13.3%	

As expected market conditions in the coal mining sector continued to be challenging through the period, and together with the conclusion of a key long term take or pay contract in the June quarter the Australian drilling division ("LDS") revenue was down 9.1% on the corresponding period.

As previously flagged management has been actively examining opportunities to leverage its skills, and its superior safety and service record to enter adjacent markets and replenish lost revenue. During the period LDS undertook initial work for the CSG and Water markets which delivered \$10.8 million in revenue during the period. Customer feedback has been positive with scope increases awarded to date. The LDS team continue to look for further opportunities in these new markets with enquiry levels showing positive signs.

Underlying EBITDA of \$1.6 million (\$5.1 million in the comparative period) was well short of expectations. The result was predominantly driven by lower margin business from the re-entry into the CSG and water markets. LDS historically serviced the CSG market a number of years ago. The LDS Division expects to improve margins quickly as service delivery to these new markets becomes more efficient.

Management have made significant investment in building the LDS order book within existing and new markets. Together with improved conditions in the coal market this investment is expected to have a positive impact in the second half. This is reflected in a healthy and improved order book which is significantly higher than at this time last year.

### Engineering & Construction Division

	Dec 2016 \$'000	Dec 2015 \$'000	Change %
Revenue	16,797	18,341	(8.4%)
Underlying EBITDA (loss)/profit	(150)	5,324	(102.8%)
EBITDA margin	(0.9%)	29.0%	

The Engineering and Construction division ("E&C") achieved revenue of \$16.8 million compared to \$18.3 million in the comparative period, a decrease of 8.4%. While the negative underlying EBITDA contribution from E&C of \$0.1 million was unsatisfactory, it is expected that the second half will be significantly improved.

It was previously foreshadowed that the pipeline business within E&C would face a challenging year with fewer large cross country pipeline projects on offer. Delays in expected opportunities coming to market have impacted the results and led to a deferral of expected revenue. While unseasonal heavy rain and flooding in Northern Victoria has caused delay in the existing VNIE pipeline contract being completed in joint venture with Spiecapag, with completion now expected in the June quarter. This has significantly impacted underlying EBITDA during the period.

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## Commentary on the Results

for the half year ended 31 December 2016

Managements effort in securing work outside of the JV with Spiecapag, to replace lost revenue as a result of the subdued large cross country pipeline activity, has been substantial. The E&C secured order book is strong and well in excess of where it was 6 months ago. The order book includes two recently awarded contracts in each of Australia and New Zealand, which will utilise the businesses horizontal directional drilling and pipeline expertise. These contracts will have a significant positive impact on the second half result with completion expected at the beginning of the next financial year.

Additionally, E&C is tendering on a number of opportunities in its own right and in joint ventures with other parties, and has recently been named preferred contractor on a significant contract expected to be awarded shortly. If awarded a significant portion of work on these opportunities is expected to be completed in the second half.

### Oil & Gas Investments

The Oil & Gas division encompasses the Company's investments in hydrocarbons in the United Kingdom. This comprises the Company'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 Resources Holdings Limited ("Cuadrilla").

On 6 October 2016 Cuadrilla received final planning consent from the UK government to drill and hydraulically stimulate up to four horizontal wells designed to test the flow of gas at Preston New Road ("PNR"). The UK Secretary of State for Communities and Local Government ("SOS") advised that he was also minded to grant planning consent for a similar application at the Roseacre Wood ("RW") exploration site pending receipt of further evidence on highway safety.

As announced to the ASX on 30 January 2017 the Company has been advised that three applications challenging the decision of the SOS have been commenced in the High Court of England and Wales. The proceedings will be heard in Manchester and have been set down for a three day hearing commencing 15 March 2017, with a decision expected shortly thereafter.

Cuadrilla's planning consent at the PNR site remains valid unless overturned by the High Court and site preparation commenced on 5 January 2017 with drilling expected to commence in the June quarter. The Company is confident that there is no material merit to the cases being brought against the SOS's decision on PNR.

