

LUCAS GROUP

INTERIM REPORT

&

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2020

**(Previous Corresponding Reporting Period:
half year ended 31 December 2019)**

Appendix 4D

for the half year ended 31 December 2020

Name of entity: AJ LUCAS GROUP LIMITED

ACN: 060 309 104

	Change			Dec-20 \$A'000	Dec-19 \$A'000
Revenue					
Revenues from continuing operations	Decrease of	20.9%	to	61,309	77,542
Results from continuing operations					
Reported EBITDA ⁽¹⁾	Improvement of	63.5%	to	15,002	9,176
Profit before interest and tax	Improvement of	110.2%	to	11,918	5,669
Net profit / (Loss) for the period	Improvement of	196.8%	to	9,941	(10,262)
NTA Backing				Dec-20	Jun-20
Net tangible asset backing per ordinary security (cents per share)				7.0	6.1
				Amount per security	Franked amount per security
Dividends					
Total dividend - current year				0.0¢	N/A
- previous year				0.0¢	N/A

⁽¹⁾ Reported EBITDA from continuing operations refers to earnings before net financing costs, depreciation and amortisation, impairments and tax expense but excludes results from discontinued operations.

An interim financial report for the half year ended 31 December 2020 is provided with the Appendix 4D information.

1. The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.
2. The Appendix 4D information is based on the interim financial report, which has been subject to a review.
3. The Auditor's qualified review report is attached as part of the interim financial report.
4. The non-IFRS financial information presented in this document has not been audited or reviewed in accordance with Australian Auditing Standards.

Commentary on the Results

for the half year ended 31 December 2020

AJ Lucas Group Limited and its controlled entities "Lucas Group" presents its results for the period 31 December 2020.

	Dec 2020 \$'000	Dec 2019 \$'000	Change %
Total revenue from continuing operations	61,309	77,542	(20.9%)
Reported EBITDA - Australian operations	15,358	12,888	19.2%
Reported EBITDA - UK investments operations	(356)	(3,712)	90.4%
Total Reported EBITDA	15,002	9,176	63.5%
Depreciation and amortisation	(3,084)	(3,507)	12.1%
EBIT	11,918	5,669	110.2%
Net finance costs	(4,954)	(15,931)	68.9%
Income tax benefit (UK R&D Credit)	2,977	–	100.0%
Net profit / (loss) for the year	9,941	(10,262)	196.9%
Basic profit / (loss) per share (cents)	0.8	(1.2)	166.7%

Despite lower revenue in the six months to December 2020 compared to the corresponding prior period, earnings from our Australian operations increased. Combined with a lower level of losses from our UK operations, a tax benefit arising from UK R&D credits as well as lower financing charges, the Group reported a net profit for the six months to December 2020 of \$9.9 million compared to a \$10.3 million loss in the corresponding prior period. The Board and management continue to look for opportunities to strengthen the Australian operating business and further improve its earnings diversification, profitability and future resilience.

Revenue was lower in the six months to December 2020 (20.9%) compared to the corresponding prior period. This was driven by a number of factors including the impact of COVID-19 and impact to our customers' mining operations. Despite lower revenue, Reported EBITDA from Lucas Drilling increased by 19.2% compared to the corresponding period. This reflects the increased mix of additional technical and higher yielding drilling, as well as management's focus on improving overall productivity in response to operational customer changes and further savings achieved from the closure of the Sydney Corporate office.

The Reported EBITDA loss from UK Oil and Gas Investments of \$0.35 million for the period is significantly lower than the \$3.7 million loss in the corresponding prior period. This has been achieved by the scaling back of our UK operations and corresponding reduction in operating and overhead costs. These changes were implemented in response to the moratorium on hydraulic fracturing which was announced by the UK Government in November 2019. Our UK business is now fit for purpose operating currently with a reduced on the ground presence and a low-cost footprint. During the reporting period Cuadrilla became entitled to and received research and development ("R&D") tax credits from the UK tax authorities and those credits delivered a \$3.0 million income tax benefit in the current year.

Net finance costs were significantly lower in the six months to December 2020 compared to the corresponding prior period. This in part reflects a \$4.2 million favourable foreign exchange movement (2019: \$2.7 million loss) as well as reduced interest expense following the successful debt refinancing undertaken in October 2019. This refinancing consisted of the replacement of US dollar denominated senior loan notes with two new Australian dollar denominated facilities totalling \$80 million, leading to reduced foreign exchange exposure, lower cost of debt and extended maturities.

During the period a number of organisational changes were put in place reflecting the focus on the Australian operations and the increase in the Group's ownership in Cuadrilla. Mr Tredinnick, who was previously the Lucas Drilling division CEO was appointed Group Chief Executive Officer and joined the Lucas Group Board. Mr Egan, who remains the Cuadrilla CEO joined the Lucas Group Board. Following the retirement of Austen Perrin, who has also joined the Lucas Group Board, Mr Ekster was appointed Group Chief Financial Officer.

