AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

&

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2019

(Previous Corresponding Reporting Period:
half year ended 31 December 2018)

Appendix 4D

for the half year ended 31 December 2019

Name of entity: AJ LUCAS GROUP LIMITED

ACN: 060 309 104

	Change			Dec-19 $A'000	Dec-18 $A'000
Revenue					
Revenues from continuing operations	Improvement of	1.7%	to	77,542	76,227
Results from continuing operations					
Underlying EBITDA from continuing operations(1)(3)	Improvement of	27.4%	to	14,193	11,139
Reported EBITDA from continuing operations(2)(3)	Improvement of	64.7%	to	9,176	5,571
Profit before interest and tax from continuing operations	Improvement of	97.2%	to	5,669	2,875
Loss for the period from continuing operations	Improvement of	15.1%	to	(10,262)	(12,093)
Results from continuing and discontinued operations					
Loss for the period attributable to members	Improvement of	44.8%	to	(10,262)	(18,602)

NTA Backing	**Dec-19**	**Jun-19**
Net tangible asset backing per ordinary security (cents per share) (3)	9.8	12.4

Dividends	Amount per security	Franked amount per security
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.
(3) The Group has adopted AASB16 Leases for the half year ended 31 December 2019. The accounting standard was adopted using the modified retrospective approach and is further explained in Note 2 to the Financial Statements. AASB16 shifts the classification in lease expense from an operating expense to a reduction in liability and financing cost. The impact is that an amount of $1.1 million is reflected in EBITDA (for both Underlying and Reported purposes) in the period and a corresponding amount was not reflected in the comparative period.
In accordance with ASIC Guidance "19-341MR Financial Reporting focuses for 31 December 2019" as at 31 December 2019 lease liabilities of $4.2 million have been included in the calculation of net tangible assets, however right-of-use assets of $3.9 million has been excluded, both of which arise from adoption of AASB16.
The calculation of net tangible assets also excludes contract assets in both periods.

An interim financial report for the half year ended 31 December 2019 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 qualified review report is attached as part of 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 2019

The Group recorded an increase in revenue to $77.5 million in the period compared to $76.2 million in the comparative period. Underlying EBITDA was $14.2 million, an increase of 27.4% on the $11.1 million recorded in the comparative period. While these results in part reflect the adoption of adoption of AASB16 Leases, which is further explained in Note 2 to the Financial Statements, they are primarily driven by strong performance of the Australian Drilling Division.

After taking into account certain non-operating costs and the non-capital costs of the Group's UK investments, Group EBITDA from continuing operations was $9.2 million in the period compared to $5.6 million in the comparative period.

Group EBIT was $5.7 million (2018: $2.9 million). Depreciation and amortisation was $3.5 million (2018: $2.7 million). The increase in depreciation and amortisation was predominantly as a result of the adoption of AASB16 Leases, which is further explained in Note 2 to the Financial Statements.

After net finance costs of $15.9 million (2018: $15.0 million), the net loss recorded for the half year was $10.3 million (2018: $18.6 million).

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

	Dec 2019 $'000	**Dec 2018 $'000**	**2018/19 Change %**
Total revenue from continuing operations	77,542	76,227	1.7%
Underlying EBITDA from continuing operations	14,193	11,139	27.4%
Reported EBITDA from continuing operations	9,176	5,571	64.7%
EBIT from continuing operations	5,669	2,875	97.2%
Loss before tax from continuing operations	(10,262)	(12,093)	15.1%
Loss before tax from discontinued operations	–	(6,509)	100.0%
Net loss for the year	(10,262)	(18,602)	44.8%
Total assets (comparative at 30 June2019)	276,357	265,957	3.9%
Net assets (comparative at 30 June2019)	132,119	107,542	22.9%
Basic loss per share (cents)	(1.2)	(2.5)	44.7%

Commentary on the Results

for the half year ended 31 December 2019

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 2019 $'000**	**Dec 2018 $'000**
Reconciliation:					
Profit / (loss) for the period from continuing operations	**10,537**	**(3,712)**	**(17,087)**	**(10,262)**	**(12,093)**
Depreciation and amortisation	3,333	–	174	3,507	2,696
Finance costs	2,223	–	13,732	15,955	15,028
Finance income	–	–	(24)	(24)	(60)
EBITDA from continuing operations	**16,093**	**(3,712)**	**(3,205)**	**9,176**	**5,571**
Share of equity accounted investees loss(1)	–	2,086	–	2,086	2,118
Exploration asset income	–	–	–	–	(373)
Share of overhead - UK investments (1)	–	1,626	–	1,626	1,427
Strategic review of Drilling division	–	–	28	28	753
Settlement of legal disputes	–	–	–	–	580
Refinancing costs	–	–	371	371	–
Redundancy costs	–	–	109	109	394
Net loss on sales of assets	–	–	401	401	638
Other expenses	–	–	396	396	31
Underlying EBITDA	**16,093**	**–**	**(1,900)**	**14,193**	**11,139**

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

(1) *Share of equity accounted investee loss represents the Group's share of Cuadrilla's administration, overhead and operating costs. Share of overhead – UK investments represents the Group's share of licence and admin costs incurred in relation to its direct interest in UK exploration licences.*

The improved performance of the Australian Drilling Division over the last 2 years was a significant contributor to the successful refinancing of the Company's OCP loan notes on terms that are significantly more favourable to the Group. The new facilities, drawn in October and which are explained in greater detail under the heading "Balance Sheet", provide the Group significant savings in interest costs and reduced exposure to US dollar currency fluctuations, and provides a path to further reducing the Group's debt.

The Entitlements Offer, launched on 7 November 2019, provided additional funding for ongoing obligations to the Group's UK investments, and led to further deleveraging of the balance sheet by facilitating the reduction of the amount outstanding under the Kerogen Loan Facility. This will result in further savings in interest costs as well as reduced exposure to US dollar currency fluctuations.

