AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

&

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2018

(Previous Corresponding Reporting Period:
half year ended 31 December 2017)

Appendix 4D

for the half year ended 31 December 2018

Name of entity: AJ LUCAS GROUP LIMITED

ACN: 060 309 104

	Change			Dec-18 $A'000	Dec-17 $A'000
Revenue					
Revenues from continuing operations	Improvement of	32.9%	to	76,227	57,339
Revenues from discontinued operations	Decrease of	53.9%	to	5,852	12,705
Total revenue	Improvement of	17.2%	to	82,079	70,044
Results from continuing operations					
Underlying EBITDA from continuing operations(1)	Improvement of	224.5%	to	11,139	3,433
Reported EBITDA from continuing operations(2)	Decrease of	19.2%	to	5,571	6,896
Profit before interest and tax from continuing operations	Decrease of	27.2%	to	2,875	3,951
Loss for the period from continuing operations	Increase of	96.1%	to	(12,093)	(6,166)
Results from continuing and discontinued operations					
Loss for the period attributable to members	Increase of	117.6%	to	(18,602)	(8,547)

NTA Backing	**Dec-18**	**Jun-18**
Net tangible asset backing per ordinary security (cents per share)	17.0	18.5

Dividends	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

(1) Underlying EBITDA refers to reported EBITDA from continuing operations 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 from continuing operations refers to earnings before net financing costs, depreciation and amortisation, impairments and tax expense but excludes results from discontinued operations.

An interim financial report for the half year ended 31 December 2018 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 2018

The Company recently released the initial results of the hydraulic fracking ("HF") and gas flow testing program at the Preston New Road exploration site ("PNR"), within PEDL 165 known as the Bowland licence. More details on the fracking and flow testing program are explained in the Oil & Gas Investments section below, however given the flow rates achieved and taking account of the limited number of stages which were fractured as designed, Cuadrilla Resources Holdings ("Cuadrilla") as the operator of the Bowland licence has estimated that an initial flow rate range of 3-8 mmscfd would be expected from a fully fractured horizontal Bowland Shale well of 2,500 metres in length. Subject to factors such as capital and operating costs, such rates are likely to be commercially viable and would demonstrate the Bowland shale as a world class natural gas shale resource.

Meanwhile, in Australia trading conditions for the Drilling division continued to be strong. The Drilling division secured increased demand, in a number of instances under multiyear contracts, for its gas drainage services from coal mining customers. Against this backdrop and following receipt of an expression of interest in acquiring the Drilling division, the Board made a decision to review market interest in the business and test it against the value of continued ownership. The Company engaged Highbury Partnership ("Highbury") to assist in undertaking a strategic review of the division. As part of the review, Highbury, supported by legal, financial and tax advisors, tested market interest in the division through a thorough process over several months. The process remains incomplete and the Company, through Highbury, continues to engage in dialogue with a number of parties on the matter.

As announced in July 2018 the Company agreed to sell the fixed assets of the Engineering and Construction ("E&C") Division to Spiecapag Australia Pty Ltd, after considering an alternate proposal earlier in the calendar year. As such, the E&C division has been treated as a discontinued operation and reported separately from continuing operations in the current and comparative period. Accordingly, Underlying EBITDA from continuing operations, being all other operations of AJ Lucas, of $11.1 million for the half year compared to $3.4 million in the comparative reflects the improvement in the performance of the Drilling division.

The increase in the loss from continuing operations was principally due to an increase in finance costs of $4.8 million as a result of an adverse foreign exchange movement when the US denominated debt is translated to Australian dollars at balance date. The majority of the foreign exchange loss is unrealised.

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

	Dec 2018 $'000	Dec 2017 $'000	2017/18 Change %
Total revenue from continuing operations	76,227	57,339	32.9%
Underlying EBITDA from continuing operations	11,139	3,433	224.5%
Reported EBITDA from continuing operations	5,571	6,896	(19.2%)
EBIT from continuing operations	2,875	3,951	(27.2%)
Loss before tax from continuing operations	(12,093)	(6,166)	96.1%
Loss before tax from discontinued operations	(6,509)	(2,381)	173.4%
Net loss for the year	(18,602)	(8,547)	117.6%
Total assets (comparative at 30 June 2018)	271,077	266,935	1.6%
Net assets (comparative at 30 June 2018)	127,584	139,110	(8.3%)
Basic loss per share (cents)	(2.5)	(1.5)	66.7%

Commentary on the Results

for the half year ended 31 December 2018

A reconciliation of the consolidated loss before tax from continuing operations to reported EBITDA from continuing operations and Underlying EBITDA is as follows:

