

AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

HALF YEAR ENDED 31 DECEMBER 2012

APPENDIX 4D

**(Previous Corresponding Reporting Period:
half year ended 31 December 2011)**

Results for Announcement to the Market

for the half year ended 31 December 2012

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change	\$A'000
Revenues from ordinary activities	Down 33.8% to	176,182
Loss before interest and tax	Increase 434.8% to	(32,857)
(Loss)/profit from ordinary activities after tax attributable to members	Increase 212.5% to	(42,561)
Net (loss)/profit for the period attributable to members	Increase 212.5% to	(42,561)
NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	34.8¢	86.0¢
Dividends	Amount per security	Franked amount per security
Interim dividend	0.0¢	N/A
Previous corresponding period	0.0¢	N/A

1. An interim financial report for the half year ended 31 December 2012 is provided with the Appendix 4D information.
2. The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.
3. The Appendix 4D information is based on the interim financial report, which has been subject to a review.
4. The review by the auditor is provided with the interim financial report.
5. The non-IFRS financial information presented in this document has not been audited or reviewed in accordance with Australian Auditing Standards.



.....
Company Secretary

NJW Swan

28 February 2013

Commentary on the Results

for the half year ended 31 December 2012

The Group experienced a disappointing first half due to difficult trading conditions. Consolidated revenue decreased by 33.8% to \$176.2 million from \$266.3 million in the prior year comparative period with the underlying EBITDA declining to a loss of \$2.3 million compared to underlying EBITDA of \$18.0 million in the prior year.

Nevertheless, there are indications of an improvement in prospects. Tender activity has improved and in recent times, following the recapitalisation of the Group balance sheet over the period, there has been improved responsiveness by clients to these submissions. This will take a few months to translate into increased earnings but the signs are encouraging.

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

	Six months ended		Change %
	Dec 2012 \$ million	Dec 2011 \$ million	
Total revenue	176.2	266.3	(33.83)
Underlying EBITDA	(2.3)	18.0	(113.0)
Reported EBITDA	(7.6)	6.6	(215.2)
EBIT	(32.9)	(6.1)	434.8
Net loss before income tax	(41.5)	(19.2)	116.2
Loss after tax	(42.6)	(13.6)	212.5
Basic loss per share (cents)	(36.0)¢	(19.1)¢	88.5
Diluted loss per share (cents)	(36.0)¢	(19.1)¢	88.5

A reconciliation of the consolidated loss before income tax to reported EBITDA and to underlying EBITDA is as follows:

	Drilling	E&C	Oil & Gas	Corporate	Dec 2012	Dec 2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reconciliation:						
Consolidated loss before income tax	(14,552)	(13,599)	(1,831)	(11,503)	(41,485)	(19,185)
Impairment of plant and equipment	10,490	3,125	-	-	13,615	-
Depreciation and amortisation	8,151	1,861	-	1,614	11,626	12,754
Finance costs	411	479	(60)	7,855	8,685	13,216
Finance income	-	(5)	-	(52)	(57)	(175)
Reported EBITDA	4,500	(8,139)	(1,891)	(2,086)	(7,616)	6,610
Advisory fees on recapitalisation plan	-	-	-	350	350	5,746
Cost of options granted	-	-	-	-	-	637
Provisions and settlement of historical projects	-	1,400	-	-	1,400	3,114
Prior year insurance claim	-	-	-	-	-	(270)
Share of overhead - Lucas Energy UK	-	-	846	-	846	586
Share of loss of equity accounted investee	-	358	1,065	-	1,423	1,230
Other income	(14)	(356)	(6)	213	(163)	-
Development property costs	-	-	-	-	-	346
Redundancy costs	812	370	-	235	1,417	-
Underlying EBITDA	5,298	(6,367)	14	(1,288)	(2,343)	17,998

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

The result was impacted by impairment charges to plant and equipment of \$13.6 million and continuing restructuring and rationalisation costs including redundancy costs of \$1.4 million. These measures however, position the Group for a much stronger recovery off a lower cost base and more efficient operating platform.

The result was also impacted by the slower than expected progress in development of the Company's shale gas prospects held through Cuadrilla Resources and directly in the Bowland Basin in the UK. This diverted senior management time as well as resulted in additional cash calls to sustain the investments. Accelerated development activity is however, expected from hereon especially since the announcement in December 2012 by the UK Government that hydraulic fracturing is to be allowed to resume provided there is compliance with various pre-conditions.

