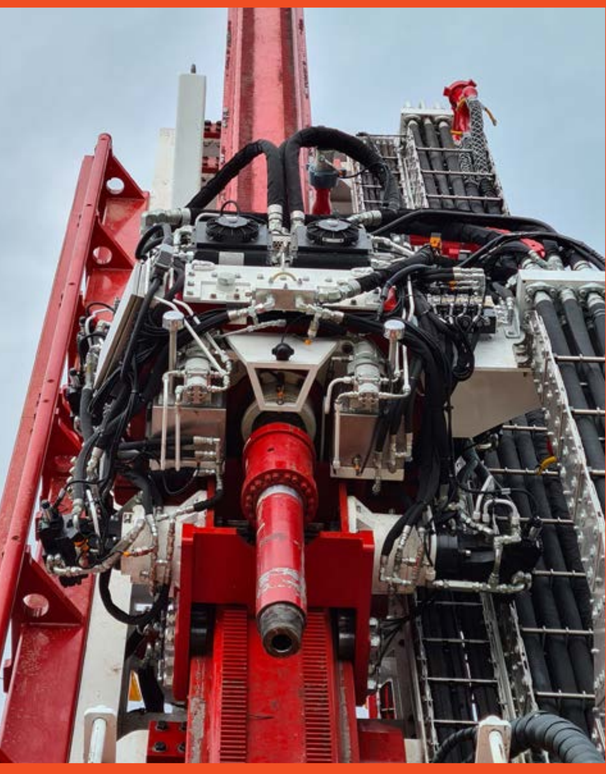
LUCAS



ANNUAL REPORT 2020

ABOUT US

CONTENTS

ABN 12 060 309 104

AJ LUCAS IS A LEADING PROVIDER OF DRILLING SERVICES primarily to the Australian coal industry, it is also an investor in the exploration, appraisal and commercialisation of oil and gas prospects in the UK, with a long and proven history of returns from conventional and unconventional hydrocarbon resource investments.

OPERATING BUSINESS UNIT

DRILLING SERVICES (LDS)

Major drilling services provider to the east coast Australian coal sector for mine degassing and exploration

Delivering intelligent and practical solutions to support Australian mining sector

INVESTMENT

OIL & GAS

Appraisal and commercialisation of unconventional hydrocarbons in the UK

One of the largest shale gas acreage positions in the UK

UNDERLYING LDS EBITDA
+14.6% (2019: $24.4m)

UNDERLYING LDS EBITDA MARGIN
+2.1%

SAFETY RECORD
3.67 TRIFR at 30 June 2020

SAFETY RECORD
0 LTI's > 7 years

METRES DRILLED LAST FINANCIAL YEAR
569,500

INTEREST IN UK ACREAGE OF
>2,500 km²

CHAIRMAN'S LETTER

PHIL ARNALL

Chairman

The year under review has been significant for AJ Lucas Group Limited and its controlled entities ("AJL" or the "Group"). The Australian Drilling business has recorded one of its best years ever, certainly when taking into account the market conditions in which it operates.

However, our UK investment in shale gas exploration has suffered a number of setbacks with challenging operations at the PNR site together with the UK Government's decision to introduce a moratorium on Hydraulic Fracturing ("HF") just prior to the UK general election.

As a result of these developments, we announced a number of measures to focus our business on the Australian Drilling operations whilst significantly reducing the holding cost of our UK operations pending the lifting of the moratorium. These measures have previously been announced to the market but in summary include:

- The appointment of Brett Tredinnick as Group CEO and the consolidation of our activities within the Drilling business based in Brisbane.
- The closure of our Corporate office in Sydney and relocation to Brisbane simplifies our structure and enables meaningful cost savings to be delivered. Austen Perrin retired as CFO at the end of August 2020 and David Ekster, who has been with the business for many years and has developed a solid understanding of our business through his financial and commercial roles within the organisation, will take on the role of CFO. Austen Perrin will remain on the Board.
- A significant reduction in the holding costs of the UK assets under the stewardship of Francis Egan, who remains as Cuadrilla CEO and has been appointed to the Board of AJL. This followed the acquisition by AJL, for a nominal amount, of the equity in Cuadrilla previously held by our original partner, Riverstone. Subsequent to that and as the result of a decision to focus on "downstream activities", Centrica (through their subsidiary Spirit Energy) have advised that they will trigger the "put" option negotiated under the original 2013 sale and purchase agreement with Cuadrilla and will transfer their 25% stake in the Bowland shale exploration licence back to Cuadrilla and AJL. These developments effectively put AJL in sole control of Cuadrilla and its development plans.
- In November 2019 the Company raised equity to support the remaining obligations relating to the HF and flow testing costs in the UK. In other balance sheet initiatives, AJL refinanced its US$ denominated OCP debt with more cost-effective facilities from a consortium of lenders, including Investec and HSBC, denominated in Australian Dollars, leaving only the Kerogen US$ denominated loan with an exposure to foreign exchange fluctuations.

It is very difficult to take a view on the near-term prospects of the AJL businesses without recognizing the presence and impact on the global economy of the COVID-19 pandemic. However, in a localised sense we have managed this challenge very well in our Australian operations as is outlined further in our report on the Drilling business. There will no doubt be collateral issues in terms of changes in demand driven market activity with respect to the metallurgical coal market (which is core to our Australian business), however early indications are that this may not be as significant as first envisaged. In fact, a case can be made that any recovery will start with an uplift in demand for base

Pictured below: Cuadrilla PNR site, 2019.

commodities as has been indicated in early activity in China.

The UK operations remain challenged at this time. Shale industry players are collaborating in putting a science-based case to the government for resuming HF, supported by data and experiences from other countries notably the US and Canada. Cuadrilla is actively participating, utilising the uniquely detailed technical data-set and experience from its PNR operations. Whilst we currently detect limited attention from the UK Government and its Regulators, in response to these efforts, on a positive note, the results of the most recent UK Government public attitude survey indicates an increase in public support for indigenous gas and HF as a means of unlocking the UK's abundant shale gas resource. Importantly, the drivers of this improving sentiment relate to the need to use all available energy sources, renewables and gas in reducing the dependence on imports from other countries for UK's energy needs. We continue to see value in our UK assets but their development will be longer term and dependent on a number of criteria, including the above and importantly a shift away from unsustainably low energy prices.

On a personal note I have confirmed my intention to retire as Chairman and member of the AJL board at the end of August as noted in a previous release to the market. I am pleased to confirm that Andrew Purcell has agreed to take on the role as Chairman. Andrew comes with considerable experience in the Energy industry, in Australia and elsewhere and will bring considerable enthusiasm and intellect to the role in addressing the challenge to navigate the company through the changing times ahead. I wish Andrew and the Board every success in this endeavour.

Phil Arnall
Chairman

"On a positive note, the results of the most recent UK Government public attitude survey indicates an increase in public support for indigenous gas and HF as a means of unlocking the UK's abundant shale gas resource."

AUSTRALIAN OPERATIONS

BRETT TREDINNICK

Group Chief Executive Officer

WHO WE ARE

AJL's Australian operations consist of the provision of leading integrated drilling services to the Australian metallurgical coal sector.

It is a proven leader in the extraction of coal mine methane gas, present in active working coal mines. AJL deploys sophisticated and leading-edge drilling solutions to gather critical geological information, provide access to sub-surface and to remove unwanted water and gas. This critical service supports the ongoing safe and sustainable mining of high-quality steelmaking coal in Australia's immensely important resource sector.

We offer a suite of specialised services across three primary and other ancillary competencies:

Geographic footprint of deployed rig fleet[1]

LUCAS SERVICES

Directional Drilling

Industry leading capabilities in a lateral drilling technique that provides a more efficient and environmentally friendly solution to the requirement for draining gas prior to mining operations. The benefit of this technique is that the drilling and production of the wells can be installed many years in advance of the planned mine workings therefore enhancing the safety of mining staff. Further, this technique enables mine operators to use extracted methane as fuel for heating or power generation.

Large Diameter Drilling

Industry leading capabilities in a vertical drilling technique that provides a more effective and flexible solution to the gas drainage of the longwall goaf post mining operations. This technique is employed to control gas emissions at the longwall face, once again enhancing safety as well as reducing production delays arising from gas make into the tailgate.

Exploration & Development Drilling

Multi-purpose capabilities in the exploration and development drilling on both brownfield and greenfield sites. It is critically important miners explore their resources to understand its potential benefit. Exploration drilling facilitates this very important stage in the mining process. Together with the standard geological information regarding strata sequences and thickness and possible indications of structures, boreholes can be tested for:

- Coal quality, washability, rock strength and other properties
- Stress magnitude and direction
- Ground water information
- Seam and surrounding strata gas content and composition

Other

Engineering Services	Well Services	Project Management

Engineering services including: well planning, steering and survey system hire, project management, drilling engineering and feasibility studies, well services (including well completions), installation of well infrastructure and workover of coal mine methane wells.

20 YEARS OF EXPERIENCE

In the month of June just gone AJL's Drilling operations recorded their 20 year anniversary, a significant achievement for any mining services company.

Over the period the AJL Drilling Operations have built a unique set of "beginning to end" skills and capabilities in the provision of drilling and related services in the metallurgical coal mining resource sector. During the 20 years in business AJL has implemented a fully integrated operating platform that provides a springboard for growth that is difficult to replicate and clearly sets it apart from its competitors. AJL has a fleet of 41 multi-purpose drill rigs designed specifically to service the coal market, supported by approximately 400 technical and administrative staff.

Headquartered in Brisbane, the business has operations in major coal producing basins of Australia's east coast including the Southern Coalfields, the Western Coalfield, the Gunnedah Coalfield, the Hunter Coalfield and the Bowen Basin.

AJL is primarily exposed to metallurgical coal which has strong long-term fundamentals. Base world steel demand coupled with significant increases in Indian steel production are forecast to drive increased global demand over the next 15 years.

> "Post COVID-19, world demand for metals and minerals - especially industrial metals such as steel, copper and aluminium - will grow in line with the expanding needs of highly populated nations."
>
> Helen Coonan, chairwoman of the Minerals Council of Australia

DIRECTIONAL DRILLING

	No. rigs	Avg depth (m)
PD100 (Lateral)	2	3,100
DD140 (Lateral)	2	2,500
Workover rig	1	400
Bore Guide Survey Tool	14	NA

5 RIGS

LARGE DIAMETER

	No. rigs	Avg depth (m)
Schramm 685	4	200-300
Schramm T130	3	500
G55 Drillmac	1	500
Schramm TXD	1	800
WEI	1	500
Soilmac	1	850

11 RIGS

EXPLORATION

	No. rigs	Avg depth (m)
UDR650	4	450
Sandvik DE810	6	450
Schramm T450	2	450
Deltabase 520/LP90D/UDR200/LF90	4	200
UDR1200/KWL1600	7	700
UDR1000	2	650

25 RIGS

SENIOR MANAGEMENT

AJL senior management possess deep industry experience with broad relationships across key customer decision makers.

With a combined 117 years of commitment to AJL and over 180 years of industry experience the management team are highly experienced and deeply connected to the market they serve.

Brett Tredinnick Group Chief Executive Officer	■ 30 years' industry experience, including 3 years with Rio Tinto Coal and 9 years with BHP ■ Qualified metallurgist with an MBA degree from the University of Queensland ■ Membership of the Australian Institute of Company Directors ■ 20 years' at Lucas
David Ekster Group Chief Financial Officer (effective September 1st 2020)	■ 17 years' experience across public practice, commerce and corporate restructuring in Australian and UK businesses which include Virgin Australia, Shell, Yahoo, EDF Energy, MFI and Talbot Hughes McKillop, as a qualified chartered accountant ■ Previously Head of Finance in 2012, making him responsible for statutory financial and management reporting, working capital and treasury, financial systems, taxation, procurement and commercial ■ 10 years' at Lucas
Greg Runge General Manager - Technical	■ 20 years' experience within engineering services, providing extensive technical, operational and field experience as an oilfield directional driller as well as a consulting engineer ■ Holds a Bachelor of Petroleum from UNSW, a Master of Commerce and an MBA from UQ ■ 16 years' at Lucas
Daniel Sweeting General Manager - Operations	■ 30 years' experience in the mining and infrastructure sectors, including time at Coffey Engineering Group and BAC systems ■ Experienced project manager and has successfully delivered significant Pipeline and Drilling projects ■ 18 years' at Lucas
Chris Hill General Manager - Plant	■ Over 35 years' experience with plant and equipment and 20 years tenure at Lucas ■ A qualified fitter and turner with post trade qualifications in diesel engineering and welding ■ 20 years' at Lucas
Simon Archibald General Manager - HSEQ	■ 11 years' experience in the resources and energy sector and 8 years experience in workplace health and safety, Simon has held senior positions in drilling, pipelines and civil construction ■ A qualified HSE professional with a focus on fostering a zero harm culture, implementing change and risk management ■ 13 years' at Lucas
Nicole McDonald General Manager - People and Performance	■ 20 years' experience in Human Resources and Industrial Relations across a diverse range of mining, energy and heavy industries ■ Holds a Masters of Employment Relations and is highly experienced across a broad range of HR and IR functions ■ 13 years' at Lucas
Doug Henderson General Manager - Business Development	■ 14 years' industry experience, including senior executive roles in directional drilling, asset services, drilling operations and consultancy. Broad sector experience in Oil, Gas and Mineral resources ■ Holds qualifications in leadership, instruments an downhole surveying ■ 7 years' at Lucas

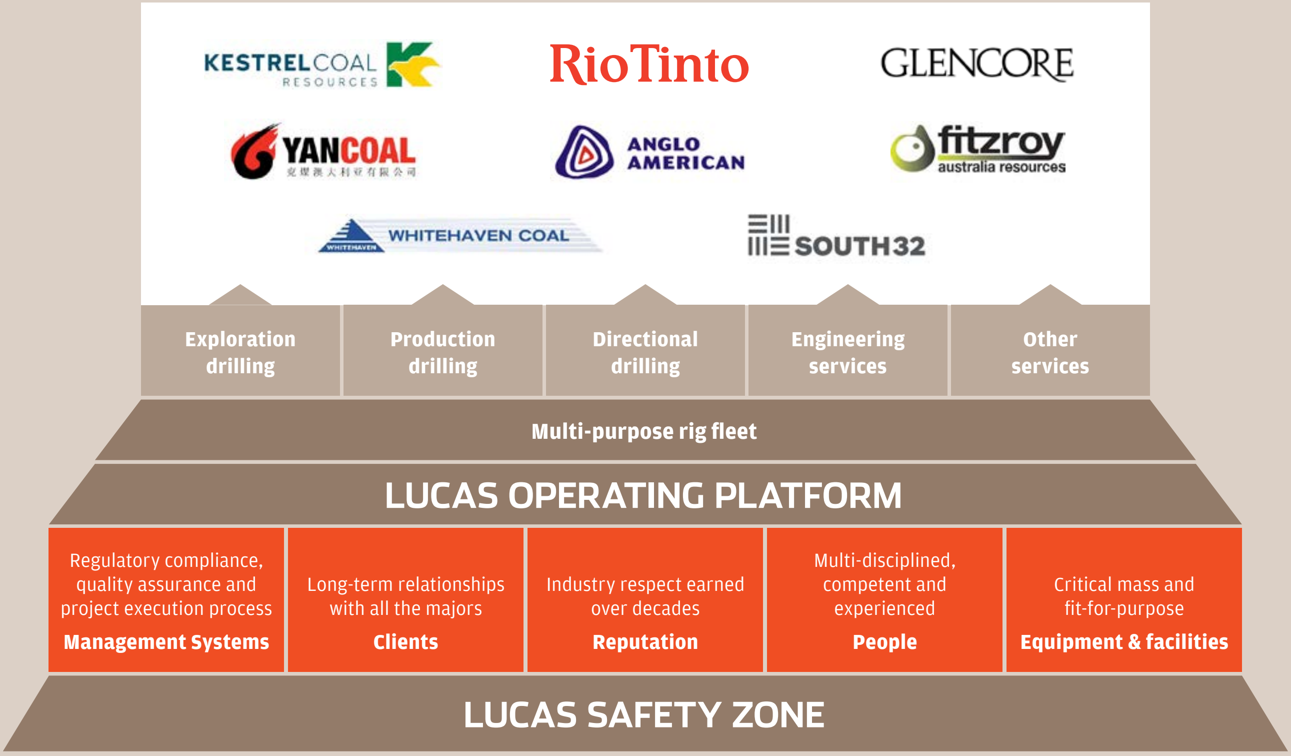
LUCAS OPERATING PLATFORM

AJL is a highly reputable operator, a view supported by the feedback from our customers. It is no coincidence that our customers are predominantly Tier 1 or major mining companies, the majority of which we have, and continue to hold, long-term contracts for Drilling services.

Management are constantly reviewing and improving the operating platform that underpins our performance and continues to deliver reliable, outcome focused results that our customers expect; this includes:

- The health, safety, wellbeing and development of our employees
- Our responsibility to the environment and community
- Value creation for our customers
- Continuous improvement through innovation and technology
- Business initiatives supporting profitability and earnings growth

> "The resources sector not only underpins Australia's success as a trading nation – generating $290 billion in export earnings last year – it's also part of the identity of many communities and regions". The mining industry has always underpinned Australia's economic prosperity."
>
> Helen Coonan, chairwoman of the Minerals Council of Australia



YEAR IN REVIEW

The health, safety, wellbeing and development of our employees

Safety is ingrained at AJL. Our pursuit of excellence in safety performance and safe operational delivery, built on the results of hard work, discipline and innovative thinking, is driven by a leadership team dedicated to fostering our strong safety culture and continuously improving the way we do business. AJL's layered leadership development program is the mechanism by which the business identifies, mentors and grows strong safety leaders. Individual programs are designed for key drillers, rig managers and project managers, strengthening the safety leadership capability of emerging talent through a combination of training, leadership coaching and mentorship. A quarterly AJL Leaders' Forum, held with all operational and corporate leadership teams, links all levels of the business to review, discuss and improve our safety systems, processes and leadership. These systems for the backbone of AJL's approach to safety management and have contributed to reducing our total recordable injury frequency rate ("TRIFR") to 3.67 for FY20, well below the coal mining industry average. AJL's lost time injury frequency rate ("LTIFR") remains at an industry-leading level of 0 for a record 7th year in a row.

Our people know our safety expectations at AJL. Our Integrated Management System ("IMS") is certified to comply with the requirements of ISO9001, ISO14001, OHSAS18001 and AS/ NZS4801. The IMS provides the framework by which we assess and control risk, and plan work to achieve desired safety outcomes.

A set of safety KPIs, comprising both leading and lagging indicators, provide the basis from which we measure our performance. Performance is reported daily with results scrutinised by the operations team and management to identify areas of focus for improvement. Of course, what's important to our customers is important to AJL. We work hard to align with our customers' safety vision and provide innovative solutions to safety challenges on site.

Our HSE management platform supports our operations at AJL. We maintain live data in our online safety management software which is used by all site leadership teams as well as senior management to capture proactive safety activities, hazards, leading indicators and non-conformances. Each module of the system is linked through a central action register which drives accountability to progress and close out any matters identified. A dashboard feature in the system facilitates analysis of incident reports, safety interactions, audits, emergency drills, inspections, hazards, risk assessments and other data to inform decisions on safety performance improvement and corrective action. Through FY20, AJL has progressed to using this system on tablet devices in the field to improve the efficiency of data capture as well as improve the quality of site audits and inspections.

We proactively monitor and ensure controls are in place at AJL. Our audit program encompasses site level activities, project-wide analysis and business system assurance. These monitoring processes drive our success by providing a broad range of performance indicators as well as transparency into the operations. Third party certification audits occur on an annual basis and assist to drive improvement in AJL's IMS.

Existing crisis management processes and risk management framework enabled us to rapidly adapt our business in the wake of the COVID-19 pandemic. We identified health and wellbeing risk factors, as well as customer, community and governmental concerns, to develop and implement a comprehensive COVID-19 management procedure. This included, among other things, a strategy to segregate AJL's employees from the general population while travelling for work, undertaking health assessments for employees before travel and prior to every shift, implementing cleaning protocols across the operations, promoting social distancing requirements, providing AJL-only charter flight services, eliminating the use of public transport and ride share services, as well as providing PPE and sanitising products. This system has thus far allowed business continuity throughout the pandemic period while protecting our people from health risks and providing a seamless service to our customers.

> "All crew members on site were fully trained and appointed to operate on our mine site, a great team environment was felt. To prevent any access into the critical zone (which was in front of the operators control station) barricading was in place to prevent any possible interaction. All the proactive safety controls were completed."

Our Responsibility to the Environment & Community

AJL is a market leader in Surface to Inseam Drilling techniques and throughout the year drained over 100 km of coal in advance for safer mining. This technique requires zero interaction with the underground mining operations as it is all completed from the surface with no requirement for people to go underground in the mine itself. This technology is tried and proven allowing miners to drain unwanted methane gas well in advance of mining operations for safe mining. Equally, this technology allows for the capture and utilisation of the methane gas, generating power for re-use as opposed to emitting into the atmosphere. AJL will continue to further develop this technology, reaching further laterally, thereby removing more and more surface infrastructure whilst striving for an even lower surface footprint and a lower impact on the environment.

AJL has always been a significant contributor to the local and regional communities we work in. Whether it be employment of locals, sponsorship for young sports stars of the future, local sporting clubs or staff driven contributions to those recognised charities such as Multiple Sclerosis Australia, AJL always plays a role in giving back to the community.