The UK Shale Gas exploration activity had a challenging six months that included fracturing of the second well at Preston New Road ("PNR2"). This operation commenced with the successful hydraulic fracturing of six stages of PNR2, with each stage being injected with between 30 and 50 tonnes of sand as per design. However, following hydraulic fracturing of stages 6 and 7, a number of post-pumping sub-surface seismic events were recorded, the largest measuring 2.9ML on the Richter scale. This unforeseen sub-surface seismic activity halted operations earlier than had been planned while the reasons for the seismic activity were investigated. Cuadrilla subsequently flow-tested seven stages of the well which produced high quality methane gas. Subsequent to the investigation of the seismic event, on 2 November 2019, the UK Government imposed a moratorium on further hydraulic fracturing in England while the reason for sub-surface seismicity is determined. Cuadrilla is working with the UK Oil and Gas Authority (OGA) to resolve this. Once resolved, the Company anticipates that the moratorium will be lifted.

Commentary on the Results

for the half year ended 31 December 2019

Drilling Division

	Dec 2019 $'000	Dec 2018 $'000	Change %
Revenue	77,542	76,227	1.7%
Underlying EBITDA	16,093	13,074	23.1%
EBITDA margin	20.8%	17.2%	

The Drilling Division continued its strong performance in the 6 months to December 2019 driven by robust demand from the Division's five core customers, which in turn was due to continued strong demand in the metallurgical coal market. Revenue was broadly in line with the comparative period with underlying EBITDA increasing 23.1% to $16.1 million. The improvement in underlying EBITDA of the Drilling Division is driven in part by the adoption of AASB16 Leases, which resulted in an increase of $1.1 million on reported Underlying EBITDA. However, the substantial part of improvement was due to a combination of increased activity in the East Coast Coal market, further efficiency gains and a mix of higher yielding, technical drilling work.

On 19 August 2019, the Drilling Division announced that it had signed a significant contract with Kestrel Coal that is expected to generate approximately $70 million in revenue over the initial 3-year term. This contract was won on the back of a number of other new contracts with existing customers in the previous year. Together these are expected to underpin the Drilling Division's performance in the year ahead and beyond.

The Division continues to explore further extensions and rollovers of existing customer contracts as well as new opportunities to provide further growth.

Oil & Gas Investments

In August 2019, Cuadrilla commenced hydraulic fracturing ("HF") operations on the second horizontal shale gas well ("PNR2") at its Preston New Road exploration site ("PNR") in the UK. This well was drilled at a depth of 2,100 meters and laterally for approximately 750 meters, with a planned 41 stages to be hydraulic fractured with approximately 50 tonnes of sand to be embedded in each stage.

Cuadrilla was able to fracture the first seven stages, most with the full contingent of embedded sand. Following hydraulic fracturing of stages 6 and 7, a number of post-pumping seismic events were recorded, the largest measuring 2.9ML on the Richter scale. In accordance with standard operating procedures and regulatory requirements further fracturing was suspended while the reasons for the seismicity were investigated. The seven stages were subsequently flow tested which resulted in high quality natural gas flowing to surface.

On 2 November 2019, the UK Government imposed a moratorium on hydraulic fracturing in England, stating lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other UK shale gas operators are now working together and with the UK regulator to address these technical issues, so that the moratorium can be lifted.

With the suspension of operations at its PNR site Cuadrilla has substantially reduced its activities on site and costs at head office and these reductions will be reflected in significantly lower ongoing operating costs.

Meanwhile, Angus Energy, as operator of the Balcombe licence located South of London, submitted an application to the West Sussex County Council for an extended well test of up to 3 years of the existing Balcombe 2 Well, drilled by Cuadrilla in 2013. As of the balance date, the Group has an effective interest in the Balcombe licence of 45.49% (18.75% held directly with the remainder held through the Group's interest in Cuadrilla).

Subsequent to 31 December 2019, the Group acquired Riverstone's interest in Cuadrilla, increasing its interest from 47.54% to approximately 96%. As a consequence, Cuadrilla's overhead costs will be reduced substantially and AJ Lucas will be fully involved in determining Cuadrilla's strategy and operating plans going forward. Further details of the Group's acquisition of Riverstone's interest are reported below in the Subsequent Events section of the Directors' Report.

Balance Sheet

In October 2019 the Group announced it had refinanced its US denominated Senior Loan Notes owed to OCP Asia (Singapore) Pte Ltd. ("OCP Loan Notes") with two new Australian dollar denominated facilities. The new facilities comprise:

- A 3-year senior ranking revolving asset-based loan ("ABL") of up to $30 million provided by Investec Bank PLC Australia Branch; and
- A 3.5-year junior-ranking $50 million loan note facility ("Junior facility") arranged by members of the HSBC Group as lenders

As part of the refinancing Kerogen agreed to subordinate its debt to both these facilities and to extend the maturity on the existing Kerogen facility to 6 months after the full repayment of the Junior facility.

The proceeds of the new facilities were used to repay OCP; $61.2 million in principal and $15.1 million in interest, including interest that had accrued at 6% under the facility.

The two new facilities have a weighted average nominal interest rate of approximately 11% when fully drawn and will provide significant savings compared to the OCP interest rate of 18%. Furthermore, as the facilities are denominated in $AUD foreign exchange exposure is substantially reduced. Scheduled amortisation under the Junior facility will reduce the principal from $50 million to $24 million over the 3.5-year life of the facility.

The Investec facility of $30 million is structured as a redraw facility against the Drilling Division's trade and unbilled receivables and plant and equipment. While the facility has a 3-year tenure under accounting standards the facility is required to be classified as a current liability because of its redraw nature.

On 7 November 2019, the Group launched a pro rata Entitlements offer under which existing eligible shareholders were entitled to apply for up to 19 new shares for every 20 shares held at record date at 6.5c per share. Eligible retail shareholders were able to apply for additional shares at the same price, up to 3 times their 19 for 20 entitlements. The offer raised a total of $28.2 million after costs, of which Kerogen's pro-rata subscription of $24.7 million was satisfied by the partial conversion of principal and interest outstanding under the Kerogen provided debt facility.

Cash generated from operations before financing during the reporting period was $22.4 million, compared to $8.9 million in the comparative half year to December 2018. The improvement was driven by the strong Australian Drilling Division and the windup of the Engineering and Construction Division.

