AJ Lucas Group LimitedABN: 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

7 November 2024
AJ Lucas Group Limited
Annual General Meeting Addresses

Chairman's address – Andrew Purcell

Your Company delivered a strong operating result for the financial year ending 30 June 2024. Performance in the first quarter of the current financial year is on par with that of the previous reporting period and future demand for our services is expected to be supported by third party assessments of the robust outlook for Australian metallurgical coal. I know our Group CEO will talk to how the business is performing, but your board is pleased to be able to present to you yet another strong year on year improvement in earnings.

These successive and strong improvements in operating results is recent years have allowed the Company to pay down a significant amount of its junior debt as well as commit to material investment in new equipment to meet the expected future requirements of our market. Your board is acutely aware, however, that the health of our underlying Australian business struggles to translate into a higher share price given overall leverage remains too high due to the loan provided to the Company by our largest shareholder continuing to compound. We appreciate the flexibility afforded to us that allows investment in important CAPEX initiatives at the expense of directing these funds towards the servicing and repayment of this debt. We have an active process on foot to allow us to try and access the agreed generous concessions agreed to reduce the carrying cost of this debt.

As for our shale gas assets in the UK, no material progress was made during the reporting period towards satisfying the regulator's conditions for a lifting of the moratorium on hydraulic fracturing. It is unlikely that this will be any easier to achieve with the change in the UK Government a few months ago. We are maintaining a low cost presence in the UK, which allows for the pursuit of other potential value creating initiatives there that Greg will also touch on, given the possibility that the sizeable accumulations of clean gas we have shown to exist in the Bowland shale may one day be demanded if the various net zero initiatives fail to develop or perform as projected – particularly given the likely lack of investment in exploration for new fields given the headline tax rate of 78% for the UK oil and gas industry.

The real value of a meeting such as this is to give shareholders the opportunity to ask the Company questions. As such, I will now invite Greg to deliver his address, following which I will invite questions.

Group CEO and MD address – Greg Runge

Welcome, ladies and gentlemen, and thank you, Mr Chairman.

I officially took over the role of Chief Executive Officer this year and am pleased to present this report to shareholders for the first time.

We have had to navigate a challenging environment over the twelve months, but I am proud to say we have emerged stronger, with renewed focus and momentum that positions us well for the future.

We have strengthened operational excellence, enhanced safety leadership, and embraced new growth opportunities. With a strong operational team that is reinvigorated and optimistic, we enter the new year with confidence, driven by high customer demand and recognition of the many growth opportunities in our markets.

At Lucas, the safety and well-being of our employees are at the heart of our operations. We believe that every person, regardless of their role, has the right to come to work and return home safely. Safety is not just a priority—it is a core value permeating every aspect of our work.

I am proud to report that, once again, we have maintained our industry-leading Total Recordable Injury Frequency Rate (TRIFR) at 1.08 per million hours worked. Moreover, we achieved zero environmental incidents throughout the year. This impressive accomplishment reflects a culture of strong reporting, open investigation of incidents, and a commitment to continuous improvement.

Maintaining such an exemplary safety record, especially in a high-risk industry like ours, requires vigilance, discipline, and teamwork. I want to take a moment to commend every team member for their dedication to ensuring the safety of our operations.

Our ability to maintain this level of safety has been supported by a renewed focus on new employees, particularly those who are new to the industry. Over the past year, we have implemented several initiatives to improve the safety and retention of new hires. These initiatives include significant investments in the training and development of our front-line workers.

One key improvement area has been the retention of new starters, particularly those adjusting to the Fly-In-Fly-Out lifestyle. We recognised that retention was a challenge in previous years, and I am pleased to report that our efforts have paid off. We have seen a 49% reduction in voluntary resignations among new starters, and we now outperform the industry average in retention. This is a remarkable achievement, and it positions Lucas as a preferred employer in the market.

A highly skilled, loyal workforce benefits our company and ensures that we remain a reliable partner for our clients.

Turning now to our financial performance. I am pleased to report that Lucas's 2024 financial year was a record-breaking year. Our Australian drilling services business achieved revenue of $159.1 million, representing a 0.9% increase from the previous year.

