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Results for the six months to 31 December 2018

- **Group Underlying EBITDA from continuing operations significantly increased to $11.14 million (HY2018: $3.43 million)**
- **Progress made in UK shale gas operations with encouraging flow testing results from the UK's first horizontal well at Preston New Road**
- **Significantly improved Underlying EBITDA of $13.1 million for the Drilling Division (HY2018: $5.6 million) driven by continued buoyancy in the coal mining industry together with a continued focus on servicing its blue chip customer base**

AJ Lucas Group Limited (ASX: AJL) today announced a reported loss from continuing and discontinued operations of $18.6 million for the six months to 31 December 2018 (HY2018: $8.5 million loss). Revenue from continuing and discontinuing operations was $82.1 million (HY2018: $70.0 million). The increase in loss on the comparative period was significantly impacted by: i) adverse foreign exchange movements during the period on the Group's US dollar interest bearing liabilities resulting in a charge of $4.3 million (HY2018: profit $1.4 million); and ii) the take-up of expenditure on in its investment in Cuadrilla of $2.1 million (HY2018: profit of $3.8 million) compared to the comparative period where a net profit from its share of the Centrica carried expenditure was recognised. The majority of the foreign exchange loss was unrealised.

As announced in July 2018 AJ Lucas agreed to sell the fixed assets of the Engineering and Construction division to Spiecapag Australia Pty Ltd. As such, the Engineering and Construction division has been treated as a discontinued operation and reported separately from continuing operations in the current and comparative period.

Before its share of UK shale gas investments and other non-operating costs, the Company's underlying EBITDA from continuing operations was $11.1 million, compared with $3.4 million for the prior corresponding period. The improvement was driven by strong performance in the Australian Drilling division.

The following is a summary of the result reported in the Appendix 4D and interim financial report which has been filed today. Please refer to the commentary of results section in that release for further information.

Results summary for the 6 months to	31 December 2018 ($'000)	31 December 2017 ($'000)	Change (%)
Total Revenue	82,079	70,044	17.2
Revenue from continuing operations[1]	76,227	57,339	32.9
Underlying EBITDA from continuing operations[1]	11,139	3,433	224.5
Reported EBITDA from continuing operations[1]	5,571	6,896	19.2
Reported EBIT from continuing operations[1]	2,875	3,951	(27.2)
Reported net loss (from continued & discontinued operations)	(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%)

1. Excluding the Engineering and Construction business.

Balance sheet and cash flow

In August 2018 certain provisions of the Groups senior loan notes facility (the "OCP facility") were amended. This included an 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. Concurrently, 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.

The A$12.4 million additional funding from the Company's senior note holders (fully drawn down in September 2018) together with $9 million of cash flow generated 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.

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.

Commenting on the results and outlook, AJ Lucas chairman Phil Arnall said: "The continued improvement in the Group's Australian drilling division was very pleasing at a time when our primary focus has been in the large and exciting UK shale gas exploration opportunity.

"In Australia trading conditions for the Drilling division continued to be strong, and the division recorded outstanding results for the first half. The Drilling division secured increased revenues from its existing blue chip customer base, underpinned in some instances by longer term contracts in a continuing buoyant coal mining market.

"Against this backdrop, and following receipt of an expression of interest in acquiring the Drilling division, AJ Lucas made a decision to undertake a strategic review of the business assessing market interest in the business and test it against the value of continued ownership. The process remains on-going and the Company continues to engage in dialogue with several parties on the matter. Management will continue to focus on servicing its customers while exploring further business opportunities where it can utilise its specialist skills and equipment.

"In the UK, the Company recently released initial results of the hydraulic fracking and gas flow testing program at the Preston New Road exploration site – the UK's first horizontal well. Initial results showing that given the flow rates achieved and taking account of the limited number of stages which were fractured as part of the initial design, Cuadrilla Resources (as the operator of the Bowland licence) has estimated 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 also indicated that substantial gas of a very high methane content with negligible impurities were present, rock properties were highly conducive to fracturing and the Upper Bowland Shale may contain liquids, which could have the potential to upgrade the economics of the Bowland discovery."

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