Outlook

The Group will assist Cuadrilla with the UK Government's concerns of sub-surface induced seismicity so the moratorium on hydraulic fracturing is lifted. In the interim, Cuadrilla's funding requirement is expected to be significantly reduced, as a result of reduced on ground activities and operations. In the meantime, Cuadrilla will engage in limited analysis of prospective areas of its licences, in preparation for activity when the moratorium is lifted. The Group will have a greater input into the Cuadrilla's future strategy and operating plans through its increased ownership interest subsequent to balance date.

The Drilling Division has recorded a strong first half, and these results are expected to continue in the second half of the year. Cash generated from the Drilling Division is expected to be used to service and reduce debt and to fund capex to further improve operating results. 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 2019

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 2019 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2019 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 2019

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 2019 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 (resigned effective 31 December 2019)

John O'Neill

<u>Executive</u>

Austen Perrin (appointed Director 1 January 2020)

Brett Tredinnick (appointed Director 1 January 2020)

All directors held their position throughout the six months and up to the date of this report unless otherwise stated.

REVIEW OF OPERATIONS

A review of the Group's operations and the results of those operations are presented on pages 3 to 7 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 11 and forms part of this report for the half year ended 31 December 2019.

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

Subsequent to balance date the Group acquired Riverstone's interest in Cuadrilla, increasing the Group's interest from 47.54% at balance date to approximately 96%, which will allow the Group greater control of Cuadrilla's strategy and operating plans.

Given the longer timeframe that it is expected to take to assess the UK shale resources and develop Cuadrilla's Bowland shale asset, Riverstone indicated that projected delays were longer than could be accommodated within the fund that invested in Cuadrilla. The acquisition by the Company of Riverstone's interest in Cuadrilla enables the Group to continue to develop the UK shale gas exploration asset while providing Riverstone with a continued interest in the success of these assets. In addition to a nominal payment on signing a sale and purchase agreement (the "Agreement"), Riverstone will be entitled to contingent consideration as follows:

1. On the resumption of Spirit Energy's Contingent Carry, which is described in Note 8, a payment of US$2 million, provided the Contingent Carry commences within 3 years of the Agreement.

2. In the event that the Group subsequently sells 25% of more of its interest in Cuadrilla within 3 years of the Agreement, a payment of
   a. US$5 million if the sale is for a value equal or greater than the equivalent of $US100 million for 100% of the Groups interest; or
   b. US$10 million if the sale is for a value equal or greater than the equivalent of $US200 million for 100% of the Groups interest

As a result of this transaction, at acquisition date the Group will derecognise its existing investment in equity accounted investees and will instead recognise Cuadrilla's underlying assets and liabilities. This change is not reflected in the financial report at 31 December 2019.

Other than as disclosed above, 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

27 February 2020

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 2019, 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
Partner
27 February 2020

Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2019

	Note	Dec 2019 $'000	Dec 2018 $'000
Continuing operations			
Revenue from contracts with customers	3	77,542	76,227
Total revenue		**77,542**	**76,227**
Other income		–	373
Operating costs of Australian operations		(61,453)	(63,152)
Central and corporate costs		(1,896)	(1,936)
Depreciation and amortisation	5	(3,507)	(2,696)
Non operating expenses	5	(2,931)	(3,823)
Results from operations		**7,755**	**4,993**
Net finance costs	4	(15,931)	(14,968)
Share of loss of equity accounted investees	9	(2,086)	(2,118)
Loss before income tax		**(10,262)**	**(12,093)**
Income tax expense		–	–
Loss for the period from continuing operations		**(10,262)**	**(12,093)**
Discontinuing operations			
Loss for the period from discontinued operation		–	(6,509)
Loss for the period from continuing and discontinued operations		**(10,262)**	**(18,602)**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		6,699	7,076
Total items that may be reclassified subsequently to profit and loss		6,699	7,076
Other comprehensive income for the period		**6,699**	**7,076**
Total comprehensive loss for the period		**(3,563)**	**(11,526)**
Total comprehensive loss attributable to owners of the Company		**(3,563)**	**(11,526)**
Earnings per share (Continuing operations):			
Basic (loss)/earnings per share (cents)		(1.2)	(1.6)
Diluted (loss)/earnings per share (cents)		(1.2)	(1.6)
Earnings per share (Continuing and discontinued operations):			
Basic (loss)/earnings per share (cents)		(1.2)	(2.5)
Diluted (loss)/earnings per share (cents)		(1.2)	(2.5)

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

Consolidated Statement of Financial Position

as at 31 December 2019

	Note	Dec 2019 $'000	Jun 2019 $'000
Current assets			
Cash and cash equivalents		11,919	8,376
Cash in trust		–	1,779
Trade and other receivables		12,583	23,629
Contract assets		10,950	14,407
Inventories		6,045	4,122
Other assets		303	515
Total current assets		**41,800**	**52,828**
Non-current assets			
Plant and equipment	6	30,690	29,715
Right-of-use assets	7	3,914	–
Exploration assets	8	55,657	47,962
Investments in equity accounted investees	9	144,296	135,452
Total non-current assets		**234,557**	**213,129**
Total assets		**276,357**	**265,957**
Current liabilities			
Trade and other payables		30,299	31,929
Contract liability		462	462
Interest-bearing loans and borrowings	10	31,001	67,164
Employee benefits		5,888	5,511
Total current liabilities		**67,650**	**105,066**
Non-current liabilities			
Interest-bearing loans and borrowings	10	75,602	52,536
Employee benefits		986	813
Total non-current liabilities		**76,588**	**53,349**
Total liabilities		**144,238**	**158,415**
Net assets		**132,119**	**107,542**
Equity			
Share capital	11	495,893	467,753
Reserves		50,048	43,349
Accumulated losses		(413,822)	(403,560)
Total equity		**132,119**	**107,542**

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 2019

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2019	467,753	38,679	637	4,033	(403,560)	107,542
Total comprehensive income						
Loss for the period	–	–	–	–	(10,262)	(10,262)
Other comprehensive income						
Foreign currency translation differences	–	6,699	–	–	–	6,699
Total comprehensive income/(loss)	–	6,699	–	–	(10,262)	(3,563)
Transactions with owners recorded directly in equity						
Issue of ordinary shares, net of transaction costs	28,140	–	–	–	–	28,140
Total contributions by and distributions to owners	28,140	–	–	–	–	28,140
Balance 31 December 2019	**495,893**	**45,378**	**637**	**4,033**	**(413,822)**	**132,119**
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**