Commentary on the Results

for the half year ended 31 December 2020

Lucas Drilling

	Dec 2020 \$'000	Dec 2019 \$'000	Change %
Revenue	61,309	77,542	(20.9%)
Underlying EBITDA - Drilling		16,093	
Underlying EBITDA - Corporate		(1,900)	
Corporate non-operating costs		(1,305)	
Reported EBITDA – Lucas Drilling	15,358	12,888	19.2%
EBITDA margin	25.1%	16.6%	

The Board and management remain buoyed in the short term by recent increases in levels of tender activity. Our key customers produce some of the world's highest quality hard coking coal which is used in steel making, and in the longer term the demand for their product and our services will, we consider, be supported by strong fundamentals underpinning metallurgical coal, despite the recent trade disputes between Australia and China.

The drop in revenue in the period was more than offset by an increased mix of more technical, higher yielding drilling as well as the various operational and corporate efficiency measures taken. The Group's recent reorganisation has simplified reporting and further removed costs and positions the business to be able to better withstand demand shocks and be well positioned to maximise growth opportunities.

The closure of the Sydney office, whose corporate functions have been absorbed by existing Brisbane management delivered meaningful cost savings. Group corporate costs, which include all compliance and risk management activities, other than those directly related to the UK Oil and Gas Investments segment, are now included in EBITDA – Lucas Drilling. The table above shows the impact to the comparative period had corporate costs been included.

On an operational level the business continued to deliver valuable services to its customers in a safe manner. The CEO and his team continue to focus on improving safety performance, building on the business' superior safety culture, with outstanding results. The total recordable injury frequency rate ("TRIFR") has again been reduced from an already industry leading level to 2.64 at December 2020.

The Division continues to explore further extensions and rollovers of existing customer contracts as well as new opportunities to provide further growth.

UK Oil & Gas Investments

As previously reported, the UK Government announced a moratorium on further hydraulic fracturing operations in England in early November 2019, just prior to heading into a General Election. In February 2020 the Group increased its interest in Cuadrilla to approximately 96%, and in May 2020 Cuadrilla CEO Francis Egan joined the Group Board. Under Board direction, Cuadrilla scaled back its operations and significantly reduced operating and overhead costs to reflect a much-reduced activity set while the moratorium is in place. This is demonstrated in the reduction of Reported EBITDA loss from UK Oil and Gas Investments from \$3.7 million in the 6 months to December 2019 to \$0.4 million in the reporting period.

During the reporting period Cuadrilla became entitled to and received research and development ("R&D") tax credits from the UK tax authorities. These credits delivered a \$3.0 million income tax benefit in the current year, and \$4.2 million in cash receipts during the period.

The UK Oil and Gas Authority ("OGA") advised onshore shale gas explorers that compelling new scientific evidence will be required to demonstrate that hydraulic fracturing can be conducted safely before it recommends lifting the moratorium. Cuadrilla has continued to work with other UK Shale gas operators, in conjunction with the onshore trade industry body (UKOOG), to determine a program of work that could meet the OGA's requirements.

In December 2020 the OGA published the results of four technical studies that it had commissioned to review various aspects of the induced seismicity at the PNR2 shale well. These studies were originally commissioned in March 2020, some four months after the moratorium had been announced. In December 2020 the UK

Commentary on the Results

for the half year ended 31 December 2020

Government also published its Energy White Paper, and the UK Climate Change Committee (CCC) published its Sixth Carbon Budget and Path to Net Zero. Both of these publications emphasise the UK's legally binding target of Net Zero CO₂ emissions by 2050 and set out various pathways, initiatives and commitments to reach that Net Zero goal.

The Group has completed its initial reviews of the four technical studies, the Energy White Paper and the CCC reports. Based on those reviews it has provided a written response to the OGA and to the UK Business and Energy Department. The response addresses the content of the technical reports and makes a proposal on next steps to move forward and lift the Moratorium on hydraulic fracturing. The Lucas response is intended to be consistent with and supportive of the UK Government's commitment to achieving Net-Zero CO₂ emissions by 2050. It recognises, in particular, the importance of delivering operational carbon capture and storage projects if the Net Zero CO₂ goal is to be met and the potential for onshore geothermal energy in delivering industrial and domestic heat.

The UK Government's White Paper recognises that whilst the role of natural gas in UK energy supply is clearly envisaged to decline, it is still considered likely that there will be a significant gas demand out to 2050 and potentially beyond, for example as a fuel in generating back-up electricity and a feedstock for producing hydrogen. Any CO₂ resulting from the burning of gas in such industrial applications will need to be captured and stored. The source of this gas is not currently identified but the underlying fall in UK domestic gas supply and increasing reliance on gas imports, particularly LNG imports, is an acknowledged, growing and worrying trend.