	Drilling $'000	Oil & Gas $'000	Corporate $'000	**Dec 2018 $'000**	**Dec 2017 $'000**
Reconciliation:					
Loss for the period from continuing operations	**10,492**	**(3,172)**	**(19,413)**	**(12,093)**	**(6,166)**
Depreciation and amortisation	2,582	–	114	2,696	2,945
Finance costs	–	–	15,028	15,028	10,193
Finance income	–	–	(60)	(60)	(76)
EBITDA from continuing operations	**13,074**	**(3,172)**	**(4,331)**	**5,571**	**6,896**
Share of equity accounted investees loss/(profit)	–	2,118	–	2,118	(3,760)
Exploration asset revenue	–	(373)	–	(373)	(1,092)
Share of overhead - UK investments	–	1,427	–	1,427	939
Strategic review of Drilling division	–	–	753	753	–
Settlement of legal disputes	–	–	580	580	279
Redundancy costs	–	–	394	394	200
Net loss on sales of assets	–	–	638	638	27
Other expense	–	–	31	31	(56)
Underlying EBITDA	**13,074**	**–**	**(1,935)**	**11,139**	**3,433**

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

Further information on each division is as follows:

Drilling Division

	Dec 2018 $'000	**Dec 2017 $'000**	**Change %**
Revenue	76,227	57,339	32.9%
Underlying EBITDA	13,074	5,551	135.5%
EBITDA margin	17.2%	9.7%	

The Drilling division’s Underlying EBITDA improved significantly during 2018, driven by a strategic refocus on its core competency of servicing the coal industry and closing out loss making activities in the water and coal seam gas markets. The increasing demand from coal mining customers, especially in the more specialised large diameter and directional drilling service offerings, has continued to positively impact financial performance. This has been further underpinned by long term contract extensions with existing key coal mining customers. During the period, agreements were executed with two large coal mining customers which extended Lucas’ existing relationships for a period of at least 3 years.

The division’s revenue increased by 32.9% to $76.3 million against the comparative 6 month period while Underlying EBITDA increased to $13.1 million compared to $5.6 million in the comparative period.

Oil & Gas Investments

Cuadrilla Resources Holdings ("Cuadrilla"), the Operator of the Bowland licence, received planning consent to drill up to four horizontal shale gas exploration wells at the PNR exploration site in 2016. A vertical well was drilled through the Upper and Lower Bowland shale to a vertical depth of 2,614 metres. Over 300 metres of core samples were taken, in addition to a wide range of wireline logging. Having analysed this core and log data, the Operator high-graded six separate potential productive zones: three in the Upper Bowland Shale and three in the Lower Bowland Shale. Two horizontal wells were subsequently drilled, targeting two of these six zones.

Cuadrilla then undertook a Hydraulic Fracturing ("HF") program of one of the horizontal wells. As part of the consent to carry out HF operations, UK Regulation, required HF operations to pause for 18 hours each time micro seismicity reached 0.5 ML on the Richter Scale, even thought that level is well below the level of seismicity that typically occurs naturally in the region and across the UK. This approach is referred to as the traffic light system ("TLS").

The HF plan was to individually fracture 41 separate stages, with 50 tonnes of sand embedded in the fractures at each stage along the length of the horizontal well. The TLS threshold of 0.5 ML was tripped on multiple stages prior to significant quantities of sand being injected into the shale. Consequently, only 2 of the 41 stages were imbedded with the planned 50 tonnes of sand, 14 stages were fractured with various smaller quantities of sand and a number of stages were tested for fracturing without injecting any sand.

During subsequent flow testing, and in the context of the limited number of stages which were fractured as per design, a peak of 200,000 scfd was reached with a stable flow of 100,000 scfd. Given these flow rates Cuadrilla has estimated that an initial flow rate range of 3-8 mmscfd would be expected from a fully fractured horizontal Bowland Shale well of 2,500 metres in length. Subject to factors such as capital and operating costs, such rates are likely to be commercially viable and would demonstrate the Bowland shale as a world class natural gas shale resource.

The results of subsequent fracking and flow testing indicated that substantial gas of very high methane content with negligible impurities was present, that rock properties were highly conducive to fracturing and that the Upper Bowland Shale may contain liquids, which could have the potential to upgrade the economics of the Bowland discovery.

Cuadrilla is performing a work-over of PNR-1 well to condition the well for further HF. Subject to a review of the TLS system Cuadrilla will complete the HF of well PNR-1, fracture the PNR-2 well and test the flow results from both wells.

Separately, in February 2019 the UK Secretary of State for Communities and Local Government ("SOS) refused planning consent for four horizontal shale gas wells at the Roseacre Wood ("RW") exploration site based exclusively on transport issues. All other aspects of the consent were agreed to by the SOS. Cuadrilla will present its examination of the details of the decision to the joint operating committee which will decide on next steps.

Turning to the Balcombe licence in the South of England, the licence operator Angus Energy completed a seven day horizontal well test of the Balcombe 2z Kimmeridge Layer in October 2018. The well naturally flowed at 853 barrels of oil per day ("bopd") equivalent, not including 22.5% water. A second flow period was undertaken with the well flowing naturally at 1,587 bopd equivalent, not including 6.6% water. These flows were over a very short interval and whilst encouraging were not considered conclusive.

