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AJ Lucas announces result for the year ended 30 June 2018

- **Underlying EBITDA significantly increased to $14.92 million (FY2017: $1.95 million loss)**
- **Major progress made in UK shale gas operations with completion of the UK's first two horizontal wells at Preston New Road**
- **Drilling division performance significantly improved driven by increased demand from Australian coal mining industry**
- **Successful $51.2 million equity raising strengthened balance sheet and reduced debt**
- **Completed sale of Engineering and Construction division following year-end**
- **Senior loan notes headroom increased, and maturity extended, reflecting improved underlying performance of Australian operations**

AJ Lucas Group Limited (ASX: AJL) today announced a statutory loss from continuing and discontinued operations of $16.3 million for the year ended 30 June 2018 (FY2017: $39.0 million loss). In line with the Company's disclosure in February 2018, and following the post period end sale of the Engineering and Construction ("E&C") business assets announced on 20 July 2018, the E&C division is treated for accounting and reporting purposes as a discontinued business.

After its share of UK shale gas investments, and exclusion of the E&C division, the Company's statutory EBITDA from continuing operations increased significantly to $21.1 million, compared with a loss of $6.8 million in FY2017. The above treatment of the E&C division resulted in a reported EBIT profit from continuing operations of $15.5 million for the year, compared to a loss of $11.6 million in FY2017. This was again driven by the better performance from the Drilling division coupled with the recognition of a carry profit for the UK investments resulting from the Centrica farm in carry contribution.

Results summary for year ended	30 June 2018 ($'000)	30 June 2017 ($'000)	Change (%)
Revenue	150,699	121,970	23.6
Revenue from continuing operations[1]	124,702	73,374	70.0
Underlying EBITDA from continuing operations[1]	14,916	(1,952)	864.1
Statutory EBITDA from continuing operations[1]	21,127	(6,762)	412.4
Statutory EBIT from continuing operations[1]	15,536	(11,600)	238.9
Statutory net loss (from continued & discontinued operations)	(16,271)	(39,030)	58.3
Basic loss per share (cents)	(2.5)	(9.7)	44.7
Total assets	266,935	240,223	11.1
Net assets	139,110	97,771	42.3

1. Excluding the Engineering and Construction ("E&C") division.

Commenting on the results and outlook, AJ Lucas chairman Phil Arnall said: "The continued turnaround in the Group's financial performance was very pleasing.

"The Drilling division's performance improved significantly during FY18 driven by demand from the coal mining industry. With a strong order book in terms of work security and revenue, the division is expected to deliver a similar performance during the next financial year and will continue to focus on cost control, overhead reduction and cash.

"Through the year we continued the transition from a Group with a primary focus on the Australian resources and construction markets to one with a greater financial commitment and interest in the large and exciting UK shale gas market. It is hoped that our exploration efforts will result in an industry similar to what has been seen in the USA over the past 10 years, where shale exploration has made the USA almost self sufficient in its energy supplies and created a lucrative LNG export market.

"Looking ahead we will continue to support the profitable Drilling division and expect to progress the appraisal of the oil and gas investments through the completion of the currently planned two well drilling, fracturing and gas flow testing program which will result in a significant step towards appraising and ultimately realising value from this investment."

<u>Divisional report – Continuing operations</u>

Drilling Division

Results summary for the year to	**30 June 2018 ($'000)**	**30 June 2017 ($'000)**	**Change (%)**
Revenue	124,702	73,373	70.0
Underlying EBITDA	19,705	2,678	635.8

The Drilling division achieved significantly better performance for the year, with revenue up 70% on the comparative period. As a result, underlying EBITDA of $19.7 million was significantly well ahead of the results in the previous financial year.

This improvement was driven primarily by a buoyant coal market leading to higher utilisation of the Group's rig fleet, coupled during the earlier part of the year with the completion and exit of lower margin legacy contracts in the coal seam gas and water markets. Demand for the division's services was especially strong in the large diameter and directional drilling within the coal market, which represents a more specialised market within the sector, and one for which the Group's assets are well suited.