The UK's reliance on imports of LNG is problematic for two reasons. Firstly, as gas production from Norway and Netherlands declines further, a larger portion of UK's annual gas supply will take the form of carbon intensive imported LNG. Independent estimates of the pre-combustion CO₂ emissions of LNG imported to the UK from the Middle East calculate these to be up to four times higher than estimated for UK onshore gas production. Secondly, failure to produce gas locally will undoubtedly increase UK consumer exposure to interruption in supply and unpredictable global LNG pricing trends to an extent not previously seen. This already became evident when spiking LNG spot prices caused UK day ahead gas prices to trade 60% higher in December 2020 compared to December 2019, despite the COVID related reduction in gas demand.

Cuadrilla, through its exploration program to date, has demonstrated that the UK is sitting on a very large, high quality, natural gas resource in underground shale rock. This resource is predominantly located across the North of England, an area that could and should benefit from the economic and employment benefits that appraising and developing the discovered natural gas resource would bring. It is understood and accepted that any appraisal and development will need to be consistent with the UK's Net-Zero CO₂ commitment. The location of the shale resource close to proposed, Government supported, industrial clusters and associated carbon capture, utilisation and storage (CCUS) hubs in the North West and North East of England, makes this a realisable and economically attractive proposition for the Lucas group.

It is known and acknowledged by the OGA and industry experts that the injection of CO₂ into depleted reservoirs has the same potential to cause induced seismic activity as hydraulic fracturing or geothermal fluid injection operations. It makes sense therefore that resolving and lifting the moratorium on hydraulic fracturing should happen in parallel with defining and appropriately mitigating and regulating the risks of induced seismicity associated with comparable CO₂ injection and onshore geothermal operations.

Cuadrilla has proposed that the Operator(s) of any proposed near-shore CO₂ storage sites and the OGA collaborate on upgrading the existing design, operational and regulatory controls for induced seismicity associated with subsurface fluid injection, be that fluid hydraulic fracturing liquid or injected CO₂. The extensive and unique subsurface and surface data set acquired by Cuadrilla at its Preston New Road exploration program and the independent studies already commissioned and completed by the OGA into the two PNR wells would be an excellent and world leading foundation for successfully completing this work.

Cuadrilla is also engaged in technical scoping work assessing the geothermal potential of its onshore UK well stock and this work remains in progress. The potential of dual purposing shale wells to become geothermal energy producers at the end of their gas production phase is an exciting opportunity and one that again can support the UK in achieving its Net Zero CO₂ target by 2050.

Cuadrilla will continue to work with other Operators, the Regulator and the UK industry as detailed above to resolve concerns on hydraulic fracturing and support the UK goal of Net Zero CO₂ by 2050.

Commentary on the Results

for the half year ended 31 December 2020

Balance Sheet and cash flows

	Dec 2020 \$'000	June 2020 \$'000	Change %
Total assets	231,733	238,564	(2.9%)
Net assets	95,028	86,949	9.3%

The increase in net assets of \$8.1 million in the six months to 31 December 2020, was predominantly driven by a net profit from operations of \$9.9 million, offset partially by foreign exchange differences on translation of foreign operations of \$1.8 million on the Group's exploration assets.

Cash flows from operations were \$20.5 million (2019: \$6.5 million), an improvement of \$14.0 million driven largely by lower interest and finance costs of \$1.6 million (2019: \$15.9 million) and a total of \$4.3 million received in UK research and development incentives. Interest and finance costs paid in the comparative period included \$15.1 million in accrued interest costs paid on the extinguishment of the senior loan note facility that was refinanced in October 2019.

Cash flows spent on investing activities have been kept modest in response to the impacts of COVID-19, customer operational issues and some customer concerns on some coal sales to China in the back end of the half year. Only \$1.0 million was spent on investment in plant and equipment. The reduction in planned capital expenditure is not significant and is not expected to impact maintenance costs.

The senior syndicated facility of up to \$30 million provided by Investec is a revolving asset backed facility that matures in October 2022, and under accounting standards the facility is required to be classified as a current liability due to its revolving nature. Repayment of borrowings in the cash flows of \$83.5 million represent \$6.2 million repayment of the Junior loan notes and \$77.3 million in receipts from customers were applied to the senior syndicated facility. During the period \$72.9 million was redrawn against the senior syndicated facility.

Outlook

As detailed above, the Group will continue to address the concerns on sub-surface induced seismicity, so that the moratorium on hydraulic fracturing in England can be lifted. In the interim, Cuadrilla's funding requirement is expected to be significantly reduced, as a result of reduced on ground activities and operations. We will also explore conventional energy opportunities and ways to work with the UK Government as it aims to achieve its Net Zero CO₂ target by 2050, while seeking an even playing field for shale gas extraction compared to other extractive industries, such as geothermal.