Post-test analysis of the recovered water demonstrated levels of salinity significantly higher than any regional trend, indicating a strong probability that injected brine rather than formation water was being produced from the site's Micrite Layers. Given the mandated length of the short testing sequence, Angus Energy was not able to remove what it believes was a limited amount of unrecovered brine from previous activities at the site.

Therefore, Angus Energy believes that continuous oil with a low water ratio can be produced from the Balcombe-2Z well under normal pumped production conditions and it now plans to demonstrate commercial oil production.

Balance Sheet

In August 2018 the Board reached agreement with senior note holders to amend certain provisions of its senior loan notes facility (the "OCP facility"). This included extension to the maturity of the OCP facility to 31 January 2020 (from 22 July 2019), and a deferral of the requirement to reduce the facility principal to no more than US$20 million to 30 June 2019 (from 30 September 2018). It also included an additional US$9 million (A$12.4 million) being made available to the Company, which was drawn down in September 2018.

In accordance with the terms of the senior loan notes facility, the maturity of the Kerogen loan facility was also extended to the earlier of 31 July 2020 (previously 31 December 2019) or 6 months from full repayment of the senior loan notes facility. Subsequent to the half year end, the Company has engaged with its senior loan note holders on deferring its obligation to reduce the principal to US$20 million by 30 June 2019 to a later date but before 31 December 2019. No agreement has as yet been reached. The Company is in the early stages of looking at other financing options to improve its capital structure and meet its ongoing Cuadrilla commitments.

The $12.4 million additional funding from the OCP facility, together with $9 million of cash flow from operations before interest, was used to pay $4 million in cash finance costs and a net of $15 million was used for investing activities, predominantly to fund the Group's UK investments through the fracking and initial flow testing phase.

Outlook

The Company expects to progress the appraisal of its oil and gas investments with Cuadrilla, as operator of the Bowland licence, completing a work-over of the PNR-1 well to condition the well for further HF. Subject to a review of the TLS system, Cuadrilla will complete the HF of well PNR-1, fracture the PNR-2 well and test the flow of gas from both wells.

The Drilling division, has recorded an outstanding first half. The outcome of the Strategic Review remains incomplete. Management will continue to focus on servicing its customers whilst exploring further business opportunities where it can utilise its specialist skills and equipment.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2018

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 2018 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2018 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 2018

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 2018 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:

<u>Non-executive</u>

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 2018.

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.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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.

Signed in accordance with a resolution of the directors.

Phil Arnall
Chairman

Sydney

28 February 2019

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the review of the half-year financial report of AJ Lucas Group Limited for the half-year ended 31 December 2018, 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

Ernst & Young

Ryan Fisk

Ryan Fisk
Partner
28 February 2019

Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2018

	Note	Dec 2018 $'000	Dec 2017 $'000
Continuing operations			
Revenue from contracts with customers	3	76,227	57,339
Total revenue		**76,227**	**57,339**
Other income		373	1,092
Operating costs of Australian operations		(63,152)	(51,787)
Central and corporate costs		(1,936)	(2,119)
Depreciation and amortisation	5	(2,696)	(2,945)
Non operating expenses	5	(3,823)	(1,389)
Results from operations		**4,993**	**191**
Net finance costs	4	(14,968)	(10,117)
Share of gain / (loss) of equity accounted investees	9	(2,118)	3,760
Loss before income tax		**(12,093)**	**(6,166)**
Income tax expense		–	–
Loss for the period from continuing operations		**(12,093)**	**(6,166)**
Discontinuing operations			
Loss for the period from discontinued operation	6	(6,509)	(2,381)
Loss for the period from continuing and discontinued operations		**(18,602)**	**(8,547)**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		7,076	(1,605)
Total items that may be reclassified subsequently to profit and loss		7,076	(1,605)
Other comprehensive income for the period		**7,076**	**(1,605)**
Total comprehensive loss for the period		**(11,526)**	**(10,152)**
Total comprehensive loss attributable to owners of the Company		**(11,526)**	**(10,152)**
Earnings per share (Continuing operations):			
Basic (loss)/earnings per share (cents)		(1.6)	(1.1)
Diluted (loss)/earnings per share (cents)		(1.6)	(1.1)
Earnings per share (Continuing and discontinued operations):			
Basic (loss)/earnings per share (cents)		(2.5)	(1.5)
Diluted (loss)/earnings per share (cents)		(2.5)	(1.5)