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 2019

	Note	Dec 2019 $'000	Dec 2018 $'000
Cash flows from operating activities			
Cash receipts from customers		101,314	110,125
Cash paid to suppliers and employees		(78,939)	(101,189)
Cash from in operations		**22,375**	**8,936**
Interest received		–	60
Interest and other costs of finance paid		(15,869)	(4,096)
Net cash from operating activities		**6,506**	**4,900**
Cash flows from investing activities			
Payments for equity accounted investees	9	(5,805)	(8,661)
Payments for interest in exploration assets	8	(5,207)	(7,283)
Acquisition of plant and equipment		(4,221)	(3,505)
Proceeds from sale of plant and equipment		642	4,314
Net cash used in investing activities		**(14,591)**	**(15,135)**
Cash flows from financing activities			
Proceeds from borrowings		112,677	12,462
Repayment of borrowings		(101,479)	–
Transaction costs on borrowings		(3,866)	–
Proceeds from share issues		4,106	–
Transaction costs on share issue		(662)	–
Repayment of leases		(997)	–
Net cash from financing activities		**9,779**	**12,462**
Net increase in cash and cash equivalents		1,694	2,227
Net foreign exchange difference		70	363
Cash and cash equivalents at beginning of the period		10,155	9,848
Cash and cash equivalents at end of the period		**11,919**	**12,438**

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

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 2019 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 provider of integrated professional drilling services, predominantly for exploration and degasification of coal mines. It is also an investor in unconventional and conventional hydrocarbons, having accumulated a significant position for the exploration and appraisal of onshore UK shale gas.

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 and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2019. 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 27 February 2020.

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 $10.3 million primarily as a result of non-cash depreciation and amortisation charges of $3.5 million, net finance costs of $15.9 million, and a share of loss from equity accounted investees of $2.1 million;
- The Group is in a net current liability position of $25.9 million (June 2019: $52.2 million). However, of this $19.8 is due to the classification as a current liability of the 3-year asset based loan provided by Investec;
- In October 2019 the Group repaid its existing US dollar denominated OCP loan note facility with two new Australian dollar denominated finance facilities as described in Note 10. The new finance facilities have maturity terms between 3 and 3.5 years and have cash management, security and covenant requirements attached to the Australian operations. These facilities are expected to result in ongoing savings in finance costs, of approximately $5 million in the first year calculated on a fully drawn basis, and also reduce the Group's foreign exchange exposure;
- The Group's Drilling Division generated earnings before interest, tax, depreciation and amortisation of $16 million during the reporting period, compared to $13 million in the comparative period. This result was driven by strong demand from the Division's drilling services from its five core customers which in turn is due to continued growth in the metallurgical coal market, principally in the Queensland Bowen Basin;

Going concern (cont.)

- At balance date the Company had a 47.54% interest in Cuadrilla. Cuadrilla in turn has a 51.25% interest in, and is the operator of, an oil and gas licence (PEDL 165) located in Bowland UK. Together with its direct interest of 23.75% in PEDL 165, the Company has an effective interest in PEDL 165 (see Note 8) of 48.11% at balance date;
- Subsequent to balance date, as disclosed in Note 15 the Company's interest in Cuadrilla has increased to approximately 96%, and its effective interest in PEDL 165 to 72.95%. This will allow the Company greater control of Cuadrilla's strategy and operating plans and will require the Group to fund any ongoing commitments of its licences. This will however provide a greater share of any proceeds from any commercialisation of PEDL 165;
- Fracturing operations on the first well drilled at Preston New Road exploration site ("PNR") within PEDL 165, PNR1z, were limited by sub-surface induced seismic activity exceeding the limit of 0.5ML (Richter scale) under the traffic light system ("TLS") imposed by the UK government. Each event recording 0.5ML or greater required a pause to fracturing operations and thereby limited the number of fractures stages undertaken to 17 from a planned number of 41 stages. Only 2 of those stages were embedded with the targeted 50 tonnes of proppant. Given these limitations, the flow testing results announced on 7 February 2019 were considered excellent and confirmed presence of gas high in methane;
- Fracturing operations on the second well at PNR, PNR2, utilised a changed composition to the fracturing fluid in order to reduce seismicity. Five stages were successfully embedded with the planned amount of proppant in each stage and with no seismic activity. However following fracturing of stages 6 and 7, a number of seismic events took place, the largest being 2.9ML, leading to a suspension of fracturing operations. The 2.9ML lasted approximately 5 seconds and was within the range of potential seismicity modelled in the approved hydraulic fracture plan for the PNR2 well, albeit towards the upper end of modelled outcomes. It remains below some comparable traffic light system "red light" limits in Canada and the US, some of which allow seismic activity up to 4.0ML before a pause is required; and
- On 2 November 2019 the UK Government imposed a moratorium on hydraulic fracturing. The Government has stated that lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other UK shale gas operators are now working together and with the UK regulators to address these technical issues, so that the moratorium can be lifted.

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;
- The strong financial performance of the Drilling Division, supported by recent multi year extensions of contracts with key customers;
- 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;
- The UK Government re-affirmed that it continues to recognised the importance of natural gas a source of secure and affordable energy in line with reaching net zero emissions by 2050;
- Comments from the UK Climate Change Committee re gas as a transitional fuel to achieve net zero emissions by 2050; and
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla.

Going concern (cont.)

In light of the uncertainties above, if the Company 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) Investment in equity accounted investees and exploration assets

As at balance date the Company has the following investment in Cuadrilla, and its underlying assets:

$144.3 million in shares in Cuadrilla representing 47.54% of total shares on issue. In accordance with AASB 128 Investment in Associates and Joint Ventures this investment has been equity accounted as at balance date. Cuadrilla's underlying assets include predominantly interests in a number of oil and gas licenses in the United Kingdom (UK).