The Drilling Division recorded a strong first half, and subject to continued operational performance and client demand, these results are expected to continue in the second half of the year. Cash generated from the Drilling Division is expected to be used to service and reduce debt and to fund capital expenditures to further improve operating results. Management will continue to focus on servicing its customers whilst exploring further Australian business opportunities where it can utilise its specialist skills and equipment.



LUCAS GROUP

INTERIM FINANCIAL REPORT FOR HALF YEAR ENDED 31 DECEMBER 2020

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report is read in conjunction with the annual report as at 30 June 2020 together with any public announcements made by the Lucas Group during the half year ended 31 December 2020 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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Directors' Report

for the half year ended 31 December 2020

The directors of AJ Lucas Group Limited (the "Company") present their report together with the consolidated financial report for the half year ended 31 December 2020 and the auditor's review report thereon.

DIRECTORS

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

Non-executive

Phillip Arnall (Retired 31 August 2020)

Andrew Purcell

Julian Ball

John O'Neill (Resigned effective 15 November 2020)

Austen Perrin (was CFO until 31 August 2020)

Executive

Brett Tredinnick

Francis Egan

All directors held their position throughout the six months and up to the date of this report unless otherwise stated.

REVIEW OF OPERATIONS

A review of the Group's operations and the results of those operations are presented on pages 3 to 6 and form part of this report.

INTERIM DIVIDEND

The directors have resolved not to pay an interim dividend.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10 and forms part of this report for the half year ended 31 December 2020.

ROUNDING OF AMOUNTS

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 condensed consolidated interim financial report and the directors' report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Subsequent to 31 December 2020, as a safety precaution following a change in underground conditions, a key Lucas Drilling client undertook a controlled withdrawal of its people from its underground mine. The trigger for the withdrawal was elevated levels of some gases, which were still within regulatory levels. We understand that conditions are normalising in response to the measures taken and at this stage there has been no impact to Lucas' drilling operations which are continuing on site. However, in the unlikely event that the temporary cessation of mining operations by the client were to persist over a longer term, the Group's drilling operations and therefore future financial performance may be impacted.

Directors' Report

for the half year ended 31 December 2020

Other than as noted above, there has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company to affect significantly the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Signed in accordance with a resolution of the directors.



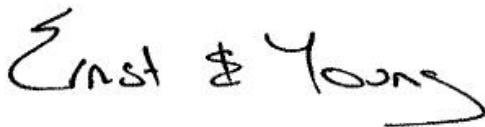
Andrew Purcell
Chairman
26 February 2021

Auditor's Independence Declaration to the Directors of AJ Lucas Group Limited

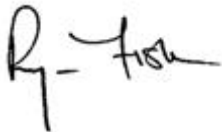
As lead auditor for the review of the half-year financial report of AJ Lucas Group Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Ryan Fisk
Partner
26 February 2021

Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2020

	Note	Dec 2020 \$'000	Dec 2019 \$'000
Continuing operations			
Revenue from contracts with customers	2	61,309	77,542
Total revenue		61,309	77,542
Other income		62	–
Operating costs of Australian operations		(45,247)	(61,453)
Central and corporate costs		(911)	(1,896)
Depreciation and amortisation	4	(3,084)	(3,507)
Other expenses	4	(211)	(2,931)
Results from operations		11,918	7,755
Net finance costs	3	(4,954)	(15,931)
Share of loss of equity accounted investees		–	(2,086)
Profit / (loss) before income tax		6,964	(10,262)
Income tax benefit		2,977	–
Net profit / (loss) for the period		9,941	(10,262)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		(1,862)	6,699
Total items that may be reclassified subsequently to profit and loss		(1,862)	6,699
Other comprehensive income / (loss) for the period		(1,862)	6,699
Total comprehensive income / (loss) for the period		8,079	(3,563)
Total comprehensive income / (loss) attributable to owners of the Company		8,079	(3,563)
Net profit / (loss) for the period attributable to:			
Shareholders of AJL		9,919	(10,262)
Non-controlling interest		22	–
		9,941	(10,262)
Total comprehensive income / (loss) attributable to:			
Shareholders of AJL		8,073	(3,563)
Non-controlling interest		6	–
		8,079	(3,563)
Earnings per share:			
Basic and diluted (loss)/earnings per share (cents)		0.8	(1.2)

