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Media release
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Results for the six months to 31 December 2016

- Underlying EBITDA loss \$0.7 million affected by non-recurring contract issues
- Stronger second half expected for Australian operations
- UK shale gas drilling expected to begin in June quarter
- Previously announced capital raise by June 2017 to complete balance sheet initiatives and provide growth funds

AJ Lucas Group Limited (ASX: AJL) today announced an underlying EBITDA loss of \$0.7 million for the six months to 31 December 2016 (1H FY2016: \$8.4 million profit). After its share of its UK shale gas investments, the company's statutory EBITDA was a loss of \$5.7 million, compared with a profit of \$3.1 million in 1H FY2016. The statutory net loss for the period was \$25.2 million (1H FY2016: \$17.9 million) after finance costs of \$16.5 million (1H FY2016: \$12.6 million).

The company's net assets at 31 December 2016 were \$66.4 million, in line with 31 December 2015 (\$68.0 million).

Results summary for the 6 months to	31 December 2016 \$ '000	31 December 2015 \$ '000	Change %
Revenue	51,407	56,401	(8.9)
Underlying EBITDA	(684)	8,430	(108.1)
Statutory EBITDA	(5,723)	3,128	(283.0)
Statutory EBIT	(8,821)	(5,529)	(59.5)
Statutory net loss	(25,162)	(17,945)	(40.2)
Basic loss per share (cents)	(6.6)	(6.7)	(1.5)
Total assets	241,092	214,655	12.3
Net assets	66,440	67,991	(2.3)

Commenting on the results, AJ Lucas chairman Phil Arnall said: "While the performance of our Australian operations was disappointing due to difficult trading conditions and short-term challenges, both divisions ended the period with materially stronger order books after increasing investment in business development. Improved results are expected for the second half."

"In the UK, there has been significant progress with unlocking the value of our shale gas investments. Site preparation at the Preston New Road site started at the beginning of January and the drilling and hydraulic stimulation of two lateral wells is expected to begin in the June quarter. We are confident that there is no merit in the legal challenges that will be heard in March 2017 against the decision of the Secretary of State for Communities and Local Government ("SOS") to approve the drilling and hydraulic stimulation of the wells."

Divisional report

Drilling Division

Results summary for the 6 months to	31 December 2016 \$ '000	31 December 2015 \$ '000	Change %
Revenue	34,610	38,060	(9.1)
Underlying EBITDA	1,561	5,050	(69.1)

The division's revenue was affected by challenging conditions in the coal mining industry and the conclusion of a key long-term contract in the June quarter.

Considerable progress was made with expanding into new markets where AJ Lucas can use its fleet of equipment, operational skills and leverage existing customer relationships. The CSG and water sectors delivered \$10.8 million in revenue and further opportunities have been identified.

The re-entry into CSG and water markets was characterised by lower margin business which impacted the result. LDS serviced the CSG market a number of years ago. The LDS Division expects to improve margins quickly as service delivery to these new markets becomes more efficient.

Drilling activity in the coal market, particularly in Queensland, is increasing and the division has an improved order book driven by demand from established customers.

Engineering & Construction Division

Results summary for the 6 months to	31 December 2016 \$ '000	31 December 2015 \$ '000	Change %
Revenue	16,797	18,341	(8.4)
Underlying EBITDA (loss)/profit	(150)	5,324	(102.8)

As previously foreshadowed, there were fewer large cross-country pipeline projects on offer and a number of expected projects were delayed. The division's result was principally affected by heavy rain and flooding in Northern Victoria, causing a delay in completing the VNIE pipeline contract and affecting margins on this project. It is now expected to be completed in the June quarter.

Business development activities have resulted in a stronger order book. New contracts in Australia and New Zealand, using AJ Lucas' horizontal directional drilling and pipeline expertise, will have a positive impact on the second half results and provide a base for FY2018. The division is tendering for a number of other opportunities and has recently been named preferred contractor for a significant project.



Oil & Gas Division

In October 2016, Cuadrilla received planning consent from the SOS to drill and hydraulically stimulate up to four wells to test the flow of gas at the Preston New Road site, which is part of the Bowland tenement in which A J Lucas had an effective 47% interest at balance date. Site preparation began in January 2017 and is continuing. Applications for a Judicial Review of the SOS decision have been made, but AJ Lucas is confident that the challenges have no merit and that drilling will begin, as planned, in the June quarter.

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

Centrica Plc, which has a farm-in agreement, is committed to funding a further £30 million of costs of the joint venture for the drilling and hydraulic stimulation of the first two exploration wells. Following satisfactory appraisal of the results, Centrica is then required to fund a further £46.7 million of development costs of the joint venture.

Entitlement offer

AJ Lucas intends to launch by early April a pro-rata entitlement offer to raise funds as part of the balance sheet restructure that occurred in October 2016. Part of the proceeds will be used to repay a minimum of US\$25 million of the finance facility currently provided by Kerogen, a significant shareholder in the company. Kerogen has agreed to take up its entitlement and offered to provide sub-underwriting support if required, with an aggregate of not less than US\$25 million.

The entitlement offer will strengthen the company's balance sheet, reduce debt and interest costs and provide some additional growth funds.

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About AJ Lucas Group Limited

AJ Lucas is a leading provider of specialist infrastructure, construction and drilling services to the energy, water and wastewater, resources and public infrastructure sectors. In particular, it is the largest supplier of drilling and gas management services to Australia's coal industry.

AJ Lucas is also a proven developer of unconventional hydrocarbon properties. Current investments include a 45% shareholding in Cuadrilla Resources Holdings Limited, an exploration and production company focused on unconventional hydrocarbons, and direct interests in each of the Bowland, Elswick and Bolney licences in the UK.