$55.7 million direct investment in the Bowland and Elswick oil and gas licenses operated by Cuadrilla, and the Balcombe oil and gas licence operated by Angus Energy Plc, together representing the Group's exploration assets at 31 December 2019.

To date Cuadrilla's exploration program has focused on part of the Lancashire Bowland basin (PEL 165) in an area located near Blackpool. Exploration undertaken includes approximately 100 km^2 of 3 dimensional seismic and two horizontal wells drilled at PNR. As previously reported the horizontal wells were hydraulically fractured and flow tested. During hydraulic fracturing sub-surface induced seismicity occurred, and in accordance with standard operating procedures and UK regulatory requirements fracturing was suspended while seismicity was assessed.

On 2 November 2019, the UK Government imposed a moratorium on further hydraulic fracturing in England until the industry can demonstrate that significant sub-surface induced seismicity can be curtailed. The industry are working together and interacting with the UK Oil and Gas Authority to demonstrate this.

On 2 May 2019, the UK Commission for Climate Change released its outlook to 2050 which called for net zero emissions by 2050. The report recognised the importance of gas as a transitional fuel and to produce hydrogen. A number of Ministers and MPs have voiced their support for a UK shale gas industry, provided sub-surface induced seismicity can be resolved.

The future value of the Company's equity accounted investment and exploration assets is dependent on the successful development and exploitation of the relevant areas of interest, their commercialization or future sale.

The Directors believe the carrying value of its equity accounted investment in Cuadrilla and its exploration assets are recoverable as at 31 December 2019, subject to the successful removal of the moratorium on hydraulic fracking. Should the current moratorium on hydraulic fracking in the UK not be removed, this will significantly impact the carrying value of these assets. Given the uncertainty and lack of information at balance date, it is currently not possible to quantify what the impact of this would be, if any, and therefore no adjustments to the financial statements have been made in this regard.

Subsequent to balance date, on 5 February 2020 the Company announced it had acquired approximately 45% of the shares in Cuadrilla, taking its total interest to approximately 96% as set out in Note 15. From the date of acquisition, the Company will cease equity accounting for its investment in Cuadrilla shares and recognise the underlying assets of Cuadrilla. This has not been reflected in the financial statements at 31 December 2019.

iv) 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 2019, except for the adoption of the new AASB 16 Leases ("AASB 16") and AASB Interpretation 23 *Uncertainty over income Tax Treatments* ("AASB Interpretation 23") as of 1 July 2019. The nature and effect of changes upon the adoption of AASB 16 and AASB Interpretation 23 from 1 July 2019 are described in Note 2. 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.

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.

v) 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 2019.

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.

vi) New accounting standards and interpretations not yet adopted

There are amendments and revisions to accounting standards that have not been early adopted, however 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

The following Accounting Standard and Interpretation are the most relevant to the Group. This note explains the impact of adopting AASB 16 Leases and AASB Interpretation 23 on the Group's consolidated financial statements.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

The Group has adopted AASB Interpretation 23 from 1 July 2019. In the past, the Group has only recognised claims against tax authorities when considered virtually certain. Following transition, claims are recognised when probable. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax position in Australia. The Group has determined it is probable that the current estimated treatment will be accepted by the Australian Taxation Office and the tax provision calculation is in line with tax filings.

AASB 16 Leases

AASB16 Leases, which superseded the previous AASB117 Leases, sets out the principles for recognition, measurement, presentation and disclosure. It requires the recognition of a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Group has elected to adopt AASB 16 Leases from 1 July 2019 using the modified retrospective approach and as such comparatives have not been restated. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for previously recognised prepaid and accrued lease payments. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Key impacts as a result of adopting AASB 16 for the half year ended 31 December 2019 are shown below.

AASB 16 Leases (Cont.)

	Total $'000
Statement of financial position as at 31 December 2019	
Right-of-use assets	3,914
Lease liabilities	(4,243)
Statement of comprehensive income	
Depreciation and amortisation – right-of-use assets	1,322
Net finance costs	163
Operating costs	(1,103)
Net impact on profit before tax	**382**
Cash flow for the 6 months ended 31 December 2019	
Operating cash flow	(997)
Financing cash flow (lease payments)	997

The Group also elected to apply the transition practical expedients for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("Short term leases"), excluding lease contracts for which the underlying asset is of low value ("low-value assets") and use hindsight with regards to determination of the lease term where the contract contains options to extend or terminate the lease.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	Total $'000
Operating lease commitments as at 1 July 2019 (undiscounted lease payments)	6,140
Weighted average incremental borrowing rate as at 1 July 2019	7%
Discounted operating lease commitments as at 1 July 2019	5,236
Less: commitments relating to short term leases	-
Lease liabilities as at 1 July 2019	**5,236**

The accounting policy applied from 1 July 2019 to all leases is explained below.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term, calculated using the Group's incremental borrowing rate at the commencement of the lease if the interest rate implicit in the lease is not readily determinable. The lease payments include fixed payments less any lease incentives receivables. The lease payments would also include the exercise price of any purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term would reflect the Group exercising the option to terminate. Variable lease payments that do not depend on an index or rate, where present, would be recognised as an expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii) Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases of plant and machinery to terminate the lease providing 30 days' notice for no penalty. Where there will be significant negative effect on operations if a replacement is not readily available the Group applies judgement in evaluating the likely lease term (between 1 and three years). That is, it considers all relevant factors that create an economic incentive for it to continue the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) any option to terminate or renew (e.g., a change in business strategy).

3. Segment reporting

The Group comprises the following main business segments:

Drilling	Integrated professional drilling services, predominantly for exploration and degasification of coal mines but may also include the recovery and commercialisation of coal seam gas, and associated services.
Oil and Gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in the United Kingdom.