Centrica Plc ("Centrica"), the UK's premier supplier of gas is obligated to fund a further £30 million of exploration costs, which will be expended over the drilling and hydraulic stimulation of the initial two exploration wells at PNR. Subject to the appraisal of the PNR exploration wells and certain milestones being met, Centrica is then required to fund a further £46.7 million for appraisal and development in the Bowland tenement.

### Balance Sheet

Cash flows from financing activities contributed \$25.3 million during the period. This was predominantly driven by the drawdown of the second tranche of the Senior Secured loan note facility ("OCP facility") which contributed \$26.3 million before transaction costs. Funds raised from financing activities were used to extinguish a long-term legacy debt to the Australian Taxation Office, fund exploration and development expenditure in the UK and provide working capital support to the Australian businesses, with the remaining funds placed into cash trust deposits.

Net cash used in operating activities of \$7.2 million comprised Interest paid of \$2.5 million and \$4.8 million used in operations reflecting the poorer than expected performance of the Australian business. Interest paid represents the 12% pa interest payable in quarterly instalments under the terms of the OCP facility. Additional interest accrued on the loan facilities provided by OCP and Kerogen Investments No. 1 (HK) Limited ("Kerogen") during the period is not required to be paid until maturity of the relevant facility in 2019.

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## Commentary on the Results

for the half year ended 31 December 2016

After expenditure of \$3.5 million on investing activities, cash balances increased by \$15.7 million to \$38.2 million. This includes cash trust deposits of \$28.8 million, which can be utilised predominantly for the Company's UK exploration program and settlement of a remaining 4-year legacy legal disputes relating to a civil contract. The legacy legal dispute has been fully provided for at balance date, with full and final settlement having occurred in January 2017. The funds remaining in trust deposits, together with the benefits of the Centrica funding commitments and future cash flow from operations from the Group are expected to cover the Company's obligations on the planned two well drilling program at PNR.

Gross interest bearing loans and borrowings ("IBL") have increased \$37.7 million predominantly as a result of the second tranche OCP facility drawdown. Interest and transaction costs accrued or capitalised but not paid of \$8.1 million and unfavourable currency translation of \$3.3 million also contributed to the increase in IBL.

As condition under the OCP and Kerogen finance facilities requires the Company to raise a minimum of US\$30 million of new equity, via a pro rata entitlements offer, the proceeds of which will be used in part to repay a minimum of US\$25 million of the Kerogen facility. The entitlement offer is now expected to commence by April 2017. Kerogen has agreed to participate for its full pro rata entitlement, as well as to provide sub-underwriting support should the Company choose to accept, in aggregate of not less than US\$25 million.

### Outlook

The Company expects to progress the appraisal of its oil and gas investments with Cuadrilla, as operator of the Bowland licence, drilling and hydraulically stimulating 2 wells at its PNR exploration site in order to test the flow of gas. Confirmation of flow will be a significant step in commercialising this investment.

The Drilling division will continue to focus on cost management in its existing business while exploring for further business opportunities in the Coal, CSG and Water markets, where it can utilise its fleet of equipment and where possible leverage existing customer relationships.

The E&C division will continue to work with its JV partner, Speicapag Australia, in tendering for major cross country pipelines opportunities as they arise. It will also focus on winning new work in smaller pipelines projects, horizontal directional drilling and small scale infrastructure projects within its capabilities.

The planned entitlement offer will reduce the Company's leverage, reduce ongoing interest costs and improve the Group's current ratio substantially.



## **A J LUCAS GROUP LIMITED**

**ABN: 12 060 309 104**

### **INTERIM FINANCIAL REPORT FOR HALF YEAR ENDED 31 DECEMBER 2016**

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 2016 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2016 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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## AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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## Directors' Report

for the half year ended 31 December 2016

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 2016 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:

#### 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 2016.

### ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) issued by the Australian Securities and Investments Commission. Unless otherwise expressly stated, amounts in the condensed consolidated interim financial report and the directors' report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Signed in accordance with a resolution of the directors.