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

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	Dec 2018 $'000	Jun 2018 $'000
Current assets			
Cash and cash equivalents		10,136	9,422
Cash in trust		2,302	426
Trade and other receivables		24,803	27,234
Inventories		27,756	40,838
Non-current assets held for sale	6	–	4,138
Other assets		241	729
Total current assets		**65,238**	**82,787**
Non-current assets			
Plant and equipment	7	28,000	27,693
Exploration assets	8	45,091	35,914
Investments in equity accounted investees	9	132,748	120,541
Total non-current assets		**205,839**	**184,148**
Total assets		**271,077**	**266,935**
Current liabilities			
Trade and other payables		28,611	36,791
Interest-bearing loans and borrowings	10	33,658	17,185
Employee benefits		5,184	5,335
Total current liabilities		**67,453**	**59,311**
Non-current liabilities			
Interest-bearing loans and borrowings	10	75,227	67,651
Employee benefits		813	863
Total non-current liabilities		**76,040**	**68,514**
Total liabilities		**143,493**	**127,825**
Net assets		**127,584**	**139,110**
Equity			
Share capital		467,753	467,753
Reserves		42,603	35,527
Accumulated losses		(382,772)	(364,170)
Total equity		**127,584**	**139,110**

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 2018

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2018	467,753	30,857	637	4,033	(364,170)	139,110
Total comprehensive income						
Loss for the period	–	–	–	–	(18,602)	(18,602)
Other comprehensive income						
Foreign currency translation differences	–	7,076	–	–	–	7,076
Total comprehensive income/(loss)	–	7,076	–	–	(18,602)	(11,526)
Transactions with owners recorded directly in equity						
Issue of ordinary shares, net of transaction costs	–	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–	–
Balance 31 December 2018	**467,753**	**37,933**	**637**	**4,033**	**(382,772)**	**127,584**
Balance 1 July 2017	416,443	24,557	637	4,033	(347,899)	97,771
Total comprehensive income						
Loss for the period	–	–	–	–	(8,547)	(8,547)
Other comprehensive income						
Foreign currency translation differences	–	(1,605)	–	–	–	(1,605)
Total comprehensive loss	–	(1,605)	–	–	(8,547)	(10,152)
Transactions with owners recorded directly in equity						
Issue of ordinary shares, net of transaction costs	–	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–	–
Balance 31 December 2017	**416,443**	**22,952**	**637**	**4,033**	**(356,446)**	**87,619**

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 2018

	Note	Dec 2018 $'000	Dec 2017 $'000
Cash flows from operating activities			
Cash receipts from customers		110,125	90,323
Cash paid to suppliers and employees		(101,189)	(88,707)
Cash from operations		**8,936**	**1,616**
Interest received		60	76
Interest and other costs of finance paid		(4,096)	(3,617)
Net cash from / (used in) operating activities		**4,900**	**(1,925)**
Cash flows from investing activities			
Payments for equity accounted investees	7	(8,661)	–
Payments for interest in exploration assets		(7,283)	(5,804)
Acquisition of plant and equipment		(3,505)	(1,888)
Proceeds from sale of plant and equipment		4,314	108
Net cash used in investing activities		**(15,135)**	**(7,584)**
Cash flows from financing activities			
Proceeds from borrowings		12,462	–
Transaction costs on borrowings		–	(902)
Net cash from / (used in) financing activities		**12,462**	**(902)**
Net increase / (decrease) in cash and cash equivalents		2,227	(10,411)
Net foreign exchange difference		363	(161)
Cash and cash equivalents at beginning of the period		9,848	22,171
Cash and cash equivalents at end of the period		**12,438**	**11,599**

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

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2018

1. Basis of preparation

AJ Lucas Group Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2018 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 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 2018. 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.

These interim financial statements were approved by the Board of Directors on 28 February 2019.

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 from continuing operations for the period of $12.1 million primarily as a result of non-cash depreciation and amortisation charges of $2.7 million, net finance costs of $15.0 million, and a share of loss from equity accounted investees of $2.1 million;
- The Group's near-term future financial performance will be driven by demand for its drilling, services, which in turn will be impacted by various factors which are outside its control. While the Drilling division has maintained an increased level of activity over the last 12 to 18 months, forecasting business performance carries an inherent degree of uncertainty;
- The Company has a 47.6% interest in Cuadrilla, which in turn has a 51.25% interest in, and is the operator of, an oil and gas licence (PEDL 165) located in Bowland UK. Additionally, the Company has a direct interest of 23.75% in PEDL 165, thus giving an effective 48.14% interest in PEDL 165 (see Note 9). Drilling of two horizontal shale gas wells has recently completed at the Preston New Road exploration site within PEDL 165. Initial flow test results from the first of these wells, announced to the ASX on 7 February 2019, were encouraging however onerous regulatory thresholds on seismicity prevented the full flow testing program being undertaken as planned. The operator is seeking an increase of the regulatory threshold on seismicity, supported by scientific expert opinions, before commencing further drilling and flow testing. There is no guarantee on the timing or level of the increase to the regulatory threshold, or if in fact there will be any increase to the regulatory threshold at all; and
- The ongoing exposure to contingent liabilities as disclosed in the most recent annual report and in Note 13 of the interim financial report.

Going concern (cont.)