Management's focus on servicing the needs of its key customers, who are positioned low on the international cost curve and who have a pipeline of mine degassing requirements, has allowed the division to capitalise on this higher demand. Management work constantly with its customers and partner to improve the customer's efficiency. For example, currently management is partnering with customers and suppliers to design and construct fully automated rigs, with a dual aim of reducing safety risk and increasing efficiency.

The higher demand from the division's drilling services is expected to continue throughout the next financial year, driven by continued strength in the coal industry. The Drilling division's superior track record in delivering services in a flexible and safe manner and its relentless focus on partnering with customers to drive efficiency will ensure it is well placed to benefit from the stronger demand in the coal industry. The division's order book is strong, as is its relationship with key customers, and management have been successful in negotiating with new and existing customers on multi-year preferred drilling contracts.

Oil & Gas Division

The Oil & Gas division encompasses the Company's investments in the United Kingdom. The focus during the year has again been on the Bowland licence ("the licence") in which the Group has an effective 48% interest, comprising a direct licence participation interest of 23.75% and a further indirect interest held through the Group's 47.45% equity interest in Cuadrilla Resources Holdings Limited ("Cuadrilla"), which owns a 51.25% interest in the licence and is also the operator of the licence.

In January 2018 a vertical pilot well was completed at Preston New Road ("PNR"), having penetrated both the upper and lower Bowland shale rock intervals to a final depth of 2,712 metres. This pilot well was extensively cored and logged. Cuadrilla completed the first horizontal well at PNR in April 2018 which penetrated the Lower Bowland shale to a depth of approximately 2,300 metres and extended laterally approximately 782 metres. The second well was completed in July 2018, which penetrated the Upper Bowland shale at an approximate depth of 2,100 and extended horizontally for some 743 metres. These two wells are the UK's first ever horizontal shale wells.

Hydraulic fracturing of both wells is expected to commence by October 2018. Initial flow tests of both horizontal wells are expected to commence towards year-end and last approximately 6 months. On 24 July 2018 the UK's Minister of State for Energy and Clean Growth consented to Cuadrilla's application, of 21 May 2018, to carry out hydraulic fracturing operations in the first horizontal well. On 3 August 2018 Cuadrilla submitted an application for a similar consent for hydraulic fracturing operations in the second horizontal well. A decision is expected on that application in October 2018, which would be aligned with the above work plan.

The UK's Secretary of State for Communities and Local Government ("SOS") has advised that he was minded to grant planning consent for a similar application for four horizontal exploration wells at the Roseacre Wood ("RW") exploration site pending receipt of further evidence on traffic control. A Public Inquiry was held in April 2018 to consider traffic control issues for the proposed RW site and the planning inspector is expected to submit his report to the SOS in the near future. We anticipate a decision from the SOS by year end.

Under the agreement with Spirit Energy (a subsidiary of Centrica Plc) covering Spirit's acquisition of a 25% working interest in the licence, in order for Spirit to maintain its 25% interest, it is required to fund a further £46.7 million (gross to the licence joint venture) for investment on exploration, appraisal or development operations once gas has been flowing regularly for 6 months from wells in the licence.

Sale of interest in the Balcombe licence – In January 2018 the Group announced that it, together with its associate Cuadrilla, had entered into a farm-out agreement with Angus Energy Plc ("Angus"), whereby Angus acquired a 25% interest in the Balcombe licence on a pro rata basis from each of AJ Lucas and Cuadrilla. In consideration Angus has paid £4,000,000 upfront in cash (25% to Lucas and 75% to Cuadrilla, in accordance with the farm-out of their respective interest). Angus Energy has assumed operatorship of the exploration licence and will pay the costs of flow testing the existing Balcombe-2Z horizontal well, which Cuadrilla drilled in 2013. Planning permission to flow test the well has already been obtained by Cuadrilla, and flow testing is expected before the end of this calendar year.