3. Segment reporting (cont.)

	Drilling $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ unallocated $'000	Total $'000
December 2019					
Reportable segment revenue					
Services rendered	77,542	–	77,542	–	77,542
Total consolidated revenue	**77,542**	**–**	**77,542**	**–**	**77,542**
EBITDA continuing operations (1)	**16,093**	**(3,712)**	**12,381**	**(3,205)**	**9,176**
Depreciation, amortisation and impairment	(3,333)	–	(3,333)	(174)	(3,507)
Finance income	–	–	–	24	24
Finance cost	(2,223)	–	(2,223)	(13,732)	(15,955)
Reportable segment profit / (loss)	**10,537**	**(3,712)**	**6,825**	**(17,087)**	**(10,262)**
December 2018					
Reportable segment revenue					
Services rendered	76,227	–	76,227	–	76,227
Total consolidated revenue	**76,227**	**–**	**76,227**	**–**	**76,227**
EBITDA continuing operations (1)	**13,074**	**(3,172)**	**9,902**	**(4,331)**	**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**	**(3,172)**	**7,320**	**(19,413)**	**(12,093)**

(1) EBITDA from continuing operations to 31 December 2019 excludes $1.1 million in lease payments that have been apportioned between a reduction in lease liability and finance costs as required by AASB16 Leases and as further explained in Note 2 to the financial statements, and therefore excluded from EBITDA. In the previous year these payments were included in EBITDA.

4. Finance income and costs

	Dec 2019 $'000	Dec 2018 $'000
Interest income	24	60
Finance income	**24**	**60**
Interest expense	(10,293)	(8,934)
Finance charges on lease liability	(163)	–
Extinguishment of OCP loan note liability (1)	(2,349)	–
Amortisation of prepaid fees on debt facilities	(418)	(1,749)
Net foreign exchange loss	(2,732)	(4,345)
Finance costs	**(15,955)**	**(15,028)**
Net finance costs recognised in profit and loss	**(15,931)**	**(14,968)**

(1) Extinguishment of OCP loan notes liability represents the remaining unamortised upfront borrowing costs which were expensed on repayment of the loan notes which is detailed in Note 10.

5. Other expenses

	Dec 2019 $'000	Dec 2018 $'000
Depreciation of plant and equipment	(2,185)	(2,696)
Amortisation of right-of-use asset	(1,322)	–
Total depreciation and amortisation	**(3,507)**	**(2,696)**
UK investment overhead costs [1]	(1,626)	(1,427)
Settlement of historical legal disputes	–	(580)
Strategic review of Drilling division	(28)	(753)
Refinancing costs	(371)	–
Redundancy costs	(109)	(394)
Net loss on sales of assets	(401)	(638)
Other (income) / expense	(396)	(31)
Total non operating expenses	**(2,931)**	**(3,823)**

(1) UK investment overhead costs represents the Groups share of licence and admin costs incurred in relation to its direct interest in UK exploration licences.

6. Plant and equipment

	Plant & equipment $'000	Enterprise development $'000	Total $'000
31 Dec 2019			
At cost	100,754	1,263	102,017
Accumulated depreciation/amortisation/impairment	(70,883)	(444)	(71,327)
Carrying amount at 31 Dec 2019	**29,871**	**819**	**30,690**

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 2019	28,789	926	29,715
Additions	4,221	–	4,221
Disposals	(1,061)	–	(1,061)
Depreciation and amortisation	(2,078)	(107)	(2,185)
Carrying amount at 31 December 2019	**29,871**	**819**	**30,690**

7. Right-of-use assets

	Plant & equipment $'000	Property $'000	Total $'000
31 Dec 2019			
At cost	2,107	3,129	5,236
Accumulated depreciation/amortisation/impairment	(1,012)	(310)	(1,322)
Carrying amount at 31 Dec 2019	**1,095**	**2,819**	**3,914**

7. Right-of-use assets (cont.)

Reconciliations of the carrying amounts for each class of right-of-use asset is set out below.

	Plant & equipment $'000	Property $'000	Total $'000
Initial application of AASB16 1 July 2019	2,107	3,129	5,236
Depreciation and amortisation	(1,012)	(310)	(1,322)
Carrying amount at 31 December 2019	**1,095**	**2,819**	**3,914**

8. Exploration assets

	Dec 2019 $'000	Jun 2019 $'000
Cost		
Bowland exploration asset	46,317	38,794
Elswick exploration asset	6,290	6,181
Balcombe exploration asset	3,050	2,987
	55,657	**47,962**

Reconciliations of the carrying amount of exploration assets is set out below.

	Dec 2019 $'000
Carrying amount at 1 July 2019	47,962
Exploration expenditure capitalised	5,917
Movement of foreign currency translation recognised in equity	1,778
Carrying amount at 31 December 2019	**55,657**

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 %	Dec 2019 %	Jun 2019 %
Beneficial interest				
Bowland tenement	24.36	23.75	48.11	48.19
Elswick tenement	25.43	23.75	49.18	49.26
Bolney tenement	26.74	18.75	45.49	45.57

The indirect interest comprises Cuadrilla's equity interest in the respective prospect multiplied by the Group's voting interest in Cuadrilla of 47.54% as shown in Note 9. As detailed in Note 15, subsequent to balance date the Group increased its interest in Cuadrilla to approximately 96%. As this transaction took place after balance date, the resulting increase in the Group's indirect interest has not been reflected in the table above.

Relinquishment requirements

Exploration licences contain work programs within agreed deadlines. Where work programs are not achieved within agreed deadlines, the license may be cancelled or partly relinquished.

8. Exploration assets (Cont.)

Future expenditure on the Bowland and Elswick tenements

In June 2013, Cuadrilla and the Group, each sold 25% of their interest in the Bowland and Elswick licenses to Centrica Plc, a leading UK energy provider. Consideration for the interest included an initial payment of £40 million, shared 75% to Cuadrilla and 25% the Group, and £60 million spent on exploration on the licences. Subject to certain milestones being met Spirit Energy, a subsidiary of 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.

Drilling, fracking and flow testing operations and moratorium

In August 2019, Cuadrilla commenced hydraulic fracturing ("HF") operations on the second horizontal shale gas well ("PNR2") at its Preston New Road exploration site ("PNR") in the UK. This well was drilled at a depth of 2,100 meters and laterally for approximately 750 meters, with a planned 41 stages to be hydraulic fractured with approximately 50 tonnes of sand to be embedded in each stage.