During the year AJL has spent $94.3 million with suppliers and 98% of this went to local suppliers in the areas that we work. We had an average head count of 400 employees and our salaries and wages spend was $48 million, all of which went to a 100% Australian based workforce. Our employees directly benefited from the $0.5m we spent on their development & training last year, so they can continue making significant contributions to AJL's operations and the local and regional communities in which we work.

Value creation for our customers

Once again, we successfully delivered multiple, more specialised and technically challenging projects during the year and we will continue to seek more of these complex opportunities. Success of these more complex projects require direct

> "Overall the work area was very neat, tidy and laid out well. It is a credit to AJL for the pride and ownership that is shown for their operation, the team is proactive to prevent any incidents yet want to be there and achieve high standards of work rate for our wider company."

alignment with customers, co-creation of detailed planning and superior execution. Our customers continue to come to AJL when they have complex problems to solve. This distinctive AJL offering solves complex, sub-surface gas, water and access problems for tier one mining operators.

An example of this innovative thinking appears in the following case study:

During the year we had a key customer needing to solve a ventilation issue across the longwall face. After considering various options. It was decided that on this occasion ventilation wells would be required at very short notice due to a change in the mining sequence. Our customer initially requested a very large diameter borehole, however due to lead time restraints on specialist tooling we engineered an alternative solution so that both achieved the required flows and reduced overall project risk for the customer, to which they agreed.

The customer original plan was to drill boreholes in sequence, with each borehole taking 26 days to drill. By challenging the drilling sequence our engineers were able to identify significant savings to our customer. The drilling was completed without incident, within a shorter time frame and significantly under budget of the original program. Our customer now sees this alternative solution as a proven cost-effective solution to this ventilation problem and have committed to drill further such wells.

Continuous improvement through innovation and technology

AJL's continued differentiation is a result of an ongoing commitment to engineered solutions and innovation. We are pioneers of extended reach drilling for our coal mining customers and we remain focused on delivering increased value and technology whilst lowering the per unit cost of gas drainage. Our mature remote steering operation provides an agile, scalable, response to our customer's drilling demand profile and has proven highly beneficial during the COVID-19 pandemic.

This year AJL successfully trialled drilling of even further extended reach than our normal practice, which enabled the doubling of available in-seam distance. Not only has this continued to reduce the cost of drilling, it permits far greater flexibility of surface location and improves key areas of social responsibility through reductions in water usage, fuel consumption, land clearance, vehicle movements and worker HSE exposure.

AJL has engaged with customers to jointly introduce value add technologies. These technologies can be run concurrently

with degasification drilling or stand alone and offer reduced drilling risk and tighter control. Our customers benefit enormously from detailed geological information of the mineable resource provided by these technologies, even in areas where seismic data has been poor. This significantly enhances mine planning and leads to increased production efficiency and yield of automated & semi-automated longwall systems.

Business initiatives support profitability and earnings growth

During the second half to June 30, 2020 management reacted quickly to the short to medium term potential impact of the COVID-19 pandemic and undertook a re-organisation across the group to prepare for quarter four and into FY21. We have reduced approximately $20 million in cash costs across the group to protect the bottom line against a potentially suppressed revenue line in the year ending June 30 2021. Despite COVID and the impact to our operations resulting from significant mining operational issues faced by one of our key customers, we delivered a very robust financial result for the year ending June 2020. The unyielding effort by the management team on improving margin mix, reducing well construction times and eliminating unrecovered labour cost played an important part in unlocking further efficiencies of revenue comparative to the previous year.

Revenue for the year was $146.7 million, up 2.3% on the prior year, while underlying Group EBITDA was $24.5 million, an increase of 20.1% compared to the prior year partly driven by a change in accounting for leases as described in Note 2(F) of the financial statements. Revenues and margins outperformed budget expectations on all major customer contracts. Management have been persistent in chasing performance improvements identified in our operational excellence strategy and this has delivered results during the year and more than offset the additional costs incurred due our response to the COVID-19 pandemic.

Financial performance of Lucas Drilling Division (year ended 30 June)

	2015 $'m	2016 $'m	2017 $'m	2018 $'m	2019 $'m	2020 $'m
Revenue	83.5	79.6	73.4	124.7	143.4	146.7
Underlying EBITDA	6.2	11.4	2.7	19.7	24.4	27.9
EBITDA Margin	7.4%	14.3%	3.6%	15.8%	17%	19.1%

Overall, our well construction times across the board improved by approximately 6% against planned durations based on historical performance.

Re-investment in plant and equipment was in line with budget for the year. This included a new addition to the fleet. DRS076 is an industry leading, multiple purpose, extended reach directional drilling rig. This new addition to the fleet unlocks significant cost saving to our customers as it has the capability to drill a lateral borehole the length of a longwall block with one entry point. It is planned to drill its first borehole in October 2020.

The COVID-19 pandemic has, without doubt, will have a significant effect on segments of the global economy, however Australia's mining sector has demonstrated it is able to respond and capture opportunities that will assist in underpinning our nation's economic resolve. World demand for metallurgical coal, used in the making of steel, will continue to be in high demand as countries continue to develop and urbanise across the globe. AJL's position in the market plays a key role in the safe mining of high quality, cost efficient metallurgical coal and I look forward to yet another year at AJL in my new role as Group CEO.

Brett Tredinnick,
Group Chief Executive Officer

FRANCIS EGAN

Chief Executive Officer of Oil and Gas Investment

> The moratorium on hydraulic fracturing in England, announced by the U.K. Government in Nov 2019, has created challenges and opportunities for our oil and gas division. AJL has been quick to react to both.

Hydraulic Fracturing Moratorium

In November 2019, shortly ahead of the 2019 British General Election, the UK Government announced a moratorium on hydraulic fracturing operations in England. The reason given was that the UK Oil and Gas regulatory authority ("OGA") considered, based on an analysis of induced seismicity at the Cuadrilla operated Preston New Road 1 ("PNR1") well, that it was not currently possible to accurately predict the probability or magnitude of sub-surface tremors linked to hydraulic fracturing operations.

Before the moratorium decision Cuadrilla had successfully drilled the first two horizontal wells into UK Bowland shale at its PNR exploration site. Both wells had been partially fracked, with fracturing operations in both cases being suspended early following reports of induced seismicity being felt locally at surface. Each of the two PNR wells was flow tested, and in each case, very high-quality natural gas, flowed to surface. This confirmed the presence of a significant, quality natural gas resource. In both cases however the limited fracturing completed, before the suspension of operations, meant that a sustainable flow rate could not be measured. Gas recovery potential therefore remains to be determined.

Induced seismicity is not a new phenomenon in shale or in other operations where fluid is injected at high pressure underground, e.g. geothermal or waste-water disposal wells. Cases have been reported from fracturing operations in the US, Canada and China, however the number of cases has been very low in relation to the large numbers of wells drilled and hydraulically fractured. To date the UK is the only jurisdiction to impose a moratorium citing fracturing induced seismicity as the reason.

Following on from the moratorium Cuadrilla has continued to work with other shale gas operators in the UK and with recognised experts in the field of induced seismicity. This work includes assessing potential techniques for improving the predictability and mitigation of seismicity induced by hydraulic fracturing and accurately predicting maximum potential ground vibrations from seismic events.

In the case of the largest induced seismic event at PNR (2.9 ML event) the measured level of ground vibrations, whilst briefly felt, remained below the levels allowed for in other UK industries such as quarrying or geothermal wells.

Other regions (notably the US and Canada) experiencing induced seismicity have enabled fracturing operations and natural gas recovery to continue with appropriate safety measures in place. Cuadrilla and other shale gas operators in the UK are drawing on these international experiences, as well as the uniquely detailed micro-seismic data-set from the UK PNR operations, to address the concerns which led to the UK moratorium. Progress with respect to engaging with the Government to lift the moratorium is slow and it is therefore difficult for the Company to predict relief and resumption of activity.

Challenges

As a consequence of the moratorium, Cuadrilla shale exploration operations in UK have been scaled back with operating costs and overheads being very significantly reduced. AJL's investment into its UK oil and gas operations is therefore forecast to reduce by approximately ninety percent in FY21 compared to FY20. This is all the more significant given that the AJL share in Cuadrilla has increased from 48% to approximately 96% following its acquisition of the Riverstone shareholding in Cuadrilla, for a nominal sum, in February 2020.

Notwithstanding these material operating and overhead cost reductions AJL maintains an oversight of and access to fit for purpose technical and management capability in the UK. This allows it to fulfil its UK oil and gas licence and other regulatory commitments and preserve the inherent value in the significant shale gas resource and conventional oil and gas exploration prospects underlying those licences.

OIL AND GAS INVESTMENT CONTINUED

In July 2020 Centrica decided to withdraw from the Bowland shale and it will return, at no cost, its 25% holding in the Lancashire shale Joint Venture to JV partners Cuadrilla and AJL. This is the consequence of a much broader re-structure of the Centrica UK business, including the exit from upstream oil and gas, nuclear and offshore wind, as it re-focuses on the supply of energy to UK domestic and business customers. AJL will therefore become, in effect, the sole owner of the Lancashire Bowland shale gas licences.

Opportunities

In common with other countries and in recognition of the challenges posed by climate change, the UK has set out an ambitious goal to achieve "net-zero" CO_2 emissions by 2050. This goal has been enshrined in legislation. The UK Government and its expert advisors, including the Committee on Climate Change, have recognised that natural gas will be a key component of achieving "net-zero". A major role for natural gas is envisaged out to 2050 and beyond.

Natural gas, coupled with carbon capture and storage, will likely be used as the most cost-effective feedstock for hydrogen to heat homes and businesses and as the most efficient and effective back-up for renewable electricity generation.

At present the UK continues to import approximately half of its natural gas requirements. This percentage is forecast to significantly increase as indigenous North Sea gas production declines. The likely pace of that decline has been heightened by the severe business impacts of the COVID-19 pandemic on UK oil and gas investment. Whilst global gas prices and the cost of imports currently remain low, the impact of huge reductions in global exploration and capital spend by the oil and gas sector will likely be felt within the next few years. Tightening supply, rising gas prices and increasing recognition of the environmental benefit of domestic gas production compared to long distance imports by pipeline or ship, could individually or collectively therefore cause a re-think on the value and benefits of domestic UK exploration and production. This may in turn lead to further appraisal and production of a significant, high-quality shale gas resource in the UK.

Cuadrilla has for several years been the leading explorer of U.K. shale gas. It acquired the first licences, drilled the first vertical and horizontal wells, completed the first hydraulic fracturing operations and produced the first natural gas from UK shale. Importantly in doing so it fully complied with the world's toughest regulatory and environmental monitoring requirements.

Now under AJL ownership Cuadrilla has significantly reduced its costs, however it has retained its extensive technical data-base, corporate knowledge and access to technical and operational capability. It remains therefore well positioned to respond to what is considered a likely future re-evaluation of the value of UK indigenous natural gas.

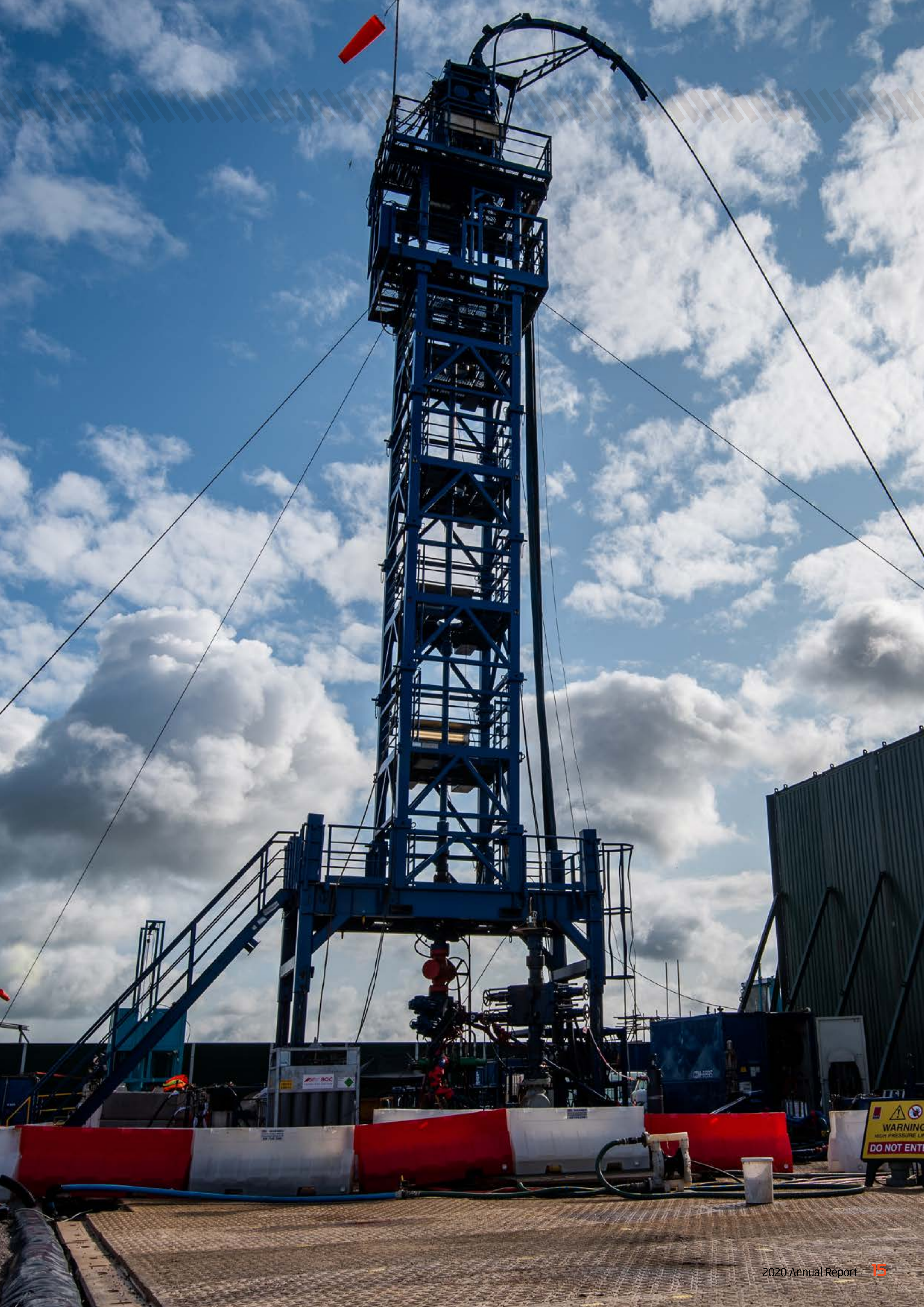
In addition to its shale gas portfolio Cuadrilla has also identified and is participating in a number of conventional oil and gas opportunities onshore UK. These include flow-testing of the Balcombe well, drilled by Cuadrilla in 2013 and now operated by Angus Energy with Cuadrilla and AJL retaining a collective 75% working interest. Angus is currently seeking planning permission to complete that flow test. Other potential conventional exploration opportunities are also being assessed with existing UK operators.

Summary

In summary therefore the 2020 financial year has been one of significant change and challenge for our UK oil and gas business. We have proved that UK shale contains high quality natural gas that will flow to surface and AJL has a large and highly prospective shale gas position. The challenge before the industry is to obtain support from the Government to provide a realistic environment to allow meaningful operations to proceed. The role of gas is entrenched in a changing UK energy mix and in an economy significantly disrupted by the impacts of the COVID-19 virus and gas from shale can still become an important contributor to that mix.

We have positioned the business to navigate those challenges and remain confident that the value inherent in our UK exploration licences will, in time, be realized.

Francis Egan,
Chief Executive Officer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FINANCIAL REPORT

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DIRECTORS' REPORT

for the year ended 30 June 2020

DIRECTORS

The Directors of AJ Lucas Group Limited (the "Company", the "Group" or "AJL") at any time during the financial year and up to the date of this report and their terms of office are as follows.

Phillip Arnall	Independent Non-Executive Chairman since 3 June 2014 Interim CEO and Executive Chairman 28 January 2014 to 3 June 2014 Independent Non-Executive Chairman 29 November 2013 to 28 January 2014 Independent Non-Executive Director 10 August 2010 to 29 November 2013
John O'Neill	Independent Non-Executive Director since 23 June 2015
Julian Ball	Non-Executive Director since 2 August 2013
Ian Meares	Resigned 31 December 2019 Independent Non-Executive Director since 3 June 2014
Andrew Purcell	Independent Non-Executive Director since 3 June 2014
Francis Egan	Executive Director since 13 May 2020
Austen Perrin	Executive Director since 1 January 2020
Brett Tredinnick	Executive Director since 1 January 2020

Details of the current members of the Board, including their experience, qualifications, special responsibilities and directorships of other listed companies held in the past 3 years are set out below.

PHILLIP ARNALL B Com

Mr Arnall had a distinguished thirty-year career in the mining and steel industries including senior executive responsibility at Australian National Industries Ltd and Tubemakers of Australia Limited. Mr Arnall was previously a Non-Executive director and Chairman of Bradken Limited. He was previously a director and Chairman of Ludowici Limited 2006-2012 and Chairman of Capral Limited from 2010 to 2011. Mr Arnall was a member of both the Audit and Risk and the Human Resources and Nominations Committees and continues up to his retirement from the AJL Board effective 31 August 2020.

ANDREW PURCELL B Eng; MBA

Mr Purcell is an engineer by background and has had a distinguished career in investment banking working with Macquarie Bank and Credit Suisse, the latter both in Australia and Hong Kong. In 2005 he founded Teknix Capital in Hong Kong, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Mr Purcell also has considerable experience as a public company director, both in Australia and in a number of other countries in the region, currently being the Chairman of Melbana Energy Limited. Mr Purcell was a member of the Audit and Risk Committee up to 1 January 2020, and was appointed Chairman of the Human Resources and Nominations Committee on 1 January 2020 following the resignation of Mr Meares.

JULIAN BALL BA; FCA

Mr Ball is an independent consultant representing Kerogen Capital ("Kerogen"), based in Hong Kong, and has more than 30 years of experience in investment banking and private equity.

Mr Ball trained as a chartered accountant at Ernst & Young in London before relocating to Hong Kong. He worked for many years as an investment banker at JP Morgan primarily covering the energy and natural resources sectors prior to working in private equity. Mr Ball is a member of both the Audit and Risk and Human Resources and Nominations Committees.

JOHN O'NEILL B Bus; FCA; FAICD

Mr O'Neill has over 25 years of experience in the upstream oil and gas industry, and was formally Executive Chairman of Pangaea Resources, a private unconventional oil and gas company. In addition, he was previously Chief Executive Officer of the Australian Petroleum Fund, which held a portfolio of exploration and producing oil and gas assets and a pipeline.

Mr O'Neill also has extensive experience in accounting and finance, having commenced his career as a chartered accountant with Coopers & Lybrand (now known as PriceWaterhouseCoopers) and Ernst & Whinney (now known as EY) in Sydney and London. Mr O'Neill joined the Board on 23 June 2015 and was appointed a member of the Audit and Risk Committee on that date; and, was appointed Chairman of the Audit and Risk Committee on 24 July 2015.

FRANCIS EGAN M Eng, MBA

Francis has over 36 years of diverse international experience in the upstream oil and gas industry, working in engineering and senior management roles. Prior to joining Cuadrilla as CEO in July 2012, Francis worked in Houston, Texas as President of Production for BHP Billiton Petroleum. He also held senior management roles at BHP in Algeria, Pakistan, UK and Australia over the course of a 20-year career. Prior to joining BHP Billiton, Francis spent eight years with Marathon Oil in a variety of engineering and commercial roles. He was educated in Ireland, obtaining a BE Civil Degree with First Class Honours and a Master of Engineering Science Degree. He spent time as a PhD student and research assistant at the California Institute of Technology (Caltech) in Los Angeles and also holds a MBA from the University of Warwick.

AUSTEN PERRIN B Econ. CA

Mr Perrin was appointed as the Group Chief Financial Officer in December 2014. Prior to joining AJL, he was the Chief Financial Officer for Whitehaven Coal Limited for nearly 6 years. He also previously held the group CFO roles with Asciano Limited and Pacific National Limited and was an executive director and divisional CFO of the listed Toll NZ Limited as well as holding various senior finance roles within the Toll Holdings group and TNT. Mr Perrin has considerable knowledge of transport, infrastructure, coal mining and oil and gas industries and has in depth experience across commercial, accounting and the finance spectrums. Prior to that he started his career with KPMG.

BRETT TREDINNICK MBA

Mr Tredinnick was appointed as the Group CEO in January 2020 having previously being the CEO of the Drilling Division and COO for the group. He has presided over the significant growth, restructuring and strategic initiatives for the Australian operations part of the business in recent years. Mr Tredinnick has been with the Group for over 20 years and during this time has seen multiple mining cycles. He has lead and implemented initiatives that have kept AJL's Australian business safe, profitable, innovative and a leader in its field of execution while highly regarded by its peers and customers in Coal, Oil and Gas. Prior to joining AJL, Mr Tredinnick held various operational and project management roles with Rio Tinto Coal and BHP. Mr Tredinnick holds qualifications in Metallurgy and an MBA from the University of Queensland, and is a member of the Australian Institute of Company Directors.