The Group recognised a total of $1,156,000 as profit on the partial sale of its direct interest in the Balcombe licence, which was reflected in other income. The corresponding profit on sale recognised by Cuadrilla, after taking account of adjustments required to bring it in line with the Group's accounting policies, is reflected as part of share of profit / (loss) of equity accounted associates in the comprehensive income statement.

Other licences – Outside of the Bowland licence Cuadrilla has interests in various UK onshore exploration licences totaling approximately 1,500 km2, many of which target the same Bowland-Hodder shale formations being drilled and tested in Lancashire. Some of these licences are held solely by Cuadrilla, and some in joint venture with INEOS. Furthermore, AJ Lucas also holds a direct interest in both the Elswick and Balcombe licences, in which Cuadrilla has an interest.

Balance sheet and cash flow

The Company's net assets at 30 June 2018 were $139.1 million, a 44.2% increase compared to 30 June 2017 ($97.8 million). This followed a $51.2 million equity raising completed in February 2018, which comprised a $21.6 million placement and $29.6 million entitlement offer. Proceeds from the placement were applied primarily to fund future commitments of the Group's UK investments and support working capital. The Company's largest shareholder, Kerogen, subscribed for its full entitlement under the entitlement offer of $18.3 million by way of partial conversion of its loan facility. Remaining proceeds from the entitlement offer of $11.3 million were utilised to repay the senior loan note facility. Cash used in operations, excluding finance costs, was $1.5 million compared to $27.2 million in 2017.

Following the end of the 2018 financial year, the Company has reached a binding agreement with OCP Asia (Singapore) Pte. Limited ("OCP") to increase the headroom and extend the maturity of its senior loan notes facility. Under the terms of the revised facility, the Company will have the ability to draw down an additional US$9 million (A$12.3 million), which if required would be applied to further investment in our UK shale gas activities. Agreement has also been reached to extend the maturity of the facility to 31 January 2020 (from 22 July 2019), and to defer the requirement to reduce the facility principal to US$20 million to 30 June 2019 (from 30 September 2018). These amendments will enable the Company to manage the unwind of working capital from the E&C division as we complete an important phase of the program at Preston New Road, and represent a strong vote of confidence from our senior facility providers. Furthermore, Kerogen Investments No 1 (HK) Limited ("Kerogen") has agreed to extend the term of their loan facility from 31 December 2019 to the earlier of 31 July 2020 or 6 months from full repayment of the senior loan notes facility. Further details of the amendment to the Senior Loan Notes are set out in a separate announcement released to the ASX on 30 August 2018.

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Appendix

Divisional report – Discontinued operations

Engineering & Construction Division

Results summary for the year to	**30 June 2018 ($'000)**	**30 June 2017 ($'000)**	**Change (%)**
Revenue	25,997	48,596	(46.5)
Underlying EBITDA	(6,936)	(1,894)	(266.2)

As announced at the AJ Lucas AGM in November 2017, the Engineering and Construction business separated from its long term contracting partner Spiecapag 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. A number of opportunities to partner on projects arose during the period however no new major joint venture pipeline work was successfully tendered despite some close results. Several 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.

During the period, AJ Lucas received a number of proposals for the acquisition of the Engineering and Construction Division from various prospective buyers. Subsequent to the end of the financial period, AJ Lucas sold the fixed assets of its Engineering and Construction division to Spiecapag Australia Pty Ltd. A few contracts remain at balance date and will continue to be completed during the second six months. Once these projects are completed the division will be permanently closed.

The sale, combined with proceeds from the completion of legacy Engineering and Construction projects and unwind of working capital associated with these projects, is expected to generate cash proceeds for AJ Lucas in excess of $25million over the remainder of the calendar year (1H FY19).