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;
- Ongoing discussions, subsequent to half year period end, with senior loan note holders on deferring the Group's obligations to reduce the principal outstanding to US$20 million by 30 June 2019 to a later date but before 31 December 2019. No agreement has yet been reached;
- The potential of early stage reviews of other financing options to improve the Group's capital structure and meet its ongoing Cuadrilla commitments;
- The continuing support of Kerogen Investments No. 1 (HK) Limited ("Kerogen"), both as a substantial debtholder and shareholder of the Company as evidenced by its participation in capital raisings for its full pro rata entitlement in Entitlement Offers in 2016, 2017 and 2018 through debt to equity conversion;
- The strong financial performance of the Drilling division, supported by recent multi year extensions of contracts with key customers, and the interest shown in the division by a number of bidders during the boards strategic review of the division.
- The implied value of the Group's investment in both Cuadrilla and also its direct holding in the Bowland, Elswick and Balcombe licences, as evidenced by the partial sale of the Group's direct and indirect interests in the Bowland and Elswick licences to Centrica in June 2013 and the Balcombe licence to Angus Energy Plc in 2018 and subsequent encouraging flow testing activities;
- The significant increase in the value of the Bowland licence should the regulatory threshold on seismicity be sufficiently increased so that the 2 horizontal wells drilled could be successfully fracked and flow tested for gas;
- Announcements made by the United Kingdom Government in support of the shale gas industry to provide the indigenous security of supply of energy in the United Kingdom; and
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla.

In light of the above, if the entity is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business at amounts different from those stated in the statement of financial position.

iii) New standards, interpretations and amendments adopted by the Group

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 2018, except for the adoption of new standards effective as of 1 July 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Where necessary, comparatives have been reclassified and repositioned for consistency with current half year disclosures including amounts from operations that have become discontinued in the current period.

The Group applies, for the first time AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments. The nature and effect of changes upon the adoption of these new standards are described in Note 2.

Several other amendments and interpretations apply for the first time in the current period but do not have an impact on the interim financial statements of the Group.

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 2018.

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.

v) New accounting standards and interpretations not yet adopted

AASB 16 Leases has been identified as a new accounting standard that may impact the Group in the period of initial adoption. It was available for early adoption for the Group's annual reporting period beginning 1 July 2018, but have not been applied in preparing this financial report.

AASB 16 requires the recognition of a right of use asset and a lease liability for all leases with a term of more than 12 months. The assets and liability will initially be measured on a present value of future cash flows basis. Currently the company only recognises a lease liability and asset in relation to finance leases, while lease payments in relation to operating leases are expensed on a straight-line basis. The new standard will be effective from 1 July 2019. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. These changes are not expected to result in any material changes to the Group's financial performance or financial position.

2. Changes in accounting policies

This note explains the impact of the adoption of AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments on the Group's consolidated financial statements.

i) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018, which supersedes AASB 118 Revenue and AASB 111 Construction Contracts and related Interpretations. The Group has adopted the modified retrospective method of initial application as permitted under AASB 15 and therefore, the new standard has only been applied to contracts that remain in force at 1 July 2018.

The new standard establishes a five-step model to account for revenue arising from contracts with customers. The core principle of AASB 15 is that revenue is recognised when control of a good or service transfers to a customer, and the amount of revenue recognised should reflect the consideration to which an entity expects to be entitled in exchange for transferring those goods or services.

Impact on the Group:

The Group provides the majority of its drilling services under schedule of rates contracts. These comprise predominantly metre and hourly rates, and in some instances a lump sum component for certain activities of short duration such as movement between sites. The transfer of the risks and rewards coincides with the fulfilment of performance obligations and subsequent transfer of control as defined by AASB 15. There was no quantitative change in respect of the timing and amount of revenue the Group currently recognises.

Accounting policy applied from 1 July 2018:

The Group recognises sales revenue related to the transfer of promised goods or services when control of the goods or services is transferred to the customer. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services.

AASB 15 Revenue from Contracts with Customers (Cont.)

Sales revenue for services is recognised on individual sales when control transfers to the customer. In most instances the title, risks and rewards transfer to the customer when the service is provided to the customer, as evidenced by survey of work performed.

The Group provides the majority of its services and associated consumables and materials on an as required basis, where the Group provides drilling services based on a total hourly rate as defined for each project, or on a meter drilled basis, as defined for each drill hole (dependant on the contract terms). Under these methods, services rendered are consistent with performance of those services and confirmed by survey of work performed and agreed with its customer. Under these terms, revenue is recognised over time as the customer simultaneously receives and consumes the benefits provided by the Group as the Group performs.

The Group's services are sold to customers under contracts which vary in tenure and pricing mechanisms, primarily being hourly or meter rates specific to each contract.

ii) AASB 9 Financial Instruments

The Group has adopted AASB 9 Financial Instruments from 1 July 2018. The Group has applied AASB 9 retrospectively. AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The accounting for the Group's financial assets, financial liabilities and hedge accounting remains largely the same as under AASB 139 and as a result, there has been no quantitative impact on the Group as a result of adopting AASB 9, and no comparative balances have been restated.

