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AJ LUCAS GROUP ACHIEVES SOLID RESULTS DESPITE CHALLENGES OF FY22

Drilling services and gas exploration group AJ Lucas Group Limited (ASX: AJL) ("Lucas" or "Group") remains well-placed to benefit from robust demand for Australian metallurgical coal despite external events dampening the company's results for the year to 30 June 2022.

Lucas today reported EBITDA of $18.0 million for the year to 30 June 2022, down 13.9% on the $20.9 million achieved in the previous year. The result was achieved on a 10.9% increase in revenue from $111.1 million to $123.2 million.

The year was impacted by various factors, including client operational delays in the first half, the shutdown of operations at a key customer site due to events outside the Group's control in March 2022 and major wet weather events, particularly those in May 2022.

Lucas has been a leading provider of exploration, production and directional drilling services to some of the world's largest miners for over 20 years. The company also holds a significant portfolio of Petroleum Exploration Licenses that cover almost 2% of England.

Lucas' Chief Executive Officer Brett Tredinnick said the transformation process implemented throughout FY21 had left the business well-positioned to manage the challenges presented in FY22.

"Whilst the results we delivered were not what we had hoped for or planned, I am proud of how our team responded to the difficult operating environment and limited the impacts on our financial performance," he said.

"The fundamentals of our business remain strong, and together with the ongoing strength of the Australian metallurgical coal sector, we are optimistic that the current year will deliver a much-improved result."

Mr Tredinnick said the company had entered FY22 confident of improving on the FY21 result and the second half started with full utilisation of the Group's higher earning rigs and an increased monthly EBITDA run rate.

"Based on customers' mine plans, this higher EBITDA run rate was expected to continue, resulting in a stronger second half and a better full-year result," he said.

"However, in late March, a serious safety incident, which did not involve Lucas, its employees, or its operations, resulted in all operations being suspended at a key customer mine site. A restart of operations, subject to adequate completion of investigations with relevant authorities, took longer than initially anticipated and resulted in revenue losses.

"We responded to these delays by reducing our variable costs. However, given the sudden nature of the event, the cost-cutting was insufficient to fully offset the loss in revenue.

"Additionally, significant wet weather events in the Illawarra and central Queensland regions in the last quarter meant several operating rigs had to be suspended. As a result, the number of working shifts lost to wet weather in May 2022 was more than four times our long-term assumptions. While customer contracts provide cover for variable labour costs for a period of wet weather, profit margins were impacted in May and June.

FINANCIAL RESULTS

The Group's Australian drilling operations delivered an EBITDA of $19.1 million (2021: $21.9 million) during the year) on revenue of $123.2 million (2021: $111.1 million). The Group's UK operations incurred administration and other expenses of $1.1 million, largely unchanged from last year.

Following depreciation, amortisation and net finance costs, the Group recorded a net loss of $11.3 million during the year, compared to a profit of $3.4 million in the previous year. Net finance costs incurred totalled $22 million, compared to $14.2 million in the prior year, an increase of $7.8 million.

Finance costs included a $4.1 million unrealised foreign exchange loss on US dollar, related-party debt, compared to a $3.3 million foreign exchange gain in the prior year, resulting in a $7.4 million turnaround.

The results also includes one-off, non-recurring costs of approximately $1.2m associated with exploring new market and acquisition opportunities, including associated balance sheet restructuring options. The Group is in the final stages of evaluating several opportunities, and further information will be provided if and when appropriate.

Cash flow from operating activities fell by $7.0m from $19.6 million in the previous year to $12.6 million in the current year. Cash flow from operating activities in the previous year included a one off $4.3 million research and development incentives, with the slightly softer EBITDA also impacting cash flows from operating activities.

The majority of the $12.6 million in cash generated from operating activities was utilised to reduce the Group's senior debt facilities, but was largely offset by unrealised foreign exchange loss and capitalised interest on the Kerogen facility.

UK OIL AND GAS INVESTMENTS

Development of Lucas' portfolio of Petroleum Exploration Licenses in the UK has been on hold since the UK government announced a moratorium on hydraulic fracturing in November 2019. With the UK facing an ongoing energy crisis, the Group has escalated its campaign to have the moratorium lifted.

Lucas UK Chief Executive Officer Francis Egan said past UK Energy Policy had resulted in the rapidly growing demand for imported gas, while domestic gas supplies, where investment has been discouraged and development entangled in red tape, had plummeted.

"This has resulted in significantly higher prices for consumers in the UK with the average household energy bill rising from £1,042 per year in March 2021 to a forecast £4,400 per year by March 2023," he said.

"Against this backdrop, we have repeatedly made the case to Government that restarting and accelerating shale gas exploration and development in the UK should be a matter of national urgency."

Lucas expects the government to announce any changes to the Moratorium after a new prime Minister is announced in September.

Authorised for lodgment by Andrew Purcell, Chairman on behalf of the Board

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