IAN MEARES B Eng (Hons); MEngSc; MBA; MAICD

Mr Meares has many years of experience in the global civil infrastructure, mining and energy industries. He resigned as a director in December concurrent with the disposal of the Engineering and Construction Division.

COMPANY SECRETARY

Mr Swierkowski B Com, CA, MBA (Exec) joined the company in June 2013, and was appointed to the position of Company Secretary on 23 June 2015. Prior to this he has held both senior finance and company secretarial positions in listed companies across mining, investments and facilities management.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of directors) held during the financial year, during the period of each director's tenure, and number of such meetings attended by each director are:

	Board of Directors		Audit and Risk Committee		Human Resources and Nominations Committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Phillip Arnall	15	15	4	4	2	2
Julian Ball	15	15	4	4	2	2
Ian Meares	6	6	-	-	2	2
Andrew Purcell	15	15	4	4	-	-
John O'Neill	15	15	4	4	-	-
Austen Perrin	9	9	-	-	-	-
Brett Tredinnick	9	9	-	-	-	-
Francis Egan	3	3	-	-	-	-

PRINCIPAL ACTIVITIES

The Group is a leading provider of drilling services primarily to the Australian coal industry, and an operator, through its Cuadrilla subsidiary, of exploration and appraisal of conventional and unconventional oil and gas prospects in the United Kingdom ("UK").

For the year in review, the Group was structured into the following two principal operating segments:

Drilling: A leading provider of drilling services to the energy and resources sectors, but primarily focused on delivering a suite of degasification and exploration drilling and related services to Australian metallurgical coal mines. The division has superior capabilities in the provision of specialised Directional and Large Diameter drilling for degasification of coal mines.

Oil & Gas Operations: Exploration of unconventional and conventional hydrocarbons in the United Kingdom.

OPERATING & FINANCIAL REVIEW

GROUP PERFORMANCE

	2020 Year $'000	2020 2nd half $'000	2020 1st half $'000	2019 Year $'000	2019/20 Change %
Total revenue from continuing operations	146,746	69,204	77,542	143,442	2.3%
Underlying EBITDA from continuing operations	24,512	10,319	14,193	20,412	20.1%
Reported EBITDA from continuing operations	24,064	14,888	9,176	9,086	164.8%
EBIT from continuing operations	16,714	11,045	5,669	3,701	351.6%
Loss before tax from continuing operations	(8,884)	1,378	(10,262)	(25,674)	65.4%
Loss before tax from discontinued operations	–	–	–	(13,716)	100.0%
Net loss for the year	(8,884)	1,378	(10,262)	(39,390)	77.4%
Total assets	238,564	265,957	276,357	265,957	(10.3%)
Net assets	86,949	107,542	132,119	107,542	(19.1%)
Basic loss per share from continuing operations (cents)	(0.9)	0.1	(1.2)	(3.4)	74.4%

A reconciliation of the profit / (loss) from continuing operations to Underlying EBITDA is shown in the following table:

	Drilling $'000	Oil & Gas $'000	Corporate $'000	2020 Total $'000	2019 Total %
Reconciliation:					
Profit / (loss) for the period from continuing operations	**13,450**	**158**	**(22,492)**	**(8,884)**	**(25,674)**
Depreciation and amortisation	6,772	225	353	7,350	5,385
Finance costs	7,752	–	17,879	25,631	29,507
Finance income	(14)	–	(19)	(33)	(132)
EBITDA from continuing operations	**27,960**	**383**	**(4,279)**	**24,064**	**9,086**
Share of equity accounted investees loss	–	1,162	–	1,162	4,880
Other income	–	(420)	–	(420)	(373)
Share of overhead – UK investments	–	2,865	–	2,865	3,480
Realisation of exchange differences on acquisition – Cuadrilla	–	(42,265)	–	(42,265)	-
Write back of non-cost items in equity accounted investment	–	38,275	–	38,275	-
Strategic review of Drilling division	–	–	–	–	840
Settlement of legal disputes	–	–	–	–	885
Net restructuring and redundancy costs	–	–	508	508	546
Net loss on sales of assets	–	–	323	323	816
Other expense	–	–	–	–	252
Underlying EBITDA	**27,960**	**–**	**(3,448)**	**24,512**	**20,412**

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

OVERVIEW OF THE GROUP

The Group has produced a strong result with an increase in revenue to $146.7 million in the year compared to $143.4 million in the prior year, and Underlying EBITDA increasing 20% on last year. While these results in part reflect the adoption of AASB16 Leases, which is further explained in Note 2 (f) of the Financial Statements, they are primarily driven by a better performance of the Drilling Operations and the very buoyant metallurgical coal market prior to the onset of the COVID-19 pandemic. While the pandemic resulted in some initial disruption in drilling activities and increased costs, which impact of the second half years' results, a re-organisation of the group will offset these additional costs going forward.

During the year, the Drilling division was ramping up to meet customer requirements and had invested modest additional capex to its existing fleet to meet the expected demand. This included delivering additional innovative solutions to its customers while maintaining superior operational controls and safety performance. The onset of the COVID-19 pandemic and the consequential impact to coal prices in the last quarter of the year meant some customer requirements changed resulting in a lower than anticipated second half year EBITDA performance.

In light of the continued lower activity in the UK and with the completion of the exit of non-core businesses the opportunity was taken, in the second half of the year, to restructure the Corporate activities with the objective of delivering cost reductions. Going forward the Corporate function will be undertaken within the Brisbane office with a resultant reduction in period costs after recognition of the restructure costs in this year. Following the UK Government's moratorium on fracturing announced November 2019, and the acquisition of Riverstone's interest in Cuadrilla, the company significantly downsized operations in the UK to meet the reduced operations while maintaining operational capability.

After taking into account certain non-operating costs and the non-capital costs of the Group's UK operations, Group EBITDA from continuing operations was $24.1 million for the year compared to $9.1 million in the previous year. The share of equity accounted investees loss and UK overhead was $1.2 million, compared to a loss of $4.9 million for the previous year, largely as a result of reduced investment activity as well as the change of accounting following the acquisition of Riverstone's interest in Cuadrilla in February 2020.

During the year in review, the Company completed the refinancing of its Group US dollar denominated Senior Loan Notes issued to OCP Asia (Singapore) Pte Ltd with two new Australian dollar denominated facilities. As part of the refinancing Kerogen agreed to subordinate its US dollar denominated debt to both these facilities and to extend the maturity to 6 months after the full repayment of the Junior facility.

DIVISIONAL PERFORMANCE

Australian drilling operations

	2020 Year $'000	2020 2nd half $'000	2020 1st half $'000	2019 Year $'000	2019/20 Change %
Revenue	146,746	69,204	77,542	143,442	2.3%
Underlying EBITDA	27,960	11,867	16,093	24,404	14.6%
EBITDA margin	19.1%	17.1%	20.8%	17.0%	

Drilling operations for the half year to 31 December 2019 provided a strong performance based on a pre COVID-19 buoyant coal market with underlying customer confidence, delivering Revenue of $77.5 million and Underlying EBITDA of $16.1 million. Its performance for the second six months of the year was impacted by the COVID-19 pandemic and resulting loss in confidence in global trading and demand with Revenue generated of $69.2 million and Underlying EBITDA of $11.9 million.

Drilling division together with the Group, implemented comprehensive plans to protect its people and customers from the advent of the COVID-19 pandemic in early March 2020 and ensured its operations were in-line with or exceed State and Federal requirements at the time. These plans, developed in accordance with Group risk policies, government requirements and specialist advice, ensured the Group and the Drilling division continued to operate within Government guidelines and provided assurance to its customers of a seamless process in relation to workforce safety and social distancing. Measures included "non-operational" personnel working from home to reduce exposure in both Australia and the UK and the use of charter flights for Fly in / Fly out workers in Australia.

The impact from the COVID-19 pandemic during the fourth quarter of FY2020 has seen coal prices decline and a drop from pre COVID-19 demand levels for metallurgical coal. A small number of customers were also impacted by issues surrounding mine disruptions which all had an impact on second half year performance. These headwinds, compounded by the impact of seasonal summer holidays and wet weather in the second half year, resulted in Revenue declining by 11% and Underlying EBITDA by 26% in the second half of FY2020 compared to the first half.

Overall, annual Revenue for the year increased by 2.3% to $146.7 million as a result of high utilisation of its rig fleet, pre COVID-19, with demand especially strong in the more specialised large diameter and directional drilling service offerings.

Importantly, the short-term outlook for the Drilling division remains relatively positive but cautious given the vagaries of how the COVID-19 pandemic may impact the Company.

The uncertainty on the short term global demand for steel, due to the pandemic, has our customers cautious about the timing of a full market recovery. Despite some minor cost pressures in the market at present, the Drilling business has managed to increase its overall margin in FY2020.

Oil and Gas

The financial year has proved to be a challenging one for our UK oil and gas operations. In August 2019 we commenced the hydraulic fracturing (HF) of the second horizontal well drilled through the Upper Bowland Shale at our Preston New Road exploration site (PNR2). This well was drilled to a depth of 2,100 meters and laterally for approximately 750 meters. A total of 41 separate intervals, or stages, were planned to be hydraulically stimulated along the length of the PNR2 lateral. Each stage was to be completed with approximately 50 tonnes of sand mixed with hydraulic fracturing fluid.

The first six stages of PNR2 were successfully completed, with each stage being injected with between 30 and 50 tonnes of sand. However, following HF of stage 6 and partially of stage 7, a number of post-pumping sub-surface seismic events were recorded, in excess of the UK regulatory "red light" threshold for induced seismicity, set at just 0.5 ML. The largest of these events measured 2.9ML on the Richter scale which occurred on 26th August 2019. This event, which lasted a few seconds, was within the upper limit of 3.1 ML set out in the PNR2 Hydraulic Fracture Plan approved by the UK Regulator, the Oil and Gas Authority ("OGA"). However, it was reported as felt widely within the local area and the OGA instructed Cuadrilla to suspend further HF until a technical investigation into the events had been completed.

Subsequently, Cuadrilla flow-tested the seven stimulated stages of the PNR2 well. Results confirmed very high quality natural gas which flowed to surface from the six fully and one partially completed stages. Sampled gas contained approximately 90 per cent methane, 6 per cent ethane and 2 per cent propane, with virtually no impurities. The limited number of stages fractured however meant that a meaningful sustained flow rate of gas from the full length of the lateral could not be measured. As such, whilst very high-quality gas has been confirmed, the ultimate recoverability of that gas requires further HF and flow-testing.

Whilst the technical investigation of the PNR2 seismic events, by the Company and the OGA, was still ongoing, the UK Government, in early November 2019, announced a moratorium on further HF operations in England. At that time the UK was heading into a general election. The Government announcement stated that the lifting of the moratorium would require technical assurances that HF operations would meet Government policy of ensuring safe, sustainable operations of minimal disturbance to those living and working nearby.

Cuadrilla and other UK shale gas operators have subsequently continued to work together to address these technical issues, so that the moratorium can be lifted. Cuadrilla and other Operators are also drawing on academic work from UK and US universities specialising in the management and mitigation of seismicity induced by fracturing, geothermal, CO2 injection, waste-water disposal and other operations where high pressure fluid is injected underground. The OGA also continues its independent technical assessments of the PNR2 induced seismic events.

In early February 2020, the Group acquired Riverstone's interest in Cuadrilla for a nominal sum, increasing its interest from 47.54% to approximately 96%. This allowed the Company to consolidate and streamline its ownership and via subsequent control of the Cuadrilla group, simplify decision making.

As a consequence of the moratorium and the business impact of the COVID-19 pandemic in England, Cuadrilla shale exploration operations in the UK were significantly scaled back and over the course of the remainder of FY20 operating costs and overheads were very significantly reduced. A small team currently operates in the UK, maintaining Cuadrilla's UK licences and statutory obligations.

Outside of the Lancashire Bowland Shale Licences, Angus Energy, as operator of the Balcombe licence located in West Sussex submitted an application to the West Sussex County Council for an extended well test of up to 3 years of the existing Balcombe 2 Horizontal Well, drilled by Cuadrilla in 2013 targeting a conventional oil play. As of the balance date, that application has not been determined. The Group has an effective interest in the Balcombe licence of 75% (18.75% held directly with the remainder held through the Group's interest in Cuadrilla). Cuadrilla has interests in various other UK onshore exploration licences in Yorkshire in the UK totalling approximately 1,274 km2, many of which target the same Bowland-Hodder shale formations being drilled and tested in Lancashire. Some of these licences are held solely by Cuadrilla, with one in joint venture with INEOS, a UK chemicals company (see Note 20 of the Financial Statement).

The Company continues to firmly believe in its strategy to unlock gas from onshore shale exploration in the UK, despite the temporary setbacks during 2019. Natural gas continues to play an important role in providing energy to the UK and will continue to do so for many decades in the future. Natural gas, coupled with carbon capture and storage, will likely be used as the most cost-effective feedstock for hydrogen to heat homes and businesses and as the most efficient and effective back-up for renewable electricity generation. Whilst gas imports are currently plentiful and relatively cheap that is unlikely to remain the case in the medium to longer term and the environmental and economic benefits of a domestic gas supply, including shale gas, are, we believe, likely to come again to the fore.

REVIEW OF FINANCIAL CONDITION

During the year solid underlying EBITDA performance from the Drilling operations, supported by a focus on working capital management, resulted in cash from operations of $22.2 million (2019: generated cash of $22.8 million) before net interest and finance costs paid of $20.2 million (2019: $8.0 million).

In October 2019 the Group refinanced its US dollar denominated Senior Loan Notes held by OCP Asia (Singapore) Pte Ltd. ("OCP Loan Notes") with two new Australian dollar denominated facilities. The new facilities comprise a 3-year senior ranking revolving asset-based loan ("ABL") of up to $30 million provided by Investec Bank PLC and a 3.5-year junior-ranking $50 million loan note facility ("Junior facility") led by HSBC Group. As part of the refinancing Kerogen agreed to subordinate its debt to both these facilities and to extend the maturity on their loan to 6 months after the full repayment of the Junior facility. The proceeds of the new facilities were used to repay OCP.

The increase in net interest and finance costs paid during FY20 reflects repayment of the OCP Loan Notes which incurred substantial deferred interest and finance costs that became payable at maturity, in comparison to the two new facilities for which interest is payable quarterly, in respects of the Junior facility, and monthly in respect of the ABL.

The two new facilities have a weighted average nominal interest rate of approximately 11% when fully drawn and provide significant savings compared to the OCP interest rate of 18%. Furthermore, as the facilities are denominated in AUD there is no foreign exchange exposure. Scheduled amortisation under the Junior facility will reduce the principal from $50 million to $24 million over the 3.5-year life of the facility.

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

The recent COVID-19 global pandemic and its impact on global and domestic markets has to date not required the Company to change any of its banking covenants with its Lenders.

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

OUTLOOK & LIKELY DEVELOPMENTS

Outlook

The Australian operations has recorded a strong result for the year. Cash generated from the Australian Operations are expected to be used to service and reduce debt and to fund capex to further improve operating results. Management will continue to focus on servicing its customers whilst exploring further business opportunities where it can utilise its specialist skills and equipment.

As we all grapple with the COVID-19 pandemic the Company is unable to accurately forecast the operations for the coming year. However, your management team has put in place comprehensive procedures to deal with the challenges of the pandemic. These include the safety of our staff, continuity of supply chains and constant liaising with key customers to meet their needs.

Cuadrilla is working to alleviate the UK Government's concerns of sub-surface induced seismicity so the moratorium on hydraulic fracturing can be lifted. Following the purchase of Riverstone's interest in Cuadrilla the Group has full control of Cuadrilla's future strategy and operating plans. Cuadrilla's funding requirement has been significantly reduced, largely as a result of reduced staffing and operations. Cuadrilla will engage in limited analysis of prospective areas of its licences, in preparation for activity when the moratorium is lifted.

IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

There were no changes in environmental or other legislative requirements during the year that significantly impacted the results or operations of the Group.

DIVIDENDS

No dividends have been declared by the Company since the end of the previous year (2019: Nil).

ENVIRONMENTAL REGULATIONS & NATIVE TITLE

AJL is committed to meeting stringent environmental and land use regulations, including native title issues. The Group is committed to identifying environmental risks and engineering solutions to avoid, minimise or mitigate such risks. The Group works closely with all levels of government, landholders, and other bodies to ensure its activities have minimal or no effect on land use and areas of environmental and cultural importance. Group policy requires all operations to be conducted in a manner that will preserve and protect the environment.

The directors are not aware of any significant environmental incidents, or breaches of environmental regulations during or since the end of the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The significant changes in the state of affairs of the Group both during the financial year and subsequent to the balance sheet date are as described in this report and the financial statements and notes thereto.

EVENTS SUBSEQUENT TO REPORTING DATE

In July 2020, the Company received notice from Spirit North Sea Gas Limited ("Spirit"), its partner in the UK Bowland Shale exploration licence, that Spirit intends to exit the licence and transfer its 25% interest back to AJL for a nominal sum. This is in accordance with an option under the 2013 Sale and Purchase agreement that AJL negotiated with Centrica (a Parent Company of Spirit). Spirit will remain liable for its 25% share of the future decommissioning costs of the exploration wells already drilled and facilities already installed on the licences.

This is part of a broader series of actions being taken by Centrica (the owner of Spirit) to arrest the decline of the value of their business including an exit from the upstream oil and gas business and other wide-ranging organisational changes to allow it to focus on downstream oil and gas services. Contributing to this uncertainty has been the decline in oil and gas prices stemming from the recent COVID-19 pandemic, which may have further added to the urgency for Centrica to seek to exit its upstream gas business, including its interest in the Bowland licence.

Other than as disclosed above, there has not arisen in the interval between the end of the financial 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.

DIRECTORS' SHAREHOLDINGS AND OTHER INTERESTS

The relevant interest of each person who held the position of director during the year, and their director-related entities, in the shares and options over shares issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report are:

	Ordinary shares	Options
Current Directors		
Phillip Arnall	597,188	-
John O'Neill	16,506,442	-
Andrew Purcell	527,105	-
Austen Perrin	300,062	-
Brett Tredinnick	345,722	-

Kerogen Investment No 1 (HK) Limited ("Kerogen") holds 779,888,166 ordinary shares in the Company (equivalent to 65.19% of issued shares). Julian Ball is a representative of Kerogen and is also a director of AJL.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities including expenses to another person or entity (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Company, except where the liability arises out of conduct involving a lack of good faith.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst and Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify EY during or since the financial year end.

Insurance premiums

Since the end of the previous financial year, the Company has paid premiums in respect of directors' and officers' liability and legal expenses insurance contracts for the year ending 31 May 2021.

NON-AUDIT SERVICES

During the year, EY, the Company's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with advice of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 '*Code of Ethics for Professional Accountants*', as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Payments due to the auditor of the Company and its related practices for non-audit services provided during the year, as set out in Note 9 of the financial statements, amounted to $65,000 (2019: $398,650).

ROTATION OF LEAD AUDIT PARTNER

Mr Ryan Fisk, a partner of Ernst & Young, is the lead audit partner for his firm's audit of the Company's Financial Report. FY19 was the fifth successive financial year in which he was the lead audit partner. As a lead audit partner, he is, under the Corporations Act 2001, "an individual who plays a significant role in the audit".

The Corporations Act 2001 prohibits any individuals from playing a significant role in the audit of a listed company for more than five successive years without the approval of the Company's Board.

In June 2019, on the recommendation of the Audit Committee, the Board granted approval Pursuant to s324DAA(1) of the Corporations Act 2001 for Mr Fisk to play a significant role in the audit of AJ Lucas Group Limited after FY19. The Board considered that:

1. The interests of the Group would be best served by retaining the services of Mr Fisk as lead audit partner especially given his in depth understanding of the Group and his knowledge of the issues faced by the Group is vital to the most effective and efficient audit; and,
2. The extension of Mr Fisk's term as lead audit partner would maintain the quality of the audit and would not give rise to a conflict of interest.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 36 and forms part of the Directors' Report for the financial year ended 30 June 2020.

ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) issued by the Australian Securities and Investments Commission. Unless otherwise expressly stated, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars in accordance with that Corporate Instrument.

REMUNERATION REPORT – AUDITED

The Directors present the Remuneration Report ("the Report") for the Company and its controlled entities for the year ended 30 June 2020.
The Report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001. The Report outlines the remuneration policy for key management personnel comprising

1. The non-executive directors (NEDs)
2. Senior executives (the Executives)

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The Board's policy for setting fees for non-executive directors is to position them around the middle of market practice for comparable non-executive director roles in companies listed on the Australian Securities Exchange ("ASX"). Non-executive directors do not receive performance related remuneration and are not provided with retirement benefits apart from statutory superannuation. Options and other forms of equity are not provided to non-executive directors.

Total remuneration for all non-executive directors, last voted upon at the 2018 Annual General Meeting, is not to exceed $900,000 per annum. The remuneration for each non-executive director during the year was $100,000 per annum, with an additional $10,000 per annum for each director serving on each committee of the Board. The Chairman, who is also a member of each Board Committee previously received a total of $295,000 per annum, which the Chairman offered to reduce to $245,000 per annum effective from 1 January 2020.

The following table presents details of the remuneration of each non-executive director.