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

Consolidated Statement of Financial Position

as at 31 December 2020

	Note	Dec 2020 \$'000	Jun 2020 \$'000
Current assets			
Cash and cash equivalents		12,505	4,478
Trade and other receivables		11,921	20,521
Contract assets		6,313	8,475
Inventories		6,440	5,577
Other assets		1,150	1,181
Total current assets		38,329	40,232
Non-current assets			
Plant and equipment	5	32,594	33,838
Right-of-use assets	6	4,580	5,517
Exploration assets	7	156,230	158,977
Total non-current assets		193,404	198,332
Total assets		231,733	238,564
Current liabilities			
Trade and other payables		16,166	20,604
Contract liabilities		941	1,020
Interest-bearing loans and borrowings	8	31,004	36,693
Decommissioning provision	9	3,005	–
Employee benefits		5,147	5,933
Total current liabilities		56,263	64,250
Non-current liabilities			
Interest-bearing loans and borrowings	8	74,993	77,865
Decommissioning provision	9	4,482	8,455
Employee benefits		967	1,045
Total non-current liabilities		80,442	87,365
Total liabilities		136,705	151,615
Net assets		95,028	86,949
Equity			
Share capital		495,986	495,986
Reserves		410	2,256
Accumulated losses		(402,508)	(412,427)
Total equity attributable to equity holders of the Company		93,888	85,815
Non-controlling interest		1,140	1,134
Total equity		95,028	86,949

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

Consolidated Statement of Changes in Equity

for the half year ended 31 December 2020

	Share capital \$'000	Translation reserve \$'000	Option reserve \$'000	Employee equity benefits reserve \$'000	Non-controlling interest \$'000	Accumulated losses \$'000	Total equity \$'000
Balance 1 July 2020	495,986	(2,414)	637	4,033	1,134	(412,427)	86,949
Total comprehensive income							
Profit for the period	–	–	–	–	22	9,919	9,941
Other comprehensive income							
Foreign currency translation differences	–	(1,846)	–	–	(16)	–	(1,862)
Total comprehensive income/(loss)	–	(1,846)	–	–	6	9,919	8,079
Transactions with owners recorded directly in equity							
Issue of ordinary shares, net of transaction costs	–	–	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–	–	–
Balance 31 December 2020	495,986	(4,260)	637	4,033	1,140	(402,508)	95,028
Balance 1 July 2019	467,753	38,679	637	4,033	–	(403,560)	107,542
Total comprehensive income							
Loss for the period	–	–	–	–	–	(10,262)	(10,262)
Other comprehensive income							
Foreign currency translation differences	–	6,699	–	–	–	–	6,699
Total comprehensive income/(loss)	–	6,699	–	–	–	(10,262)	(3,563)
Transactions with owners recorded directly in equity							
Issue of ordinary shares, net of transaction costs	28,140	–	–	–	–	–	28,140
Total contributions by and distributions to owners	28,140	–	–	–	–	–	28,140
Balance 31 December 2019	495,893	45,378	637	4,033	–	(413,822)	132,119

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

Consolidated Statement of Cash Flows

for the half year ended 31 December 2020

	Note	Dec 2020 \$'000	Dec 2019 \$'000
Cash flows from operating activities			
Cash receipts from customers		77,211	101,314
Cash paid to suppliers and employees		(59,277)	(78,939)
Cash from in operations		17,934	22,375
UK Research and Development incentive		4,258	–
Interest and other costs of finance paid		(1,633)	(15,869)
Net cash from operating activities		20,559	6,506
Cash flows from investing activities			
Payments for equity accounted investees		–	(5,805)
Payments for interest in exploration assets	7	–	(5,207)
Acquisition of plant and equipment		(1,009)	(4,221)
Proceeds from sale of plant and equipment		58	642
Net cash used in investing activities		(951)	(14,591)
Cash flows from financing activities			
Proceeds from borrowings		72,921	112,677
Repayment of borrowings		(83,547)	(101,479)
Transaction costs on borrowings		–	(3,866)
Proceeds from share issues		–	4,106
Transaction costs on share issue		–	(662)
Repayment of leases		(924)	(997)
Net cash from / (used in) financing activities		(11,550)	9,779
Net increase in cash and cash equivalents		8,058	1,694
Net foreign exchange difference		(31)	70
Cash and cash equivalents at beginning of the period		4,478	10,155
Cash and cash equivalents at end of the period		12,505	11,919

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

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

1. Basis of preparation

AJ Lucas Group Limited (“the Company”) is a company domiciled in Australia. The consolidated interim financial statements (“interim financial statements”) as at and for the half year ended 31 December 2020 comprises the Company and its subsidiaries (together referred to as “Lucas” or the “Group”) and the Group’s interest in associates and joint arrangements.

Lucas is a provider of drilling services primarily to the coal industry in Australia, and an operator, through its UK Subsidiary Cuadrilla Resources Holdings Limited, of exploration and appraisal of conventional and unconventional oil and gas prospects in the United Kingdom.

i) Statement of compliance

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*. They do not include all of the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 30 June 2020. These are available upon request from the Company’s registered office at Level 22, 167 Eagle Street, Brisbane, QLD 4000 or at www.lucas.com.au.