Phil Arnall  
Chairman



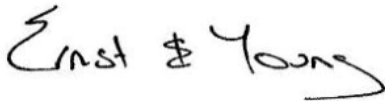
Sydney  
22 February 2017

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

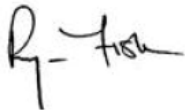
As lead auditor for the review of AJ Lucas Group Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- 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

## Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2016

	Note	Dec 2016 \$'000	Dec 2015 \$'000
Revenue	2	51,407	56,401
<b>Total revenue</b>		<b>51,407</b>	<b>56,401</b>
Other income		87	522
Operating costs of Australian operations		(49,995)	(46,027)
Central and corporate costs		(2,096)	(1,944)
Depreciation and amortisation	4	(3,098)	(8,657)
Non operating expenses	4	(1,132)	(2,092)
<b>Results from operations</b>		<b>(4,827)</b>	<b>(1,797)</b>
Net finance costs	3	(16,341)	(12,416)
Share of loss of equity accounted investees	7	(3,994)	(3,732)
<b>Loss before income tax</b>		<b>(25,162)</b>	<b>(17,945)</b>
Income tax expense		–	–
<b>Loss for the period</b>		<b>(25,162)</b>	<b>(17,945)</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences on translation of foreign operations		2,889	6,416
Total items that may be reclassified subsequently to profit and loss		2,889	6,416
<b>Other comprehensive income for the period</b>		<b>2,889</b>	<b>6,416</b>
<b>Total comprehensive loss for the period</b>		<b>(22,273)</b>	<b>(11,529)</b>
<b>Total comprehensive loss attributable to owners of the Company</b>		<b>(22,273)</b>	<b>(11,529)</b>
<b>Earnings per share:</b>			
Basic (loss)/earnings per share (cents)		(6.6)	(6.7)
Diluted (loss)/earnings per share (cents)		(6.6)	(6.7)

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

## Consolidated Statement of Financial Position

as at 31 December 2016

	Note	Dec 2016 \$'000	Jun 2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents		9,376	6,866
Cash in trust		28,826	15,634
Trade and other receivables		23,523	25,754
Inventories		15,252	16,047
Other assets		951	1,288
<b>Total current assets</b>		<b>77,928</b>	<b>65,589</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	36,702	39,024
Exploration assets	6	19,446	18,314
Investments in equity accounted investees	7	107,016	106,209
<b>Total non-current assets</b>		<b>163,164</b>	<b>163,547</b>
<b>Total assets</b>		<b>241,092</b>	<b>229,136</b>
<b>Current liabilities</b>			
Trade and other payables		26,010	30,923
Interest-bearing loans and borrowings	8	35,728	34,743
Employee benefits		4,292	4,759
<b>Total current liabilities</b>		<b>66,030</b>	<b>70,425</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	8	107,692	70,984
Employee benefits		930	937
<b>Total non-current liabilities</b>		<b>108,622</b>	<b>71,921</b>
<b>Total liabilities</b>		<b>174,652</b>	<b>142,346</b>
<b>Net assets</b>		<b>66,440</b>	<b>86,790</b>
<b>Equity</b>			
Share capital		363,957	362,034
Reserves		36,514	33,625
Accumulated losses		(334,031)	(308,869)
<b>Total equity</b>		<b>66,440</b>	<b>86,790</b>

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

## Consolidated Statement of Changes in Equity

for the half year ended 31 December 2016

	Share capital \$'000	Translation reserve \$'000	Option reserve \$'000	Employee equity benefits reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance 1 July 2016	362,034	28,955	637	4,033	(308,869)	86,790
<b>Total comprehensive income</b>						
Loss for the period	–	–	–	–	(25,162)	(25,162)
<b>Other comprehensive income</b>						
Foreign currency translation differences	–	2,889	–	–	–	2,889
Total comprehensive income/(loss)	–	2,889	–	–	(25,162)	(22,273)
<b>Transactions with owners recorded directly in equity</b>						
Issue of ordinary shares, net of transaction costs	1,923	–	–	–	–	1,923
Share based payment transactions	–	–	–	–	–	–
Total contributions by and distributions to owners	1,923	–	–	–	–	1,923
<b>Balance 31 December 2016</b>	<b>363,957</b>	<b>31,844</b>	<b>637</b>	<b>4,033</b>	<b>(334,031)</b>	<b>66,440</b>
Balance 1 July 2015	339,670	24,563	637	4,007	(289,384)	79,493
<b>Total comprehensive income</b>						
Loss for the period	–	–	–	–	(17,945)	(17,945)
<b>Other comprehensive income</b>						
Foreign currency translation differences	–	6,416	–	–	–	6,416
Total comprehensive income/(loss)	–	6,416	–	–	(17,945)	(11,529)
<b>Transactions with owners recorded directly in equity</b>						
Share based payment transactions	–	–	–	27	–	27
Total contributions by and distributions to owners	–	–	–	27	–	27
<b>Balance 31 December 2015</b>	<b>339,670</b>	<b>30,979</b>	<b>637</b>	<b>4,034</b>	<b>(307,329)</b>	<b>67,991</b>