Non-executive director	Year	Board fees including superannuation $	Committee fees including superannuation $	Total $
Phillip Arnall	2020	250,000	20,000	270,000
Phillip Arnall	2019	275,000	20,000	295,000
Julian Ball	2020	100,000	20,000	120,000
Julian Ball	2019	100,000	20,000	120,000
Ian Meares*	2020	50,000	5,000	55,000
Ian Meares	2019	100,000	10,000	110,000
Andrew Purcell	2020	100,000	10,000	110,000
Andrew Purcell	2019	100,000	10,000	110,000
John O'Neill	2020	100,000	10,000	110,000
John O'Neill	2019	100,000	10,000	110,000

* Ian Meares resigned 31 December 2019

EXECUTIVE REMUNERATION

Policy

The key principle of the Group's remuneration policy for key management personnel ("KMP") is to set remuneration at a level that will attract and retain appropriately skilled and motivated executives, including executive directors, and motivate and reward them to achieve strategic objectives and improve business results. The Remuneration Committee may obtain independent advice from time to time on the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Group's remuneration strategy.

The overriding philosophy of the remuneration structure is to reward employees for increasing shareholder value. This is achieved by providing a fixed remuneration component, together with performance-based incentives.

AJL aims to set fixed annual remuneration at market median levels for jobs of comparable size and responsibility using established job evaluation methods and to provide incentives to enable top performers to be remunerated at the upper end of the market range, subject always to the performance of the Group. The aim of the incentive plans is to drive performance to successfully implement annual business plans and increase shareholder value.

Fixed remuneration

Fixed remuneration consists of base remuneration which is calculated on a total cost basis and includes any allowances and fringe benefit tax charges related to employee benefits including motor vehicles as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually through a process that considers individual and segment performance of the Group. This process includes consultation with external consultants and review of external databases to benchmark remuneration levels with comparable companies.

Performance linked compensation

Performance linked remuneration may include short-term incentives that are designed to reward key management personnel for meeting or exceeding their financial and personal objectives.

The short-term incentive ("STI") is an 'at risk' bonus generally provided in the form of cash. Executives have the ability to earn an STI of up to a maximum of 63.75% of their fixed annual remuneration, based on achievement of certain criteria. Any portion of an STI over a hold point, being between 21% and 25.5% of remuneration in the case of KMP, will be held over and paid in 12 months provided the KMP continues to be employed by the Group. The criteria include a mix of:

1. Corporate performance targets, measured in reference to Drilling Divisions underlying EBITDA performance weighted commensurate with the employee's role;
2. Corporate sustainability and safety performance; and
3. Individual key performance indicators agreed annually between the Company and the individual.

Any STI payment is subject to review by the Board and it may on a case by case basis decide to award additional discretionary incentives to reward exceptional performance.

Relationship of remuneration to Company performance

In considering the Group's performance and benefits for shareholder value, the Human Resources and Nominations Committee has had regard to the following indices in respect of the current financial year and the previous four financial years.

Year ended 30 June	2020	2019	2018	2017	2016
Total revenue ($'000)(1)	**146,746**	143,442	124,702	73,374	79,633
Underlying EBITDA(1)	**24,512**	20,412	14,916	(1,952)	14,556
Net loss after tax attributable to members ($'000)	**(8,884)**	(39,390)	(39,390)	(39,030)	(19,485)
Loss per share (cents)	**(0.9)**	(5.3)	(5.3)	(9.7)	(6.7)
Dividend per share (cents)	**-**	-	-	-	-
Share price at balance date	**$0.035**	$0.08	$0.33	$0.22	$0.18
Share price appreciation/(depreciation)	**(14%)**	(76%)	50%	22%	(54%)
STI to KMP in relation to the year's performance ($'000)	**416**	569	331	-	482

(1) In 2018 a decision was made to discontinue the Lucas Engineering and Construction division. Total revenue and Underlying EBITDA in the above table includes only results from continuing operations from FY 2017 and onwards.

The Group's Underlying EBITDA significantly exceeded the target, having improved over the last two years despite the impact of COVID-19 pandemic in the second half. As such, and noting the achievement of certain individual key performance indicators, bonuses totaling $416,000 for key management personnel were accrued. Of this $310,000 will be payable following the release of these 30 June 2020 audited Annual Financial Statements, with the remaining $106,000 payable in June 2021 provided the KMP does not leave the Group. A total of $568,650 in cash bonuses was paid in FY2020 in two tranches in respects of the 2019 financial year.

Executive director's and officers' remuneration

Details of the nature and amount of each element of remuneration of each executive director of the Company and other key management personnel (KMP) of the Group are:

		Short-term				Post employment		Other long term		
		Salary/ fees[1] $	Incentives accrued[2] $	Retentions accrued[3]	Total $	Super-annuation benefits $	Term-ination benefit $	Long term benefits (long service leave) $	Total $	Proportion of remuneration performance related %
Executive officers										
Austen Perrin	2020	493,891	191,754	40,000	725,645	21,002	174,368	7,558	928,573	20.65%
CFO and executive Director	2019	494,169	289,720	160,000	943,889	25,000	-	10,482	979,371	29.58%
Brett Tredinnick	2020	462,109	224,400	-	686,509	21,002	-	(7,924)	699,587	32.08%
Group CEO and Executive Director	2019	452,737	278,930	-	731,667	20,531	-	8,294	760,492	36.68%
Francis Egan[4]	2020	53,348	-	-	53,348	-	-	-	53,348	0.00%
CEO of Cuadrilla and executive Director	2019	-	-	-	-	-	-	-	-	n/a
John Stuart-Robertson[5]	2020	-	-	-	-	-	-	-	-	n/a
EGM – Pipelines	2019	68,281	-	-	68,281	2,720	237,881	2,562	311,444	0.00%

(1) Salary and wages earned including any allowances and accrued annual leave where the annual leave is cumulative and payable upon termination by either party.

(2) Incentives in respect of the 2019 financial year were accrued in 2019 but paid over two tranches in 2020. One third was paid following public release of the 2019 annual audited financial statements and the remainder paid on 30 June 2020.

Incentives in respect of the 2020 financial year were accrued in 2020, with $310,000 payable following the release of the 2020 annual audited financial statements and with $106,000 of the incentive attributable to the CEO deferred and is payable in June 2021.

(3) A retention payment of $200,000 agreed in June 2018 becomes payable to the Group Chief Financial Officer on 30 September 2019 subject to continued employment with the Group. A time-based proportionate amount is included in each year.

(4) The CEO of Cuadrilla was appointed to the Board as an executive Director on 13 May 2020 and became a KMP at this time.

(5) The Executive General Manager Pipelines ceased being an employee and KMP of the Group on 1 August 2018 following the sale of the assets of the Engineering and Construction division. His termination benefit consisted payment in lieu of notice of 6 months and severance in accordance with statutory obligations.

Service agreements

All key management personnel are employed under contract which outlines components of remuneration but does not prescribe how remunerations levels are modified year to year. The Board can provide discretionary benefits which may fall outside existing incentive programs under the terms of these contracts, for example, in relation to major projects. Remuneration levels are reviewed every year to take into account cost of living changes, any change in the scope of the role performed, any changes required to meet the principles of the remuneration policy and the Group's performance.

The service contracts are unlimited in term. All contracts with executive officers can be terminated with up to 9 months' notice by the Company. The Company can choose to forfeit the notice period with an equivalent amount of compensation payable to the employee.

External remuneration consultant advice

The Group's KMP remuneration is reviewed by a remuneration consultant every 2 years. Such a review was performed by Korn Ferry during FY20 for which the Group was charged $7,000. The review considered changes in KMP roles, with the results under consideration and any adjustment to be agreed and implemented in FY21.

Options over equity instruments granted as compensation

No options over ordinary shares in the Company were granted as compensation to key management personnel during the reporting period. There were no outstanding options at the beginning of the financial year.

Analysis of movements in shares

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

2019	Held at 30 June 2019	Purchased – Pro rata rights issue	Net other changes	Held at 30 June 2020
Non – Executive Director				
Phillip Arnall	306,250	290,938	-	597,188
Andrew Purcell	270,310	256,795	-	527,105
John O'Neill	16,237,595	268,847	-	16,506,442
Executive DIrectors				
Brett Tredinnick	345,722	-	-	345,722
Austen Perrin	187,182	112,880	-	300,062

Signed in accordance with a resolution of the directors pursuant to s.298 (2) of the Corporations Act 2001.

Phillip Arnall,
Chairman

Dated at Sydney, this 28th day of August 2020

CORPORATE GOVERNANCE REPORT

for the year ended 30 June 2020

The Board of directors ("The Board") is responsible for the corporate governance of the Group. The Board considers strong Corporate Governance to be core to ensuring the creation, the enhancement and protection of shareholder value. Accordingly, the Group adopted the 3rd Edition of the ASX Corporate Governance Principles and Recommendations, in 1 July 2014. Relevant governance practices were updated to reflect the 4th edition of the Principles and Recommendations which will apply from the end of FY20.

The Board believes that a company's corporate governance policies should be tailored to account for the size, complexity and structure of the company and the risks associated with the company's operations. The ASX Corporate Governance Council allows companies to explain deviations from the Council's recommendations. Areas where the Group has deviated from the Council's recommendations at any time during the financial year are discussed below, however the Board believes the areas of non-conformance do not impact on the Group's ability to operate with the highest standards of Corporate Governance.

This statement outlines the main corporate governance practices of the Group. Unless otherwise stated, these practices were in place for the entire year.

FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Roles and responsibilities

The directors of the Company are accountable to shareholders for the proper management of the business and affairs of the Company. The key responsibilities of the Board include the following:

- contributing to and approving the corporate strategy for the Group;
- monitoring the organisation's performance and achievement of its corporate strategy;
- approving and monitoring the progress of significant corporate projects, including acquisitions or divestments;
- reviewing and approving the annual business plan and financial budget;
- monitoring financial performance, including preparation of financial reports and liaison with the auditors;
- appointment and performance assessment of the executive directors;
- ensuring that significant risks have been identified and appropriate controls put in place;
- overseeing legal compliance and reporting requirements of the law; and
- monitoring capital requirements and initiating capital raisings.

The Board's responsibilities are documented in a written Board Charter which is available in the shareholder information section of the Company's website. The Board Charter details the functions reserved to the Board, the roles and responsibilities of the Chairman and the responsibilities delegated to management. The Board Charter also gives the Directors the right to seek independent professional advice, at the Group's expense, on matters relevant to carrying out their duties.

The Company Secretary is appointed by the Board and is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. Each Director can communicate directly with the Company Secretary and vice versa.

Appointment and Re-Election of Directors

Through periodic reviews of the Board composition and succession planning, the Board seeks to ensure that the skills, knowledge, experience, independence and diversity of the Board are appropriate for the present and future requirements of the Group. The Human Resources and Nominations Committee actively seeks to identify, and recommends to the Board for appointment, directors whose skills and attributes complement and enhance the effective operation of the Board.

Background checks are conducted prior to appointing any new Director, with each non-Executive Director being required to specifically acknowledge that they have and will continue to have the time to discharge their responsibilities to the Company.

The constitution requires one third of all directors, to retire from office at each Annual General Meeting ("AGM") and can present themselves for re-election at which time the Board will provide direction to shareholders of support or otherwise. No Director can hold office for more than 3 years without presenting for re-election, and any Director appointed by the Directors during the year to fill a casual vacancy is required to also present for election at the first AGM following their initial appointment. All information relevant to a decision on whether or not to elect or re-elect a Director is included in the Notice of AGM.

Review of Performance

The Board continually assesses its performance, the performance of its committees and individual Directors through a structured bi-annual review process. The Board may at times engage the assistance of external consultants to facilitate formal Board performance reviews.

The performance of all senior executives is reviewed annually by the Chairman of the Board in consultation with the Human Resources and Nominations Committee, with the last such review having taken place in August and September 2019.

Diversity

AJL is committed to a diverse and inclusive workplace which supports business objectives, delivers competitive advantages and benefits shareholders and customers. The Group is committed to ensuring all employees are treated fairly, equally and with respect no matter what their race, ethnicity, gender, sexual orientation, socio-economic status, culture, age, physical ability, education, skill levels, family status, religious, political and other beliefs and work styles. A copy of the Group's Diversity Policy is available in the shareholder information section of the Company's website.

While the Board is committed to achieving gender diversity it is of the view that imposed targets, in particular considering the current market conditions, would not be of benefit and could result in hiring decisions that are contrary to the ultimate goal of "best fit" for purpose. As such, the Group's Diversity Policy does not at this time require the Company to set measurable objectives for achieving gender diversity.

The number of men and women on the Board, in senior management and other positions as reported in the Group's 2020 and 2019 Gender Equality Report is shown below:

	2020			2019		
Level	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Non-executive Directors	4	–	4	5	–	5
Executive leadership personnel	3	1	4	2	1	3
Other employees	356	19	375	325	22	347
TOTAL	**363**	**20**	**383**	**332**	**23**	**355**

The Company has a maternity leave scheme where a permanent employee who has been with the company for over 24 months can access paid maternity leave following the birth of a child. The Group has in place various other programs to foster career development including training sessions for line managers, sponsoring attendance at executive management training courses, implementation of flexible work place practices, and development and implementation of HR policies and practices to drive workforce participation rates of key diversity segments.

STRUCTURING THE BOARD TO ADD VALUE

Composition of the Board

The constitution of the Company requires between three and ten directors. Currently there are seven directors, four of whom are non-executive, three of which are independent, and three executives.

The table below sets out the independence status of each director as at the date of this annual report.

Director	Status
Phillip Arnall	Chairman and Independent Non-Executive Director
John O'Neill	Independent Non-Executive Director
Andrew Purcell	Independent Non-Executive Director
Julian Ball	Non-Executive Director
Francis Egan	Executive Director
Austen Perrin	Executive Director
Brett Tredinnick	Executive Director

The directors' skills and experience, and the period of their appointments with the Company is set out in the Directors' Report.

Skills Matrix

The Board seeks to ensure that its membership includes an appropriate mix of skills and experience. A summary of the directors' skills and experience relevant to the Group as at the end of the Reporting Period is set out below:

Level	Phillip Arnall	John O'Neill	Julian Ball	Andrew Purcell	Francis Egan	Austen Perrin	Brett Tredinnick
Executive leadership	✔	✔	✔	✔	✔	✔	✔
Strategy and risk management	✔	✔	✔	✔	✔	✔	✔
Financial acumen	✔	✔	✔	✔	✔	✔	✔
Health and safety	✔	✔	–	–	✔	–	–
Former CEO	✔	✔	–	✔	✔	–	–
Mining services	✔	✔	✔	✔	✔	✔	✔
Oil and gas	–	✔	✔	✔	✔	–	–

Induction Program

The Company has induction procedures in place to allow new directors to participate fully and actively in Board decision making at the earliest opportunity. Where possible new Directors are given the opportunity to attend Board meeting before becoming a Director. Where the Director is not an existing executive a checklist of information is prepared for the incoming directors, while Board members are also provided comprehensive information on a regular basis by the Executive Leadership Team so that they can discharge their director responsibilities effectively. The Company Secretary coordinates the timely completion and dispatch of such material to the Board.

Directors are encouraged, and are given the opportunity, to broaden their knowledge of the Group's business by visiting offices in different locations and engaging with management. They are encouraged to remain abreast of developments impacting their duties and offered external training opportunities on an "as required" basis.

ETHICAL AND RESPONSIBLE DECISION MAKING

The Company has a code of conduct to guide the directors and key executives. It includes disclosure of conflicts of interest and use of information not otherwise publicly known or available. Any director with an interest in matters being considered by the Board must take no part in decisions relating to those matters.

The Directors' Code of Conduct is available in the shareholder information section of the Company's website as is the employee Code of Conduct. These codes address the practices necessary to maintain confidence in the Company's integrity, to take account of legal obligations and expectations of stakeholders and the responsibility and accountability for reporting and investigating unethical practices.

The Group operates a zero-tolerance approach to all forms of bribery and corruption, whether direct or indirect. As such the Group has Anti-Bribery and Corruption and Whistleblower policies also available in the shareholder information section of the Company's website. The Anti-Bribery and Corruption policy prevents:

- making or acceptance of facilitation payments or kickbacks of any kind.
- payments to trade unions or their officials
- Any donations to political parties or charitable donations, for the purpose of gaining commercial advantage and
- the giving or receipt of any gifts or hospitality if it could in anyway be intended, or reasonably interpreted, as a reward or encouragement for a favour or preferential treatment.

Human Resources and Nominations Committee

The Human Resources and Nominations Committee is responsibilities are documented in the Human Resources and Nominations Committee Charter which is available in the shareholder information section on the Company's website.

The Human Resources and Nominations Committee consisted of the following membership throughout the financial year and up to the date of this report:

Committee member	Status
Andrew Purcell	Committee Chairman and Independent Non-Executive Director from 1 January 2020
Phillip Arnall	Independent Non-Executive Director
Julian Ball	Non-Executive Director
Ian Meares	Committee Chairman and Independent Non-Executive Director to 31 December 2020

As announced to the ASX on 14 August 2020 the Committee membership will change to the following effective 1 September 2020 following the retirement of Mr Arnall from the AJL Board:

Committee member	Status
Julian Ball	Committee Chairman and Non-Executive Director
John O'Neill	Independent Non-Executive Director
Austen Perrin	Non-Executive Director

INTEGRITY IN FINANCIAL REPORTING

The Board has established an Audit and Risk Committee which provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control systems, risk management systems, regulatory compliance and external audit. The Audit and Risk Committee is governed by the Audit and Risk Committee Charter which is available in the shareholder information section of the Company's website.

The Committee must have at least three members, all of whom are non-executive directors and the majority of whom are independent. The Committee must be chaired by an independent chair, who is not chair of the board. At least one member must have financial expertise and some members shall have an understanding of the industry in which the Company operates.

Members of the Audit and Risk Committee as at the date of this report and throughout the financial year are set out in the following table. Their qualifications and experience are set out in the Directors' Report.

Committee member	Status
John O'Neill	Committee Chairman and Independent Non-Executive Director
Phillip Arnall	Independent Non-Executive Director
Andrew Purcell	Independent Non-Executive Director to 1 January 2020
Julian Ball	Non-Executive Director

As announced to the ASX on 14 August 2020 the Committee membership will change to the following effective 1 September 2020 following the retirement of Mr Arnall from the AJL Board:

Committee member	Status
John O'Neill	Committee Chairman and Independent Non-Executive Director
Julian Ball	Non-Executive Director
Austen Perrin	Non-Executive Director

The principal roles of the Committee are to:

- assess whether the accounting methods and statutory reporting applied by management are consistent and comply with accounting standards and applicable laws and regulations;
- make recommendations on the appointment of the external auditors, assess their performance and independence and ensure that management responds to audit findings and recommendations;
- discuss the adequacy and effectiveness of the Company's internal control systems and policies to assess and manage business risks, its legal and regulatory compliance programmes; and
- ensure effective monitoring of the Company's compliance with its codes of conduct and Board policy statements.

The Audit and Risk Committee meets with the external auditors at least twice a year. The Committee is authorised to seek information from any employee or external party and obtain legal or other professional advice.

The Committee co-operates with its external auditors in the selection, appointment and 5 yearly rotation of external audit engagement partners.

TIMELY AND BALANCED DISCLOSURE

The Company has established policies and procedures designed to ensure compliance with ASX listing rules, continuous disclosure requirements and accountability for compliance at a senior level so that investors have equal and timely access to material information that in the opinion of the Board is likely to have an impact on an investment decision in the Company or impact on the Company's share price.

The Company has a Continuous Disclosure and Communications Policy, a copy of which is in the shareholder information section of its website.

COMMUNICATION WITH SECURITY HOLDERS

The Board keeps shareholders informed of all material information relating to the Company by communicating to shareholders through:

- continuous disclosure reporting to the ASX;
- its annual reports; and
- media releases and other investor relations publications on the Group's website.

All company announcements lodged with the ASX are available in the shareholder information section of the Company's website. Shareholders have the option to receive communications from, and send communications to, the Company's Share Registry electronically, including the annual report and the notice of annual general meeting. Additionally, shareholders and potential investors are able to post questions to the company through the Company's website or by telephone. The Board and senior management endeavor to respond to queries from shareholders and analysts for information in relation to the Group provided the information requested is not price sensitive or is already publicly available.

The Company has a website which provides useful and easy to find information about the Company, its directors and management, its operations and investments.

The Company provides the Notice of AGM to all shareholders and makes it available on the Company's website. The AGM is the key forum for two-way communication between the Company and its shareholders. At the meeting, the Chairman encourages questions and comments from shareholders and seeks to ensure that shareholders are given ample opportunity to participate. Further, the Company's external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

RISK IDENTIFICATION AND MANAGEMENT

The Board continues to be committed to embedding risk management practices to support the achievement of business objectives. As such the Board has established the Audit and Risk Committee which is responsibility for reviewing and overseeing the risk management strategy of the Group and for ensuring it has an appropriate corporate governance structure. The Audit and Risk Committee discusses with management and the external auditors, at least bi-annually:

- Internal controls systems;
- Policies and procedures to assess, monitor, and manage business, economic, environmental and social sustainability risks;
- Insurance program having regard to the insurable risks and the cost of this cover; and
- Legal and regulatory compliance programs.

A risk register is maintained and reported to the Audit and Risk Committee periodically and at least annually, detailing likelihood and severity of risks occurring. Management undertakes a review of its insurable risks each year in order to fully consider potential impacts and how they are financed in terms of limits and scope under the Group's insurance program. Both these reviews took place during the year.

Further details of the structure, membership and responsibilities of the Audit and Risk Committee are provided under the "Integrity in Financial Reporting" heading in this Corporate Governance Statement.

