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28 October 2022

QUARTERLY ACTIVITY REPORT – PERIOD ENDED 30 SEPTEMBER 2022

GROUP HIGHLIGHTS

- Revenue during the quarter of $37.9 million, equivalent to 30.7% of that reported for the full year result to 30 June 2022
- Australian Operations EBITDA for the quarter of $6.1 million, equivalent to 31.9% of that reported for the full year result to 30 June 2022
- "Net cash used in operating activities" of $5.5 million driven primarily by the increase in receivables and contract assets (unbilled receivables) of $9.5 million compared to 30 June 2022
- "Net cash used in operating activities" was funded by an increase in the Senior Syndicated facility of $9.2 million; the Senior Syndicated facility is a revolving asset based loan secured on the value of receivables, contract assets and plant and equipment; as the underlying assets increase in value then a greater portion of the $35 million facility amy be drawn at the Company's discretion
- Group EBITDA for the quarter of $5.8 million, equivalent to 32.2% of that reported for the full year result to 30 June 2022
- During the quarter the Group undertook a share placement to institutional, sophisticated and professional investors which raised $19.7 million before costs and was heavily oversubscribed
- Settlement of the placement of $19.7 million took place subsequent to the end of the quarter on 5 October 2022 and hence is not reflected in the attached Appendix 4C

Australian Operations

Lucas Drilling performed well during the quarter, following what had been a disappointing second half of FY22. As previously reported the second half of FY22 was impacted by significant wet weather and a suspension of operations at a key customer mine site as a result of an incident which did not involve AJL, its employees or its operations. It was pleasing to see operations return to more normal levels.

Lucas has continued its proud history of maintaining safe and healthy workplaces. As a result, the total recordable injury frequency rate ("TRIFR") fallen to industry-leading level of 1.26 at 30 September 2022.

UK Operations

Recent months have highlighted the risks associated with the UK's reliance on expensive, uncertain, higher emission gas imports which has significantly increased gas prices and the cost of living for residents in the UK. As energy prices rise, the UK government had increasing pressure to introduce policies to lower gas prices and the subsequent cost of living.

A written Ministerial statement, dated 22 September 2022, officially lifted the moratorium on hydraulic fracturing that has been in place in the UK since November 2019, having been introduced just ahead of the

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

British General Election. The Ministerial statement noted that the government would review shale gas policy as part of a wider reflection to better support industry.

In 2019 Cuadrilla, one of the Group's subsidiaries, successfully flowed high quality gas from the two horizontal wells it drilled at its flagship site in Lancashire, UK. This was despite fracturing operations being significantly limited by overly stringent regulations which required suspension of operations each time induced seismicity reached 0.5ML. Even though the seismicity reached during fracturing operations was less than the upper limit in Cuadrilla's hydraulic fracturing plan, which was approved by the Regulator, and lower than comparable limits that exist elsewhere in the world and in the UK in other industries, the Government announced the moratorium in November 2019 citing induced seismicity at the site.

The Group's UK gas exploration business has been working on opportunities to produce gas as soon as possible and do its part to alleviate the current energy crisis, while awaiting the outcomes of the UK Governments review into shale policy.

REVIEW OF FINANCIAL CONDITION

Refer Appendix 4C attached.

RELATED PARTY PAYMENTS

In item 6 of the Appendix 4C cash flow report for the quarter includes payments to related parties of approximately $477,872 which represents salaries paid to executive and non-executive Directors and other key management personnel, including payments to tax authorities and superannuation for the financial period. The amount does not include non-cash remuneration expenses such as leave accrued in accordance with employment laws.

SUBSEQUENT EVENTS, OUTLOOK & LIKELY DEVELOPMENTS

Lucas has a sizeable order book and is confident that the elevated metallurgical coal price will continue to filter through to increasing operations as well as new opportunities to grow revenue. Meanwhile the Group continues to evaluate opportunities to expand, and diversify it's offering into new markets, while utilising the Group's existing capabilities.

On 27 October 2022, subsequent to the end of the reported quarter, the new UK Prime Minister stated that he would reintroduce a moratorium on hydraulic fracturing in the UK. AJL will evaluate the impact of these statements, and any further details that may be forthcoming from the UK Government while pursuing available options to extract value from our UK operations.

