LUCAS GROUP

INTERIM REPORT

&

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2023

**(Previous Corresponding Reporting Period:
half year ended 31 December 2022)**

Appendix 4D

for the half year ended 31 December 2023

Name of entity: AJ LUCAS GROUP LIMITED

ACN: 060 309 104

	Change			Dec-23 $A'000	Dec-22 $A'000
Revenue					
Revenues from continuing operations	Decrease of	6.2%	to	77,572	82,737
Reported EBITDA [1]	Decrease of	28.7%	to	10,569	14,833
Profit before interest and tax (excluding impairment of exploration assets)	Decrease of	40.9%	to	6,728	11,389
Loss for the period (excluding impairment of exploration assets)	Decrease of	2232.8%	to	(2,538)	119
Impairment of exploration assets [2]		N/A		–	(157,324)
Loss for the period attributable to members	Improvement of	98.4%	to	(2,527)	(156,025)

NTA Backing	**Dec-23**	**Jun-23**
Net tangible asset backing per ordinary security (cents per share)	(5.5)	(5.5)

Dividends	Amount per security	Franked amount per security
Total dividend - current year	0.0¢	N/A
- previous year	0.0¢	N/A

[1] Reported EBITDA refers to earnings before net financing costs, depreciation and amortisation, impairments and tax expense.

[2] Refer Note 7 of the attached Interim report.

An interim financial report for the half year ended 31 December 2023 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 unqualified 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 2023

AJ Lucas Group Limited ("the Company") and its controlled entities (together referred to as "Lucas", the "Group" or "Lucas Group") presents its results for the period 31 December 2023.

	Dec 2023 $'000	Dec 2022 $'000	Change %
Total revenue from continuing operations	**77,572**	**82,737**	**(6.2%)**
Reported EBITDA - Australian operations	12,107	15,570	(22.5%)
Reported EBITDA - UK investments operations	(1,538)	(737)	(102.7%)
Total Reported EBITDA[1]	**10,569**	**14,833**	**(28.7%)**
Depreciation and amortisation	(3,841)	(3,444)	(11.5%)
EBIT (excluding impairment of exploration assets)	**6,728**	**11,389**	**(40.9%)**
Impairment of exploration assets	–	(157,324)	N/A
EBIT	**6,728**	**(145,935)**	**(104.6%)**
Net finance costs	(9,266)	(11,270)	17.8%
Net loss for the period (excluding impairment of exploration assets)	**(2,538)**	**119**	**2232.8%**
Net loss for the period	**(2,538)**	**(157,205)**	**98.4%**

(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.

The Group reported EBITDA of $10.6 million (Dec 2022: $14.8 million) on revenues of $77.6 million (Dec 2022: $82.7 million). Further details on the results of the Australian operations and the UK gas explorations operations are provided below.

The Group's Australian operations, which represent the Group's main operating business, performed lower than the comparative 6-month period to December 2022. One-off plant maintenance in respect of a number of key rigs impacted time spent drilling during 1HY2024. The Australian operations reported EBITDA of $12.1 million for the 1HY2024(Dec 22: $15.6 million).

Lucas Group continues to maintain its focus on safety while growing its pipeline of contracted works and remains optimistic that the outlook for the metallurgical coal sector remains buoyant with extensive investment in new and existing capacity.

The Group's UK operations incurred administration and other expenses of $1.5 million (Dec 2022: $0.7 million). These costs were incurred to support maintenance of the Group's licences and revaluation of the Group's decommissioning liabilities. The Group continues to evaluate the full range of options available to protect and realise value from the substantial investment that it has made, in good faith, over many years. This may include potential organic cash flow generating opportunities.

Taking into account depreciation and amortisation of $3.8 million (Dec 2022: $3.4 million) as well as net finance costs of $9.3 million (Dec 2022: $11.3 million), in the period the Group delivered a net loss after tax of $2.5 million.

Brett Tredinnick resigned as CEO in August. Marcin Swierkowski stepped in as interim CEO while the replacement process was underway. Greg Runge was appointed CEO effective 1 Jan 2024.