Impact on the Group:

A more detailed analysis of the impact on the Group of the main components of AASB 9 is as per the below:

Classification and measurement of financial assets: AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value though profit and loss ("FVTPL"). The classification is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Group has reviewed and assessed its existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had no material impact on the Group's financial assets in regard to their classification and measurement.

Impairment: in relation to the impairment of financial assets measured at amortised cost and FVOCI, AASB 9 introduces a new forward-looking expected credit loss approach, replacing AASB 139's incurred loss approach whereby the Group will need to record an allowance for expected credit loss upon initial recognition of the financial instrument. For trade and other receivables held at amortised cost, the Group has elected to measure the loss allowance using the simplified approach. The Group has assessed the historical credit loss experience, and adjusted it for forward looking factors specific to the debtors and economic environment. Based on this assessment, the initial application of the impairment requirements of AASB 9 has had no material impact on the Group's financial statements.

Financial Liabilities: The accounting for the Group's financial liabilities remains largely the same as it was under AASB 139. Similar to the requirements of AASB 139, AASB 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

The requirements in AASB 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

AASB 9 Financial Instruments (Cont)

The gain or loss arising on modification of a financial liability that does not result in derecognition, is calculated by discounting the change in contractual cash flows using the original effective interest rate (EIR), and is immediately recognised in profit or loss. The Group has considered the application of AASB

9 retrospectively, noting that the Group previously treated such modifications as changes to the EIR under AASB 139. There was no material impact of applying AASB 9 retrospectively to financial liabilities and as such no adjustment was made on transition.

Accounting policy applied from 1 July 2018

Financial assets

Recognition: At initial recognition, the Group measures a financial asset at its fair value.

Classification and measurement: The Group classifies its financial assets into the following categories: those to be measured subsequently at fair value (either through OCI, or profit or loss) and those to be held at amortised cost. Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

De-recognition: The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Impairment: For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated Expected Credit Losses ("ECLs") based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Financial liabilities:

Recognition: All financial liabilities are recognised initially at fair value.

Classification and measurement: Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments.

The Group's financial liabilities include trade and other payables and interest bearing loans and borrowings.

De-recognition: The Group derecognises its financial liabilities when its contractual obligations are discharged, cancelled or expire.

3. 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. While the Board continue to monitor and review financial information for the E&C division separately the division has been classified as a discontinued operation and its results have been separately reported in the comprehensive income statement. As such reconciling items exist between reportable segment results and results from continuing operations which are reflected in the table below as reclassified.
Oil and Gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in the United Kingdom.

	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Reclassified $'000	Total $'000
December 2018							
Reportable segment revenue							
Services rendered	76,227	–	–	76,227	–	–	76,227
Construction contracts	–	5,852	–	5,852	–	(5,852)	–
Total consolidated revenue	**76,227**	**5,852**	**–**	**82,079**	**–**	**(5,852)**	**76,227**
EBITDA continuing operations	**13,074**	**(6,509)**	**(3,172)**	**3,393**	**(4,331)**	**6,509**	**5,571**
Depreciation, amortisation and impairment	(2,582)	–	–	(2,582)	(114)	–	(2,696)
Finance income	–	–	–	–	60	–	60
Finance cost	–	–	–	–	(15,028)	–	(15,028)
Reportable segment profit / (loss)	**10,492**	**(6,509)**	**(3,172)**	**811**	**(19,413)**	**6,509**	**(12,093)**

	Drilling $'000	E&C $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Reclassified $'000	Total $'000
December 2017							
Reportable segment revenue							
Services rendered	57,339	–	–	57,339	–	–	57,339
Construction contracts	–	12,705	–	12,705	–	(12,705)	–
Total consolidated revenue	**57,339**	**12,705**	**–**	**70,044**	**–**	**(12,705)**	**57,339**
EBITDA continuing operations	**5,408**	**(1,714)**	**3,913**	**7,607**	**(2,425)**	**1,714**	**6,896**
Depreciation, amortisation and impairment	(2,920)	(667)	–	(3,587)	(25)	667	(2,945)
Finance income	–	–	–	–	76	–	76
Finance cost	–	–	–	–	(10,193)	–	(10,193)
Reportable segment profit / (loss)	**2,488**	**(2,381)**	**3,913**	**4,020**	**(12,567)**	**2,381**	**(6,166)**

4. Finance income and costs

	Dec 2018 $'000	Dec 2017 $'000
Interest income	60	76
Finance income	**60**	**76**
Interest expense	(8,934)	(9,947)
Amortisation of prepaid fees on debt facilities	(1,749)	(1,607)
Net foreign exchange gain / (loss)	(4,345)	1,361
Finance costs	**(15,028)**	**(10,193)**
Net finance costs recognised in profit and loss	**(14,968)**	**(10,117)**

