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Results for FY2017

- **Underlying EBITDA loss $3.8 million**
- **Stronger FY2018 expected for Australian operations**
- **UK shale gas drilling commenced on 17 August 2017**

AJ Lucas Group Limited (ASX: AJL) today announced an underlying EBITDA loss of $3.8 million for the year to 30 June 2017 (FY2016: $14.6 million profit). After taking into account the cost of its UK shale gas investments and other one-off expenses, the company's statutory EBITDA was a loss of $8.7 million (FY2016: $2.4 million loss). The statutory net loss for the year was $39.0 million (FY2016: $19.5 million) after net finance costs of $24.2 million (FY2016: $2.1 million).

At 30 June 2017, the company's net assets were $97.7 million, compared with $86.8 million at 30 June 2016. Its net current assets were $41.1 million, compared with a deficit of $4.8 million at 30 June 2016.

Results summary	**FY2017 ($'000)**	**FY2016 ($'000)**	**Change %**
Total revenue	121,970	125,478	(2.8)
Underlying EBITDA	(3,846)	14,556	(126.4)
Statutory EBITDA	(8,656)	(2,449)	(253.5)
Statutory EBIT	(14,858)	(17,350)	14.4
Statutory net loss	(39,030)	(19,485)	(100.3)
Basic loss per share (cents)	9.7	6.7	44.7
Total assets	240,223	229,136	4.8
Net assets	97,771	86,790	12.7

Commenting on the results, AJ Lucas chairman Phil Arnall said: "While the full year results from our Australian operations were disappointing, due to challenging market conditions and the impact of unseasonal rain, both divisions' activity increased during the second half, positioning them for improved performance in FY2018. During the year, considerable resources were allocated to business development in both existing and new markets; the Drilling division ended the year with a substantially stronger order book and the Engineering & Construction division won new work and is short-listed for several major contracts.

"In the UK, there has been significant progress with unlocking the substantial value of our shale gas investments. Following the Government's approval to drill, hydraulically stimulate and flow-test up to four wells at the Preston New Road exploration site, drilling of the first well commenced on 17 August 2017. Should the results of the two wells be as anticipated the wells will be connected to the national gas grid by the end of 2018 with gas sold into the market at commercial rates"

Divisional report

Drilling Division

Results summary	FY2017 ($'000)	FY2016 ($'000)	Change %
Revenue	73,373	79,633	(7.9)
Underlying EBITDA	2,678	11,385	(76.5)

The division's first half revenue was affected by challenging conditions in the coal mining industry and the conclusion of a long-term contract. However, the Division was able to secure work in the water, coal seam gas (CSG) and other adjacent markets that delivered revenue of $10.8 million.

In the second half, despite adverse weather in the Bowen Basin which impacted the operations of a number of our customers, there was a recovery helped by increased demand from the coal mining industry, where the division has been most successful in recent years. Revenue from the coal mining sector in the fourth quarter totalled $22.1 million, and the division's fourth quarter revenue and underlying EBITDA increased to $24.6 million and $2.8 million respectively.

The division's re-entry into the CSG and water drilling markets met with limited success. The foray into water well drilling, on a fixed price contract, resulted in a loss; the project is expected to conclude in the first half of FY2018. Lower margins in the CSG business also contributed to the overall poor results of the division.

Nevertheless, the division ended the year with a stronger order book, helped by increasing demand from the coal mining industry. Together with continuing focus on reducing costs, this is expected to lead to a significant improvement in performance in FY2018.

Engineering & Construction Division

Results summary	FY2017 ($'000)	FY2016 ($'000)	Change %
Revenue	48,596	45,845	6.0
Underlying EBITDA	(1,894)	6,900	(127.4)

Following a weak first half, two new contracts, using the business' directional drilling and pipeline expertise in Australia and New Zealand, led to a significant improvement in revenue in the second half; and, these will continue to contribute to performance in the first half of FY2018.

Underlying EBITDA was well below expectations due to unseasonal heavy rain and flooding in Northern Victoria, which, in particular, caused delays to the completion of the VNIE pipeline contract.

Increased business development resulted in new work in the second half and, together with joint venture partners, the division is currently short-listed for several major pipeline and horizontal directional drilling contracts that will be awarded in FY2018. The division also continues to tender on its own for smaller projects that can benefit from its expertise.

Oil & Gas Division

The Oil & Gas division comprises the company's investments in hydrocarbons in the United Kingdom, which include an effective 48% interest in the Bowland shale gas tenements in Lancashire.

In October 2016, Cuadrilla, the operator of the licence, received planning consent to drill and hydraulically stimulate up to four wells to test the flow of gas at Bowland's Preston New Road site. Construction of site infrastructure, which began in January 2017, is now largely complete; a drill rig was delivered at the end of July 2017; and the first well commenced drilling earlier this month.

Two wells are expected to be drilled by the end of calendar 2017; both wells are expected to be drilled to approximately 3,500 meters in depth, with extensive core samples taken to determine the positioning of the horizontal wells each of approximately 1,000 meters in length. They then will be hydraulically stimulated to test the flow of gas. Following the hydraulic stimulation of the wells, the flow of gas will be evaluated; and, if flow rates are as anticipated, the wells will be connected to the national grid and gas sold into the market at commercial rates.

In April 2017, several challenges to the UK Government's planning permission for the Preston New Road site were dismissed by the UK High Court. Two applicants were granted leave to appeal, with hearings set for the end of August 2017; the company remains confident that there is no material merit in these cases.

Cuadrilla has also applied for planning permission to drill at its Roseacre Wood exploration site. The Government has indicated that it is minded to grant consent subject to an investigation into highway safety, which is due to take place in April 2018.

Successful results from the Preston New Road wells will be a significant step in commercialising AJ Lucas' investments in the Bowland tenement and provide a fillip for our other shale gas licences in the UK. Gas is the cornerstone of the UK's energy mix, with currently over 50% imported and imports forecast to increase to 80% by 2020. The UK Government has identified development of a shale gas industry as important to the UK's energy security at a time when supply from the North Sea gas fields is decreasing.

Centrica Plc, which has a farm-in agreement in our Bowland licence, is committed to funding a further £20.8 million of costs of the joint venture for the drilling and hydraulic stimulation of the first two exploration wells. Following satisfactory appraisal of the results, Centrica is then required to fund a further £46.7 million of the joint venture's development costs to maintain its 25% interest.

Balance sheet and cash flow

The company's net current assets increased to $41.1 million at 30 June 2017, compared with a deficit of $4.8 million a year earlier. This followed a 1 for 2 accelerated non-renounceable rights issue and concurrent placement at 27.5c per share in June 2017 that raised $53.2 million.

Cash used in operations, excluding finance costs, was $21.3 million, of which $4.6 million represented final settlement of a long-term legacy dispute. Net investment in working capital increased in the final quarter due to a significant ramp-up of work. Improved business conditions in the coal mining industry and a reduction in the Engineering & Construction division's working capital are expected to result a positive cash contribution by the Australian businesses in FY2018.

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