

27 January 2023

## QUARTERLY ACTIVITY REPORT – PERIOD ENDED 31 DECEMBER 2022

### GROUP HIGHLIGHTS

- Revenue during the quarter of \$44.8 million was an increase on the previous quarter revenue of \$37.9 million. Revenue for the 6 months to 31 December 2022 of \$82.7 million represents 67.1% of that reported for the full year result to 30 June 2022
- Australian Operations EBITDA for the quarter of \$9.5 million was an increase on the already strong previous quarter revenue of \$6.1 million. Australian Operations EBITDA for the 6 months to 31 December 2022 of \$15.6 million represents 81.7% of that reported for the full year result to 30 June 2022
- “Net cash from operating activities” of \$4.2 million was a turnaround from the previous quarters net cash used in operations of \$5.5 million which had been driven by unusually large increase in receivables and contract assets (unbilled receivables) which are not expected to reoccur from current levels
- During the previous quarter the Group undertook a share placement to institutional, sophisticated and professional investors which was settled in the current quarter
- Net cash from financing activities of \$13.8 million in the quarter was driven by proceeds from issue of shares of \$18.4 million net of transaction costs, and net repayment of borrowings of \$4.6 million
- Group EBITDA for the quarter of \$9.0 million. Group EBITDA for the 6 months to 31 December 2022 was \$14.8 million which represents 82.6% of that reported for the full year result to 30 June 2022

### Australian Operations

Lucas Drilling has continued the momentum with further growth in revenue and EBITDA in the second quarter of the financial year. Following a disappointing second half of FY22 which was impacted by significant wet weather and a key client suspending operations at one of its mine site, operations have continued to recover and delivered a strong first half of the financial year.

### UK Operations

The moratorium on hydraulic fracturing in the UK was lifted on 22 September 2022 by the then Prime Minister Liz Truss. The moratorium, that had been in place in the UK since November 2019, was then abruptly reimposed by Rushi Sunak on 25 October 2022, following shortly after his appointment as the new Prime Minister of UK, the 3<sup>rd</sup> during 2022. This was despite Mr Sunak earlier declaring his conditional support for lifting the moratorium.

The reintroduction of the moratorium was unexpected and wholly unreasonable, given we have fully complied with strict regulations imposed by the government and the amounts of money we have invested, along with our partners and the industry. The underlying problems facing the UK have not gone away. The transition to renewable energy cannot take place at the speed the UK would like without natural gas. It’s ironic that the UK population is suffering from record high energy prices, increasingly importing LNG by tanker ships from as far as the US while its sitting on a vast amount of gas under its feet.

*Note: The financial information presented in this document has not been audited or reviewed in accordance with Australian Auditing Standards.*

The Group is evaluating its options while working on opportunities to extract maximum value from its UK assets and do its part to alleviate the current energy crisis.

### **REVIEW OF FINANCIAL CONDITION**

Refer Appendix 4C attached.

### **RELATED PARTY PAYMENTS**

In item 6 of the Appendix 4C cash flow report for the quarter includes payments to related parties of approximately \$509,600 which represents amounts paid to executive and non-executive Directors and other key management personnel, including payments to tax authorities and superannuation for the financial period. The amount does not include non-cash remuneration expenses such as leave accrued in accordance with employment laws.

### **SUBSEQUENT EVENTS, OUTLOOK & LIKELY DEVELOPMENTS**

The elevated metallurgical coal price is driving strong demand for degasification and exploration drilling services and creating new opportunities that the Group will continue to pursue in order to expand and / or diversify its services, where it makes sense to.

This announcement has been authorised for lodgment by the Board.

**ENDS**

**For further information, please contact:**

**AJ Lucas Group Limited** +61 (0)7 3363 7333

Andrew Purcell      Chairman

Marcin Swierkowski    Company Secretary

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

AJ Lucas Group Limited

**ABN**

12 060 309 104

**Quarter ended ("current quarter")**

31 December 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	47,053	80,467
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(26,591)	(49,474)
(c) advertising and marketing		
(d) leased assets		
(e) staff costs	(13,912)	(27,649)
(f) administration and corporate costs		
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(2,310)	(4,618)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>4,240</b>	<b>(1,274)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(565)	(940)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	(565)	(940)