These interim financial statements were approved by the Board of Directors on 26 February 2021.

The financial report is presented in Australian dollars. 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 interim financial Statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

ii) 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 is in a net current liability position of \$17.9 million (June 2020: \$24 million). However, of this \$19.6 million (June 2020: \$23.7 million) is due to the classification of the Senior syndicated loan facility which is a 3-year revolving asset-based loan provided by Investec as a current liability;
- The Group generated a profit after tax from continuing operations for the period of \$9.9 million (December 2019: \$10.3 million loss) and generated net cash flows from operating activities of \$20.6 million (December 2019: \$6.5 million);
- 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 8. The new finance facilities mature in Oct 2022 and April 2023 and have cash management, security and covenant requirements attached to the Australian operations;
- The COVID-19 pandemic has impacted our customers mine plans, leading to changes in demand for our drilling services. However, to date the Lucas Drilling Business has continued to operate profitably throughout the pandemic and is well placed to capitalise on continued strong demand for its services. Continued strong performance is dependent on extension or renewal of existing contracts. Further, as with all businesses the future impact of the pandemic is unknown and cannot be reasonably predicted;
- At balance date the Group held interests in a number of UK exploration licences. 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 licences; and

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

Going concern (cont.)

- On 2 November 2019 the UK Government imposed a moratorium on hydraulic fracturing. The Government has 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 UK shale gas operators are now working together and with the UK regulators to address these technical issues, so that the moratorium can be lifted.

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

- The strong financial performance of the Drilling Division, noting that continued strong financial performance is dependent on extension or renewal of existing contracts;
- The ability of the Group to determine the extent and timing of its future contributions to Cuadrilla;
- The ability of the Group to raise additional debt and / or equity;
- The UK Government re-affirmed that it continues to recognise the importance of natural gas a source of secure and affordable energy in line with reaching net zero emissions by 2050; and
- Comments from the UK Climate Change Committee re gas as a transitional fuel to achieve net zero emissions by 2050.

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.

iii) New standards, interpretations and amendments adopted by the Group

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Where necessary, comparatives have been reclassified and repositioned for consistency with current half year disclosures.

Several other amendments and interpretations apply for the first time in the current period but do not have an impact on the interim financial statements of the Group.

iv) Estimates

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

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2020.

Given the nature of the contracts that the Group undertakes, there is exposure to claims and variations for which the Group has made judgements in respect of final outcomes.

v) New accounting standards and interpretations not yet adopted

There are amendments and revisions to accounting standards that have not been early adopted, however these changes are not expected to result in any material changes to the Group's financial performance or financial position.

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

2. Segment reporting

The Group comprises the following main business segments:

Lucas Drilling	This business segment encompasses the Australian Drilling business and the Groups head office and corporate costs. In previous years corporate costs associated with the now closed Sydney head office, as well as certain other expenses were not allocated to reportable segments. The Australian Drilling business provides integrated professional drilling services, predominantly for exploration and degasification of coal mines but may also include the recovery and commercialisation of coal seam gas, and associated services.
UK Oil and Gas Investments	Exploration for and commercialisation of unconventional and conventional hydrocarbons in the United Kingdom.

	Lucas Drilling \$'000	UK Oil & Gas Investments \$'000	Reportable Segments \$'000	Unallocated \$'000	Total \$'000
December 2020					
Reportable segment revenue					
Services rendered	61,309	–	61,309	–	61,309
Construction contracts	–	–	–	–	–
Total consolidated revenue	61,309	–	61,309	–	61,309
Central and corporate costs	(911)	–	(911)	–	(911)
Other expenses	207	(418)	(211)	–	(211)
EBITDA continuing operations	15,358	(356)	15,002	–	15,002
Depreciation and amortisation	(3,084)	–	(3,084)	–	(3,084)
Net finance costs	(5,393)	–	(5,393)	439	(4,954)
Income tax benefit	–	2,977	2,977	–	2,977
Reportable segment profit / (loss)	6,881	2,621	9,502	439	9,941
	Lucas Drilling \$'000	UK Oil & Gas Investments \$'000	Reportable Segments \$'000	Unallocated \$'000	Total \$'000
December 2019					
Reportable segment revenue					
Services rendered	77,542	–	77,542	–	77,542
Construction contracts	–	–	–	–	–
Total consolidated revenue	77,542	–	77,542	–	77,542
Central and corporate costs	(1,900)	–	(1,900)	4	(1,896)
Other expenses	(1,305)	(1,626)	(2,931)	–	(2,931)
EBITDA continuing operations	12,888	(3,712)	9,176	–	9,176
Depreciation and amortisation	(3,507)	–	(3,507)	–	(3,507)
Net finance costs	(10,343)	–	(10,343)	(5,588)	(15,931)
Reportable segment profit / (loss)	(962)	(3,712)	(4,674)	(5,588)	(10,262)

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

3. Finance income and costs

	Dec 2020 \$'000	Dec 2019 \$'000
Net Interest expense	8,011	10,269
Finance charges on lease liability	142	163
Extinguishment of OCP loan note liability ⁽¹⁾	–	2,349
Amortisation of prepaid fees on debt facilities	1,017	418
Net foreign exchange loss / (gain)	(4,216)	2,732
Net finance costs recognised in profit and loss	4,954	15,931

(1) Extinguishment of OCP loan notes liability represents the remaining unamortised upfront borrowing costs which were expensed on repayment of the loan notes which is detailed in Note 8.