We are in the process of re-negotiating and, if required, re-structuring our debt profile.

This announcement has been authorised for lodgment by the Board.

ENDS

For further information, please contact:
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Andrew Purcell Chairman
Marcin Swierkowski Company Secretary

Appendix 4C

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

Name of entity

AJ Lucas Group Limited

ABN	Quarter ended ("current quarter")
12 060 309 104	30 September 2022

Consolidated statement of cash flows			Current quarter $A'000	Year to date (3 months) $A'000
1.	**Cash flows from operating activities**			
1.1	Receipts from customers		33,414	33,414
1.2	Payments for			
	(a)	research and development		
	(b)	product manufacturing and operating costs	(22,883)	(22,883)
	(c)	advertising and marketing		
	(d)	leased assets		
	(e)	staff costs	(13,737)	(13,737)
	(f)	administration and corporate costs		
1.3	Dividends received (see note 3)			
1.4	Interest received			
1.5	Interest and other costs of finance paid		(2,308)	(2,308)
1.6	Income taxes paid			
1.7	Government grants and tax incentives			
1.8	Other (provide details if material)			
1.9	**Net cash from / (used in) operating activities**		**(5,514)**	**(5,514)**

2.	**Cash flows from investing activities**			
2.1	Payments to acquire or for:			
	(a)	entities		
	(b)	businesses		
	(c)	property, plant and equipment	(375)	(375)
	(d)	investments		
	(e)	intellectual property		
	(f)	other non-current assets		

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**	(375)	(375)

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	41,591	41,591
3.6	Repayment of borrowings including leases	(34,877)	(34,877)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**6,714**	**6,714**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	3,065	3,065
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,514)	(5,246)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(375)	(375)

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,714	6,446
4.5	Effect of movement in exchange rates on cash held	(32)	(32)
4.6	**Cash and cash equivalents at end of period**	**3,858**	**3,858**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	2,607	2,345
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Cash in trust)	1,252	720
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**3,858**	**3,065**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	478
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	124,501	119,736
7.2	Credit standby arrangements		
7.3	Other (Leases)	3,957	3,957
7.4	**Total financing facilities**	128,458	123,693

7.5	**Unused financing facilities available at quarter end**	4,765
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	

A breakdown of the Groups Interest Bearing loans and borrowings follows:

	Sep 2022 $'000
Senior syndicated facility	28,338
Junior loan notes	31,689
Lease liabilities	3,957
Loans from related party	59,645
Other	64
	123,693

Note: The Groups Interest bearing liabilities are measured at amortised cost using the effective interest Rate ("EIR"). Amortised cost is calculated by taking into account any discount on acquisition and fees or costs that are an Integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit and loss.

The Company has commenced a process to refinance part of its loan facilities including the Senior and Junior facilities which mature in April 2023. As part of this process, Kerogen has acknowledged that it may be required to extend the maturity date under its shareholder loan.

Senior syndicated facility
The Senior syndicated facility is a senior ranking revolving asset-based loan secured over the Drilling Division's plant and equipment, billed receivables and unbilled receivables represented by contract assets in the Statement of Financial Position (together the "Security Assets").

The Senior syndicated facility can be drawn at any time up to an upper limit of $35 million, (previously $30 million), subject to certain prescribed levels of Security Assets. As at 30 September 2022 Security Assets existed to support a further $4.8 million in drawings. In July 2022, maturity under the facility was extended from October 2022 to April 2023.

Interest on the facility is calculated on the daily balance outstanding at the bank bill swap rate plus a margin and is payable monthly in arrears. The applicable interest rate at 30 September 2022 was approximately 8.03% (30 June 2022: 6.74%).

At 30 September 2022, the amount outstanding under the facility was $28.3 million (30 June 2022: $19.1 million). The increase in drawings under the facility reflects that "Security Assets" had increased in the quarter being reported. While the amount outstanding under "Trade and Other Receivables" as well as "Contract Assets", the increase in these in the quarter was unusually large and resulted in the Group reporting negative "net cash from / (used in) operations" (see Appendix 4C) 1.9.