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

## Consolidated Statement of Cash Flows

for the half year ended 31 December 2016

	Note	Dec 2016 \$'000	Dec 2015 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		59,415	77,011
Cash paid to suppliers and employees		(64,220)	(66,035)
<b>Cash used in operations</b>		<b>(4,805)</b>	<b>10,976</b>
Interest received		124	138
Income taxes paid		–	(4,125)
Interest and other costs of finance paid		(2,545)	(1,139)
<b>Net cash from / (used in) operating activities</b>		<b>(7,226)</b>	<b>5,850</b>
<b>Cash flows from investing activities</b>			
Payments for equity accounted investees	7	(2,287)	(2,840)
Payments for interest in exploration assets		(553)	(547)
Acquisition of plant and equipment		(820)	(430)
Proceeds from sale of plant and equipment		129	73
<b>Net cash used in investing activities</b>		<b>(3,531)</b>	<b>(3,744)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		24,381	–
Transaction costs on borrowings		(906)	–
Proceeds from issue of shares		1,890	–
Transaction costs on issue of shares		(51)	–
Payment of finance lease liabilities		(50)	(51)
Corporate advisory fees		–	(885)
<b>Net cash from / (used in) financing activities</b>		<b>25,264</b>	<b>(936)</b>
<b>Net increase in cash and cash equivalents</b>		<b>14,507</b>	<b>1,170</b>
Net foreign exchange difference		1,195	–
Cash and cash equivalents at beginning of the period		22,500	15,955
<b>Cash and cash equivalents at end of the period</b>		<b>38,202</b>	<b>17,125</b>

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

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# Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

## 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 2016 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, wastewater, resources and property sectors. It also holds investments in unconventional and conventional hydrocarbons in the UK.

### 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 2016. These are available upon request from the Company's registered office at Level 6, 1 Elizabeth Plaza, North Sydney, NSW 2060 or at [www.lucas.com.au](http://www.lucas.com.au).

These interim financial statements were approved by the Board of Directors on 22 February 2017.

The financial report is presented in Australian dollars. The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) issued by the Australian Securities and Investments Commission. Unless otherwise expressly stated, amounts in these interim financial Statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

### 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 \$25.2 million primarily as a result of non-cash depreciation and amortisation charges of \$3.1 million, share of costs of the Company's equity accounted investment in Cuadrilla Resources Holdings Limited ("Cuadrilla") of \$3.9 million and net finance costs of \$16.3 million which include unfavourable currency movement on the US dollar loan of \$3.4 million;
- The Group used net cash of net cash of \$7.2 million in its operating activities during the year which included finance costs paid of \$2.5 million. The Group had cash, cash equivalents and cash in trust of \$38.2 million at balance date;
- The Group's core markets have remained depressed throughout the period. The Group's near term 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, as demonstrated through the accelerated non renounceable entitlement offer completed in April 2016 and the debt refinancing completed in June 2016;

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## Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