4. Other expenses

	Dec 2020 \$'000	Dec 2019 \$'000
Depreciation of plant and equipment	2,250	2,185
Amortisation of right-of-use asset	834	1,322
Total depreciation and amortisation	3,084	3,507
UK investment overhead costs	443	1,626
Strategic review of Drilling division	–	28
Restructuring costs	(114)	480
Net (profit) / loss on sales of assets	(58)	401
Other	(60)	396
Total other expenses	211	2,931

(1) UK investment overhead costs represents the Groups share of licence and admin costs incurred in relation to its direct interest in UK exploration licences.

5. Plant and equipment

	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
31 December 2020			
At cost	107,045	12,578	119,623
Accumulated depreciation/amortisation/impairment	(75,058)	(11,971)	(87,029)
Carrying amount at 31 December 2020	31,987	607	32,594

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

5. Plant and equipment (Cont.)

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

	Plant & equipment \$'000	Enterprise development \$'000	Total \$'000
Carrying amount at 1 July 2020	33,124	714	33,838
Additions	1,006	–	1,006
Disposals	–	–	–
Depreciation and amortisation	(2,143)	(107)	(2,250)
Carrying amount at 31 December 2020	31,987	607	32,594

6. Right-of-use assets

	Plant & equipment \$'000	Property \$'000	Total \$'000
31 December 2020			
At cost	5,381	2,794	8,175
Accumulated amortisation	(2,875)	(720)	(3,595)
Carrying amount at 31 December 2020	2,506	2,074	4,580

Reconciliations of the carrying amounts for each class of right-of-use asset is set out below.

	Plant & equipment \$'000	Property \$'000	Total \$'000
Carrying amount at 1 July 2020	3,207	2,310	5,517
Additions	80	–	80
Modifications and adjustments	(145)	(38)	(183)
Depreciation and amortisation	(636)	(198)	(834)
Carrying amount at 31 December 2020	2,506	2,074	4,580

7. Exploration assets

	Dec 2020 \$'000	Jun 2020 \$'000
Opening carrying amount	158,977	47,962
Acquisition of Cuadrilla	–	113,519
Remeasurement of decommissioning provision	(790)	–
Exploration expenditure capitalised	–	6,005
Foreign Exchange movement	(1,957)	(8,509)
Closing value	156,230	158,977

The exploration assets represent exploration expenditure incurred in relation to the Group's equity interest in UK exploration licences.

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

7. Exploration assets (Cont.)

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.

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 with the industry body "UKOG" 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.

8. Interest-bearing loans and borrowings

	Dec 2020 \$'000	Jun 2020 \$'000
Current		
Senior syndicated facility	19,649	23,721
Junior loan notes	9,535	10,517
Lease liabilities	1,820	2,455
	31,004	36,693
Non-current		
Junior loan notes	35,634	37,203
Lease liabilities	3,070	3,432
Loans from related party	36,201	37,141
Other	88	89
	74,993	77,865

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 facilities are provided below.

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 5.57%.

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 are

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

8. Interest-bearing loans and borrowings (Cont.)

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 \$50 million Junior loan notes are secured by a second ranking charge over the Security Assets and a first ranking charge over the Group's remaining assets. Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears. The current interest rate is approximately 13.64%.

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 liabilities

Lucas 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, motor vehicles have lease terms between 1 and 5 years and office space have a lease term up to 10 years. Lease liability represents the present value of minimum lease.

Loans from related party-Kerogen

The Loans from related party is provided by Kerogen, which at 31 December 2020 holds 65.4% of the shares of the Company. Kerogen's facility is subordinated and ranks behind the Senior syndicated facility and Junior loan notes.

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

9. Decommissioning provision

Set out below is the carrying amounts of decommissioning provision as at 31 December 2020.

	Dec 2020 \$'000	Jun 2020 \$'000
Exploration site decommissioning	7,487	8,455
Closing value	7,487	8,455
Current	3,005	–
Non-current	4,482	8,455
Closing value	7,487	8,455

Reconciliations of the movement in carrying amount for decommissioning provision is set out below.

