

31 October 2023

QUARTERLY ACTIVITY REPORT – PERIOD ENDED 30 SEPTEMBER 2023

GROUP HIGHLIGHTS

- Revenue during the quarter was \$39.0 million, equivalent to 24.7% of that reported for the full year result to 30 June 2023
- Australian Operations EBITDA for the quarter was \$5.4 million, equivalent to 20.7% of that reported for the full year result to 30 June 2023
- Group EBITDA for the quarter of \$4.9 million, equivalent to 20.7% of that reported for the full year result to 30 June 2023
- “Net cash generated in operating activities” of \$13.0 million after net financing charges of \$2.1 million. This was driven primarily by a reduction in receivables and contract assets (unbilled receivables) of \$7.3 million to \$28.1m as at 30 September 2023 (30 June 2023: \$35.4m) and other net working capital changes \$2.9 million

Australian Operations

The first quarter of the FY24 year saw an increase in revenues to that reported for the same period in the previous year. EBITDA were slightly lower with one-off plant maintenance to key rigs impacting time spent drilling. The result for the quarter provides a solid start to the new financial year in which we aim to continue to build on the strong momentum of FY23.

UK Operations

The moratorium on shale exploration remains in force and the company continues to progress a number of conventional gas opportunities on its onshore Licenses, which are unaffected by this moratorium.

An agreement was signed with Egdon Resources and York Energy to combine interests across two adjacent onshore licenses one operated and held 100% by Cuadrilla and the other held by York Energy. Under the agreement Egdon will farm-in, operate the combined license, and fund the drilling/testing of an appraisal well on a discovered gas prospect which spans both licenses. The agreement is subject to UK regulatory approval.

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 \$891,989 which represents amounts paid to executive and non-executive directors and other key management personnel (“KMP”), 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.

This quarter includes payments associated with the departure of the CEO in August 2023 and the payment of short-term incentives to KMP which were accrued as disclosed in the 2023 Annual Report.

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 opportunities that the company will continue to pursue to expand and / or diversify its services where it makes sense to do so.

After the end of the quarter, on October 13th, the High Court in London dismissed an appeal by a local protest group against the award of planning permission to flow test the Balcombe well. Angus Energy and Cuadrilla will now decide when and how to proceed with the well test, which under the farm-in agreement reached in January 2018 is to be funded by Angus Energy.

This announcement has been authorised for lodgment by the Board.

ENDS

For further information, please contact:

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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")

30 September 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	50,864	50,864
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(19,674)	(19,674)
(c) advertising and marketing		
(d) leased assets		
(e) staff costs	(16,059)	(16,059)
(f) administration and corporate costs		
1.3 Dividends received (see note 3)		
1.4 Interest received	132	132
1.5 Interest and other costs of finance paid	(2,236)	(2,236)
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	13,027	13,027

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(665)	(665)
(d) investments		
(e) intellectual property		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(f) other non-current assets		
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	(665)	(665)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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		
3.5 Proceeds from borrowings	45,351	45,351
3.6 Repayment of borrowings including leases	(51,434)	(51,434)
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	(6,083)	(6,083)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	14,045	14,045
4.2 Net cash from / (used in) operating activities (item 1.9 above)	13,027	13,027
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(665)	(665)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(6,083)	(6,083)
4.5	Effect of movement in exchange rates on cash held	(24)	(24)
4.6	Cash and cash equivalents at end of period	20,300	20,300

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	19,047	12,792
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Cash in trust)	1,253	1,253
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	20,300	14,045

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	892
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.

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	123,796	120,572
7.2 Credit standby arrangements		
7.3 Other (Leases)	5,309	5,309
7.4 Total financing facilities	129,105	125,881
7.5 Unused financing facilities available at quarter end		3,224
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:

	Sep 2023 \$'000
Senior syndicated facility	25,446
Junior loan notes	25,941
Lease liabilities	5,309
Loans from related party	69,133
Other	52
	125,881

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.

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 matures in April 2025. As at 30 September 2023 Security Assets on hand support a further \$3.2 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 10.82% at 30 September 2023 (30 June 2023: 10.56%). 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 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 30 September 2023 was approximately 17.91% (30 June 2023: 17.23%). The facility is subject to financial covenants which have been complied with.

At 30 September 2023 the amount of Junior Loan notes outstanding including interest was \$25.9 million (30 June 2023: \$26.8 million). The reduction in the amount outstanding under the Junior Loan notes reflects the \$1.0 million scheduled principal repayment during the quarter. Principal repayments of \$8.0m per annum continue to be required under this facility, with the exception of the 12 months beginning 1 April 2023 over which principal repayments must total at least \$4.0 million, 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 30 September 2023 held a 56.7% shareholding in the Company (30 June 2023: 56.7%). Kerogen's facility is subordinated to and ranks behind both the Senior syndicated facility and Junior loan notes, and matures in 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. Various interest relief is provided by Kerogen if certain hurdles are met. Firstly, Interest charged will be reduced where the principal outstanding is reduced below certain hurdles. Secondly, in the event the Group is able to pay any interest, the interest rate applicable to the interest paid in cash will be reduced by a further 4%.

At 30 September 2023, the amount outstanding under the Kerogen loan facility was \$69.1 million (30 June 2023: \$64.4 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 \$1.8 million was recorded in the period as the AUD:USD FX rate reduced to 0.6458 at 30 September 2023 from 0.6630 at 30 June 2023.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	13,027
8.2 Cash and cash equivalents at quarter end (item 4.6)	20,300
8.3 Unused finance facilities available at quarter end (item 7.5)	3,224
8.4 Total available funding (item 8.2 + item 8.3)	23,524
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?	
	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
<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: 31 October 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.