Commentary on the Results

for the half year ended 31 December 2012

The results by division are as follows:

Drilling Division

Dec 2012			Dec 2011		
Revenue	Underlying EBITDA	Underlying EBITDA Margin	Revenue	Underlying EBITDA	Underlying EBITDA Margin
\$'000	\$'000	%	\$'000	\$'000	%
85,988	5,298	6.2	97,647	12,527	12.8

A reconciliation of underlying EBITDA to the consolidated loss before income tax is provided on page 3.

The drilling division revenue declined by 11.9% to \$86.0 million. This reflected the much reduced exploration and related activity in the coal sector as a result of lower commodity prices. The Company responded to this by a substantial rationalisation of the business including a reduction in the divisional head count, reduced maintenance expenditure and a reallocation of rigs to those best suited for the residual work. Nevertheless, due to the relatively short notice of the reduced work, the underlying EBITDA reduced by 57.7% to \$5.3 million.

The Company's specialist directional drilling expertise limited the extent of the downturn because of the Group's leading steering capability and expertise. This type of drilling allows degassing of the coal at substantially lower cost than alternative methods providing a significant cost advantage to AJ Lucas.

The division's large capacity production rigs however, have high fixed costs with major cash flow and earnings consequences when these rigs are placed on stand-by. Accordingly, unless substantially improved contract terms can be negotiated for this activity, these rigs are being parked. An independent review of the Group's plant and equipment was recently completed. Based on the findings of this review, an impairment charge of \$13.6 million was made, mainly applied against the production rigs.

Engineering & Construction Division

The division experienced particularly challenging conditions as seen in the following table.

Dec 2012			Dec 2011		
Revenue	Underlying EBITDA	Underlying EBITDA Margin	Revenue	Underlying EBITDA	Underlying EBITDA Margin
\$'000	\$'000	%	\$'000	\$'000	%
90,194	(6,367)	(7.1)	168,618	8,354	5.0

A reconciliation of underlying EBITDA to the consolidated loss before income tax is provided on page 3.

Intense competition impacted margins as well as the tender success rate resulting in turnover falling by 46.5% to \$90.2 million. The need to maintain offices in Queensland and Western Australia, where most of the division's work is located, and adequately staff them with experienced quality personnel meant that it was not possible to rationalise the business proportionate to the reduction in turnover. Underlying EBITDA therefore declined to a loss of \$6.4 million compared to a prior year comparative result of \$8.4 million profit.

Oil & Gas Investments

Progress in the development and eventual commercialisation of the Company's European shale gas investments held through Cuadrilla and directly in the Bowland and Bolney prospects were slowed by drilling interruptions and the suspension of fracking by Cuadrilla pending clear direction from the UK Government of its consent to the resumption of this activity. The delays resulted in further costs to AJ Lucas and the other shareholders in Cuadrilla as well as an additional cash drain.

Drilling activities are however, now expected to increase following the UK Government decision to allow the resumption of hydraulic fracturing.

Balance Sheet

Management has continued to take steps to strengthen the balance sheet and create a sound platform for future growth. \$56.5 million of new equity (before costs) has been raised since the end of the last financial year, the majority of the Company's borrowings have been rescheduled and terms agreed for the payment of the amounts owing to the Australian Taxation Office over the next five years.

Commentary on the Results

for the half year ended 31 December 2012

Discussions are also at an advanced stage with several financiers for the provision of new structured finance facilities of up to \$75 million. Successful completion of these discussions would allow the refinance of the Company's senior lender, further strengthen the balance sheet and provide additional working capital as well as finance for the development of Lucas' share of the Bowland shale prospect.

Outlook

Despite the poor performance year to date, there are encouraging signs of an improvement in the Company's business activities and outlook.

A pick-up in coal mining activity has seen a recent increase in the demand for both exploration and directional drilling. Having regard to the Company's safety, environmental and management systems, its skilled workforce and its engineering capability, management is confident that the drilling division will in due course return to the previous EBITDA margins, provided that external factors, such as weather, do not adversely interfere.

Interest in the Company's traditional activities of cross-country pipelines, HDD and gathering systems also remains strong.