Within this framework, management has designed and implemented a risk management and internal control system to manage material business risks. Both the Chairman and Chief Financial Officer provide representation to the Audit and Risk Committee and the Board that the risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Company has, in accordance with the Australian Standard on risk management AS/NZS ISO 31000:2009, developed a risk statement and underlying procedures for the key risk areas of People, Environment, Business and Reputation. The Company has had a number of external audits of particular types of risk during the year. A copy of the risk statement and the risk management policy are available in the shareholder information section of the Company's website.

The Group does not currently have an independent internal audit function, the Board being of the view that the size and complexity of the Company does not warrant such a function. The Group's operations and facilities are however subjected to regular audits, performed by a mix of internal safety and auditing experts, and external consultants, under an annual program of Health, Safety, Environment and Quality audits. In addition, the Audit and Risk Committee engages external consultants to review areas of the business as it sees fit, with a number of these performed during the year.

CORPORATE GOVERNANCE REPORT
CONTINUED

The Group's material exposures to risk, and how the Group responds and manages these risks is detailed below.

Material Risk	Risk Management Approach
External Risks	
Risks may arise from the flow through of commodity demand or pricing from major markets into our customer base as well as foreign exchange, regulatory and political events that may impact the long-term sustainability of our customers' business model.	Client focused organisational design, with a focus on regular communication with key clients addressing various matters including safety, contract performance and clients future work programs. Continual repositioning of the business, and a relentless focus on efficiency and cost reduction to meet current client expectations on existing work programs, whilst anticipating upcoming changes in service demand. Where appropriate the broadening of our portfolio of service offerings, commodity and geographical exposure is considered to reduce the effect of volatility introduced by these external risks where it makes sense to do so.
Business Risks	
Risks include the risk of funding the identification and proving reserves relating to our unconventional assets.	The Company has sufficient financial reserves to service and meet commitments to the shale gas project in the UK whilst under UK government moratorium and will seeks to raise additional capital to support ongoing needs for the exploration and development of these unconventional assets as needed.
Financial Risks	
Volatility in commodity markets may adversely impact future cash flows and, as such, our credit rating and ability to source capital from financial markets. In addition, our commercial counterparties may as a result of adverse market conditions fail to meet their commercial obligations.	The Company recently completed a refinancing of its existing senior loan notes facility to provide a longer-term finance facility to provide a more stable balance sheet. The company also raised additional capital from equity markets during the year. The Company will continue to raise equity as required to fund exploration and development activities of its unconventional assets in the UK. We seek to continuously improve our credit rating and key financial ratio analysis to monitor potential volatility in this area. Similarly, all customers and key suppliers credit limits are reviewed before services are established.
Operational Risks	
Cost pressures and reduced productivity could negatively impact both operating margins and our market competitiveness. Similarly, a significant adverse and unexpected natural or operational event could impact operations in a materially negative manner, as could a breach in IT and other security processes.	We seek to maintain adequate operating margins across our business by monitoring in absolute and relative terms the performance of all assets against both internal and external commercial benchmarks. Our concentrated effort to reduce costs and hence maintain competitiveness and margin has yielded tangible results in reducing our controllable costs. This includes initiatives to standardise processes and control systems across the Group. The Lucas Management System (LMS) is an integrated process by which we manage this standardised approach. Through the regular application of our risk management procedures we identify the potential for significant and or unexpected risks and implement the controls appropriate to remove or mitigate them. Business continuity plans are developed for all our IT systems such that the integrity of our systems allows us to recover from a "disaster event" with little impact on the daily operations. With the sale of the Group's Engineering and Construction assets in 2018 and the wind down of associated business activity, operational exposure to the pipeline and construction industry has been eliminated.

Material Risk	Risk Management Approach
Sustainability Risks	
Injuring employees, damaging the environment or having material regulatory or governance failures may put at risk our social licence to operate or significantly impact our reputation such that customers and / or capital markets may shun us.	The LMS puts in place a significant set of requirements to ensure the safe work environment of our employees, and the operation of our assets and equipment. Inclusive in this are the control and governance requirements required of good finance and accounting procedures. A broad range of policies and procedures outline both expected and required actions and behaviours of management and staff to achieve these objectives. Maintenance of a safe working environment is a principal accountability of all levels of management. The Board holds itself to account against the standards outlined in the ASX Corporate Governance Principles and Recommendations 3rd edition as an example of good governance and reporting procedures and requirements.
UK Licence Risk	
The risk of loss of Government support for the development of shale gas in the UK.	Cuadrilla, the Operator of the UK shale gas exploration licences works closely with the various Government departments to ensure legal and regulatory compliance and maintains strong working relationships with local and national authorities. The UK Government implemented a moratorium on on-shore shale gas fracturing in England during the year. It is seeking technical assurances from explorers that drilling and fracturing in England is safe, sustainable and of minimal disturbance to those living and working nearby. Despite the moratorium, the UK Government continues to support the potential benefits from local shale gas, including its role as an important new domestic energy source reducing the level of gas imported.

REMUNERATION

The Human Resources and Nominations Committee reviews the remuneration of the non-executive directors, and key executives.

The Human Resources and Nominations Committee Charter is available in the shareholder information section of the Company's website. The number of meetings and who attended those meeting throughout the year is disclosed in the Directors' report.

The remuneration of non-executive directors is based on a benchmarked of a selection of comparable peer companies as well as the average and medium remuneration paid by the top 300 ASX listed companies. The level of non-executive director remuneration was altered with effect from 1 July 2018 to be more in line with the average level of ASX 300 companies. Remuneration of Directors is disclosed in the Remuneration Report.

The Company's non-executive directors receive fees for acting as a director of the Company. Additional fees are payable for being a member of a Board committee or representing the Group in specific matters from time to time. Senior executives are remunerated based on a fixed wage plus incentive payments. The policies and practices for remuneration of Key Management Personnel is disclosed in the Remuneration Report.

Trading in Company securities

The Company has in place a Securities Trading Policy which restricts the times and circumstances in which directors, senior executives and certain employees may buy or sell shares in the Company. These persons are required to seek approval from the Company Secretary prior to trading.

Directors must also advise the Company, which advises the ASX on their behalf, of any transactions conducted by them in the Company's securities within five business days after the transaction occurs. The Securities Trading Policy is available in the shareholder information section of the Company's website.

AUDITOR'S INDEPENDENCE DECLARATION

for the year ended 30 June 2020

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of AJ Lucas Group Limited

As lead auditor for the audit of the financial report of AJ Lucas Group Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AJ Lucas Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Ryan Fisk

Ryan Fisk
Partner
28 August 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Continuing operations			
Revenue	6	146,746	143,442
Total revenue		**146,746**	**143,442**
Other income		420	373
Operating costs of Australian operations		(119,333)	(119,037)
Central and corporate costs		(2,901)	(3,993)
Depreciation and amortisation	8	(7,350)	(5,385)
Realisation of exchange differences on acquisition of Cuadrilla	19	42,265	-
Write back of non-cost items in equity accounted investment	19	(38,275)	-
Other non-operating expenses	8	(3,696)	(6,819)
Results from operations		**17,876**	**8,581**
Net finance costs	7	(25,598)	(29,375)
Share of loss of equity accounted investees	19	(1,162)	(4,880)
Loss before income tax		**(8,884)**	**(25,674)**
Income tax expense	10	-	-
Loss for the period from continuing operations		(8,884)	(25,674)
Loss for the period from discontinued operation	16	-	(13,716)
Net loss for the period		**(8,884)**	**(39,390)**
Other comprehensive income			
Exchange differences on translation of foreign operations	27	(41,177)	7,822
Total items that may be reclassified subsequently to profit and loss		(41,177)	7,822
Other comprehensive income for the period		**(41,177)**	**7,822**
Total comprehensive loss for the period		**(50,061)**	**(31,568)**
Net loss for the period attributable to:			
Shareholders of AJL		(8,867)	(39,390)
Non-controlling interest		(17)	-
		(8,884)	**(39,390)**
Total comprehensive loss attributable to:			
Shareholders of AJL		(49,961)	(31,568)
Non-controlling interest		(100)	-
		(50,061)	**(31,568)**
Earnings per share			
Continuing operations:			
Basic (loss)/earnings per share (cents)		(0.9)	(3.4)
Diluted (loss)/earnings per share (cents)		(0.9)	(3.4)
Continuing and discontinued operations:			
Basic (loss)/earnings per share (cents)		(0.9)	(5.3)
Diluted (loss)/earnings per share (cents)		(0.9)	(5.3)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	12	4,478	8,376
Cash in trust	12	-	1,779
Trade and other receivables	13	20,521	23,629
Contract assets	15	8,475	14,407
Inventories	14	5,577	4,122
Other assets		1,181	515
Total current assets		**40,232**	**52,828**
Non-current assets			
Property, plant and equipment	17	33,838	29,715
Right-of-use assets	18	5,517	-
Exploration assets	20	158,977	47,962
Investments in equity accounted investees	19	-	135,452
Total non-current assets		**198,332**	**213,129**
Total assets		**238,564**	**265,957**
Current liabilities			
Trade and other payables	22	20,604	30,318
Contract liabilities	15	1,020	462
Interest-bearing loans and borrowings	23	36,693	67,164
Employee benefits	26	5,933	5,511
Total current liabilities		**64,250**	**103,455**
Non-current liabilities			
Interest-bearing loans and borrowings	23	77,865	52,536
Decommissioning	25	8,455	1,611
Employee benefits	26	1,045	813
Total non-current liabilities		**87,365**	**54,960**
Total liabilities		**151,615**	**158,415**
Net assets		**86,949**	**107,542**
Equity			
Share capital	27	495,986	467,753
Reserves	27	2,256	43,349
Accumulated losses		(412,427)	(403,560)
Total equity attributable to equity holders of the Company		85,815	107,542
Non-controlling interest	27	1,134	-
Total equity		**86,949**	**107,542**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Note	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Non-controlling interest $'000	Accumulated losses $'000	Total equity $'000
	Note	27	27	27	27	27	27	
Balance 1 July 2019		467,753	38,679	637	4,033	-	(403,560)	107,542
Total comprehensive income								
Loss for the period		-	-	-	-	(17)	(8,867)	(8,884)
Other comprehensive income								
Non-controlling interest on acquisition		-	-	-	-	1,235	-	1,235
Foreign currency translation differences		-	(41,093)	-	-	(84)	-	(41,177)
Total comprehensive income/(loss)		**-**	**(41,093)**	**-**	**-**	**1,134**	**(8,867)**	**(48,826)**
Transactions with owners recorded directly in equity								
Issue of ordinary shares, net of transaction costs		28,233	-	-	-	-	-	28,233
Total contributions by and distributions to owners		28,233	-	-	-	-	-	28,233
Balance 30 June 2020		**495,986**	**(2,414)**	**637**	**4,033**	**1,134**	**(412,427)**	**86,949**
Balance 1 July 2018		467,753	30,857	637	4,033		(364,170)	139,110
Total comprehensive income								
Loss for the period		-	-	-	-		(39,390)	(39,390)
Other comprehensive income								
Foreign currency translation differences		-	7,822	-	-		-	7,822
Total comprehensive income/(loss)		-	7,822	-	-		(39,390)	(31,568)
Balance 30 June 2019		**467,753**	**38,679**	**637**	**4,033**	**-**	**(403,560)**	**107,542**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Cash receipts from customers		174,327	188,712
Cash paid to suppliers and employees		(152,154)	(165,878)
Cash generated from operations		22,262	22,834
Interest received		33	132
Interest and other costs of finance paid		(20,202)	(8,123)
Net cash generated from operating activities		**2,004**	**14,843**
Cash flows from investing activities			
Payments for equity accounted investees	19	(5,806)	(13,498)
Payments for interest in exploration assets		(5,207)	(10,249)
Acquisition of plant and equipment		(9,797)	(7,932)
Proceeds from sale of plant and equipment		1,061	4,314
Net cash used in investing activities		**(19,749)**	**(27,365)**
Cash flows from financing activities			
Proceeds from borrowings		187,645	12,462
Repayment of borrowings		(175,865)	-
Transaction costs on borrowings		(3,866)	-
Proceeds from issue of shares		4,106	-
Transaction costs on issue of shares		(662)	-
Principal repayment of lease liability		(2,699)	-
Net cash from financing activities		**8,659**	**13,910**
Net decrease in cash and cash equivalents		(9,086)	(60)
Net foreign exchange difference		24	367
Cash balances acquired on gaining control of Cuadrilla		3,385	-
Cash and cash equivalents at beginning of the period		10,155	9,848
Cash and cash equivalents at end of the period	12	**4,478**	**10,155**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2020

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1. REPORTING ENTITY

AJ Lucas Group Limited ("AJL" or "the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 22, 167 Eagle Street, Brisbane, 4000. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as 'Group entities').

AJL is a for-profit leading drilling services provider, primarily to the Australian coal industry, the exploration and appraisal of conventional and unconventional oil and gas prospects.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AASBs") including Australian interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorised for issue by the Board of Directors on 27 August 2020. Comparative information has been reclassified where relevant for consistency with current period presentation.

(B) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis.

(C) GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business, for a period of at least 12 months from the date that these financial statements are approved.

The directors note the following events and conditions which have been considered in assessing the appropriateness of the going concern assumption:

- The Group generated a loss after tax from continuing operations for the year of $8.9 million primarily as a result of operating profit of $17.9 million offset by net finance costs of $25.6 million, and a share of loss from equity accounted investees of $1.2 million. The loss after tax from continuing operations of $8.9 million comprised a loss of $10.3 million in the first half offset by a profit in the second half of $1.4 million;
- The Group had a net current asset deficiency at balance date of $24.0 million, however of this $23.7 million is due to the classification as a current liability of the 3-year revolving asset based senior syndicated loan provided by Investec;
- The Group generated $22.3 million (2019: $22.8 million) in cash flows from operating activities before taking account of $20.2 million (2019: $8.0 million) in net interest and finance costs paid during the year;
- The COVID-19 pandemic has impacted our customers mine plans in the second half of the year, leading to changes in demand for our drilling services. While future impacts of a resurgence or prolonged COVID-19 pandemic impact cannot be projected the Australian operations generated earnings before interest, tax and depreciation and amortisation of $28.0 million and is well placed to capitalise in a recovery if and when that takes place. Furthermore, the Drilling business has continued to operate profitably throughout the pandemic to date, however as with all businesses the future impact of the pandemic is unknown and cannot be reasonably predicted.
- In October 2019 the Group repaid its existing US dollar denominated OCP loan note facility with two new Australian Dollar denominated finance facilities as described in Note 23 and with significantly lower ongoing interest cost and foreign exchange exposure. The new finance facilities have maturities terms between 3 and 3.5 years;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. BASIS OF PREPARATION (CONTINUED)

- In February 2020 the Company's interest in Cuadrilla increased to approximately 96%. As a result its effective interest in PEDL 165 increased to 72.9%, which will increase to almost 100% subsequent to year end. This has allowed the Company full control of Cuadrilla's strategy and operating plans and will provide the Group with a greater share of any proceeds from any commercialisation or sale of PEDL 165; and
- On 2 November 2019 the UK Government imposed a moratorium on hydraulic fracturing in England, and stated that lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other shale gas operators in the UK are drawing on international experiences, as well as the uniquely detailed micro-seismic data-set from the UK PNR operations, to address those concerns. Progress with respect to engaging with the UK Government to lift the moratorium is slow and it is therefore difficult for the Company to predict relief and resumption of activity.

In concluding on the appropriateness of using the going concern assumption, the directors have had regard to the following matters:

- The strong financial performance of the Drilling business, supported by recent multi year extensions of contracts with key customers;
- The Group's history of being able to pay down or defer its debt obligations; and
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla.

In light of the uncertainties above, if the Company is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business at amounts different from those stated in the statement of financial position.

(D) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Australian dollars which is the Company's functional currency. The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports) issued by the Australian Securities and Investments Commission. Unless otherwise expressly stated, amounts in these financial statements have been rounded off to the nearest thousand dollars in accordance with that Corporations Instrument.

(E) USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

- Note 3 (e) – Decommissioning;
- Note 14 – Inventories;
- Note 20 – Carrying value of exploration assets;
- Note 21 – Recognition of deferred tax asset;
- Note 28 – Valuation of financial instruments; and
- Note 30 – Contingencies.

(F) CHANGES IN ACCOUNTING POLICIES

The following Accounting Standards and Interpretations are the most relevant to the Group. This note explains the impact of adopting AASB 16 Leases ("AASB 16"), Amendments to AASB 3 Business Combinations and AASB Interpretation 23 *Uncertainty over income Tax Treatments* ("AASB Interpretation 23") on the Group's consolidated financial statements.

Other than as noted below all other accounting policies set out in Note 3 have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all Group entities. Several other amendments and interpretations apply for the first time from 1 July 2019, but do not have a material impact on the consolidated financial statements.

AASB Interpretation 23 Uncertainty over Income Tax Treatment

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

Amendments to AASB 3: Definition of a Business

The amendment to AASB 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

AASB 16 Leases

AASB 16 Leases, which superseded the previous AASB 117 Leases, sets out the principles for recognition, measurement, presentation and disclosure. It requires the recognition of a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Group has elected to adopt AASB 16 Leases from 1 July 2019 using the modified retrospective approach and as such comparatives have not been restated. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for previously recognised prepaid and accrued lease payments. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Key impacts as a result of adopting AASB 16 for the year are shown below.

	$'000
Statement of financial position as at 30 June 2020	
Right-of-use assets	5,517
Lease liabilities (included within interest bearing liabilities)	(5,887)
Statement of comprehensive income	
Depreciation and amortisation – right-of-use assets	2,714
Finance costs	294
Operating costs	(2,851)
Net impact on profit before tax	**157**
Cash flow statement	
Operating cash flow	2,699
Financing cash flow (lease payments)	(2,699)

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

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

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

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

i) Right-of-use assets

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

2. BASIS OF PREPARATION (CONTINUED)

ii) Lease liabilities

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Comparative information has been reclassified where relevant for consistency with current period presentation.

(A) BASIS OF CONSOLIDATION

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over the fair value of net assets acquired is recognised as goodwill and is tested annually for impairment. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Step acquisition

When acquisitions are achieved in stages in a transaction considered to be an asset acquisition rather than a business combination, the group utilises a cumulative cost approach. Under this approach, the transaction is viewed as if the entity is purchasing the additional interest while retaining the initial interest (non-exchange view). As a result, the purchase consideration (to allocate to the assets acquired) will be determined as the consideration paid for the initial interest (original consideration), plus the consideration paid for the additional interest (over time). This treatment results in previous equity accounted profits being reversed.

In asset acquisitions with contingent consideration, the cost of the asset does not initially include any amount relating to the contingent element. Any subsequent payments made in relation to the contingent element are either adjusted against the cost of the asset (once paid) or recognised in profit or loss as incurred.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is determined in relation to rights that give the Group the current ability to direct the activities that significantly affect returns from the Group's investment. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in equity accounted investees

The Group's interest in equity accounted investees comprised interests in joint ventures and an associate. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Jointly ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. A partial redemption of equity interests is accounted for as a reduction in the investment value equal to the cash redemption.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Joint operations

A joint operation is an arrangement whereby the parties that jointly control the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated financial statements include the Group's share of assets and liabilities held jointly and the Group's share of expenses incurred and income earned jointly.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(B) FOREIGN CURRENCY

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income and are presented in the translation reserve in equity.

(C) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends are recognised as a liability in the period in which they are declared.

(D) LEASES

Under the Group's accounting policy in place to 30 June 2019, leases were accounted for on the following basis and is presented only for comparison purposes. The accounting policy applicable from 1 July 2019 is disclosed in Note 2 (f) Changes in Accounting Policies.

At inception of an arrangement, the Group determined whether the arrangement is or contains a lease.

Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Group's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(E) DECOMMISSIONING

Where a material liability for the future removal of facilities an site restoration at the end of operations exists, a provision

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

for decommissioning is recognised. The amount recognised is the estimated future expenditure, determined in accordance with local conditions and requirements. Discounting is used to the extent it is material. An asset, of an amount equivalent to the provision is also added to the applicable exploration asset. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and associated asset. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate future liability. The estimates are regularly reviewed to take account of any material changes in assumptions. Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time.

(F) REVENUE

Sales revenue related to the transfer of promised goods or services is recognised when control of the goods or services is transferred to the customer. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services.

Sales revenue for services is recognised on individual sales when control transfers to the customer. In most instances the title, risks and rewards transfer to the customer when the service is provided to the customer, as evidenced by a survey of work performed.

The Group provides the majority of its services and associated consumables and materials on an as required basis, where the Group provides drilling services based on a total hourly rate as defined for each project, or on a meter drilled basis, as defined for each drill hole (dependant on the contract terms). Under these methods, services rendered are consistent with performance of those services and confirmed by a survey of work performed and agreed with its customer. Under these terms, revenue is recognised over time as the customer simultaneously receives and consumes the benefits provided by the Group as the Group performs.

The Group's services are sold to customers under contracts which vary in tenure and pricing mechanisms, primarily being hourly or meter rates specific to each contract.

(G) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings including leases, unwinding of the discount on provisions, amortisation of pre-paid fees, foreign currency losses and losses on financial instruments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(H) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax unpaid at the end of the year is recognised as an income tax liability. Also included in income tax liability is outstanding current tax liabilities in relation to prior periods where contractually agreed payment plans have been put in place.