### Going concern (cont.)

- The amount of cash, cash equivalent and cash in trust, including any restriction of the use of such funds as described in the annual report
- 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 6 under which Centrica Plc ("Centrica") has provided certain commitments to fund exploration expenditure in respect of the Bowland and Elswick prospects. This funding together with the senior term loan notes will fully fund the drilling and hydraulic stimulation of the planned two wells at Preston New Road ahead of commercialisation of the tenement if the two wells are successful;
- 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 the commitment to participate for its full pro rata entitlement, as well as to provide sub underwriting support should the company choose to accept in aggregate of not less than US \$25 million in the future entitlement offer as detailed in note 8;
- 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 Centrica farm in commitment, comparative transactions in the market and the recently successful planning consent issued by the UK government on the 6<sup>th</sup> October 2016 to drill and hydraulically stimulate up to four horizontal wells designed to test the flow of gas at Preston New Road ("PNR");
- The expected value of the Group's interest in the other minor tenements;
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla; and
- A continued commitment by the UK government to attract investment in onshore oil and gas exploration as evidenced by the UK's oil and gas regulator announcing on 17 December 2015 that 159 onshore blocks under the 14th Onshore Oil and Gas Licensing Round was being offered to successful applicants. Cuadrilla was successful in its application for 18 exploration licenses in Yorkshire as part of the 14th round of onshore oil and gas licenses

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 2016. 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 2016.



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## Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

### Estimates (cont.)

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.

During the year the company has re-evaluated the useful life of plant and equipment, following an external review. This has resulted in an increase in the assessed useful life of some plant and equipment thereby reducing depreciation expense. The decrease for the period as a result of increased useful life is estimated at \$5 million.

## 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 to the coal, energy, water, wastewater and public utilities sectors. 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.

During the year ended 30 June 2016 management reassessed the allocation of overheads that can be directly attributed to an individual business segment. This resulted in changes to the overhead allocations between Corporate, drilling, E&C and Oil & Gas which were reflected in the June 2016 financial statements.

Comparative segment results for the 6-month period ended 31 December 2015 have been restated.

## Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

### 2. Segment reporting (cont.)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
<b>June 2016</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	34,610	–	–	34,610	–	–	34,610
Revenue - construction contracts	–	16,797	–	16,797	–	–	16,797
<b>Total consolidated revenue</b>	<b>34,610</b>	<b>16,797</b>	<b>–</b>	<b>51,407</b>	<b>–</b>	<b>–</b>	<b>51,407</b>
<b>EBITDA</b>	<b>1,561</b>	<b>(150)</b>	<b>(4,953)</b>	<b>(3,542)</b>	<b>(2,181)</b>	<b>–</b>	<b>(5,723)</b>
Depreciation, amortisation and impairment	2,392	695	–	3,087	11	–	3,098
Finance income	–	–	–	–	(124)	–	(124)
Finance cost	–	–	–	–	16,465	–	16,465
<b>Reportable segment profit / (loss)</b>	<b>(831)</b>	<b>(845)</b>	<b>(4,953)</b>	<b>(6,629)</b>	<b>(18,533)</b>	<b>–</b>	<b>(25,162)</b>
<b>June 2015</b>							
<b>Reportable segment revenue</b>							
Revenue - services rendered	38,060	–	–	38,060	–	–	38,060
Revenue - construction contracts	–	18,341	–	18,341	–	–	18,341
<b>Total consolidated revenue</b>	<b>38,060</b>	<b>18,341</b>	<b>–</b>	<b>56,401</b>	<b>–</b>	<b>–</b>	<b>56,401</b>
<b>EBITDA</b>	<b>5,050</b>	<b>5,324</b>	<b>(4,843)</b>	<b>5,531</b>	<b>(2,403)</b>	<b>–</b>	<b>3,128</b>
Depreciation, amortisation and impairment	(6,976)	(1,679)	–	(8,655)	(2)	–	(8,657)
Finance income	–	–	–	–	169	–	169
Finance cost	–	–	–	–	(12,585)	–	(12,585)
<b>Reportable segment profit / (loss)</b>	<b>(1,926)</b>	<b>3,645</b>	<b>(4,843)</b>	<b>(3,124)</b>	<b>(14,821)</b>	<b>–</b>	<b>(17,945)</b>

# Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

## 3. Finance income and costs

	Dec 2016 \$'000	Dec 2015 \$'000
Interest income	124	138
Net change in fair value of derivative liability	–	31
<b>Finance income</b>	<b>124</b>	<b>169</b>
Interest expense	(11,666)	(8,383)
Amortisation of prepaid fees on debt facilities	(1,427)	(544)
Net foreign exchange loss	(3,372)	(3,658)
<b>Finance costs</b>	<b>(16,465)</b>	<b>(12,585)</b>
<b>Net finance costs recognised in profit and loss</b>	<b>(16,341)</b>	<b>(12,416)</b>