The prospective gas shortage in the UK has resulted in increasing interest, already shown by several parties, in securing a position in the Bowland prospect. Accordingly, Cuadrilla and Lucas have been in discussions with a number of leading energy companies about farming into this prospect. Although no assurance can be given that these discussions will reach a successful conclusion, should a transaction proceed, this would reduce the future funding requirements from Lucas to support the investment. In turn, this would release cash flow for the Group's Australian operating activities.

The Company has a clear strategy and has recently filled a number of key senior positions to bolster Lucas' offering to the market place. The Company expects that the benefit of this strategy, including the new senior management appointments, will become increasingly apparent over the next 6-9 months. Key to this will be completion of the refinancing of the Company which it is expected will occur in the relatively near future.



A J LUCAS GROUP LIMITED
ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2012

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 2012 together with any public announcements made by AJ Lucas Group Limited during the half year ended 31 December 2012 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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Directors' Report

for the half year ended 31 December 2012

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 2012 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the interim period are:

Executive

Allan Campbell (Chairman)

Non-executive

Phillip Arnall

Genelle Coghlan

Martin Green

Mike McDermott

All directors held their position as a director 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 5 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 9 and forms part of this report for the half year ended 31 December 2012.

ROUNDING OF AMOUNTS

The Company is of a kind specified in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the condensed consolidated interim financial report and the directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors



Allan Campbell
Chairman

Sydney

28 February 2013



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Tony Ninnac
Partner

Sydney

28 February 2013

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2012

	Note	Dec 2012 \$'000	Dec 2011 \$'000
Revenue	2	176,182	266,265
Total revenue		176,182	266,265
Material costs		(55,499)	(90,426)
Sub-contractor costs		(47,439)	(73,991)
Employee expenses		(54,815)	(63,842)
Plant and other construction costs		(21,755)	(23,404)
Depreciation and amortisation expenses		(11,626)	(12,527)
Advisory fees on recapitalisation plan		(350)	(5,745)
Amortisation of intangible assets		-	(227)
Cost of options granted		(44)	(637)
Impairment of plant and equipment	4	(13,615)	-
Redundancy costs		(1,417)	-
Loss on sale of assets held for sale		(422)	-
Other expenses		(634)	(381)
Results from operating activities		(31,434)	(4,915)
Finance income		57	175
Finance costs	3	(8,685)	(13,216)
Net finance costs		(8,628)	(13,041)
Share of loss of equity accounted investee		(1,423)	(1,229)
Loss before income tax		(41,485)	(19,185)
Income tax (expense)/benefit		(1,076)	5,566
Loss for the period attributable to the owners of the company		(42,561)	(13,619)
Other comprehensive income for the period			
Effective portion of changes in fair value of hedges		78	280
Exchange differences on translation of foreign operations		346	1,421
Other comprehensive income for the period		424	1,701
Total comprehensive loss for the period		(42,137)	(11,918)
Total comprehensive loss attributable to owners of the company		(42,137)	(11,918)
Earnings per share:			
Basic (loss)/earnings per share (cents)		(36.0)	(19.1)
Diluted (loss)/earnings per share (cents)		(36.0)	(19.1)

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

Condensed Consolidated Statement of Financial Position

as at 31 December 2012

	Note	Dec 2012 \$'000	Jun 2012 \$'000
Current assets			
Cash and cash equivalents		4,703	4,343
Trade and other receivables		47,573	57,051
Inventories		29,762	55,918
Assets classified as held for sale		1,355	5,503
Other assets		2,941	862
Total current assets		86,334	123,677
Non-current assets			
Property, plant and equipment	4	119,096	133,638
Exploration assets	5	19,527	16,073
Intangible development assets		140	580
Other intangible assets		67,001	67,001
Deferred tax assets		-	782
Investments in equity accounted investees	6	86,998	73,603
Total non-current assets		292,762	291,677
Total assets		379,096	415,354
Current liabilities			
Trade and other payables	7	87,035	120,348
Interest-bearing loans and borrowings	8	54,532	91,171
Current tax liabilities	9	2,350	32,692
Derivative liabilities	10	-	2,665
Employee benefits		5,593	7,849
Total current liabilities		149,510	254,725
Non-current liabilities			
Interest-bearing loans and borrowings	8	90,166	41,881
Non-current tax liabilities	9	19,937	-
Derivative liabilities	10	5,154	4,015
Employee benefits		1,037	1,239
Total non-current liabilities		116,294	47,135
Total liabilities		265,804	301,860
Net assets		113,292	113,494
Equity			
Share capital	12	180,397	138,506
Reserves		935	467
Accumulated losses		(68,040)	(25,479)
Total equity		113,292	113,494