Deferred tax

Deferred tax is recognised in respect of deductible temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- relating to investments in subsidiaries and associates and joint arrangements to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation – wholly owned Australian entities

The Company and its wholly owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is AJ Lucas Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements – wholly owned Australian entities

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivables/(payables) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

(I) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares where applicable. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(J) SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment operating results are regularly reviewed by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Board is the primary decision-making body responsible for the day to day management of the business.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and borrowings, head office expenses, and income tax assets and liabilities.

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

(L) FINANCIAL INSTRUMENTS

Financial assets

At initial recognition, financial assets are measured at fair value. Subsequent to initial recognition, financial assets are classified into one of two categories consistent the business model for managing the financial assets and the contractual terms of the related cash flows. The two categories comprise those subsequently measured at fair value (either through OCI, or profit or loss) and those to be held at amortised cost.

Financial assets are derecognised when the contractual rights to the cash flows from the asset either expire or are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest created or retained by the Group in such a transfer, is recognised as a separate asset or liability.

For contract assets and trade and other receivables, the Group has applied the standard's simplified approach and has calculated Expected Credit Losses ("ECLs") based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

At initial recognition, financial liabilities are measured at fair value and classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments. The Group's financial liabilities currently include cash and cash equivalents, trade and other payables and interest-bearing loans and borrowings.

The Group derecognises its financial liabilities when its contractual obligations are discharged, cancelled or expire.

(M) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition are included in the

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

cost of inventory. Net realisable value is the estimated selling price in the ordinary course of business.

(N) PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes cost of materials and direct labour, the costs of dismantling and removing the items and restoring the site on which they are located and any other costs attributable to bringing the assets to a working condition for their intended use. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Sale of non-current assets

The net gain or loss on disposal is included in profit or loss at the date control of the asset passes to the buyer, usually when an unconditional contract for sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is capitalised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation and amortisation

Depreciation and amortisation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, using the straight-line method over the estimated useful life from the time the asset is first available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Depreciation and amortisation is recognised in the profit and loss.

Estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings	10-40
Plant and equipment	3-15
Enterprise development	6
Right of use of plant and equipment	1-5
Right of use of office space	1-10

The residual value, useful life and depreciation and amortisation method applied to an asset are adjusted if appropriate at least annually.

(O) INTANGIBLE ASSETS

Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(P) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained legal rights to explore an area are recognised in profit or loss.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

In applying the exploration and evaluation asset recognition policy, and in determining recoverable amount management are required to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available.

Where the Group is party to a farm-in arrangement any proceeds or non-cancellable expenditure funded by the purchaser is recognised as disposal proceeds. The non-cancellable expenditure to be funded by the purchaser is recognised as a receivable carry asset within exploration assets in accordance with the Group's interest percentage.

The assets disposed per the terms of the farm-in arrangement are treated as costs of disposal, alongside any other costs incurred, with the net profit or loss recognised in the income statement as incurred.

The cancellable portion of deferred consideration, and consideration contingent on a future event is disclosed as a contingent asset and is not recognised by the Group until it has actually been incurred or becomes non-cancellable, at which point, additional profit will be recognised in the profit and loss for these amounts.

(Q) IMPAIRMENT

Non-financial assets

The carrying amounts of the Group's non-financial assets (other than inventories, construction work in progress and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Groups of assets ("the cash generating unit" or "CGU"). The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(R) EMPLOYEE BENEFITS

Superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. The Group does not participate in any defined benefit funds.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods and related on costs. Benefits are discounted to determine their present value, using the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(S) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Amendments to AASB 101 and AASB 108: Definition of Material

In October 2018, the AASB issued amendments to AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Other than as noted above, there are no accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Group in the future period of initial adoption.

5. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes as described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

PROPERTY, PLANT AND EQUIPMENT

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate. Current replacement cost estimates reflect adjustment for physical deterioration as well as functional and economic obsolescence.

INVENTORIES

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

NON-DERIVATIVE FINANCIAL LIABILITIES

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Board reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

Drilling: Drilling services to the coal industries for degasification of coal mines and associated services and commercial extraction of gas.

Oil & gas: Exploration and development of unconventional and conventional hydrocarbons in the United Kingdom.

There are varying levels of integration between the Drilling and Engineering & Construction reportable segments. The accounting policies of the reportable segments are the same as described in Note 3(i).

Information regarding the results of each reportable segment is included below. Performance is assessed based on segment earnings before interest, income tax, depreciation and amortisation ("EBITDA") and segment profit before interest and income tax. Inter-segment pricing is determined on an arm's length basis.

	Drilling $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ Unallocated $'000	Total $'000
2020					
Reportable segment revenue					
Revenue – services rendered	146,746	–	146,746	–	146,746
Revenue – construction contracts	–	–	–	–	–
Total consolidated revenue	**146,746**	**–**	**146,746**	**–**	**146,746**
EBITDA from continuing operations	**27,960**	**383**	**28,343**	**(4,279)**	**24,064**
Depreciation, amortisation and impairment	(6,772)	(225)	(6,997)	(353)	(7,350)
Finance income	14	–	14	19	33
Finance cost	(7,752)	–	(7,752)	(17,879)	(25,631)
Reportable segment profit / (loss)	**13,450**	**158**	**13,608**	**(22,492)**	**(8,884)**

	Drilling $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ Unallocated $'000	Total $'000
2019					
Reportable segment revenue					
Revenue – services rendered	143,442	–	143,442	–	143,442
Revenue – construction contracts	–	–	–	–	–
Total consolidated revenue	**143,442**	**–**	**143,442**	**–**	**143,442**
EBITDA from continuing operations	**24,404**	**(7,987)**	**16,417**	**(7,331)**	**9,086**
Depreciation, amortisation and impairment	(5,166)	–	(5,166)	(219)	(5,385)
Finance income	–	–	–	132	132
Finance cost	–	–	–	(29,507)	(29,507)
Reportable segment profit / (loss)	**19,238**	**(7,987)**	**11,251**	**(36,925)**	**(25,674)**

6. OPERATING SEGMENTS (CONTINUED)

	Drilling $'000	Oil & Gas $'000	Reportable Segments $'000	Corporate/ Unallocated $'000	Discontinued E&C $'000	Total $'000
June 2020						
Segment assets	73,771	161,827	235,598	2,966	–	238,564
Segment liabilities	(100,722)	(10,722)	(111,445)	(40,171)	–	(151,615)
Share of loss of equity accounted investees	–	(1,162)	(1,162)	–	–	(1,162)
Equity accounted investments	–	–	–	–	–	–
Capital expenditure	9,797	–	9,797	–	–	9,797
June 2019						
Segment assets	67,953	184,004	251,957	3,117	10,883	265,957
Segment liabilities	(27,264)	(5,536)	(32,800)	(122,285)	(3,330)	(158,415)
Share of profit of equity accounted investees	–	(4,880)	(4,880)	–	–	(4,880)
Equity accounted investments	–	135,452	135,452	–	–	135,452
Capital expenditure	7,903	–	7,903	29	–	7,932

GEOGRAPHICAL INFORMATION

	Revenues		Non-current assets	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Australia	146,746	143,442	39,355	29,715
United Kingdom	–	–	158,977	183,414
	146,746	**143,442**	**198,332**	**213,129**

7. FINANCE INCOME AND FINANCE COSTS

	2020 $'000	2019 $'000
Interest income	33	132
Finance income	**33**	**132**
Interest expense	(18,462)	(18,643)
Finance charges on lease liability	(294)	–
Extinguishment of OCP loan note liability[1]	(2,349)	–
Amortisation of prepaid fees on debt facilities	(1,239)	(5,681)
Net foreign exchange loss	(3,287)	(5,183)
Finance costs	**(25,631)**	**(29,507)**
Net finance costs recognised in profit and loss	**(25,598)**	**(29,375)**

(1) Extinguishment of OCP loan notes liability represents the remaining unamortised upfront borrowing costs which were expensed on repayment of the loan noted as detailed in Note 23.

8. OTHER NON-OPERATING EXPENSES

	2020 $'000	2019 $'000
Depreciation of plant and equipment	4,636	5,385
Amortisation of right-of-use asset	2,714	-
Total depreciation and amortisation	**7,350**	**5,385**
UK investment overhead costs	2,865	3,480
Strategic review of Drilling division	–	840
Settlement of historical legal disputes	–	885
Net restructuring and redundancy costs	508	546
Net loss on sales of assets*	323	816
Other expenses	–	252
Total non-operating expenses	**3,696**	**6,819**

*After transaction costs.

9. AUDITOR'S REMUNERATION

	2020 $'000	2019 $'000
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	343,529	292,100
Fees for other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	–	373,650
Fees for other services		
– Tax compliance	65,000	25,000
Total fees to Ernst & Young (Australia) (A)	**408,529**	**690,750**
Fees to other overseas member firms of Ernst & Young (Australia)		
Fees for auditing the financial report of any controlled entities	161,410	60,000
Total fees to overseas member firms of Ernst & Young (Australia) (B)	**161,410**	**60,000**
Total auditor's remuneration (A)+(B)	**569,939**	**750,750**

10. INCOME TAX

	2020 $'000	2019 $'000
Recognised in profit or loss		
Current tax expense (benefit)		
Current year expense	2,337	(2,214)
Tax losses not recognised and temporary differences derecognised in current year	–	1,401
Prior year tax losses utilised	(2,515)	–
Prior year adjustments	466	(209)
Tax losses not recognised	(466)	209
	(178)	**(813)**
Deferred tax expense recognised in profit or loss		
Origination and reversal of temporary differences	178	813
Prior year adjustment	1,158	1,875
Prior year tax losses not recognised	(1,158)	(1,875)
Total income tax expense / (benefit) in profit or loss	**–**	**–**
Current tax benefit recognised in the statement of changes in equity		
Current year	(2,842)	–
Prior year adjustments	(439)	–
Total income tax benefit in equity	**(3,281)**	**–**
Numerical reconciliation between tax benefit and pre-tax net profit/(loss)		
Accounting loss before income tax	(8,884)	(39,390)
Prima facie income tax benefit calculated at 30%	(2,666)	(11,817)
Adjustment for:		
Equity accounted (gain)/loss	(198)	1,448
Non-deductible expenses	185	819
Equity raising cost debited to equity	92	–
Non-deductible foreign operations	129	3,723
Non-deductible finance cost	4,973	4,426
Current year tax losses not recognised	(2,337)	2,214
Current year temporary differences not recognised	(178)	(813)
Income tax expense / (benefit) attributable to operating loss	**–**	**–**

11. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2020 was based on the loss after tax attributable to ordinary shareholders of $8,884,000 (2019: loss after tax $39,390,000) divided by a weighted average number of ordinary shares outstanding calculated as follows:

	2020 Number	2019 Number
Weighted average number of ordinary shares (basic)		
Issued ordinary shares at 1 July	750,097,230	750,097,230
Accelerated rights offer	269,332,850	-
Equity placements	944,152	-
Weighted average number of ordinary shares (basic) at 30 June	**1,020,374,232**	**750,097,230**

Diluted earnings per share

There were no dilutive potential ordinary shares outstanding at 30 June 2020 or 30 June 2019, therefore no adjustments have been made to basic earnings per share to arrive at diluted earnings per share.

12. CASH, CASH EQUIVALENTS AND CASH IN TRUST

	2020 $'000	2019 $'000
Bank balances	4,045	7,672
Share of joint operations cash	433	704
Total cash and cash equivalents	**4,478**	**8,376**
Cash in trust	-	1,779
Total cash in trust	**-**	**1,779**

Share of Joint Operations cash

Represents the Group's share of joint operation cash balances. These cash balances are available to be utilised within the joint operation until such time as the partners resolve to distribute the cash.

Cash in trust

Represents cash drawn under the senior loan notes facility disclosed in Note 23 that remains un-utilised at the balance sheet date. These cash balances can only be utilised in accordance with the senior loan note facility and primarily comprise future interest obligations to be debited by the lenders' agent.

13. TRADE AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Current		
Trade receivables	19,654	19,845
Deposits supporting bank guarantees	867	3,784
	20,521	**23,629**

Trade receivables are non-interest bearing and generally on terms of 30 to 90 days. No credit losses related to trade receivables have been or are expected to be recognised at balance date. Further information on credit risk shown in Note 28.

14. INVENTORIES

	2020 $'000	2019 $'000
Materials and consumables	5,577	4,122
Total inventories	**5,577**	**4,122**

15. CONTRACT BALANCES

	2020 $'000	2019 $'000
Contract assets	8,475	14,407
Contract liabilities	1,020	462

Contract assets represent revenue recognised as earned but which remains unbilled at balance date. Such revenue is normally invoiced to the customer and reclassified into Trade Receivables in the month following completion of performance obligations.

Contract liabilities represent amounts invoices to customers for which the relevant performance obligation has not been fulfilled. No credit losses related to contract assets have been recognised at balance date. Further information on credit risk shown in Note 28.

16. DISCONTINUED OPERATIONS

The assets of the Engineering and Construction ("E&C") division were sold to Spiecapag Australia Pty Ltd in July 2018, and were separately disclosed as non-current assets held for sale at 30 June 2018. The Group has completed all legacy projects.

Financial performance for the year related to the discontinued operation is set out in the table below. The assets and liabilities of the division are disclosed in Note 6 *Operating segments*.

	2020 $'000	2019 $'000
Cost		
Revenue	–	6,021
Expenses	–	(19,737)
Depreciation	–	–
Loss before income tax	**–**	**(13,716)**
Income tax expense	–	–
Loss for the period from discontinued operations	**–**	**(13,716)**

17. PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment $'000	Enterprise Development $'000	Total $'000
30 June 2020			
At cost	106,039	12,578	118,617
Accumulated depreciation/amortisation/impairment	(72,915)	(11,864)	(84,779)
Carrying amount at 30 Jun 2020	**33,124**	**714**	**33,838**
30 June 2019			
At cost	104,092	12,578	116,670
Accumulated depreciation/amortisation/impairment	(75,303)	(11,652)	(86,955)
Carrying amount at 30 Jun 2019	**28,789**	**926**	**29,715**

RECONCILIATIONS

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

	Plant & Equipment $'000	Enterprise Development $'000	Total $'000
Carrying amount at 1 July 2019	28,789	926	29,715
Additions	9,797	-	9,797
Cuadrilla acquisition	361	-	361
Disposals	(1,399)	-	(1,399)
Depreciation and amortisation	(4,424)	(212)	(4,636)
Carrying amount at 30 June 2020	**33,124**	**714**	**33,838**

	Plant & Equipment $'000	Enterprise Development $'000	Total $'000
Carrying amount at 1 July 2018	26,577	1,116	27,693
Additions	7,903	29	7,932
Disposals	(525)	-	(525)
Depreciation and amortisation	(5,166)	(219)	(5,385)
Carrying amount at 30 June 2019	**28,789**	**926**	**29,715**

An independent expert was engaged to perform an independent valuation of the Group's plant and equipment as at 30 June 2020. No impairment charge was recognised as a result of this process.

18. RIGHT-OF-USE ASSETS

	Plant & Equipment $'000	Property $'000	Total $'000
30 June 2019			
At cost	5,301	2,794	8,095
Accumulated depreciation/amortisation/impairment	(2,094)	(484)	(2,578)
Carrying amount at 30 Jun 2019	**3,207**	**2,310**	**5,517**

A reconciliation of the carrying amount of each class of right-of-use assets is set out below.

	Plant & Equipment $'000	Property $'000	Total $'000
Initial application of AASB 16 1 July 2019	2,073	3,129	5,202
Additions	3,228	-	3,228
Amortisation	(2,094)	(620)	(2,714)
Write off	-	(199)	(199)
Carrying amount at 30 June 2020	**3,207**	**2,310**	**5,517**

19. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

	2020 $'000	2019 $'000
Balance at 1 July	135,452	120,541
Purchase of additional ownership interest	5,806	13,498
Movement of foreign currency translation recognised in equity	9,242	6,293
Share of profit / (loss) of equity accounted investees	(1,162)	(4,880)
Derecognition of investment on gaining control	(149,338)	-
Balance at 30 June	**-**	**135,452**

The Group's share of losses of equity accounted investees is $1.2 million (2019: $4.9 million).

In February 2020 the Group acquired Riverstone's interest in Cuadrilla Resources Holdings Limited ("the Transaction"), increasing its voting interest from approximately 48% to 96% and thereby gaining control. Given the UK government announced moratorium on fracturing in November 2019, the associated full winddown of operations and significant reduction in overhead, the Transaction does not meet the definition of a business combination in AASB3 and as such has been accounted for as an asset acquisition.

The existing Investment in equity accounted associates just prior to acquisition date of $149.3 million was derecognised. Net foreign exchange revaluation gains that were historically recognised in other comprehensive income of $42.3 million, and net losses previously recognised as a net reduction to the Investment in equity accounted associates of $38.3m, were recycled to the profit and loss. The remaining value of the equity accounted Investment derecognised on transaction date of $111.1 million formed the cost of acquisition of assets and was allocated as follows:

Acquired balances	**Acquisition Date $'000**
Current Assets	
Cash and cash equivalents	3,385
Trade and other receivables	4,851
	8,236
Non-current assets	
Property, plant and equipment	361
Right-of-use assets	139
Exploration assets	113,519
	114,019
Current Liabilities	
Lease liability	(142)
Trade and other payables	(2,414)
	(2,556)
Non-Current liabilities	
Decommissioning	(7,402)
	(7,402)
NET ASSETS	**112,297**
Equity	
Non controlling interest	(1,235)
Net asset attributable to members of AJL Group	**111,062**

Under the terms of the transaction, if AJL sells 25% or more of its interest in the UK shale assets (based on the amount it holds immediately post the transaction), within 3 years of the Transaction Riverstone will be entitled to a contingent payment of:

a) US$5 million if the value of the sale is equivalent of US$100 million or more of the Company's 100% interest; or

b) US$10 million if the value of the sale is equivalent of US$200 million or more of the Company's 100% interest.

As the Group does not have a plan in place to sell those assets, this contingent liability is determined to be remote, and no liability has been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20. EXPLORATION ASSETS

	2020 $'000	2019 $'000
Opening carrying amount	47,962	35,914
Acquisition of Cuadrilla	113,519	-
Exploration expenditure capitalised	6,005	10,622
Foreign Exchange movement	(8,509)	1,426
Closing carrying amount	**158,977**	**47,962**

The exploration assets represent exploration expenditure incurred in relation to the Group's equity interest ("direct interest") in UK exploration licences. The Group was historically beneficially entitled to an additional interest ("indirect interest") in these licences through its shareholding in the equity accounted associate, Cuadrilla Resources Holding Limited ("Cuadrilla") which it gained control of during the year:

Description	Licence	Partners	Effective interest 2020	Effective interest 2019
Bowland	PEDL165	Spirit 25%(1)	75.00%	48.19%
Elswick	EXL269	Spirit 22.75%(1)	77.25%	49.26%
Balcombe (Bolney)	PEDL244	Angus Energy 25%	75.00%	45.57%
Weald	EXL189	Altwood Petroleum 4%	96.00%	47.68%
14th round – Gainsborough	PEDL276	N/A	100.00%	47.68%
14th round – Yorkshire	PEDL288	INEOS 30%	70.00%	33.38%
14th round – Yorkshire	PEDL346	INEOS 30%	70.00%	33.38%
14th round – Yorkshire	PEDL287	INEOS 30%	70.00%	33.38%
14th round – Yorkshire	PEDL342	INEOS 30%	70.00%	33.38%
14th round – Yorkshire	PEDL347	N/A	100.00%	47.68%
14th round – Yorkshire	PEDL290	N/A	100.00%	47.68%
14th round – Yorkshire	PEDL333	N/A	100.00%	47.68%

(1) As reported in Note 35, subsequent to year end Spirit has advised the Group that it intends to exit the licence and transfer its interests in the Bowland and Elswick licences back to the Group for a nominal sum.

The effective interest comprises AJL's direct interest in the licence. In 2019 it included Cuadrilla's interest in the respective licence multiplied by the Group's equity interest in Cuadrilla.

Licence requirements

Exploration licences contain conditions relating to achieving certain milestones on agreed deadlines. Where milestones are not achieved within agreed deadlines, the terms of the licence may require partial relinquishment of the licence area or be withdrawn. Applications can be made to alter or extend exploration licence conditions. Cuadrilla has to date met all its milestones in respect of UK licences.

Recoverability of exploration and evaluation expenditure and UK Moratorium on Hydraulic Fracturing

The recoverability of the capitalised exploration and evaluation expenditure recognised as a non-current asset is dependent upon the successful exploration, development, or alternatively sale, of the respective tenements which comprise the assets.

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

As a result of the current moratorium, exploration activities have been impacted, and significantly reduced until such time that the moratorium is lifted. The recoverability of exploration and evaluation assets has been assessed on the basis that the moratorium would be lifted in the future. In the event the moratorium is not lifted, and hydraulic fracturing is not allowed to recommence the recoverable amount of exploration assets will significantly differ to the amounts stated in the statement of financial position.

21. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Tax Assets		Tax Liabilities		Net	
Acquired balances	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Consolidated						
Inventories	-	-	(1,674)	(1,237)	(1,674)	(1,237)
Equity accounted investments	-	-	-	(2,613)	-	(2,613)
Property, plant and equipment	5,764	6,922	-	-	5,764	6,922
Provisions for employee benefits	2,250	2,014	-	-	2,250	2,014
Provisions for restructuring	43	-	-	-	43	-
AASB 16 Leases	111	-	-	-	111	-
Trade creditors	12	13	-	-	12	13
Share raising costs	422	24	-	-	422	24
Blackhole expenditure	158	202	-	-	158	202
Borrowing costs	130	53	-	-	130	53
Other creditors and accruals	2,894	2,684	-	-	2,894	2,684
Unrealised foreign exchange differences	723	826	-	-	723	826
Deferred tax asset write down	(10,833)	(8,888)	-	-	(10,833)	(8,888)
Tax assets/(liabilities)	**1,674**	**3,850**	**(1,674)**	**(3,850)**	**-**	**-**
Set off of tax	(1,674)	(3,850)	1,674	3,850	-	-
Net assets/(liabilities)	**-**	**-**	**-**	**-**	**-**	**-**

21. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movement in temporary differences during the year:

2020	Balance 01 Jul 19 $'000	Recognised Directly in Equity $'000	Recognised in Profit and Loss $'000	Balance 30 Jun 20 $'000
2020				
Inventories	(1,237)	-	(437)	(1,674)
Equity accounted investments	(2,613)	2,613	-	-
Property, plant and equipment	6,922	-	(1,158)	5,764
Provisions for employee benefits	2,014	-	236	2,250
Provisions for restructuring	-	-	43	43
AASB 16 Leases	-	-	111	111
Trade creditors	13	-	(1)	12
Share raising costs	24	668	(270)	422
Blackhole expenditure	202	-	(44)	158
Borrowing costs	53	-	77	130
Other creditors and accruals	2,684	-	210	2,894
Unrealised foreign exchange differences	826	-	(103)	723
Deferred tax asset written off	(8,888)	(3,281)	1,336	(10,833)
	-	-	-	-

	Balance 01 Jul 18 $'000	Recognised Directly in Equity $'000	Recognised in Profit and Loss $'000	Balance 30 Jun 19 $'000
2019				
Inventories	(890)	-	(347)	(1,237)
Equity accounted investments	(2,613)	-	-	(2,613)
Property, plant and equipment	8,708	-	(1,786)	6,922
Provisions for employee benefits	1,892	-	122	2,014
Trade creditors	86	-	(73)	13
Share raising costs	366	-	(342)	24
Blackhole expenditure	-	-	202	202
Borrowing costs	-	-	53	53
Other creditors and accruals	4,757	-	(2,073)	2,684
Unrealised foreign exchange differences	(730)	-	1,556	826
Deferred tax asset written off	(11,576)	-	2,688	(8,888)
	-	-	-	-

Unrecognised deferred tax assets

As at 30 June 2020, the Group had not recognised deferred tax assets of $41,711,087 (2019: $43,356,050) in relation to income tax losses in Australia, $98,225,922 (2019: nil) in relation to accumulated income tax and pre trading losses in the UK and $7,073,000 (2019: nil) capital losses in the UK.

22. TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Current		
Trade payables	8,007	12,872
Other payables and accruals	12,597	17,446
	20,604	**30,318**

Other payables and accruals represent costs incurred but not yet invoiced from suppliers, accrued payroll and taxation expenses.

23. INTEREST-BEARING LOANS AND BORROWINGS

	2020 $'000	2019 $'000
Current		
Senior syndicated facility	23,721	-
Junior loan notes	10,517	-
Lease liabilities	2,455	-
Senior loan notes	-	67,164
	36,693	**67,164**
Non-current		
Junior loan notes	37,203	-
Lease liabilities	3,432	-
Loans from related party	37,141	52,536
Other	89	-
	77,865	**52,536**

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

(a) Loans and borrowing terms and maturities

Senior syndicated facility-Investec

The Senior syndicated facility is a senior ranking revolving asset-based loan provided by Investec Bank Plc, and is secured by the Drilling Division's plant and equipment, billed receivables and unbilled receivables represented by contract assets in the Statement of Financial Position (together the "Security Assets"). The Senior syndicated facility can be drawn at any time up to an upper limit of $30 million, but subject to a sufficient level of Security Assets. Interest is calculated on the daily balance outstanding at the bank bill swap rate plus a margin, and is payable monthly in arrears. The current interest rate is approximately 5.65%.

While the Senior syndicated facility is a 3-year facility, in accordance with accounting standards it is shown in the balance sheet as current because of its revolving nature. Each repayment and subsequent draw down is separately disclosed in the Cash Flow Statement as Repayment of Borrowings and Proceeds from borrowings, respectively.

The facility is subject to a number of financial covenants including cash management and earnings based financial covenants which have been complied with.

Junior Loan notes-HSBC

The Junior loan notes, which were fully drawn to $50 million throughout the period, are secured by a second ranking charge over the Security Assets and a first ranking charge over the Group's remaining assets. The principal outstanding under the junior loan notes is required to be reduced to $24 million through scheduled repayments over the 3.5-year life of the loan notes, with the balance repayable at maturity. Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears. The current interest rate is approximately 13.92%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

The facility is subject to a number of financial covenants including cash management, gearing and earnings based financial covenants which have been complied with.

Lease liability

Lease liability represents the present value of minimum lease payments recognised from 1 July 2019 as a result of the Group adopting the revised AASB 16 Leases. Prior to 1 July 2019 these were classified as operating leases with lease payments expensed as incurred. Further information regarding lease liability is available in Note 24.

Loans from related party-Kerogen

The Loans from related party is provided by Kerogen, which at 30 June 2020 holds 65.4% of the shares of the Company. During the period Kerogen extended the repayment period of their facility until 6 months after the repayment of the Junior Loan notes (approximately 4 years). Kerogen's facility is subordinated and ranks behind the Senior syndicated facility and Junior loan notes.

During the period the Company completed a capital raising as detailed in Note 27, consisting of a 19 for 20 entitlement offer. Kerogen participated for its full pro rata entitlement of $24.7 million which was satisfied by part conversion of the loans provided by Kerogen, including accrued interest.

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

OCP loan notes

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

24. LEASES

Group as lessee

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.

The carrying amounts and the movements during the period of right of use assets is set out in Note 18. The maturity analysis of lease liabilities is disclosed in Note 28. Expenses relating to short term leases of $5,668,213 have been included in operating costs of Australian operations.

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2020 $'000
Initial application of AASB 16 Lease	5,236
Additions during the year	3,350
Accretion of interest	294
Payments	(2,993)
As at 30 June	**5,887**
Current	2,455
Non-Current	3,432

25. DECOMMISSIONING LIABILITY

	2020 $'000	2019 $'000
At 1 July 2019	1,611	2,015
Decommissioning liability assumed as a result of gaining control of Cuadrilla	7,402	-
Utilisation of provision in the year	-	(489)
Release of provision in the year	-	-
Foreign currency adjustment	(558)	85
At 30 June 2020	**8,455**	**1,611**

26. EMPLOYEE BENEFITS

	2020 $'000	2019 $'000
Provision for employee benefits, including on-costs:		
Current	5,933	5,511
Non-current	1,045	813
	6,978	**6,324**

SUPERANNUATION PLANS

Benefits provided under the superannuation funds to which the Group contributes are based on accumulated contributions and earnings for each employee in accordance with the Superannuation Guarantee Charge legislation. The amount recognised as an expense for the financial year was $3,805,000 (2019: $3,727,000).

27. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent is detailed below.

SHARE CAPITAL – ORDINARY SHARES

Details of the share placements, entitlements, exercise of options and associated costs recognised directly in equity are as follows:

	Issue Price Per Share (Cents)	No. of Shares	$'000
2020			
On issue at 1 July 2019		750,097,230	467,753
Entitlement offer	6.5c	443,112,481	28,802
Placement	6.5c	3,076,924	200
Transaction costs incurred	N/A		(769)
On issue at 30 June 2020		**1,196,286,635**	**495,986**

27. CAPITAL AND RESERVES (CONTINUED)

	Issue Price Per Share (Cents)	No. of Shares	$'000
2019			
On issue at 1 July 2018		750,097,230	467,753
On issue at 30 June 2019		**750,097,230**	**467,753**

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

In March 2020 shares were issued under a placement pursuant to corporate advisory services in connection with the refinance of the Group's Senior Loan Notes.

Holders of ordinary shares are entitled to receive dividends and, in the event of a winding up of the Company, to any proceeds of liquidation after all creditors and other stockholders have been paid in full.

On a show of hands, every holder of ordinary shares present at a shareholder meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote.

NATURE AND PURPOSE OF RESERVES

Non-Controlling interest

	2020 $'000	2019 $'000
Total non-controlling interest	1,134	-

In February 2020 Company's subsidiary AJ Lucas Cuadrilla Pty Ltd acquired Riverstone's interest in Cuadrilla Resources Holdings Limited increasing its voting interest from approximately 48% to 96% and thereby gaining control. The remaining 4% is owned by a number of private individuals.

Employee equity benefits reserve

The employee equity benefits reserve represents the expense associated with equity-settled compensation under historic employee management rights incentive plans. There are no equity-settled compensation plans currently in operation, and not rights outstanding under previous plans.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations into Australian dollars.

OPTIONS

There are no options over ordinary shares outstanding at the balance sheet date.

DIVIDENDS

No dividends in respect of the 2020 or 2019 financial years have been declared or paid.

DIVIDEND FRANKING ACCOUNT

The balance of franking credits available to shareholders of the Company as at 30 June 2020 $60,852,374 (2019: $60,852,374).

28. FINANCIAL INSTRUMENTS

OVERVIEW

The Group's activities expose it to the following risks from their use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk (including currency and interest rate risks); and
- Operational risk.

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and contract assets.

Trade and other receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's customer base consists of principally major blue-chip corporations. The demographics of the Group's customer base, including the default risk of the industry and location in which the customers operate, has less of an influence on credit risk.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, past experience and other factors. This includes all major contracts and tenders approved by the Audit and Risk Committee. The Group has assessed historical loss experience and adjusts it for forward looking factors specific to each debtor and the economic environment. An allowance for expected credit losses is recorded on initial recognition of a trade receivable.

In monitoring customer credit risk, customers are grouped by their receivable ageing profile. Ongoing monitoring of receivable balances minimises exposure to bad debts.

Exposure to credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020 $'000	2019 $'000
Trade and other receivables	20,521	23,629
Contract assets	8,475	14,407
Bank balances	4,478	10,155
	33,474	**48,191**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment

Maximum exposure to credit risk for loans and receivables at the reporting date by business segment was:

	2020 $'000	2019 $'000
Drilling	17,359	13,899
Discontinued operation – Engineering and construction	–	9,423
Oil and gas	2,463	–
Corporate / unallocated	699	307
	20,521	**23,629**

The ageing of the Group's trade and other receivables at the reporting date was:

	Gross 2020 $'000	Impairment 2020 $'000	Gross 2019 $'000	Impairment 2019 $'000
Not past due	14,454	–	19,621	–
Past due up to 30 days	2,097	–	3,934	–
Past due 31 to 120 days	3,970	–	74	–
Past due 121 days to one year	–	–	–	–
Past due more than one year	–	–	–	–
	20,521	**–**	**23,629**	**–**

An allowance for expected credit losses ("ECL") is recognised after considering historic experience adjusted for forward looking factors specific to each counterparty and the economic environment. The allowance does not include debts past due relating to customers with a good credit history where future credit losses are not expected to eventuate. When the Group is satisfied that no recovery of the amount owing is possible, the amounts considered irrecoverable are written off directly against the financial asset.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity is managed to ensure, that sufficient funds are available to meet liabilities when they fall due, under both normal and stressed, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Carrying Amount $'000	Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2020							
Non-derivative financial liabilities							
Trade and other payables	20,604	(20,604)	(20,604)	–	–	–	–
Senior syndicated facility	23,721	(25,341)	(25,341)	–	–	–	–
Junior loan notes	47,720	(64,764)	(9,985)	(6,932)	(12,920)	(34,927)	–
Lease liabilities	5,887	(6,486)	(1,407)	(1,331)	(1,347)	(1,519)	(882)
Loans from related party	37,141	(68,429)	–	(437)	(521)	(67,471)	–
Other	89	(91)	–	–	(91)	–	–
	135,162	**(185,715)**	**(57,337)**	**(8,700)**	**(14,879)**	**(103,917)**	**(882)**

	Carrying Amount $'000	Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
2019							
Non-derivative financial liabilities							
Trade and other payables	31,929	(33,134)	(29,220)	–	–	(2,709)	(1,205)
Senior term loan notes	67,164	(74,887)	(40,446)	(34,441)	–	–	–
Loans from related party	52,536	(66,304)	–	(628)	(65,676)	–	–
	151,629	**(174,325)**	**(69,666)**	**(35,069)**	**(65,676)**	**(2,709)**	**(1,205)**

MARKET RISK

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

CURRENCY RISK

The Group operates internationally and is exposed to currency risk on receivables, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily with respect to the US dollar ("USD"), Great British Pounds ("GBP") and New Zealand Dollars ("NZD").

The Group's financial instruments exposed to movements in foreign currency primarily relates to borrowings. Exchange gains or losses on borrowings are accounted for through the profit and loss account.

The Group's exposure to foreign currency risk at the balance sheet date was as follows, based on notional amounts in Australian dollars (in thousands):

	2020 Exposure to NZD $'000	2019 Exposure to NZD $'000	2020 Exposure to GBP $'000	2019 Exposure to GBP $'000	2020 Exposure to USD $'000	2019 Exposure to USD $'000
Cash balances	–	–	387	565	–	1,804
Trade and other receivables	–	4,939	2,463	–	–	–
Trade payables	–	(685)	(2,178)	(5,527)	–	(356)
Interest-bearing liabilities	–	–	–	–	(37,141)	(119,700)
Net Financial Instrument exposure	**–**	**4,254**	**672**	**(4,962)**	**(37,141)**	**(118,252)**
Value of investment in Cuadrilla Resource	–	–	–	135,452	–	–
Value of Exploration assets	–	–	158,977	47,962	–	–
Decommissioning liability	–	–	(8,544)	–	–	–
Net balance sheet exposure	**–**	**4,254**	**151,105**	**178,452**	**(37,141)**	**(118,252)**

The table above includes items that are not Financial Instruments but have been included due to their material nature to provide a more complete analysis of the Group's exposure to foreign exchange movements.

28. FINANCIAL INSTRUMENTS (CONTINUED)

At 30 June, had the Australian dollar weakened/strengthened by 10% against the respective foreign currencies with all other variables held constant, the impact on Group's post-tax loss and equity would have been:

	10% Strengthened		10% Weakened	
	2020	2019	2020	2019
AUD/USD	0.7549	0.7714	0.6177	0.6312
AUD/GBP	0.6145	0.6089	0.5027	0.4982
AUD/NZD	1.1773	1.1508	0.9633	0.9416
Post-tax loss (higher) / lower	3,323	10,815	(4,062)	(13,218)
Net equity higher / (lower)	(10,360)	(5,859)	12,663	7,162

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2020	2019	2020	2019
USD	0.6712	0.7154	0.6863	0.7013
GBP	0.5326	0.5527	0.5586	0.5535
NZD	1.0547	1.0664	1.0703	1.0462

INTEREST RATE RISK

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The majority of the Group's borrowings are at variable rates. The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect profit or loss for the Group.

Interest rate exposure is detailed as follows:

At reporting date, the Group was predominantly exposed to variable interest rate borrowings.

	2020 $'000	2019 $'000
Fixed rate instruments		
Financial assets	867	3,784
Financial liabilities	(43,028)	(119,700)
	(42,161)	**(115,916)**
Variable rate instruments		
Financial assets	4,478	10,155
Financial liabilities	(71,441)	-
	(66,963)	**10,155**

During the year, had the variable interest rate weakened/strengthened by 100 basis points with all other variables held constant, the impact on Group's post-tax loss would have been:

	Strengthened 100 Basis Points		Weakened 100 Basis Points	
	2020	**2019**	**2020**	**2019**
Financial liabilities	(484)	–	484	–

FAIR VALUES

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	Carrying Amount $'000	Fair Value $'000
2020		
Bank balances	4,478	4,478
Trade and other receivables	20,521	20,521
Trade and other payables	(20,604)	(20,604)
Senior syndicated facility(1)	(23,721)	(25,182)
Junior loan notes(1)	(47,720)	(49,181)
Loans from related party	(37,141)	(37,141)
Other	(89)	(89)
	(104,276)	**107,198**
2019		
Bank balances	10,155	10,155
Trade and other receivables	23,629	23,629
Trade and other payables	(31,929)	(31,929)
Senior term loan notes(1)	(67,164)	(69,513)
Loans from related party	(52,536)	(52,536)
	(117,845)	**(120,194)**

(1) The terms and conditions of the Senior syndicated facility and the Junior loan notes were negotiated in November 2019, and in respect of the loans from related parties renegotiated at the same time, following a competitive process securing replacement to the existing OCP Senior term loan notes. However, in accordance with accounting standards the loans are accounted for using the amortised costs basis under which certain prepaid transactions costs related to the Senior syndicated facility and the Junior loan notes are recognised as an offset to the carrying amount of the liability and are amortised over the life of the loan. As such these carrying value differs from the fair value.

Management have assessed that the fair values of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these assets and liabilities. The fair value of the financial assets and liabilities is included at the amount which could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of assets and liabilities are derived with reference to Note 5.

28. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

Management have analysed the financial instruments carried at fair value, by valuation method (as discussed in Note 5). The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following methods and assumptions were used in estimating the fair values of financial instruments:

- Loans and borrowings- present value of future principal and interest cash flow, discounted at the market rate of interest at the reporting date; and
- Trade and other receivables and payables – carrying amount equals fair value.

Capital management

The Board policy is to maintain a capital base so as to provide sufficient financial strength and flexibility to conduct its business and maintain its investments in UK shale gas whilst maximising shareholder returns. The Board therefore seeks to have a level of indebtedness to leverage return on capital having regard to the Company's cash flow and the ability to service these borrowings.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2020 $'000	2019 $'000
Total liabilities	151,615	158,415
Less: cash and cash equivalents	(4,478)	(10,155)
Net debt	**147,137**	**148,260**
Total equity	86,949	107,542
Net debt to equity ratio at 30 June	**1.69**	**1.38**

29. CONSOLIDATED ENTITIES

The financial statements at 30 June 2020 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

Name of Entity	Country of Incorporation	Ownership Interest 2020 %	2019 %
Parent entity – AJ Lucas Group Limited			
Controlled entities			
Australian Water Engineering Pty Limited*	Australia	100	100
AJ Lucas Operations Pty Limited	Australia	100	100
AJ Lucas Plant & Equipment Pty Limited*	Australia	100	100
AJ Lucas Drilling Pty Limited*	Australia	100	100
Lucas Shared Services Pty Limited	Australia	100	100
AJ Lucas Testing Pty Limited*	Australia	100	100
Lucas Operations (WA) Pty Limited *	Australia	100	100
Lucas Engineering and Construction Pty Limited	Australia	100	100
AJ Lucas Joint Ventures Pty Limited*	Australia	100	100
AJ Lucas (Hong Kong) Limited*	Hong Kong	100	100
Lucas Drilling Pty Limited	Australia	100	100
Mitchell Drilling Corporation Pty Limited	Australia	100	100
Lucas Contract Drilling Pty Limited	Australia	100	100
McDermott Drilling Pty Limited	Australia	100	100
Jaceco Drilling Pty Limited	Australia	100	100
Geosearch Drilling Service Pty Limited	Australia	100	100
257 Clarence Street Pty Limited*	Australia	100	100
Lucas SARL*	New Caledonia	100	100
Lucas Energy (Holdings) Pty Limited*	Australia	100	100
Lucas (Arawn) Pty Limited*	Australia	100	100
Lucas Energy (WA) Pty Limited*	Australia	100	100
Lucas Power Holdings Pty Limited*	Australia	100	100
Lucas Cuadrilla Pty Limited	Australia	100	100
Lucas Holdings (Bowland) Limited	England	100	100
Lucas Bowland (UK) Limited	England	100	100
Lucas Bowland (No. 2) Limited	England	100	100
Elswick Power Limited	England	100	100
Lucas Holdings (Bolney) Limited	England	100	100
Lucas Bolney Limited	England	100	100

29. CONSOLIDATED ENTITIES (CONTINUED)

Name of Entity	Country of Incorporation	Ownership Interest 2020 %	2019 %
Cuadrilla Resources Holdings Limited	England	96	47
Cuadrilla Resources Limited	England	96	47
Cuadrilla Bowland Limited	England	96	47
Cuadrilla Elswick Limited	England	96	47
Cuadrilla Balcombe Limited	England	96	47
Cuadrilla Weald Limited	England	96	47
Cuadrilla Services Limited	England	96	47
Cuadrilla Well Services Limited	England	96	47
Cuadrilla Elswick (No 2) Limited	England	96	47
Cuadrilla South Cleveland Limited	England	96	47
Cuadrilla North Cleveland Limited	England	96	47
Cuadrilla Gainsborough Limited	England	96	47

* The Group has undertaken to simplify its structure and has commenced formal proceedings to voluntarily deregister the Australian subsidiaries marked above. In the case of Lucas SARL a formal liquidation process has commenced. In the case of AJ Lucas (Hong Kong) Limited the deregistration process has commenced after year end.

30. CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

The directors are of the opinion that provisions are not required in respect of the following matters, as it is not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

(i) Under the terms of the Class Order described in Note 34, the Company has entered into approved deeds of indemnity for the cross-guarantee of liabilities with participating Australian subsidiary companies.