	Dec 2020 \$'000
Opening carrying amount	8,455
Remeasurement of decommissioning asset	(790)
Foreign Exchange movement	(178)
Closing value	7,487

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

10. Financial instruments fair value disclosure

Set out below is a comparison of the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2020.

Dec-20	Carrying Amount \$'000	Fair value \$'000
Bank balances	12,505	12,505
Trade and other receivables	11,921	11,921
Trade and other payables	(16,166)	(16,166)
Senior syndicated facility	(19,649)	(20,792)
Junior loan notes	(45,169)	(46,293)
Loans from related party	(36,201)	(36,201)
Other	(88)	(88)
	(92,847)	(95,114)

11. Reconciliation of liabilities arising from financing activities

	As at 1 July 2020	Cash Flow (1)	Non-Cash			As at 31 December 2020
	\$'000	\$'000	Debt for equity \$'000	Finance costs(2) \$'000	other \$'000	\$'000
Interest bearing liabilities	114,558	(13,183)	–	4,954	(332)	105,997

(1) Comprises proceeds from borrowings of \$72.9 million less repayments of borrowings of 83.5 million, repayment of leases of \$0.9 million, and interest and other costs of finance paid of \$1.6 million.

(2) Includes interest expense accrued of \$8.0 million (which includes interest withholding tax accrued of \$0.3 million and other interest costs of \$7.7 million), Finance charges on lease liability of \$0.1 million, amortisation of prepaid fees on debt facilities of \$1.0 million and net foreign exchange gain of \$4.2 million as disclosed in Note 3.

	As at 1 July 2019	Cash Flow (3)	Non-Cash			As at 31 December 2020
	\$'000	\$'000	Debt for equity (4) \$'000	Finance costs(5) \$'000	Other (6) \$'000	\$'000
Interest bearing liabilities	119,700	(9,534)	(24,696)	15,931	5,202	106,603

(3) Comprises proceeds from borrowings of \$112.7 million less repayments of borrowings of 101.5 million, repayment of leases of \$1.0 million, transaction costs on borrowings paid of \$3.9 million and interest and other costs of finance paid of \$15.9 million.

(4) Kerogen subscribed to an equity raising in November 2019 which was satisfied by the conversion of \$24.7 million of the related party loans owned to Kerogen, including accrued interest

(5) Includes interest expense accrued of \$10.3 million (which includes interest withholding tax accrued of \$0.4 million and other interest costs of \$9.9 million), Finance charges on lease liability of \$0.2 million, amortisation of prepaid fees on debt facilities of \$0.4 million, costs for extinguishment of OCP loan note liability of \$2.3 million and net foreign exchange gain of \$2.7 million as disclosed in Note 3

(6) Comprises predominantly lease liability recognised on initial application of AASB 16 Leases of \$5.2 million.

12. Subsequent events

Subsequent to 31 December 2020, as a safety precaution following a change in underground conditions, a key Lucas Drilling client undertook a controlled withdrawal of its people from its underground mine. The trigger for the withdrawal was elevated levels of some gases, which were still within regulatory levels. We understand that conditions are normalising in response to the measures taken and at this stage there has been no impact to

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2020

Lucas' drilling operations which are continuing on site. However, in the unlikely event that the temporary cessation of mining operations by the client were to persist over a longer term, the Group's drilling operations and therefore future financial performance may be impacted.

Other than as noted above, there has not arisen in the interval between the end of the half year and the date of this report any item, material or unusual nature likely, in the opinion of the directors of the Company to affect significantly transaction or event of a the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

AJ LUCAS GROUP LIMITED

DIRECTORS' DECLARATION

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

1. the consolidated financial statements and notes set out on pages 11 to 24 are in accordance with the Corporations Act 2001, including:
 - a. giving a true and fair view of the Group's financial position of the Group as at 31 December 2020 and of its performance for the six-month period ended on that date; and
 - b. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



Andrew Purcell
Chairman
26 February 2021

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of AJ Lucas Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention, that causes us to believe that the half-year financial report of the Group is not 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 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter - Material Uncertainty Related to UK moratorium on hydraulic fracturing and exploration and evaluation assets

We draw attention to Note 7 of half-year financial report which describes the uncertainties the Group is facing as a result of the UK moratorium on hydraulic fracturing. Management has considered the recoverability of the exploration and evaluation assets on the basis that this moratorium will be lifted in the future, but there is uncertainty around this outcome. Should the moratorium not be lifted the carrying value would become impaired. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 (ii) in the half-year 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 1 (ii), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

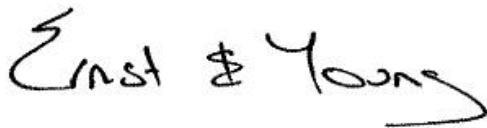
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

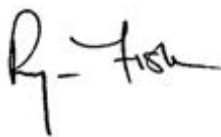
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Ryan Fisk
Partner
Sydney
26 February 2021