

28 April 2023

QUARTERLY ACTIVITY REPORT – PERIOD ENDED 31 MARCH 2023

GROUP HIGHLIGHTS

- Revenue during the quarter was \$36.2 million. Revenue for the 9 months to 31 March 2022 of \$118.9 million represents 96.5% of that reported for the full year result to 30 June 2022.
- Australian Operations EBITDA for the quarter was \$5.6 million. Australian Operations EBITDA for the 9 months to 31 March 2022 was \$21.2 million which exceeds that reported for the full year result to 30 June 2022 of \$19.1 million.
- Group EBITDA for the quarter was \$5.3 million. Group EBITDA for the 9 months to 31 March 2023 was \$20.1 million which exceeds that reported for the full year result to 30 June 2022 of \$18.0 million.

Australian Operations

Lucas Drilling has continued its strong performance in the third quarter of the financial year, already exceeding the Australian Operations EBITDA reported in the full year ended 30 June 2022. The business has had a heightened level of tender activity in its key markets of large diameter and directional drilling for the metallurgical coal industry. Lucas Drilling is participating in a number of tenders that have the ability to provide growth and customer diversification.

UK Operations

The moratorium on hydraulic fracturing in the UK was unexpectedly reintroduced in October 2022. The underlying energy security 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 is ironic that the UK is seeking to solve these problems by increasingly importing LNG by tanker ships from as far away as the US, the source of which is often from hydraulically fracturing shale that then requires liquifying, transporting and re-gasifying, when it has been demonstrated that it has a significant volume of domestic gas from its own shale deposits that can be recovered at a significantly lower carbon cost.

The company continues to evaluate 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

Item 6 of the Appendix 4C cash flow report for the quarter includes payments to related parties of approximately \$545,000 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.

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

The amount does not include non-cash remuneration expenses such as leave accrued in accordance with employment laws.

SUBSEQUENT EVENTS, OUTLOOK & LIKELY DEVELOPMENTS

On 21 April 2023 the company announced that, following a competitive process during which multiple proposals were received, it had agreed to extend its existing loan arrangements with certain amendments.

AJL and its senior lenders agreed to amend the company's existing senior facility and extend the \$35 million facility for two years, to April 2025, on materially similar terms. The facility was drawn to \$29.4 million, as at 31 March 2023. The existing junior loan notes will be replaced with a new junior loan notes facility of \$26.9 million, which also matures in April 2025 and on broadly the same commercial terms as the previous facility. The junior loan notes facilities will amortise over the life of the loan with the outstanding balance anticipated to be less than \$17 million when the facility matures in April 2025. The senior and new junior loan notes facilities will incur interest at the quarterly bank bill swap rate plus a margin. The weighted average interest rate of these two facilities will be approximately 13.6%.

Kerogen extended its loan, which will mature on the earlier of October 2025 or nine months after early repayment of the junior loan notes. Following the extension and a \$3 million prepayment, the Kerogen loan balance was approximately US\$41.3 million. Kerogen has also provided various interest reliefs in the event the company:

- i) reduces the outstanding balance to below certain thresholds; and
- ii) pays interest in cash within the following two years rather than deferred to termination.

Interest on the Kerogen facility will be reduced from 18% on 16%, backdated to 24 April 2023 if the outstanding balance on the Kerogen loan (excluding deferred interest) is reduced to below US\$40 million, and will be further reduced to 14% if the outstanding balance (excluding deferred interest) is reduced to below US\$20 million. In addition, interest paid in cash within the first two years will benefit from an additional 4% reduction on the portion paid in cash and also backdated to apply from 24 April 2023. Payment of any amount of principal or interest to Kerogen, other than the initial \$3 million prepayment noted above, is subject to various restrictions in the senior and junior loan agreements and requires consent.

The elevated metallurgical coal price is driving strong demand for degasification and exploration drilling services and creating new opportunities that the company 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 March 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	42,085	122,552
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(23,618)	(73,092)
(c) advertising and marketing		
(d) leased assets		
(e) staff costs	(13,951)	(41,600)
(f) administration and corporate costs		
1.3 Dividends received (see note 3)		
1.4 Interest received	211	211
1.5 Interest and other costs of finance paid	(2,268)	(6,886)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	2,459	1,185
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(1,175)	(2,115)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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)		
2.6 Net cash from / (used in) investing activities	(1,175)	(2,115)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	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)
3.5 Proceeds from borrowings	43,790	130,402
3.6 Repayment of borrowings including leases	(43,879)	(128,398)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	(89)	20,452

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	21,396	3,065
4.2	Net cash from / (used in) operating activities (item 1.9 above)	2,459	1,185
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,175)	(2,115)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(89)	20,452
4.5	Effect of movement in exchange rates on cash held	44	48
4.6	Cash and cash equivalents at end of period	22,635	22,635

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	21,382	20,144
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Cash in trust)	1,253	1,252
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	22,635	21,396

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	545
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

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

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>		
7.1 Loan facilities	123,379	120,343
7.2 Credit standby arrangements		
7.3 Other (please specify)	3,124	3,124
7.4 Total financing facilities	126,503	123,467
7.5 Unused financing facilities available at quarter end		3,036
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:

	Mar 2023 \$'000
Senior syndicated facility	29,386
Junior loan notes	27,770
Lease liabilities	3,124
Loans from related party	63,127
Other	60
	123,467

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.

Post 31 March 2023 the Group agreed to extend its existing loan arrangements with certain amendments, as announced on 21 April 2023 and as noted in the Quarterly Activity Report. Below are details applicable as at 31 March 2023.

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, as noted in the Quarterly Activity report, has been extended and now matures in April 2025. As at 31 March 2023 Security Assets existed to support a further \$3.3 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 9.14% at 31 March 2023 (30 June 2022: 6.74%). The facility is subject to financial covenants which have been complied with.

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 and, as noted in the Quarterly Activity report, the Junior Loan notes were refinanced by a new Loan notes agreement on terms materially similar to those of the previous Loan notes and now mature in April 2025.

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 March 2023 was approximately 16.92% (30 June 2022: 14.08%). The facility is subject to financial covenants which have been complied with.

At 31 March 2022 the amount of Junior Loan notes outstanding including interest was \$27.8 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. During the 4 quarters beginning 1 April 2023 the Group may, at its election, reduce the quarterly amortization to a minimum of \$1m in those quarters.

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 Loan from the related party is provided by Kerogen, which at 31 March 2023 held a 56.7% shareholding in the Company (30 June 2022: 65.4%). Kerogen's loan facility is subordinated to and ranks behind both the Senior syndicated facility and Junior loan notes. Maturity of this facility was extended in April 2023 to October 2025, or 9 months after full repayment of the Junior Loan notes if earlier.

The loan is a US Dollar denominated debt. Interest is charged at 18% of the principal outstanding and is payable only to the extent the Group is able to pay the interest from available funds at its disposal.

At 31 March 2023, the amount outstanding under the Kerogen loan facility was \$63.1 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, an unrealised foreign exchange loss of \$1.5 million was recorded in the period as the AUD:USD FX rate reduced to 0.6712 at 31 March 2023 from 0.6889 at 30 June 2022.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	2,459
8.2 Cash and cash equivalents at quarter end (item 4.6)	22,635
8.3 Unused finance facilities available at quarter end (item 7.5)	3,036
8.4 Total available funding (item 8.2 + item 8.3)	25,671
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	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?	
Answer: 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?	
Answer: 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?	
Answer: N/A	
<i>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.</i>	

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: 28 April 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.