(ii) Under the terms of the Groups purchase of additional equity in Cuadrilla Resources Holdings Limited and the resultant gaining of Control, as disclosed in Note 19 and 20, the Group has agreed to pay to the seller an additional amount of between $5 million and $10 million if the Group sells 25% or more of its interest in its exploration assets within 3 years for the equivalent of at least US $100 million of the Company's 100% interest. The Company does not have a plan in place to sell those assets and as such no liability has been recognised.

COMMITMENTS

At 30 June 2020, the Group had no commitments contracted but not provided (2019: nil) for the purchase of new plant and equipment.

31. PARENT ENTITY DISCLOSURES

As at 30 June 2020 and 2019, and throughout the financial years then ended, the parent entity of the Group was AJ Lucas Group Limited.

	2020 $'000	2019 $'000
Results of the parent entity		
Loss for the year	(17,877)	(29,375)
Total loss for the year	**(17,877)**	**(29,375)**
Financial position of the parent entity at year end		
Current assets	365	1,779
Total assets	41,320	113,537
Current liabilities	92	67,276
Total liabilities	37,233	119,812
Total equity of the parent entity comprises:		
Share capital	495,992	467,753
Employee equity benefit reserve	4,670	4,670
Accumulated losses	(496,575)	(478,698)
Total equity	**4,087**	**(6,275)**

Parent entity commitments and contingencies

The parent entity has guaranteed, to various unrelated parties, the performance of various subsidiaries in relation to various contracts. In the event of default, the parent entity undertakes to meet the contractual obligations of the relevant subsidiary.

PARENT ENTITY GUARANTEES IN RESPECT OF DEBTS OF ITS SUBSIDIARIES

The Company has entered into a Deed of Cross Guarantee, as disclosed in Note 34, with the effect that the Company guarantees debts in respect of its subsidiaries, and the subsidiaries may provide financial assistance to the Company.

32. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2020 $'000	2019 $'000
(a) Reconciliation of cash		
For the purposes of the consolidated statement of cash flows, cash includes cash at bank, cash on hand and bank overdrafts.		
Cash and cash equivalents	4,478	8,376
Cash in trust	-	1,779
Total cash	**4,478**	**10,155**
(b) Reconciliation of cash flows from operating activities		
Loss for the year	(8,884)	(39,390)
Adjustments for:		
Interest on lease liability	(294)	-
Interest payable settled through equity raising	2,122	-
Amortisation of borrowing costs (included in interest-bearing liabilities)	3,588	5,681
Increase / (decrease) in accrued and capitalised interest	(3,435)	11,174
(Profit) / loss on sale of non-current assets	323	816
Loss on foreign currency loans	3,336	5,183
Exchange rate changes on the balance of cash held in foreign currencies	24	(367)
Share of profit of equity accounted investees	1,162	4,880
Revenue recognised on farm-in	-	(373)
Realisation of exchange differences on acquisition of Cuadrilla	(42,265)	
Write back of non-cost items in equity accounted investment	38,275	-
Depreciation and amortisation	7,350	5,385
Operating profit / (loss) before changes in working capital and provisions	**1,302**	**(7,011)**
Change in receivables	7,959	3,605
Change in other current assets	(270)	214
Change in inventories	(1,455)	36,716
Change in contract assets and liabilities	6,490	(13,945)
Change in payables related to operating activities	(12,676)	(4,862)
Change in provisions for employee benefits	654	126
Net cash from operating activities	**2,004**	**14,843**

(c) Non-cash financing and investment activities

Kerogen's subscription to an equity raising in November 2019, as disclosed in note 27, was satisfied by the conversion of $24.7 million of the related party loans owned to Kerogen, including accrued interest.

(d) Financing arrangements

Refer to Note 23.

(e) Reconciliation of liabilities arising from financing activities

	As at 1 July 2019 $'000	Cash Flow(1) $'000	Non-Cash Debt for Equity(2) $'000	Non-Cash Finance Costs $'000	Other(3) $'000	As at 30 June 2020 $'000
Interest bearing liabilities	**119,700**	(14,987)	(24,696)	25,631	8,910	**114,558**

(1) Comprises proceeds from borrowings of $187.6 million less repayments of borrowings of $175.9 million, $2.7 million repayment of leases, transaction costs on borrowings of $3.9 million and $20.2 million in interest and other costs of finance paid.

(2) Refer to Note 27.

(3) Comprise Lease liability recognised on initial application of AASB 16 Leases, additional lease liability recognised during the year of $3.4 million and prepaid annual loan fees on Kerogen recognised in other assets.

	As at 1 July 2018 $'000	Cash Flow(1) $'000	Non-Cash Debt for Equity $'000	Non-Cash Finance Costs(2) $'000	Other $'000	As at 30 June 2019 $'000
Interest bearing liabilities	**84,836**	5,785	-	28,559	520	**119,700**

(1) Comprises proceeds from borrowings of $12.5 million less interest and other costs of finance paid of $6.7 million (which excludes interest withholding tax paid of $1.3 million and other interest costs of $133,000 unrelated to liabilities from financing activities)

(2) Includes interest expense accrued of $17.7 million (which excludes interest withholding tax accrued of $0.8 million and other interest costs of $0.1 million unrelated to liabilities from financing activities), amortisation of fees on debt facilities of $5.7 million and net foreign exchange loss of $5.2 million as disclosed in Note 7.

33. RELATED PARTIES

ENTITY WITH CONTROL

Kerogen has provided financing facilities throughout the year as described in Note 23. Interest and borrowing costs incurred and recognised as an expense during the period totaled $7,688,967 (2019: $9,527,230), with balances outstanding at the balance sheet date disclosed in Note 23.

Kerogen Investments No. 1 Limited ("Kerogen") participated in the accelerated entitlement offer announced by the Company in November 2019 for its full pro rata entitlement. In total $24.7 million was raised from Kerogen and settled by the part conversion of the related party loan facility as disclosed in Note 23, including outstanding principal and interest.

Julian Ball is a representative of Kerogen and a Director of the Company.

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation comprised:

	2020 $	2019 $
Short-term employee benefits	2,125,652	2,488,837
Other long-term benefits	(366)	21,338
Post-employment benefits	42,004	48,251
Termination benefits	-	237,881
	2,167,290	**2,796,307**

Information regarding individual director and executives' compensation disclosures, as required by the Corporations Act chapter 2M, is provided in the Remuneration Report section of the Director's Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

33. RELATED PARTIES (CONTINUED)

KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH THE COMPANY OR ITS CONTROLLED ENTITIES

A number of key management persons, or their related parties, hold or held positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Services were provided through the contracting entity. Such services were provided in the ordinary course of business and on normal terms and conditions in all instances. The amount payable for these services is included in the amounts disclosed in the Remuneration Report.

The aggregate amounts recognised during the year relating to key management personnel and their related parties, were as follows:

Key Management Person	Contracting Entity	Transaction	2020 $	2019 $
Phillip Arnall	Felix Ventures Pty Ltd	Non-Executive director services	270,000	295,000
Julian Ball	Kerogen Capital Limited	Non-Executive director services	120,000	120,000
Ian Meares	Autonome Pty Ltd	Non-Executive director services	55,000	110,000
Ian Meares(1)	Autonome Pty Ltd	Other consulting services	–	6,000
Andrew Purcell	Lawndale Group Pty Ltd	Non-Executive director services	110,000	110,000

(1) In 2019 Ian Meares provided the Company with consulting advice in addition to his director's duties, and was remunerated on commercial terms. Mr Meares resigned from the Board effective 31 December 2019.

Francis Egan, the CEO of Cuadrilla was appointed to the Board of AJ Lucas as an executive Director on 13 May 2020 and became a KMP at that time. Francis retains an interest in Cuadrilla Resourcing Holdings Limited, obtained prior to becoming a Key management personnel, owning 173,354 Class A Ordinary shares (representing 0.22% of that Class) and 163,257 Class A Preference Shares (representing 0.25% of that Class) at 30 June 2020.

OTHER RELATED PARTIES

The Group has a related party relationship with its subsidiaries (see Note 29). These entities trade with each other from time to time on normal commercial terms. No interest is payable on inter-company balances.

34. DEED OF CROSS GUARANTEE

On 16 June 2008, several of the entities in the Group entered into a Deed of Cross Guarantee. In May 2020 these Group entities entered a deed which released certain dormant Group entities from the obligations under the Deed of Cross Guarantee allowing those entities to be subsequently closed down and undergo a voluntary deregistration as disclosed in Note 29. Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the Group's wholly owned subsidiaries entering into the Deed are relieved from the Corporations Act 2001 requirements to prepare, have audited and lodge financial reports, and directors' reports.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed at 30 June 2020 are:

Name of Entity	
AJ Lucas Group Limited	McDermott Drilling Pty Limited
Lucas Drilling Pty Limited	Lucas Contract Drilling Pty Limited
Jaceco Drilling Pty Limited	Lucas Shared Services Pty Limited
Geosearch Drilling Service Pty Limited	AJ Lucas Operations Pty Limited
Mitchell Drilling Corporation Pty Limited	Lucas Engineering & Construction Pty Limited

A consolidated summarised statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2020 are set out below:

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME

	2020 $'000	**2019 $'000**
Loss before income tax	(9,366)	(32,070)
Income tax expense	-	-
Loss after tax	(9,366)	(32,070)
Accumulated losses at the beginning of the year	(406,103)	(374,033)
Accumulated losses at the end of the year	(415,469)	(406,103)

34. DEED OF CROSS GUARANTEE (CONTINUED)

SUMMARISED STATEMENT OF FINANCIAL POSITION

	2020 $'000	2019 $'000
CURRENT ASSETS		
Cash and cash equivalents	4,087	7,781
Cash in trust	-	1,779
Trade and other receivables	20,521	23,629
Contract asset	8,475	14,407
Inventories	5,577	4,122
Other Assets	1,181	515
Total Current Assets	**39,841**	**52,233**
NON-CURRENT ASSETS		
Trade and Other Receivables	146,884	136,862
Property, plant and equipment	33,838	29,715
Right-of-use assets	5,517	-
Total Non-Current Assets	**186,239**	**166,577**
Total Assets	**226,080**	**218,810**
CURRENT LIABILITIES		
Trade and other payables	18,419	25,975
Contract liability	1,020	462
Interest bearing loans and borrowings	36,693	67,164
Employee benefits	5,933	5,511
Total Current Liabilities	**62,065**	**99,112**
NON-CURRENT LIABILITIES		
Interest bearing loans and borrowings	77,776	52,536
Employee benefits	1,045	813
Total Non-Current Liabilities	**78,821**	**53,349**
Total Liabilities	**140,886**	**152,461**
Net Assets	**85,194**	**66,349**
EQUITY		
Share capital	495,983	467,752
Reserves	4,679	4,700
Retained earnings	(415,468)	(406,103)
Total Equity	**85,194**	**66,349**

35. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In July 2020, the Company received notice from Spirit North Sea Gas Limited ("Spirit"), its partner in the UK Bowland Shale exploration licence, that Spirit intends to exit the licence and transfer its 25% interest back to AJL for a nominal sum. This is in accordance with an option included in the 2013 Sale and Purchase agreement that AJL negotiated with Centrica (a Parent Company of Spirit). Spirit will remain liable for its 25% share of the future decommissioning costs of the exploration wells already drilled and facilities already installed on the licences.

The is part of a broader series of actions being taken by Centrica (the owner of British Gas) to arrest the decline of the value of their business including an exit from the upstream oil and gas business and other wide-ranging organisational changes and allow it to focus more on downstream oil and gas services. Contributing to this uncertainty has been the decline in oil and gas prices stemming from the recent COVID-19 pandemic, which may have further added to the urgency for Centrica to seek to sell/exit its upstream gas business including its interest in the Bowland licence.

Other than as disclosed above, there has not arisen in the interval between the end of the financial 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.

DIRECTORS' DECLARATION

for the year ended 30 June 2020

1 In the opinion of the directors of AJ Lucas Group Limited (the Company):

(a) the consolidated financial statements and notes, that are contained in pages 37 to 81 and the Remuneration Report included in the Directors' Report, set out on pages 25 to 28, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the group entities identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

3 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chairman and Chief Financial Officer, for the financial year ended 30 June 2020.

4 The directors draw attention to note 2(A) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Phillip Arnall,
Director

28 August 2020

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Independent Auditor's Report to the Members of AJ Lucas Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of AJ Lucas Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2c in the financial report, which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern.

These conditions along with other matters set forth in Note 2c, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Carrying value of exploration assets

Refer to Note 20 Exploration Assets

Why significant	How our audit addressed the key audit matter
The Group's exploration assets of $159.0m as at 30 June 2020 represent 67% of total assets of the Group. Exploration assets are initially recognised at cost and any additional expenditure is capitalised to the exploration asset in accordance with the Group's accounting policy as outlined in Note 3(P). At each reporting date the Directors' assess the Group's exploration assets for indicators of impairment. The decision as to whether there are indicators that require the Group's exploration assets to be assessed for impairment in accordance with AASB 6 involved judgment, including whether; the rights to tenure for the areas of interest are current; the Group's ability and intention to continue to evaluate and develop the area of interest and whether the results of the Group's exploration and evaluation work to date are sufficiently progressed for a decision to be made as to the commercial viability or otherwise of the area of interest.	Our procedures to address the Group's assessment of impairment indicators for exploration assets included: ▶ Understanding the current exploration program and any associated risks; ▶ Considering the Group's right to explore in the relevant exploration area, which included obtaining and assessing supporting documentation such as license agreements. ▶ Considering the Group's intention to carry out significant exploration and evaluation activity in the relevant areas of interest, which included an assessment of the Group's cash-flow forecast models, discussions with senior management and Directors as to the intentions and strategy of the Group. ▶ Agreeing a sample of costs capitalised for the period to supporting documentation and considering whether these costs meet the requirements of Australian Accounting Standards and the Group's accounting policy. ▶ Assessing whether the methodology used by the Group to identify indicators of impairment met the requirements of Australian Accounting Standards;

Why significant	How our audit addressed the key audit matter
The Directors have performed this assessment with the expectation that the moratorium on hydraulic fracturing in the United Kingdom (the "moratorium") will be lifted and have outlined in Note 20, the reasons for this conclusion. Should the moratorium not be lifted this may significantly impact the carrying value of the exploration assets. We have therefore considered this a Key Audit Matter due to the value of the exploration assets relative to total assets; the significant judgments involved in the assessment of indicators of impairment and the significant uncertainty as to whether the moratorium will be lifted. For the same reasons we consider it important that attention is drawn to the information in Note 20 in assessing the recoverability of the exploration assets at 30 June 2020.	▶ Considering announcements made by the UK Government and UK Oil and Gas Authority regarding the current moratorium on hydraulic fracturing in the UK and any changes to the current moratorium position; and ▶ Evaluating the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.

2. Recognition and Measurement of Revenue from Contracts with Customers

Refer to Note 6 Operating Segments

Why significant	How our audit addressed the key audit matter
The Group recognises revenue from contracts with customers when control of the goods or services is transferred to the customer. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled in exchange for those goods or services. The Group's drilling services and associated consumables and materials are sold to customers under contracts which vary in tenure and pricing. Services are provided primarily on hourly or metre rates specific to each contract. The accurate recording of revenue is highly dependent on the following factors:	▶ We assessed whether the methodology used to recognise revenue met the requirements of Australian Accounting Standards; ▶ We tested the effectiveness of the Group's controls in the following areas: - Initiation, processing and approval of new customers and/or contracts; - review and approval of project costs incurred; - authorisation of project variations; - review and assessment of significant changes in work in progress balances; and - review of unapproved variations and claims.

Why significant	How our audit addressed the key audit matter
▶ Appropriate knowledge of individual contract characteristics and status of work. Key characteristics would be the length and type of contract (lump sum basis or time and materials basis); ▶ Determination of variations and claims provided to customers including an assessment of when the Group believes it is probable that amounts will be approved and can be recovered from the customer; and ▶ Determination of claims received from customers, including an assessment of when the Group believes it is probable that such claims will result in an outflow of economic resources. This matter has been considered as a Key Audit Matter given the complexity of the contracts and the level of judgement required to estimate the value of revenue recognised.	▶ We selected a sample of contracts based on qualitative and quantitative factors and performed the following procedures: - reviewed contract terms and conditions and assessed whether the individual characteristics of each contract were appropriately accounted for; - assessed the Group's ability to deliver budgeted contract margins by analysing the historical accuracy of forecasting margins and the relationship of contract cost versus billing status; and - agreed material contract revenue and cost variations and claims to information provided by customers and other relevant third parties; ▶ We also assessed the effect of contract performance, in the period since year end to the date of this report, on revenue recognised at year end; and ▶ We evaluated the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.

3. Step acquisition of Cuadrilla Resources Holdings Limited

Refer to Note 19 Investments in Equity Accounted Investees

Why significant	How our audit addressed the key audit matter
On 5 February 2020 the Group acquired an additional 48% interest in Cuadrilla, thereby increasing its interest from 48% to 96% and gaining control. This transaction resulted in the consolidation of Cuadrilla into the Group's results from the date of gaining control and the derecognition of the equity accounted investment in Cuadrilla and related foreign currency translation balances.	▶ We assessed whether the methodology used by the Group to account for the acquisition of Cuadrilla was appropriate. This included performing cut-off audit procedures on the balances recorded at the date the Group obtained control and the derecognition of the equity accounted investment and related balances at acquisition date; ▶ We recalculated the share of equity accounted losses during the year and movements in foreign currency translation recognised up to acquisition date;

Why significant	How our audit addressed the key audit matter
This was considered a Key Audit Matter due to the size of the transaction, judgments involved in the accounting adopted and the overall impact this transaction had on the financial statements.	▶ We assessed the appropriateness of the consolidation accounting of Cuadrilla from acquisition date to balance date, including its contribution of financial performance to the Group; and ▶ We evaluated the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 28 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of AJ Lucas Group Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Ryan Fisk
Partner
Sydney
28 August 2020

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

for the year ended 30 June 2020

DISTRIBUTION OF ORDINARY SHAREHOLDERS (AS AT 31 JULY 2020)

Securities Held	Number of Shareholders	Number of Shares
1 – 1,000	543	252,254
1,001 – 5,000	636	1,748,384
5,001 – 10,000	269	2,106,317
10,001 – 100,000	590	21,031,099
100,001 and over	222	1,171,148,581
Total	**2,260**	**1,196,286,635**

1,578 shareholders held less than a marketable parcel of shares at 31 July 2020.

TOP 20 SHAREHOLDERS (AS AT 31 JULY 2020)

Name	Number of Ordinary Shares Held	% of Issued Shares
Kerogen Investments No. 1 (HK) Limited	779,888,166	65.19
CS Third Nominees Pty Limited <HSBC CUST NOM AU LTD 13 A/C>	59,182,177	4.95
Mr Paul Fudge	54,101,840	4.52
Amalgamated Dairies Limited	41,636,217	3.48
RODITI (DC & O) 2017 INVESTMENTS LIMITED	40,500,050	3.39
Citicorp Nominees PTY Limited	20,857,083	1.74
HSBC Custody Nominees (Australia) Limited	19,074,234	1.59
National Nominees Limited	12,512,656	1.05
Mr Robert Alexander Hoad + Ms Jacquelyn Maria Hoad <SUNSHINE INVESTMENTS A/C>	8,688,000	0.73
HSBC Custody Nominees (Australia) Limited – A/C 2	7,578,076	0.63
ADEMSA PTY LTD	7,502,448	0.63
Milson Investments PTY Limited	6,443,789	0.54
Toolebuc Investments PTY LTD	5,157,862	0.43
Between The Lines Pty Limited	4,904,791	0.41
Mr Robert Alexander Hoad	4,040,000	0.34
Kaufman Blair & Associates Limited	3,981,924	0.33
Avenue 8 Pty Limited <Gan Super Fund A/C>	3,783,422	0.32
Mr Paul Sze Yuen Sheung + Mrs Pauline Kwok Sim CHeung	3,559,469	0.30
Inkese Pty Ltd	3,500,000	0.29
Ms Melissa Mary Stephens	3,494,331	0.29
	1,090,386,535	**91.15**

SUBSTANTIAL SHAREHOLDERS

Name	Number of Ordinary Shares Held	% of Issued Shares
Kerogen Investments No. 1(HK) Limited	779,888,166	65.19

VOTING RIGHTS

Ordinary shares – Refer to note 27 of the financial statements.

Options – There are no options outstanding.

CORPORATE DIRECTORY

for the year ended 30 June 2020

COMPANY SECRETARY

Marcin Swierkowski – BA Com, CA, MBA (exec)

REGISTERED OFFICE

Level 22, 167 Eagle Street
Brisbane QLD 4000

Tel +61 7 3363 7333

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
ADELAIDE SA 5000
GPO Box 1903
ADELAIDE SA 5001

Enquiries within Australia: 1300 556 161

Enquiries outside Australia: +61 3 9615 5970

Email: web.queries@computershare.com.au

Website: www.computershare.com

STOCK EXCHANGE

The Company is listed on the Australian Securities Exchange with the code 'AJL'. The Home Exchange is Sydney.

AUDITORS

Ernst & Young
200 George Street
SYDNEY NSW 2000

QUALITY CERTIFIERS (AS/NZS ISO 9001:2015)

Compass Assurance Services

AUSTRALIAN BUSINESS NUMBER

12 060 309 104

OTHER INFORMATION

AJ Lucas Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

LUCAS

www.lucas.com.au