## 4. Other expenses

	Dec 2016 \$'000	Dec 2015 \$'000
Depreciation and amortisation of property, plant and equipment	3,098	8,657
<b>Total depreciation and amortisation</b>	<b>3,098</b>	<b>8,657</b>
UK investment overhead costs	1,046	1,405
Settlement of historical legal disputes	(17)	–
Redundancy costs	184	341
Net (profit) / loss on sales of assets	(85)	38
Share based payment expense	–	27
Other (income) / expense	4	281
<b>Total non operating costs</b>	<b>1,132</b>	<b>2,092</b>

## 5. Property, plant and equipment

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
<b>31 December 2016</b>					
At cost	7	3,912	143,456	11,682	159,057
Accumulated depreciation/amortisation/impairment	(7)	(840)	(110,233)	(11,275)	(122,355)
<b>Carrying amount at 31 Dec 2016</b>	<b>–</b>	<b>3,072</b>	<b>33,223</b>	<b>407</b>	<b>36,702</b>
<b>30 June 2016</b>					
At cost	7	3,912	143,253	11,315	158,487
Accumulated depreciation/amortisation/impairment	(7)	(792)	(107,400)	(11,264)	(119,463)
<b>Carrying amount at 30 Jun 2016</b>	<b>–</b>	<b>3,120</b>	<b>35,853</b>	<b>51</b>	<b>39,024</b>

# Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

## 5. Property, plant and equipment (cont.)

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 2016	–	3,120	35,853	51	39,024
Additions	–	–	453	367	820
Disposals	–	–	(44)	–	(44)
Depreciation and amortisation	–	(48)	(3,039)	(11)	(3,098)
<b>Carrying amount at 31 December 2016</b>	<b>–</b>	<b>3,072</b>	<b>33,223</b>	<b>407</b>	<b>36,702</b>

## 6. Exploration Assets

	Dec 2016 \$'000	Jun 2016 \$'000
<b>Cost</b>		
Bowland exploration asset	10,727	9,884
Elswick exploration asset	5,406	5,201
Bolney exploration asset	3,313	3,229
	<b>19,446</b>	<b>18,314</b>

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 Cuadrilla as shown below:

	Indirect Interest %	Direct Interest %	Dec 2016 %	Jun 2016 %
<b>Beneficial interest</b>				
Bowland tenement	23.17	23.75	46.92	46.85
Elswick tenement	22.69	22.06	44.75	44.69
Bolney tenement	33.90	25.00	58.90	58.81

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 7.

### 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. Consideration for the interest included a farm in arrangement ("Carry") and a consideration that was contingent upon certain appraisal and operational milestones being achieved. In August 2015 the Company announced a revised arrangement between Centrica, Cuadrilla and Lucas ("JV partners") with respect to the outstanding Carry and Contingent Consideration.

# Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

## 6. Exploration Assets (cont.)

At the balance sheet date Centrica has funded £30 million (June 2016: £29.4 million) of exploration, development and overhead expenditure on behalf of the JV partners with a further £30 million to be spent on drilling and testing 2 exploration wells at the Preston New Road exploration site. There is also a further contingent farm in arrangement (Contingent Carry) under which Centrica will fund a further £46.7 million of various appraisal and development activities on behalf of the JV partners. The Contingent Carry is subject to appraisal and operational milestones as agreed in June 2013.

In August 2015 Lucas increased its interest in the Bowland Joint Venture by 5.00% from 18.75% to 23.75%, with Cuadrilla reducing its interest from 56.25% to 51.25%. Lucas' entitlement to the Carry and Contingent Carry transferred proportionately to Cuadrilla as consideration of the transfer of interest.

