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Media release
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Results for the six months to 31 December 2017

- **Underlying EBITDA significantly increased to $3.43 million (1H FY2017: $0.5 million loss)**
- **Major progress made in UK shale gas operations with completion of drilling two vertical wells at Preston New Road, commencement of two horizontal wells and expected commencement of hydraulic stimulation by the end of the second half of 2018 to test gas flow**
- **Exciting second half expected for UK shale gas operations**
- **Following a review of Australian operations a number of capital management initiatives identified which will benefit the Company in 2H FY2018**

AJ Lucas Group Limited (ASX: AJL) today announced a statutory net loss (from continuing and discontinued operations) of $8.55 million for the six months to 31 December 2017 (1H FY2017: $25.2 million loss). As previously disclosed, AJ Lucas is currently assessing indicative non-binding proposals for the purchase of the Engineering and Construction business. As a result, the Engineering and Construction business is considered for accounting and reporting purposes as a discontinued business.

After its share of its UK shale gas investments, and exclusion of the Engineering and Construction business, the Company's statutory EBITDA from continuing operations significantly increased to $6.9 million, compared with a loss of $5.7 million in 1H FY2017. The Company's net assets at 31 December 2017 were $87.6 million a 32% increase to the $66.4 million at 31 December 2016.

Results summary for the 6 months to	31 December 2017 ($'000)	31 December 2016 ($'000)	Change (%)
Revenue	70,044	51,407	36.3
Revenue from continuing operations[1]	57,339	34,610	65.7
Underlying EBITDA from continuing operations[1]	3,433	(534)	742.9
Statutory EBITDA from continuing operations[1]	6,896	(5,723)	223.7
Statutory EBIT from continuing operations[1]	3,951	(7,976)	149.5
Statutory net loss (from continued & discontinued operations)	(8,547)	(25,162)	66.0
Basic loss per share (cents)	(1.5)	(6.6)	77.3
Total assets	240,701	241,092	(0.2)
Net assets	87,619	66,440	31.9

1. Excluding the Engineering and Construction business.

Divisional report – Continuing operations

Drilling Division

Results summary for the 6 months to	31 December 2017 ($'000)	31 December 2016 ($'000)	Change (%)
Revenue	57,339	34,610	65.7
Underlying EBITDA	5,551	1,561	255.6

The Drilling division's revenue increased by 65.7% to $57.3 million against the comparative 6 month period to December 2016 of $34.6 million. This is a result of increased rig utilisation predominantly driven by increased demand for coal mine gas drainage and exploration drilling services along the East coast of Australia. Proven capabilities in project delivery to key customers, and the divisions superior safety record has ensured the Division benefits from the upswing in activity and improved market conditions.

The increased activity in the Coal market has driven an improvement in underlying EBITDA to $5.6 million compared to $1.5 million in the comparative period. The comparative period was characterised by soft demand from key customers in the Coal industry and poor results from entering new markets in an attempt to partially offset that soft demand. The improved performance is currently forecast to continue.

Oil & Gas Division

In January 2018 Cuadrilla commenced drilling of the first of 2 planned horizontal wells at the Preston New Road ("PNR") exploration site, each of which will be approximately 1km in length. This followed the completion of drilling of a vertical pilot well to a depth of 2.7 km which penetrated both the Upper and Lower Bowland shale rock intervals and which was extensively cored and logged. Once drilling of the 2 horizontal wells is completed hydraulic fracturing of both wells is expected to commence in early quarter 3 of the 2018 calendar year. Initial flow tests of both wells are expected to commence in early quarter 4 and last approximately 6 months.

Cuadrilla received planning consent in October 2016 from the UK government to drill and hydraulically fracture up to four horizontal wells designed to test the flow of gas at PNR ("the Planning Consent"). Drilling of the third and fourth well is not expected to commence until initial flow tests of the first two wells are completed. Following the flow test of the first two wells Centrica will be required to fund a further £46.7 million for appraisal and development costs in the Bowland licence in order to maintain its 25% licence interest.

In January 2018, the UK Court of Appeals dismissed two claims against the Planning Consent, following a hearing in August 2017. The UK Court of Appeals also refused permission for the parties to appeal at the Supreme Court. While the verdict appears very robust, the parties may, nevertheless, seek to take their appeal directly to the Supreme Court which may or may not grant leave to appeal.

UK Secretary of State for Communities and Local Government ("SOS") has previously advised that he was minded to grant planning consent to Cuadrilla for a similar application for four wells at the Roseacre Wood ("RW") exploration site pending receipt of further evidence on highway safety. A hearing has been set for April 2018 to consider traffic control issues and we expect Cuadrilla to put forward a strong case for approval.

As noted in Directors report section titled “Events subsequent to year end” in January 2018 AJ Lucas and Cuadrilla entered into a farm-out agreement with Angus Energy Plc (“Angus Energy”). Under the agreement Angus Energy agreed to acquire 25% from each of Cuadrilla and AJ Lucas’ pre-agreement interests in the Balcombe exploration licence in southern England. Angus Energy has agreed to pay a total of £4,000,000 in two equal instalments shared 25% to AJ Lucas and 75% to Cuadrilla. Subject to UK regulatory approval, Angus Energy would become the operator of the licences and will pay all of the costs of flow testing the existing Balcome-2Z horizontal well which Cuadrilla drilled in 2013 and for which planning permission had already been received. The first £2,000,000 instalment was paid by Angus Energy in mid-February 2018 but remains refundable in the event that approval from the Oil and Gas Authority for the licence transfer is not received. Once such approval is received the second instalment will become payable within 10 days of the approval.

AJ Lucas chairman Phil Arnall commented on the results and recent events:
“The first 6 months of the 2018 Financial year has been satisfactory for our Australian operations. The Drilling division has delivered a satisfactory result for the 6 months, beginning its return to acceptable performance as part of the recovery in the East Coast Coal market. We anticipate further improvement in the second half and to continue beyond.
The company has received a number of non-binding offers for the Engineering and Construction Division which are currently being evaluated and if accepted would have a positive impact on the Group’s balance sheet.

The capital raising subsequent to the half year end was successful and encouraging in respect to the confidence expressed by our shareholder base. It will provide support for our contribution to the costs of the next phase of the shale gas exploration project in the UK which will see real progress towards identifying gas flows from the Preston New Road site towards the end of the calendar year or at least early 2019. “

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Appendix

Divisional report – Discontinued operations

Engineering & Construction Division

Results summary for the 6 months to	**31 December 2017 ($'000)**	**31 December 2016 ($'000)**	**Change (%)**
Revenue	12,705	16,797	(24.4)
Underlying EBITDA (loss)/profit	(1,714)	(150)	(1,042.7)

As announced at the AJ Lucas AGM in November 2017, the Engineering and Construction business separated from its long term contracting partner Spiecapag during the half year for major cross-country pipeline projects in an endeavour to be more flexible in project quoting and to select fit for purpose partners for specific projects. Considerable exciting opportunities in partnering with a number of major entities arose during the period however no new major joint venture pipeline work was successfully tendered despite some close results. A number of smaller projects were undertaken in the utility infrastructure market during the period as well as two key contracts in the horizontal directional drilling market in New Zealand and Indonesia.

As previously foreshadowed, AJ Lucas is currently assessing indicative no binding proposals for the purchase of the Engineering and Construction business. The Engineering and Construction business is considered for accounting and reporting purposes as a discontinued business.