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	19,739	19,739
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(1,291)	(1,291)
3.5	Proceeds from borrowings	45,021	86,612
3.6	Repayment of borrowings including leases	(49,642)	(84,519)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>13,827</b>	<b>20,541</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	3,858	3,065
4.2	Net cash from / (used in) operating activities (item 1.9 above)	4,240	(1,274)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(565)	(940)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	13,827	20,541
4.5	Effect of movement in exchange rates on cash held	36	4
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>21,396</b>	<b>21,396</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	20,144	2,607
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Cash in trust)	1,252	1,252
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>21,396</b>	<b>3,858</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	509
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	123,137	116,265
7.2 Credit standby arrangements		
7.3 Other (Leases)	3,887	3,887
7.4 <b>Total financing facilities</b>	127,024	120,152
7.5 <b>Unused financing facilities available at quarter end</b>		6,872
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

A breakdown of the Groups Interest Bearing loans and borrowings follows:

	Dec 2022 \$'000
Senior syndicated facility	26,581
Junior loan notes	29,775
Lease liabilities	3,887
Loans from related party	59,847
Other	62
	<b>120,152</b>

Note: The Group's Interest bearing liabilities are measured at amortised cost using the effective interest rate ("EIR"). Amortised cost is calculated by taking into account any discount on acquisition and fees or costs that are an Integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss.

The Company has commenced a process to refinance or extend part of its loan facilities including the Senior and Junior facilities which mature in April 2023, and discussions are well advanced. As part of this process, Kerogen has acknowledged that it may be required to extend the maturity date under its shareholder loan.

#### Senior syndicated facility

The Senior syndicated facility is a senior ranking revolving asset-based loan secured over 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 \$35 million, subject to certain prescribed levels of Security Assets, and currently matures in April 2023. As at 31 December 2022 Security Assets existed to support a further \$6.9 million in drawings.

Interest on the facility is calculated on the daily balance outstanding at the bank bill swap rate ("BBSY") plus a margin and is payable monthly in arrears. In line with increases in the BBSY, the applicable interest rate on the facility has increased to 8.59% at 31 December 2022 (30 June 2022: 6.74%).

At 31 December 2022, the amount outstanding under the facility was \$26.6 million (30 June 2022: \$19.1 million). The increase in drawings under the facility reflects that "Security Assets" had increased during the 6 months to 31 December 2022 being reported.

The unusually large increase in "Trade and Other Receivables" and "Contract Assets" of approximately \$9.6 million in the previous quarter (September quarter), resulted in the Group reporting negative "net cash from / (used in) operations" of \$5.5 million. In the December quarter these balances remained relatively stable, and the Group reported positive net cash from operations of \$4.2 million. The Australian operations EBITDA for the 6 months to December 2022 was \$15.6 million.

#### Junior Loan notes

The Junior loan notes are secured by a second ranking charge over the Security Assets and a first ranking charge over the Group's remaining assets. The Junior Loan notes mature in April 2023.

Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears. The applicable interest rate on the facility at 31 December 2022 was approximately 16.58% (30 June 2022: 14.08%). The facility is subject to financial covenants which have been complied with.

At 31 December 2022 the amount of Junior Loan notes outstanding was \$29.8 million (30 June 2022: \$33.5 million). The reduction in the amount outstanding under the Junior Loan notes reflects the scheduled amortization built into the Junior Loan notes, which is amortized at a rate of \$2 million per quarter, with the balance repayable at maturity.

**Lease liability**

The Group has lease contracts for various items of plant, machinery, vehicles and office space used in its operations.

Leases of plant and machinery generally have lease terms between 1 and 3 years, while motor vehicles have lease terms between 1 and 5 years. The Group's obligations under lease terms on office space are up to 10 years in respect of the Brisbane head office.

**Loans from related party-Kerogen**

The Loans from related party is provided by Kerogen, which at 31 December 2022 held a 56.7% shareholding in the Company (30 June 2022: 65.4%). Kerogen's facility is subordinated to and ranks behind both the Senior syndicated facility and Junior loan notes. Maturity of this facility is in October 2023.

The loan is a US Dollar denominated debt. Interest is charged at 18% of the balance outstanding which compounds quarterly if unpaid.

At 31 December 2022, the amount outstanding under the Kerogen loan facility was \$59.8 million (30 June 2022: \$53.8 million). The increase in the amount outstanding under the Kerogen loan facility reflects two components: the first, that no cash interest was paid in the period; and the second, accounting for the majority of the increase, an unrealised foreign exchange loss of \$0.9 million was recorded in the period as the AUD:USD FX rate reduced to 0.6775 at 31 December 2022 from 0.6889 at 30 June 2022.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	4,200
8.2 Cash and cash equivalents at quarter end (item 4.6)	21,396
8.3 Unused finance facilities available at quarter end (item 7.5)	6,872
8.4 Total available funding (item 8.2 + item 8.3)	28,268
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	N/A
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	N/A
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	N/A



8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

N/A

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: .27 January 2023.....

Authorised by: By the Board.....  
(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.