5. Other expenses

	Dec 2018 $'000	Dec 2017 $'000
Depreciation and amortisation from continuing operations	(2,696)	(2,945)
Depreciation and amortisation from discontinued operations	–	(1,364)
Total depreciation and amortisation	**(2,696)**	**(4,309)**
UK investment overhead costs	1,427	939
Settlement of historical legal disputes	580	279
Strategic review of Drilling division	753	–
Redundancy costs	394	200
Net loss on sales of assets	638	27
Other (income) / expense	31	(56)
Total non operating expenses	**3,823**	**1,389**

6. Discontinued operations

The assets of its Engineering and Construction (E&C) division were sold to Spiecapag Australia Pty Ltd in July 2018, and were separately disclosed as non-current assets held for sale at 30 June 2018. The Group continues the completion of certain legacy projects which has been classified as a discontinued operation.

	Dec 2018 $'000	Dec 2017 $'000
Cost		
Revenue	5,852	12,705
Expenses	(12,361)	(14,419)
Depreciation	–	(667)
Loss before income tax	**(6,509)**	**(2,381)**
Income tax expense	–	–
Loss for the period from discontinued operations	**(6,509)**	**(2,381)**

The discontinued operation generated a net operating cash outflow of $2.4 million (2017: $4.6 million) during the reporting period.

7. Plant and equipment

Reconciliations of the carrying amounts for each class of plant and equipment are set out below.

	Plant & equipment $'000	Enterprise development $'000	Total $'000
Carrying amount at 1 July 2018	26,577	1,116	27,693
Additions	3,459	46	3,505
Disposals	(502)	–	(502)
Depreciation and amortisation	(2,582)	(114)	(2,696)
Carrying amount at 31 December 2018	**26,952**	**1,048**	**28,000**

8. Exploration assets

	Dec 2018 $'000	Jun 2018 $'000
Cost		
Bowland exploration asset	35,977	27,837
Elswick exploration asset	6,142	5,601
Bolney exploration asset	2,972	2,476
	45,091	**35,914**

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 as shown below:

	Indirect Interest %	Direct Interest %	2018 %	2017 %
Beneficial interest				
Bowland tenement	24.39	23.75	48.14	48.04
Elswick tenement	24.39	23.75	48.14	45.85
Balcombe tenement	26.78	18.75	45.53	60.55

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 9.

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, a leading UK energy provider. Consideration for the interest included an initial farm in arrangement ("Carry") which has now been fully expended, and a further carry which is contingent upon certain appraisal and operational milestones being achieved. Subject to these milestones being met Centrica is required to fund further development and appraisal work on behalf of the joint venture totalling £46.7 million in order for it to maintain its 25% interest in the joint venture ("Contingent Carry").

Drilling, fracking and flow testing operations

Cuadrilla received planning consent to drill up to four horizontal shale gas exploration wells at the PNR exploration site in 2016. A vertical well was drilled through the Upper and Lower Bowland shale to a vertical depth of 2,614 metres. Over 300m of core samples were taken, in addition to a wide range of wireline logging. Having analysed this core and log data, the Operator high-graded six separate potential productive zones: three in the Upper Bowland Shale and three in the Lower Bowland Shale. Two horizontal wells were subsequently drilled, targeting two of these six zones.

Cuadrilla then undertook a Hydraulic Fracturing (“HF”) program of one of the horizontal wells. As part of the consent to carry out HF operations, UK Regulation required HF operations to pause for 18 hours each time micro seismicity reached 0.5 ML on the Richter Scale, even thought that level is well below the level of seismicity that typically occurs naturally in the region and across the UK. This approach is referred to as the traffic light system (”TLS”).

The HF plan was to individually fracture 41 separate stages, with 50 tonnes of sand embedded in the fractures at each stage along the length of the horizontal well. The TLS threshold of 0.5 ML was tripped on multiple stages prior to significant quantities of sand being injected into the shale. Consequently, only 2 of the 41 stages were imbedded with the planned 50 tonnes of sand, 14 stages were fractured with various smaller quantities of sand and a number of stages were tested for fracturing without injecting any sand.

During subsequent flow testing, and in the context of the limited number of stages which were fractured as per design. a peak of 200,000 scfd was reached with a stable flow of 100,000 scfd. Given these flow rates Cuadrilla has estimated that an initial flow rate range of 3-8 mmscfd would be expected from a fully fractured horizontal Bowland Shale well of 2,500 metres in length. Subject to factors such as capital and operating costs, such rates are likely to be commercially viable and would demonstrate the Bowland shale as a world class natural gas shale resource.

The results of the drilling operations indicated that substantial gas of very high methane content with negligible impurities is present, that rock properties were highly conducive to fracturing and that the Upper Bowland Shale may contain liquids, which could have the potential to upgrade the economics of the Bowland discovery.