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

Condensed Consolidated Statement of Changes in Equity

for the half year ended 31 December 2012

	Share capital \$'000	Translation reserve \$'000	Option reserve \$'000	Employee equity benefits reserve \$'000	Hedging reserve \$'000	Retained earnings/ (accumulated losses) \$'000	Total equity \$'000
Balance 1 July 2011	91,935	(3,433)	-	3,339	(716)	84,758	175,883
Total comprehensive income							
Loss for the period	-	-	-	-	-	(13,619)	(13,619)
Other comprehensive income							
Effective portion of changes in fair value of hedges	-	-	-	-	280	-	280
Foreign currency translation differences	-	1,421	-	-	-	-	1,421
Total comprehensive income/(loss)	-	1,421	-	-	280	(13,619)	(11,918)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	13,389	-	-	-	-	-	13,389
Issue of options	-	-	637	-	-	-	637
Share based payment transactions	-	-	-	71	-	-	71
Total contributions by and distributions to owners	13,389	-	637	71	-	-	14,097
Balance 31 December 2011	105,324	(2,012)	637	3,410	(436)	71,139	178,062
Balance 1 July 2012	138,506	(3,573)	637	3,481	(78)	(25,479)	113,494
Total comprehensive income							
Loss for the period	-	-	-	-	-	(42,561)	(42,561)
Other comprehensive income							
Effective portion of changes in fair value of hedges	-	-	-	-	78	-	78
Foreign currency translation differences	-	346	-	-	-	-	346
Total comprehensive income/(loss)	-	346	-	-	78	(42,561)	(42,137)
Transactions with owners recorded directly in equity							
Issue of ordinary shares	41,891	-	-	-	-	-	41,891
Share based payment transactions	-	-	-	44	-	-	44
Total contributions by and distributions to owners	41,891	-	-	44	-	-	41,935
Balance 31 December 2012	180,397	(3,227)	637	3,525	-	(68,040)	113,292

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

Condensed Consolidated Statement of Cash Flows

for the half year ended 31 December 2012

	Dec 2012	Dec 2011
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts from customers	230,943	310,544
Cash paid to suppliers and employees	(235,061)	(288,714)
Cash (used in)/generated from operations	(4,118)	21,830
Interest received	57	-
Income taxes paid	(10,324)	(225)
Interest and other costs of finance paid	(1,546)	(15,945)
Net cash (used in)/from operating activities	(15,931)	5,660
Cash flows from investing activities		
Proceeds from sale of plant and equipment	1,779	2,765
Acquisition of plant and equipment	(6,997)	(9,830)
Payments for exploration, evaluation and development	(3,453)	(5,022)
Payments for equity accounted investments	(12,831)	(12,711)
Proceeds from assets held for sale	5,735	4,453
Advisory fees on balance sheet restructure	(921)	-
Loans to other entities	(51)	(247)
Net cash used in investing activities	(16,739)	(20,592)
Cash flows from financing activities		
Proceeds from borrowings	17,331	75,000
Redemption of redeemable convertible preference shares	-	(45,000)
Repayment of borrowings	(12,285)	(5,987)
Payment of finance lease liabilities	(8,692)	(8,507)
Net proceeds from issue of shares	39,316	13,389
Net cash from financing activities	35,670	28,895
Net increase in cash and cash equivalents	3,000	13,963
Cash and cash equivalents at beginning of the period	(2,300)	(6,386)
Cash and cash equivalents at end of the period	700	7,577

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

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

1. Basis of preparation

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the half year ended 31 December 2012 comprises the Company and its subsidiaries (together referred to as "Lucas" or the "Group") and the Group's interest in associates and jointly controlled entities.

AJ Lucas is a diversified infrastructure, construction and mining services group specialising in providing services to the energy, water and wastewater, resources and property sectors.

i) Statement of compliance

These condensed consolidated 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 2012. These are available upon request from the Company's registered office at Level 3, 394 Lane Cove Road, Macquarie Park, NSW 2113 or at www.lucas.com.au.

