AJ Lucas Group
ABN: 12 060 309 104
Level 22, 167 Eagle Sreet
Brisbane QLD 4001
GPO Box 144
Brisbane QLD 4001
T (07) 3363 7333
F (07) 3363 7399
www.lucas.com.au

CEO'S ADDRESS – 2022 ANNUAL GENERAL MEETING

9:00 AM Thursday, 10 November 2022

The Sebel, Brisbane

Thank you Mr Chairman, and welcome shareholders. It is nice to see so many of you face-to-face for the first time in three years.

As you know, AJ Lucas is essentially two separate businesses. In Australia, we are in our 22nd year of operating a highly respected and profitable drilling business, while in the UK, we hold the largest area of petroleum exploration licences onshore England. The different businesses have a markedly different impact on our performance and are affected by very different external factors.

Today I will provide an overview of our performance in the year to June 30, 2022; an update on our performance in the current year; and finally, some insights into what to expect for the balance of the year..

Before jumping into the detail, I would like to acknowledge and thank all our long-term loyal customers, the contribution of the 400-plus Lucas employees, consultants and subcontractors…and the ongoing support from all our suppliers. All people who have made our results over the last 12 months possible.

We as an organization understand and recognize the positive impact we have on our people's lives, families and their communities in general.

SAFETY

I want to start by highlighting our strong safety record.

As an organisation, Lucas will always prioritise the health, safety, and well-being of our people.

Over the last year, our focus has been on maintaining our industry-leading total recordable injury frequency rate ("TRIFR") while also responding to the drawn-out hangover of the COVID-19 pandemic.

Our TRIFR, which we use to measure the safety outcomes of our operations, was 4.07 as at June 30, 2022. I am pleased to report that this rate fell to 1.25 at September 30, 2022. This is an incredible result and a testament to the efforts of every Lucas employee.

While many of the restrictions on everyday life as a result of COVID-19 have now been removed, throughout much of FY22, we were faced with a constantly changing suite of restrictions and obligations that had an enormous impact on our day-to-day operations.

Our response to COVID-19 included a comprehensive program of health measures, policies, and procedures to protect our workforce, minimise risks in the fly-in-fly-out workforce and limit the spread of the virus. These actions ensured the effects on the business were minimised.

I want to take this opportunity to thank all the staff for their exceptional levels of compliance with the program and also those who helped manage our response.

2022 REVIEW

As I stated in our annual report, the 2022 financial year was volatile for the company, with a number of steps forward but also a few backward.

While we started the year optimistic that we were getting on top of the client-related issues we faced in the second half of the previous year, our optimism was short lived. These issues ultimately persisted for much of the first half and were not fully resolved until near the end of the half.

The second half started with full utilisation of the Group's higher earning rigs and an increased monthly EBITDA run rate. After a tough first half, we were looking forward to delivering a much-improved full-year result. However, our optimism was once again misplaced as external events beyond our control conspired to have a significant impact on our operations.

In late March, a serious safety incident, which did not involve Lucas, its employees, or its operations, resulted in all operations being suspended without notice at a key customer mine site. A restart of operations took longer than initially anticipated and impacted our revenue.

While we moved quickly to reduce the impact by reducing our variable costs, ultimately, this process was insufficient to fully offset the loss in revenue.

Additionally, significant wet weather events in New South Wales and Queensland 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 cover variable labour costs for a period of damp weather, profit margins were impacted further in May and June.

Ultimately, the Group's Australian drilling operations delivered an 11% increase in revenue from $111.1 million to $123.2 million. EBITDA for the year was down 14% to $19.1 million.

Our UK operations incurred expenses of $1.1 million, essentially unchanged from last year. All spending in the UK was to support the maintenance of the Group's licences and to pursue strategies to overturn the Moratorium.

Combined, the Australian and UK operations reported EBITDA of $18 million (2021: $21 million).

After depreciation, amortisation and 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.

Our finance costs for the year were $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 swing.

The result was undoubtedly disappointing in the context of what could have been if we had not had to overcome so many challenges. I do not believe the result reflects our people's commitment, our ability to deliver innovative drilling solutions for clients or the quality of our assets.

FY23 TRADING UPDATE

We entered the current year in a very strong operational position, with our fleet of rigs almost fully deployed and clients pushing to expand production to make the most of the excellent conditions for metallurgical coal miners.

The strong market conditions combined with more friendly weather and our operational excellence helped our Australian operations deliver an EBITDA of $6.1 million during the first quarter. The result was underpinned by a surge in income, with total revenue of $37.9 million for the quarter. This represents more than 30% of the total revenue we achieved in the entire 12 months of FY22.

The UK operations incurred administration and other expenses of $300,000. Together with the Australian Operations, EBITDA for the Group for the quarter was $5.8 million.

UK OPERATIONS UPDATE AND CAPITAL RAISING

In September the UK Government lifted the Moratorium on hydraulic fracturing that had been in place since November 2019 and was undertaking a detailed government review of the sector, and in particular the system of obtaining planning consent and regulations surrounding operations of hydraulic fracturing.

In October the Group completed a share placement which raised $19.7 million. The proceeds may be used to fund various needs including funding our UK operations, expenditure on new and existing plant and equipment and for working capital.

Subsequent to the capital raising, the UK Prime Minister Liz Truss resigned and was replaced by Rishi Sunak. Mr Sunak has subsequently reimposed the Moratorium. Given the current energy crisis facing the UK we were shocked by the decision.

There is no rational scientific basis for the re-imposing of the moratorium, and it is a betrayal of an industry that has the potential to create tens of thousands of jobs across the North of England, generate billions in private sector investment, and provide local councils with much-needed tax revenue.

Our UK team, led by Francis Egan, will continue to push for the removal of the Moratorium to ensure shale gas can play a role in alleviating the UK's energy crisis.

OUTLOOK

As a business, most of our earnings come from the metallurgical coal mining sector and our fortunes will continue to be tied to the sector.

We are in the enviable position that metallurgical coal prices remain at historic highs, pushed up by supply disruptions and market uncertainties as a result of the fallout from war in the Ukraine.

According to the Australian Government's chief economist the premium hard coking coal price is forecast to average over US$420 a tonne in the 2022 calendar before falling back to around US$220 a tonne by 2024 as market conditions normalise.

Australia's metallurgical coal export values are forecast to track with price movements, rebounding from $23 billion in 2020–21 to peak above $60 billion in 2022–23 before falling back to $41 billion by 2023–24.

This high level of activity in the sector is reflected in our sizeable order book and the high level of asset utilisation we are experiencing. This utilisation is in turn leading to strong revenue growth and higher EBITDA.

In looking ahead to the full-year result, we are conscious of the events of last financial year and the potential for external factors to affect our business.

Those risks aside, we are optimistic that we have the right people, clients, and assets to deliver an improved result in the current year compared to FY22.

ENDS