Cuadrilla is performing a work-over of PNR-1 well to condition the well for further HF. Subject to a review of the TLS system Cuadrilla will complete the HF of well PNR-1, HF the PNR-2 well and test the flow results from both wells.

9. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

	Ownership		Carrying value	
	Dec	Jun	Dec	Jun
	2018	2018	2018	2018
Name of investee	**%**	**%**	**$'000**	**$'000**
Cuadrilla Resources Holdings Limited (associate)	47.60%	47.45%	132,748	120,541
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50.00%	50.00%	–	–
			132,748	**120,541**

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

	Dec 2018 $'000
Balance at 1 July	120,541
Purchase of additional ownership interest	8,661
Movement of foreign currency translation recognised in equity	5,664
Share of profit / (loss) of equity accounted investees	(2,118)
Balance at 31 December 2018	**132,748**

10. Interest-bearing loans and borrowings

	Dec 2018 $'000	Jun 2018 $'000
Current		
Senior loan notes	33,658	17,185
	33,658	**17,185**
Non-current		
Senior loan notes	28,751	27,399
Loans from related party	46,476	40,252
	75,227	**67,651**

Senior loan notes

The Senior loan notes are secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries. Interest is charged at 18%, with 12% payable monthly in arrears and 6% accruing until termination, repayment or partial repayment of the facility. The principal outstanding along with a prorate portion of interest outstanding, must be reduced to US$20.0 million by 30 June 2019. The total amount of principal and interest accrued as at 31 December 2018 repayable by 30 June 2019 has been classified as a current liability. The balance of the Senior loan notes is repayable by 31 January 2020.

As part consideration for the facility, the Company issued a total of 20 million ordinary shares to note holders in two tranches. 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

The term of the Kerogen facility matures in July 2020. The facility entails a fixed and floating security which is subordinated to and ranks behind the senior term loan notes. Interest is charged at 18% on the facility and compounds quarterly if unpaid. Additional transaction costs, including historic restructure fees payable to Kerogen, are amortised over the expected term of the loan facility.

11. Interests in joint operations

	Principal activities	Principal place of business	Participation interest Dec 2018 %	Dec 2017 %
Southern SeaWater Alliance	Construction and operation of desalination plant	Level 2, 1 Adelaide Terrace East Perth 6004	19	19
VSL Australia - AJ Lucas Operations Joint Venture	Construction of water related infrastructure	6 Pioneer Avenue, Thornleigh 2120	50	50
AJ Lucas - Spiecapag JV Project 1	Construction of gas infrastructure	167 Eagle Street, Brisbane 4001	50	50
AJ Lucas - Spiecapag JV Project 2	Construction of gas infrastructure	167 Eagle Street, Brisbane 4001	40	40
AJ Lucas - Spiecapag JV Project 3	Construction of gas infrastructure	167 Eagle Street, Brisbane 4001	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:

11. Interests in joint operations (cont.)

	Dec 2018 $'000	Jun 2018 $'000
Assets		
Current assets		
Cash and cash equivalents	573	220
Trade and other receivables	–	87
Construction work in progress	–	2,691
Other	–	214
Total assets	**573**	**3,212**
Liabilities		
Current liabilities		
Trade and other payables	492	5,560
Total liabilities	**492**	**5,560**
Contribution to operating results		
Loss for the period included in discontinued operations	325	4,035

12. Financial instruments fair value disclosure

The fair value of financial instruments recognised in the 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:

2018	**Carrying Amount $'000**	**Fair value $'000**
Senior term loan notes	62,409	64,352
Loans from related party	46,475	46,982
	108,884	**111,334**

13. Contingent Liabilities

During the normal course of business, an AJ Lucas Group company of the discontinued Engineering and Construction business entered into a dispute with a contractor in New Zealand. The relevant AJ Lucas Group company has been partially successful at mediation in recovering costs and margin however the disputation has and will likely escalate to arbitration and litigation for the recovery of additional costs. The Directors are of the opinion that there is no material exposure to the entity resulting from the dispute based on the fact that there are a range of recovery options being pursued. While the ultimate outcome of these recoveries cannot be reliably determined at the date of this half year report, based on legal advice obtained, previous experience, amounts specifically provided and the circumstances of the specific dispute outstanding, no additional costs are anticipated. Claims relating to this dispute and counter claims outstanding are not detailed on the basis that further disclosure may seriously prejudice the Group's position in regards to this matter.

14. 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 consolidated financial statements and notes set out on pages 11 to 26 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 2018 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
28 February 2019

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Review Report to the Members of AJ Lucas Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of AJ Lucas Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial 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 – Material Uncertainty Related to Going Concern

Without qualifying our conclusion, we draw attention to Note 1.ii) in the half-year 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.

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 control as the directors determine is 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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial 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 the Group, 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*.

Ernst & Young

Ernst & Young

Ryan Fisk
Partner
Sydney
28 February 2019