These condensed consolidated interim financial statements were approved by the Board of Directors on 28 February 2013.

The financial report is presented in Australian dollars. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

ii) Going concern

These condensed consolidated interim 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 income tax of \$42.6 million for the half year ended 31 December 2012 (2011: loss after income tax of \$13.6 million) primarily due to continued operating losses and high finance costs, together with the impact of impairment charges of \$13.6 million;
- As at 31 December 2012, the Group's current liabilities exceed its current assets by \$63.2 million (30 June 2012: \$131.0 million). The deficiency in net current assets is principally due to finance facilities of \$54.5 million primarily relating to ANZ Bank, other lease financiers and Kerogen Investments No.1 (HK) Limited ("Kerogen") being classified as current liabilities, reflecting that these amounts are payable within 12 months from reporting date, unless refinanced or extended;
- Subsequent to 31 December 2012, ANZ Bank has reset the maturity date of its facilities to 31 March 2013;
- Subsequent to 31 December 2012, Kerogen provided an additional short term loan of \$1.2 million to the Group. The maturity profile of all Kerogen facilities is as follows:
 - Short-term loan of \$1.2 million due on 31 March 2013;
 - Additional loans of \$18.4 million due on 31 March 2013; and
 - Mezzanine facility of \$90.1 million due in January 2014. Total interest on this facility will total approximately \$15 million to maturity. A portion of this interest is paid quarterly over the term of the facility with the remainder at maturity. This facility is classified as a non-current liability at reporting date; and
- Significant forecast cash out flows relating to the Group's ongoing requirements to fund its indirect interest in Cuadrilla Resources Limited ("Cuadrilla") and its direct equity interest in the Bowland shale prospect, through equity and operating cash calls of approximately \$6.0 million per quarter.

In light of the above events and conditions, uncertainty exists in relation to the Group's ability to continue as a going concern and therefore, whether it may be unable to realise its assets and discharge its liabilities in the normal course of operations. As a consequence, the Directors have had regard to the following in assessing the appropriateness of using the going concern assumption:

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

1. Basis of preparation (cont.)

ii) Going concern (cont.)

- The completion of a private placement by the Group on 28 February 2013, raising \$15.7 million (net of transaction costs) in new equity, \$3.9 million of which will be used for Cuadrilla equity funding and \$11.8 million for Group working capital requirements;
- The Directors' confidence in the continuing support of Kerogen as a substantial shareholder and financier of the Group, in respect of its existing mezzanine and additional facilities. This is demonstrated by the following:
 - Subscription by Kerogen during the period for \$40.0 million of new equity in the Group;
 - Confidence that the maturity date of the short term loan and additional loans provided by Kerogen will be extended until January 2014, as evidenced by the extension of the maturity date of the original mezzanine facility until such date; and
 - Confidence that the maturity of the Kerogen facilities will be extended beyond January 2014, in the event that they are not repaid by this date.
- The advanced status of discussions with three separate financiers for the provision of a structured finance facility of up to \$75.0 million, providing sufficient funding to refinance the ANZ Bank facilities which mature on 31 March 2013 and to meet the Group's share of the development costs of the Bowland shale prospect over the next 12 months, as well as provide additional working capital;
- The advanced stage of discussions with parties regarding a potential sale of an interest in the Bowland shale prospect under a range of structures and financing proposals, including a potential farm-in, and the Directors' confidence that a transaction will be successfully concluded in the near future. In the event that delays occur and/or the sale transaction does not occur, it is expected that the funding of the Group's interest in Cuadrilla and the Bowland shale prospect will be provided by the refinanced debt facility as noted above;
- The Directors' views more generally in respect of the value of the Group's investment in Cuadrilla and the direct equity interest in the Bowland shale prospect, particularly since the British Government announcement that hydraulic fracturing be allowed to resume in the UK subject to certain conditions being met;
- The amended agreement with the Australian Taxation Office on 2 October 2012 for the remaining tax liability (including interest) to be paid with stepped monthly instalments to December 2018;
- The Directors' views in respect of the ability of the Group to achieve its profit and cash flow forecasts, having regard to the Group's order backlog, the status of tenders pending and further cost reduction programs;
- The Group's ability to raise additional equity, if and when required; and
- The Group's ability to realise its assets, including investments and/or dispose of operating businesses, if and when required.