Cuadrilla was able to fracture the first seven stages, most with the full contingent of embedded sand. Following hydraulic fracturing of stages 6 and 7, a number of post-pumping seismic events were recorded, the largest measuring 2.9ML on the Richter scale. In accordance with standard operating procedures and regulatory requirements further fracturing was suspended while the reasons for the seismicity were investigated. The seven stages were subsequently flow tested which resulted in high quality natural gas flowing to surface.

On 2nd November 2019, the UK Government imposed a moratorium on hydraulic fracturing in England, stating lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other UK shale gas operators are now working together and with the UK regulator to address these technical issues, so that the moratorium can be lifted.

With the suspension of operations at its PNR site Cuadrilla has substantially reduced its activities on site and costs at head office and these reductions will be reflected in significantly lower ongoing operating costs.

Meanwhile, Angus Energy, as operator of the Balcombe licence located South of London, submitted an application to the West Sussex County Council for an extended well test of up to 3 years of the existing Balcombe 2 Well, drilled by Cuadrilla in 2013. As of the balance date, the Group has an effective interest in the Balcombe licence of 45.49%, 18.75% held directly with the remainder held through the Group's interest in Cuadrilla.

Subsequent to 31st December 2019, the Group acquired Riverstone's interest in Cuadrilla, increasing its interest from 47.54% to approximately 96%. As a consequence, Cuadrilla's overhead costs will be reduced substantially and the Group will be fully involved in determining Cuadrilla's strategy and operating plans going forward. Further details of the Group's acquisition of Riverstone's interest are reported below in Note 15.

9. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

	Ownership		Carrying value	
Name of investee	**Dec 2019 %**	**Jun 2019 %**	**Dec 2019 $'000**	**Jun 2019 $'000**
Cuadrilla Resources Holdings Limited (associate)	47.54	47.68	144,296	135,452
			144,296	**135,452**

As detailed in Note 15, subsequent to balance date the Group increased its interest in Cuadrilla to approximately 96%. As this transaction took place after balance date the resulting increase in the Group's indirect interest has not been reflected in the table above.

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

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9. Investments in equity accounted investees (Cont.)

	Dec 2019 $'000
Balance at 1 Jul 2019	135,452
Purchase of additional ownership interest	5,805
Movement of foreign currency translation recognised in equity	5,125
Share of loss of equity accounted investees	(2,086)
Balance at 31 December 2019	**144,296**

10. Interest-bearing loans and borrowings

	Dec 2019 $'000	Jun 2019 $'000
Current		
Senior syndicated facility-Investec	19,775	–
Junior loan notes-HSBC	9,420	–
Lease liabilities	1,806	–
OCP loan notes	–	67,164
	31,001	**67,164**
Non-current		
Junior loan notes-HSBC	40,167	–
Lease liabilities	2,437	–
Loans from related party-Kerogen	32,998	52,536
	75,602	**52,536**

In October 2019 the Group signed agreements for two new debt facilities, the proceeds of which were used to fully repay the US dollar denominated OCP loan notes. The new facilities consist of a senior syndicated facility and a junior loan note facility. The Company complied with all Covenants under the two new facilities at 31 December 2019. Further details of these and other facilities existing throughout the year are provided below.

Senior syndicated facility-Investec

The senior syndicated facility is a senior ranking revolving asset-based loan provided by Investec Bank Plc, and is secured by the Drilling Division's plant and equipment, billed receivables and unbilled receivables represented by contract assets in the Statement of Financial Position (together the "Security Assets"). The Senior syndicated facility can be drawn at any time up to an upper limit of $30 million, but subject to a sufficient level of Security Assets. Interest is calculated on the daily balance outstanding at the bank bill swap rate plus a margin, and is payable monthly in arrears. The current interest rate is approximately 6.4%.

While the Senior syndicated facility is a 3-year facility, in accordance with accounting standards it is shown in the balance sheet as current because of its revolving nature.

The facility is subject to a number of financial covenants including cash management and earnings based financial covenants.

Junior Loan notes-HSBC

The junior loan notes, which were fully drawn to $50 million throughout the period, are secured by a second ranking charge over the Security Assets and a first ranking charge over the Group's remaining assets. The principal outstanding under the junior loan notes is required to be reduced to $24 million through scheduled repayments over the 3.5-year life of the loan notes, with the balance repayable at maturity. Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears. The current interest rate is approximately 14.4%.

The facility is subject to a number of financial covenants including cash management, gearing and earnings based financial covenants.

10. Interest-bearing loans and borrowings (Cont.)

Lease liability

Lease liability represents the present value of minimum lease payments recognised from 1 July 2019 as a result of the Group adopting the revised AASB 16 *Leases*. Prior to 1 July 2019 these were classified as operating leases with lease payments expensed as incurred.

OCP loan notes

OCP loan notes were secured by a first ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries. Interest was charged at 18%, with 12% payable monthly in areas and 6% accruing until termination, repayment or partial repayment. The balance outstanding under the OCP loan notes, together with interest and fees of $75.3 million was repaid in October 2019 with proceeds from the new senior syndicated facility and Junior loan notes facility, and existing cash resources.

Loans from related party-Kerogen

The Loans from related party is provided by Kerogen, which at 31 December 2019 holds 65.4% of the shares of the Company. During the period Kerogen extended the repayment period of their facility until 6 months after the repayment of the Junior Loan notes (approximately 4 years). Kerogen's facility is subordinated and ranks behind the senior syndicated facility and junior loan notes.

During the period the Company completed a capital raising as detailed in Note 11, consisting of a 19 for 20 entitlement offer, Kerogen participated for its full pro rata entitlement of $24.7 million which was satisfied by part conversion of the loans provided by Kerogen, including accrued interest.

Interest is charged at 18% of the balance outstanding, and compounds quarterly if unpaid.

11. Share capital

	Issue Price Per Share $	**No. of Shares '000**	**$000**
On issue at 1 July 2019		750,097	467,753
Entitlement offer	6.5 cents	443,112	28,802
Transaction costs incurred		-	(662)
On issue at 31 Dec 2019		**1,193,209**	**495,893**

Entitlement shares were allotted under a non-underwritten 19 for 20 pro rata accelerated entitlement offer at an issue price of $0.065 which was launched on 7 November 2019. Kerogen participated for its full entitlement under the entitlement offer with its subscription satisfied by the conversion of $24.7 million interest and principal as required under the terms of the Kerogen loan facility.