### Planning approvals to drill and fracture wells

On 6 October 2016 Cuadrilla received final planning consent from the Secretary of State for Communities and Local Government ("SOS") to drill and hydraulically stimulate up to four horizontal wells designed to test the flow of gas from the shale rock lying beneath Cuadrilla's Preston New Road ("PNR") exploration site in Lancashire, UK. The SOS also advised he was minded to grant consent for a similar application at the Roseacre Wood ("RW") exploration site pending receipt of further evidence on highway safety.

Three applications challenging the SOS decision to grant planning consents to Cuadrilla have been commenced in the Planning Court of the High Court of England and Wales (the "High Court"). The Company expects that the PNR hearing will commence during March and is awaiting a timetable from the High Court in respect of these applications.

Cuadrilla's planning consent at the PNR site remains valid unless overturned by the High Court. Site preparation for the PNR site commenced on 5th January 2017, with drilling scheduled to commence in Q2 2017. A positive High Court decision in favour of the Secretary of State will allow Cuadrilla to continue to progress its exploratory work program at the PNR site according to schedule. The PNR planning application was recommended for approval separately by the Lancashire County Council's Planning Officers following a 12-month evaluation, the Government's Planning Inspector following a 6-week long Public Inquiry before being finally approved by the Secretary of State. AJ Lucas is confident that there is no material merit to the cases being brought against the Secretary of State's decision to grant this permission.

### Monument prospect

In 2009 and 2010 the Company acquired a 10% net profit interest (NPI) over certain oil and gas leasehold interests in East Texas, totaling \$87 million from Thomas Knowlton (Knowlton). The NPI was fully impaired by the Company in the year of acquisition.

In early 2015 the Company commenced a detailed review of the NPI to determine if any value could be recovered. It was discovered that while Knowlton had acquired oil and gas leases no exploration had been undertaken on the leases, and they had expired. Negotiations were commenced with Knowlton who agreed to return a significant amount of funds to Lucas, however payment was not forthcoming, and there was no evidence that Knowlton had the funds for the payment agreed. In April 2015 Lucas commenced proceedings against Knowlton in Texas for fraud. In May 2015 Knowlton died and thus could not be cross-examined in the Court proceedings. The Court did however allow Lucas's lawyers to issue subpoenas to obtain information for the proceedings.

Using the subpoena powers Lucas obtained information from bank accounts of Knowlton, his company and his former wife. Those bank accounts include the ones where Lucas deposited money for its NPI interest. The information obtained was subject to detailed examination by forensic experts in Sydney. The conclusion from this detailed examination is that Lucas was the subject of fraud and that there are no known assets from which Lucas could recover money. Accordingly, the directors do not propose to pursue the matter further unless assets are uncovered from which Lucas can recover funds.

It should be noted that Knowlton was also subject to detailed investigation by the USA Internal Revenue Service and Californian Franchise Tax Board, neither of which found assets of Knowlton. In September 2015 Knowlton's former wife pleaded guilty to fraud and money-laundering charges brought by the Californian Franchise Tax Board, for which she pleaded guilty.

# Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

## 7. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

Name of investee	Ownership		Carrying value	
	Dec 2016 %	Jun 2015 %	Dec 2016 \$'000	Jun 2016 \$'000
Cuadrilla Resources Holdings Limited (associate)	45.20%	45.08%	107,016	106,209
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50.00%	50.00%	–	–
			<b>107,016</b>	<b>106,209</b>

At 31 December 2016, 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:

	2016 \$'000
Balance at 1 July	106,209
Purchase of additional ownership interest	2,287
Movement of foreign currency translation recognised in equity	2,514
Share of equity accounted profits / (losses) during the year	(3,994)
<b>Balance at 31 December 2016</b>	<b>107,016</b>

## 8. Interest-bearing loans and borrowings

	Dec 2016 \$'000	Jun 2016 \$'000
<b>Current</b>		
Lease liabilities	58	90
Senior term loan notes	187	101
Loans from related party	35,483	34,552
	<b>35,728</b>	<b>34,743</b>
<b>Non-current</b>		
Lease liabilities	19	37
Senior term loan notes	58,138	30,121
Loans from related party	49,535	40,826
	<b>107,692</b>	<b>70,984</b>

### Senior term loan notes

In June 2016 the Company launched the issue of US\$45 million of fully underwritten senior secured loan notes. The loan notes are secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries.