After considering the above factors, the Directors have concluded that the use of the going concern assumption is appropriate. Had the going concern basis of preparation not been used, adjustments would need to be made relating to the recoverability and classification of certain assets, and the classification and measurement of certain liabilities to reflect the fact that the Group may be required to realise its assets and settle its liabilities other than in the ordinary course of business, and at amount different from those stated in the condensed consolidated interim financial report.

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

iii) Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated 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 2012.

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 condensed consolidated 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 2012.

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.

2. 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)	Construction and civil engineering services together with facilities management. The Group is also the market leader in the trenchless installation of pipes and conduits using horizontal directional drilling.
Oil and gas	Exploration for and commercialisation of unconventional and conventional hydrocarbons in Europe, Australia and the USA.

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
December 2012							
Reportable segment revenue							
Revenue - services rendered	85,988	-	-	85,988	-	-	85,988
Revenue - construction contracts	-	90,194	-	90,194	-	-	90,194
Inter-segment revenue	3,961	-	-	3,961	-	(3,961)	-
Total reportable segment revenue	89,949	90,194	-	180,143	-	(3,961)	176,182
EBITDA	4,500	(8,139)	(1,891)	(5,530)	(2,086)	-	(7,616)
Less: Impairment of Property Plant & Equipment	10,490	3,125	-	13,615	-	-	13,615
Less: Depreciation and amortisation	8,151	1,860	-	10,011	1,615	-	11,626
Reportable segment profit/(loss)	(14,141)	(13,124)	(1,891)	(29,156)	(3,701)	-	(32,857)
Reconciliation:							
Interest income	-	5	-	5	52	-	57
Interest expense	(498)	(594)	-	(1,092)	(7,556)	-	(8,648)
Net foreign exchange gain/(loss)	87	114	61	262	(299)	-	(37)
Consolidated loss before income tax							(41,485)

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

2. Segment reporting (cont)

	Drilling \$'000	E&C \$'000	Oil & Gas \$'000	Reportable Segments \$'000	Corporate/ unallocated \$'000	Eliminations \$'000	Total \$'000
December 2011							
Reportable segment revenue							
Revenue - services rendered	97,647	-	-	97,647	-	-	97,647
Revenue - construction contracts	-	168,618	-	168,618	-	-	168,618
Inter-segment revenue	6,771	-	-	6,771	-	(6,771)	-
Total reportable segment revenue	104,418	168,618	-	273,036	-	(6,771)	266,265
EBITDA	9,683	7,761	(1,578)	15,866	(9,256)	-	6,610
Less: Depreciation and amortisation	8,901	2,193	-	11,094	1,660	-	12,754
Reportable segment profit/(loss)	782	5,568	(1,578)	4,772	(10,916)	-	(6,144)
Reconciliation:							
Interest income	-	-	-	-	9	-	9
Interest expense	(6,799)	(1,517)	-	(8,316)	(4,900)	-	(13,216)
Net foreign exchange gain	84	-	-	84	82	-	166
Consolidated loss before income tax							(19,185)

Segment assets

The major changes in total segment assets during the period relate to further investments in Cuadrilla and the Bowland shale prospect (together \$16.8 million) and decreases in inventory (work in progress) of \$26.2 million.

3. Finance costs

The finance costs include a credit for partial remission of General Interest Charge (GIC) of \$6.1 million following agreement reached with the Australian Taxation Office (ATO) to reschedule the tax payable over five years (refer to note 9 for further details).

4. Property, plant and equipment

Acquisitions, disposals and impairment

Property, plant and equipment acquired and disposed of during the period are as set out in the table below. The Group acquired assets with a cost of \$13.0 million (six months ended 31 December 2011: \$10.3 million).

Assets with a carrying value of \$2.3 million were disposed of during the period (six months ended 31 December 2011: \$0.3 million) at approximately their written down value.

An impairment charge of \$13.6 million was booked during the period against the carrying value of plant and equipment.