In turn this gave rise to the negative net cash from / (used in) operating activities during the quarter being reported of $(5.5 million). It is noted that the Australian operations EBITDA for the period was $6.1 million.

Junior Loan notes
The Junior loan notes are secured by a second ranking charge over the Security Assets and a first ranking charge over the Group's remaining assets. The Junior Loan notes mature in April 2023.

Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears. The at 30 September 2022 was approximately 15.76% (30 June 2022: 14.08%). The facility is subject to financial covenants which have been complied with.

At 30 September 2022, the amount of Junior Loan notes outstanding was $31.7 million (30 June 2022: $33.5 million). The reduction in the amount outstanding under the Junior Loan notes reflects the scheduled amortization built into the Junior Loan notes, which is amortized at a rate of $2 million per quarter, with the balance repayable at maturity.

Lease liability
The Group has lease contracts for various items of plant, machinery, vehicles and office space used in its operations.

Leases of plant and machinery generally have lease terms between 1 and 3 years, while motor vehicles have lease terms between 1 and 5 years. The Group's obligations under lease terms on office space are up to 10 years in respect of the Brisbane head office.

Loans from related party-Kerogen
The Loans from related party is provided by Kerogen, which at 30 September 2022 held a 56.7% shareholding in the Company (30 June 2022: 65.4%). Kerogen's facility is subordinated to and ranks behind both the Senior syndicated facility and Junior loan notes. Maturity of this facility is in October 2023.

The loan is a US Dollar denominated debt. Interest is charged at 18% of the balance outstanding which compounds quarterly if unpaid.

At 30 September 2022, the amount outstanding under the Kerogen loan facility was $59.6 million (30 June 2022: $53.8 million). The increase in the amount outstanding under the Kerogen loan facility reflects two components: the first, that no cash interest was paid in the period; and the second, accounting for the majority of the increase, an unrealised foreign exchange loss of $3.3 million was recorded in the period as the AUD:USD FX rate reduced to 0.6502 at 30 September 2022 from 0.6889 at 30 June 2022.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(5,514)
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,858
8.3	Unused finance facilities available at quarter end (item 7.5)	4,765
8.4	Total available funding (item 8.2 + item 8.3)	8,623
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	1.56

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

The Company generated an EBITDA on its Australian Operations for the quarter being reported of \$6.1 million which is equivalent to 31.9% of that reported for the full year result to 30 June 2022. However, the operating cash flow for the quarter being reported was adversely impacted by both an increase of Trade and Other Receivables of \$7.3 million and by an increase of Contract Assets (unbilled receivables) of \$2.2 million. Each of the increases were predominantly driven by an increase in revenue in the quarter (refer activity report). It is not expected that these balances will continue increasing in the future, and it is noted that the Company has consistently reported positive operating cash flow in every annual and half year reporting period since the half year ended December 2019.

The Company has borrowings under a Senior syndicated facility which, being a revolving asset-based loan, responds to the variable balance of trade receivables and unbilled receivables by increasing and decreasing proportionately, having increased during the quarter by \$9.2 million.

The net cash flows from financing activities of \$6.7m shown at item 3.10 represents the following movements:

	\$'million
Senior syndicated facility increase to \$ 28.3 million shown at item 7.6	9.2
Scheduled quarterly principal repayment on Junior loan notes	(2.0)
Repayment of leases	(0.5)
Net Cash drawings under the Senior syndicated facility	**6.7**

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

As announced to the ASX on 29 September 2022 the company completed a placement to institutional, sophisticated and professional investors raising \$19.7 million before raising fees, with settlement having taken place on 5 October 2022 and will be shown as proceeds from equity raising in the next quarterly report. These funds may be applied for:

- funding of UK operations to respond to recent regulatory changes,
- expenditure on plant and equipment (as requirement and / or necessary)
- working capital / cost of issue

The Company is also undertaking a refinance of existing debt obligations as noted it item 7.6.

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Yes and please refer to Note 2(c) in the Groups June 2022 Annual Report.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: ....

Authorised by: ....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.