The loan notes were fully drawn at 31 December 2016 (June 2016: US\$20million undrawn), with funds drawn but not expended placed in trust bank deposits to be utilised in accordance with the senior loan note facility. The balance of trust bank deposits are available primarily for the purpose of furthering the Group's investments in the Bowland license.

Interest is charged at 18% of the drawn amount, with 12% payable quarterly in arrears and 6% accruing until termination or repayment of the facility. The loan notes terminate in June 2019.

# Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

## 8. Interest-bearing loans and borrowings (cont.)

As part consideration of the facility, the Company has agreed to issue a total of 20 million ordinary shares to note holders in two tranches. The second and final tranche of 9 million ordinary shares was issued on 2 November 2016. The costs of the shares, together with other prepaid transaction costs incurred are being amortised over the life of the loan notes.

### Loans from related party

Concurrent to the launch of the senior term loan notes, the Company's major shareholder, Kerogen Investments No.1 (HK) Limited ("Kerogen") agreed to extend and restructure its existing facility in June 2016. The term of the Kerogen facility has been extended to December 2019, with interest able to be deferred until maturity at the discretion of the Company. In addition, Kerogen has agreed that its debt be subordinated with its fixed and floating security now ranking behind the senior term loan notes. Interest charged on the facility is as follows and compounds quarterly if unpaid:

	Tranche 1	Tranche 2
Principal	US\$26.2m	US\$30m
Interest rate	20% initially increasing to 21% from June 2018	16% initially increasing to 18% from June 2018

Additional transaction costs, including restructure fees payable to Kerogen, are amortised over the expected term of the loan facility.

A condition of the restructured facility is that a minimum of a US\$25 million of tranche1 is to be repaid by the end of June 2017, to be financed by a pro rata entitlement offer to raise a minimum of US\$30 million. Kerogen has agreed to participate for its full pro rata full entitlement, as well to as provide sub-underwriting support should the Company choose to accept, in aggregate of not less than US\$25 million.

## 9. Interests in joint operations

	Principal activities	Principal place of business	Participation interest		Contribution to operating results	
			Dec 2016	Dec 2015	Dec 2016	Dec 2015
			%	%	\$'000	\$'000
Southern SeaWater Alliance	Construction and operation of desalination plant	Level 2, 1 Adelaide Terrace East Perth 6004	19	19	748	388
AJ Lucas - Spiecapag JV Project 1	Construction of gas infrastructure	616 Boundary Road Richlands 4077	50	50	259	339
AJ Lucas - Spiecapag JV Project 2	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	40	474	5,625
AJ Lucas - Spiecapag JV Project 3	Construction of gas infrastructure	616 Boundary Road Richlands 4077	40	40	(212)	—

## Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2016

### 9. Interests in joint operations (cont.)

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 2016 \$'000	Jun 2016 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,250	4,669
Trade and other receivables	287	2,021
Construction work in progress	4,789	2,356
Other	19	4
<b>Total assets</b>	<b>7,345</b>	<b>9,050</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	3,510	5,937
<b>Total liabilities</b>	<b>3,510</b>	<b>5,937</b>

### 10. Financial instruments fair value disclosure

The fair value of financial instruments recognised in the condensed consolidated statement of financial position approximates their carrying amount with the exception of interest bearing liability. The fair values of interest bearing liabilities together with their carrying amount shown in the statement of financial position are as follows:

2016	Carrying Amount \$'000	Fair value \$'000
Lease Liabilities	77	77
Senior term loan notes	58,325	52,883
Loans from related party	85,018	83,816
	<b>143,420</b>	<b>136,775</b>

### 11. 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 11 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 2016 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  
22 February 2017

## 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 2016, 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 2016 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

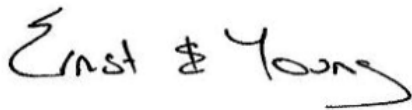
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AJ Lucas Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

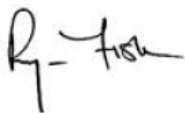
## Emphasis of matter regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1 (ii) in the 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.



Ernst & Young



Ryan Fisk  
Partner  
Sydney  
22 February 2017