	Leasehold improvements \$'000	Land & buildings \$'000	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
31 December 2012					
At cost	2,888	3,912	143,009	10,568	160,377
Accumulated depreciation/amortisation	(2,013)	(452)	(37,048)	(1,768)	(41,281)
Carrying amount at 31 December 2012	875	3,460	105,961	8,800	119,096
30 June 2012					
At cost	2,888	3,912	225,807	9,865	242,472
Accumulated depreciation/amortisation	(1,723)	(402)	(105,794)	(915)	(108,834)
Carrying amount at 30 June 2012	1,165	3,510	120,013	8,950	133,638

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

4. Property, plant and equipment (cont.)

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

	Leasehold improvements	Land & buildings	Plant & equipment	Entreprise development	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2012	1,165	3,510	120,013	8,950	133,638
Additions	-	-	12,262	703	12,965
Disposals	-	-	(2,266)	-	(2,266)
Impairment	-	-	(13,615)	-	(13,615)
Depreciation	(291)	(50)	(7,116)	-	(7,457)
Amortisation	-	-	(3,315)	(854)	(4,169)
Carrying amount at 31 Dec 2012	874	3,460	105,963	8,799	119,096

5. Exploration assets

The exploration assets comprise the Company's 25% direct equity interest in each of the Bowland and Bolney shale prospects in England. The other 75% is owned by Cuadrilla Resources Holdings Limited in which Lucas held a 43.72% shareholding at balance date. The increase in carrying value during the period represents Lucas' direct expenditure on these prospects.

6. Investments in equity accounted investees

Investments in equity accounted investees comprise the following:

Name of investee	Ownership	Ownership	31 Dec 2012 Carrying value	30 June 2012 Carrying value
	31 Dec 2012	30 June 2012	\$'000	\$'000
Cuadrilla Resources Holdings Limited (associate)	43.72%	42.97%	85,559	72,357
Marais-Lucas Technologies Pty Limited (joint controlled entity)	50%	50%	1,439	1,246
			86,998	73,603

7. Trade and other payables

	31 Dec 2012	30 June 2012
	\$'000	\$'000
Current		
Trade payables	26,112	54,089
Other payables and accruals	60,923	66,148
Hedge liability	-	111
	87,035	120,348

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

8. Interest-bearing loans and borrowings

	31 Dec 2012	30 June 2012
	\$'000	\$'000
Current		
Bank overdraft - secured	4,003	6,643
Other borrowings - secured	18,406	48,169
Bank loans - secured	2,150	4,436
Lease liabilities - secured	29,843	31,793
Other borrowings - secured	130	130
	54,532	91,171
Non-current		
Other borrowings - secured	90,166	41,881
	90,166	41,881

Other borrowings

During the period, the Company restructured the mezzanine finance facility and other loan facilities ("the Facilities") provided by Kerogen. The effect of the restructuring was to extend the repayment date for each of the loan facilities. The principal terms of the Facilities are now as follows:

1. Mezzanine Facility

	US\$ Tranche	A\$ Tranche
	'000	'000
Amount	US\$52,402	A\$43,250
Repayment date	31 January 2014	22 January 2014
Interest rate per annum	15.0%	BBSY + 5.0% until 22 June 2013 BBSY + 6.5% from 23 June 2013 until maturity
Security	Second ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries	Second ranking fixed and floating security interest over the Company and each of its operating and investment subsidiaries

2. Other Kerogen Facilities

	\$'000
Amount	18,406
Repayment Date	31 March 2013
Interest rate per annum	15.0%

9. Tax liabilities

The tax liabilities represent the amount of income tax payable in respect of prior financial periods. During the period, the Company entered into a deferred instalment arrangement with the Australian Taxation Office (ATO) to pay the amount owing over five years, including \$10.0 million from the proceeds of the September 2012 equity raising. Interest is payable on this liability at the General Interest Charge (GIC) rate levied by the ATO. As part of the agreement, the ATO agreed a partial remission of GIC amounting to \$6.1 million. The residual tax payable has been classified according to the period in which it is due for payment.