12. Interests in joint operations

	Principal activities	Principal place of business	Participation interest Dec 2019 %	Participation interest Jun 2019 %
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 sold its Engineering and Construction Division (E&C) in 2018. The interest in joint operations represents E&C's residual interest in certain joint ventures. The Company expects these interests to be wound up within the next 2 years. 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:

	Dec 2019 $'000	Jun 2019 $'000
Assets		
Current assets		
Cash and cash equivalents	436	704
Total assets	**436**	**704**
Liabilities		
Current liabilities		
Trade and other payables	262	492
Total liabilities	**262**	**492**
Contribution to operating results		
Loss for the period included in discontinued operations	–	194

13. Financial instruments fair value disclosure

Set out below is a comparison of the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019.

Dec-19	Carrying Amount $'000	Fair value $'000
Bank balances	11,919	11,919
Trade and other receivables	10,980	10,980
Trade and other payables	(30,299)	(30,299)
Senior syndicated facility	(19,775)	(19,775)
Junior loan notes	(49,587)	(49,587)
Loans from related party	(32,998)	(32,998)
	(109,760)	**(109,760)**

14. Non-cash financing and investing activities

Kerogen's subscription to an equity raising launched in November 2019 and completed in December 2019, as disclosed in Notes 10 and 11, was satisfied by the conversion of $24.7 million of the related party loans owned to Kerogen, including accrued interest.

On initial adoption of AASB 16 from 1 July 2019, as detailed in Note 2, the Group recognised a lease liability of $5.2 million representing the present value of minimum lease payment obligations, and a corresponding right-of-use asset representing the Group's right to utilise property and mobile plant assets subject to lease agreements.

15. Subsequent events

Subsequent to balance date, the Group acquired Riverstone's interest in Cuadrilla, increasing the Group's interest from 47.54% at balance date to approximately 96% which will allow the Group greater control of Cuadrilla's strategy and operating plans.

Given the longer timeframe that it is expected to take to assess the UK shale resources and develop Cuadrilla's Bowland shale asset, Riverstone indicated that projected delays were longer than could be accommodated within the fund that invested in Cuadrilla. The acquisition by the Company of Riverstone's interest in Cuadrilla enables the Group to continue to develop the UK shale gas exploration asset while providing Riverstone with a continued interest in the success of these assets. In addition to a nominal payment on signing a sale and purchase agreement (the "Agreement"), Riverstone will be entitled to contingent consideration as follows:

1. On the resumption of Spirit Energy's Contingent Carry, which is described in Note 8, a payment of US$2 million, provided the Contingent Carry commences within 3 years of the Agreement.
2. In the event that the Group subsequently sells 25% of more of its interest in Cuadrilla within 3 years of the Agreement, a payment of
   a. US$5 million if the sale is for a value equal or greater than the equivalent of $US100 million for 100% of the Group's interest; or
   b. US$10 million if the sale is for a value equal or greater than the equivalent of $US200 million for 100% of the Group's interest

As a result of this transaction, at acquisition date the Group will derecognise its existing investment in equity accounted investees and will instead recognise Cuadrilla's underlying assets and liabilities. This change is not reflected in the financial report at 31 December 2019.

Other than as disclosed above, 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 12 to 29 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 2019 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
27 February 2020

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

Qualified 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 statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and 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, except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, 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 2019 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*.

Basis for Qualified Conclusion

The financial report discloses the Group's exploration assets and investments in equity accounted investees (the "assets"). As explained in Note 1(iii) of the financial statements, the Directors have assessed the recoverable value of the assets on the basis that the moratorium on hydraulic fracking in the United Kingdom (the "moratorium") is lifted and used this assessment to support the carrying value of these assets in the statement of financial position at 31 December 2019. Due to the uncertainty associated with the moratorium impacting these assets and the lack of information surrounding how this situation will be resolved, the Directors are unable to quantify the impact, if any, the moratorium or subsequent regulatory decisions may have on the carrying value of the assets. Consequently, we are unable to form an opinion whether any adjustments to the amounts recorded in exploration assets and investments in equity accounted investees were necessary.

Emphasis of Matter – Material Uncertainty Related to Going Concern

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. Our opinion is not modified in respect of this matter.

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 2019 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
27 February 2020

ADDITIONAL SHAREHOLDER INFORMATION

TWENTY LARGEST ORDINARY SHAREHOLDERS (AS AT 31 JANUARY 2020)

Name	Number of ordinary shares held	% of Issued shares
Kerogen Investments No. 1 (HK) Limited	779,888,166	65.36
CS Third Nominees Pty Limited <HSBC CUST NOM AU LTD 13 A/C>	59,161,978	4.96
Mr Paul Fudge	54,101,840	4.53
Amalgamated Dairies Limited	41,636,217	3.49
Roditi (DC & 0) 2017 Investments Limited	40,500,050	3.39
HSBC Custody Nominees (Australia) Limited	26,810,988	2.25
Citicorp Nominees PTY Limited	21,243,773	1.78
National Nominees Limited	12,280,887	1.03
Mr Robert Alexander Hoad + Ms Jacquelyn Maria Hoad	8,688,000	0.73
HSBC Custody Nominees (Australia) Limited - A/C 2	7,577,076	0.64
Milson Investments PTY Limited	6,443,789	0.54
Toolebuc Investments PTY LTD	5,157,862	0.43
Between the Lines Pty Ltd	4,904,791	0.41
Mr Ross Alexander Macpherson	4,796,837	0.40
ADEMSA PTY LTD	4,341,516	0.36
Mr Robert Alexander Hoad	4,040,000	0.34
Ms Melissa Mary	2,901,672	0.24
Mr Paul Sze Yuen Cheung + Mrs Pauline Kwok Sim Cheung	2,685,000	0.23
CG Nominees (Australia) Pty Ltd	2,580,202	0.22
J P Morgan Nominees Australia Limited	2,540,793	0.21
	1,092,281,437	**91.54**