While this increase may seem modest, the real highlight of our performance is the growth in our EBITDA, which rose to $31.2 million—an impressive 19.9% increase compared to last year.

This growth was driven by an increased EBITDA margin, which climbed to 19.6%, up from 16.5%. These results underscore our commitment to operational excellence and cost discipline, highlighting our ability to adapt and thrive in a competitive market.

Operationally, we capitalised on new opportunities in the coal market with re-entry into coal seam gas drainage, a segment where we have long-standing experience and expertise. We have expanded our services to include both conventional exploration and degasification for the coal mining sector.

The market for Australian metallurgical coal, in particular, remains robust, with strong global demand. Both metallurgical coal and coal seam gas are increasingly recognized as critical components in the worldwide transition to cleaner energy. Our technical expertise in this area positions Lucas at the forefront of these opportunities, allowing us to deliver value to our clients while also contributing to the reduction of carbon waste in the value chain.

Our forward order book is stronger than ever, reflecting the positive outlook for the coal market and the continued demand for our services. Interestingly, the shifting environmental, social, and governance (ESG) landscape has led to new ownership among some of our key clients.

These new entrants share our belief in the resilience of the market fundamentals, and they are committed to investing in and expanding their operations. This drives demand for our pre- and post-drainage services, where we excel due to our technical expertise and superior execution.

In addition to expanding our service offerings, this year saw the co-development of state-of-the-art multipurpose drilling rigs designed specifically for coal drilling. These new rigs represent a step-change in our operational performance. They are not only more efficient but also safer, as they incorporate advanced automation that further removes personnel from hazardous environments. In parallel, we are developing new downhole sensing equipment that will provide our clients with real-time data, enhancing the value of our services in an increasingly data-driven industry.

Operationally, one of the key highlights of the year has been our focus on professional development and the multi-skilling of our workforce. This has been particularly impactful in our Large Diameter and Surface-to-Inseam offerings, enabling us to remain agile in our asset deployments and scale operations to meet client demand.

Our efforts have resulted in significant improvements in key performance metrics, including net revenue per shift and bit time on bottom. These improvements are a direct reflection of the hard work and dedication of our teams, and they position us for continued success.

While we continue to make progress domestically, our ambitions to create a shale gas business in the UK remains stalled. There is little expectation that the moratorium on hydraulic fracturing that has been in place since October 2022 will be lifted any time soon by the new government.

Against this backdrop are focused on maintaining a low-cost presence in the UK, and investigating options to fund ongoing costs through conventional gas production.

To this end we entered into an agreement with another UK onshore operator, Egdon Resources, to combine two adjacent onshore exploration Licences in Yorkshire. Egdon will operate the combined Licences and hold a 75% operating interest, and we will hold the remaining 25% nonoperated interest. Over the next three years Egdon will execute and fund the full cost of a work programme to plan, permit and drill an appraisal well on a significant discovered gas resource that spans both Licences.

Additionally, we have started electricity generation at our Elswick conventional gas site in Lancashire. This follows commissioning of a gas engine and generator as outlined in the 2024 annual report. We are excited we are able to do our part and deliver electricity into the grid for domestic use in the United Kingdom.

As we look ahead, I am confident in our ability to deliver strong operational and financial performance across our Australian operations, even in the face of potential challenges. We recognise that some of our key client sites are entering transitional phases, with ownership changes and shifts in operational priorities.

While these transitions may present short-term challenges, I believe that the operating platform we have developed will enable us to navigate these changes and continue to deliver consistent, high-quality service to our clients.

In closing, I want to express my deep gratitude to everyone who has supported me in my transition into the CEO role. The introduction of new business initiatives has been met with enthusiasm and optimism, and I truly believe that these changes will position Lucas for long-term success.

Together, we have built a company that is resilient, innovative, and forward-looking. I am excited about the opportunities that lie ahead, and I am confident that Lucas will continue to thrive in this exciting next chapter of our journey.

Thank you for your attention and continued support. I look forward to working alongside all of you as we move forward.

ENDS