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

10. Derivative liability

The derivative liability represents the fair value of the options granted over ordinary shares in the Company as a condition of the Mezzanine Facility provided to the Company in December 2011. The movement in the fair value of these options during the period was as follows:

	Number of Options	Current derivative liability \$'000	Non-current derivative liability \$'000	Total derivative liability \$'000
As at 1 July 2012	18,566,763	2,665	4,015	6,680
Options exercised during the period	(7,407,407)	(2,665)	-	(2,665)
Movement in valuation during the period	-	-	1,139	1,139
As at 31 Dec 2012	11,159,356	-	5,154	5,154

The fair value of the options was calculated at balance date using a Black-Scholes pricing model. The following factors and assumptions were used in determining the fair value:

AJ Lucas share price on valuation date	\$1.27
Option exercise price	\$1.70*
Risk-free interest rate	2.67%
Dividend yield	0.0%
Expiry date	22 December 2015
Volatility of AJ Lucas shares	60%-70%

* The exercise price of the options is the lower of a 20% premium to the five day volume weighted average price (VWAP) of the Company's shares ending on the date prior to exercise and \$1.70 per share subject to a minimum exercise price of \$1.35 per option. As a rational investor would only exercise the options provided the exercise price is below the share price at exercise date, the exercise price is assumed to be \$1.70 per share.

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

11. Share based payments

On 5 September 2012, shareholders approved the grant of management options to each of the Chief Executive Officer and senior management of the Company. The principal terms of these options and their grant date is as follows:

Terms	Key management personnel	CEO
Grant date	29 November 2012	5 September 2012
Expiry date	7 December 2015	7 December 2015
Number of options granted	1,250,000	3,750,000
Vesting Conditions	<p>Market condition: The Company's share price must close at in excess of \$2.50 for at least ten days within a twenty day trading period that occurs at least twelve months after the grant date.</p> <p>Service conditions: Two years (for 50% of options to vest) and three years (for a further 50% of options to vest)</p>	<p>Market condition: The Company's share price must close at in excess of \$2.50 for at least ten days within a twenty day trading period that occurs at least twelve months after the grant date.</p>
Exercise price	\$1.35	\$1.35

The following factors and assumptions were used in determining the fair value of the options on their grant date:

Terms	Key management personnel	CEO
Grant date	29 November 2012	5 September 2012
AJ Lucas share price	\$0.77	\$0.65
Option exercise price	\$1.35	\$1.35
Risk-free interest rate	2.68%	2.59%
Dividend yield	0.00%	0.00%
Term	2.5 years (2 year service condition) 3.02 years (3 year service condition)	3.25 years
Volatility of Lucas shares	55%-65%	55%-65%
Fair value at grant date (per option)	\$0.125	\$0.106

12. Share capital

	31 Dec 2012	30 June 2012
	No. Of Shares	No. Of Shares
Movements during the period		
On issue at beginning of the period	103,027,291	66,117,664
Exercise of rights	-	444,314
Exercise of options	7,407,407	-
Allotment of entitlement shares	-	26,547,663
Placement	22,222,222	9,917,650
On issue at end of the period	132,656,920	103,027,291

The private placements were made at \$1.35 per share.

13. Contingent assets and liabilities

There were no material changes in contingent assets and liabilities during the period.

Notes to the Condensed Consolidated Interim Financial Statements

for the half year ended 31 December 2012

14. Subsequent events

Subsequent to balance date, the Company:

- has completed a private placement of 10.65 million shares at \$1.55 per share, raising \$16.5 million before costs;
- has arranged and drawn down a loan facility of US\$1.25 million with Kerogen; and
- the Company's senior lender has agreed to extend the maturity date of its facilities to 31 March 2013.

Otherwise, 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 condensed consolidated financial statements and notes set out on pages 10 to 22 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 2012 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.



Allan Campbell
Chairman

Sydney
28 February 2013



Independent auditor's review report to the members of AJ Lucas Group Limited

Report on the financial report

We have reviewed the accompanying interim financial report of AJ Lucas Group Limited ("the Company"), which comprises the condensed consolidated statement of financial position as at 31 December 2012, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim 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 interim 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 interim 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, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AJ Lucas Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim 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*.

**Independent auditor's review report to the members of AJ Lucas Group Limited
(continued)**

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of AJ Lucas Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1(ii) in the condensed consolidated interim financial report which indicates that the Group incurred a loss after tax of \$42.6 million during the period ended 31 December 2012 and as of that date, the Group's current liabilities exceeded its current assets by \$63.2 million.

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 without the ongoing financial support of Kerogen Investments No. 1 (HK) Limited as a substantial share holder and financier, the successful refinancing of the ANZ financing facility, the ability to access sufficient financing and/or dispose of assets if and when required, and the achievement of forecast profits and cash flows.

KPMG

KPMG



Tony Nimac
Partner

Sydney

28 February 2013