Australian Operations

	Dec 2023 $'000	Dec 2022 $'000	Change %
Revenue	77,572	82,737	-6%
Reported EBITDA - Australian Operations	**12,107**	**15,570**	**-23%**
EBITDA margin	15.6%	18.8%	

Lucas' main operating business delivered $77.6 million of revenue (Dec 2022: $82.7 million) and EBITDA of $12.1 million (Dec 2022: $15.6 million). Changes in client programs resulted in deferral of some work which was replaced with lower margin work. In addition, plant maintenance in respect of a number of key rigs, impacted drilling activities in the first quarter of FY24. As a result, the business delivered an EBITDA of $5.4 million in the first quarter, which improved to $6.7 million in the second quarter, and totalled $12.1 million for the half year.

The demand for metallurgical (or coking) coal, which is a key driver of demand for the Group's drilling services, remains high by historic standards and the outlook remains strong. Metallurgical coal is essential for steelmaking, and the Group's clients produce some of the highest quality and lowest cost metallurgical coal globally.

As is the case with many businesses, Lucas Drilling has been impacted by increased costs, as demonstrated by recent spikes in inflation and the latest wage increases awarded by the Australian Fair Work Commission. Management have worked tirelessly to mitigate and manage this pressure and will continue to do so.

Given this outlook, and the demand from our clients for more and broader services, the Group continues to look for opportunities to grow and diversify its drilling business in a capital efficient manner. This strategy has already helped diversify the businesses revenue, with revenue derived from the Group's largest customer having decreased to 46% of total revenue (Dec 22: 60%). The Group continues to look for further diversification opportunities, as and where they make sense.

UK Oil & Gas

In the six-month period to end December 2023 there has been no movement in respect of the moratorium on hydraulic fracturing, which was re-imposed by the UK government in October 2022, following a short period when the moratorium had been lifted. We continue to engage on this issue with the Regulator and other onshore oil and gas operators but see limited prospect of a change in the short term.

In August 2023 we received notice from the Regulator requiring us to plug and abandon the two Preston New Road (PNR) shale gas exploration wells by the end of calendar year 2024. Together with our Joint Venture partner Spirit Energy we are putting plans in place to comply with that instruction. This does not impact the underlying shale exploration licence which comprises approximately 100km^2 and which we will continue to operate in partnership with Spirit.

In July 2023 Spirit Energy gave notice of its intention to withdraw from the Elswick (EXL269) Licence. That withdrawal and the assignment of the Spirit 25% interest to the remaining AJ Lucas licensees was ratified by the Regulator in January 2024. Spirit remains as a licensee and joint venture partner on the larger PEDL 165 shale Licence.

Separately, we continue to progress conventional gas opportunities on our UK licences. These including bringing the Elswick conventional gas well back into production and using the gas to generate and sell electricity. That project is well advanced, and we are targeting first electricity sales before the end of FY24.

We have also concluded an agreement with another onshore operator, Egdon Resources Limited, under which Egdon and Cuadrilla have unitised interests across two adjacent onshore licences previously held respectively 100% by Egdon (Licence PL081) and 100% by Cuadrilla (PEDL 347). Egdon will operate the combined licence with 75% interest and Cuadrilla will hold a 25% non-operated interest. In consideration Egdon will fund the planning, permitting, drilling, and testing of an appraisal well on an existing gas discovery that spans both licences.

On the Balcombe licence in Southern England, operated by Angus Energy and in which we hold a 75% interest, the decision by the Planning Inspectorate to overturn the local Council refusal and grant permission to flow test the Balcombe well was itself subsequently appealed by a local opposition group. That appeal was turned down by the High Court in London in October 2023. Since then, the opposition group has sought to appeal the High Court's decision. We await a response from the Court of Appeal as to whether it will consider the case.

Balance Sheet

Having just recently completed a refinancing in April 2023, the Group's balance sheet structure remains largely unchanged. Interest bearing debt, net of cash, cash equivalents and cash in trust, reduced to $108.4 million (June 2023: $112.9 million).

Cash flows

Total cash equivalents and cash in trust increased $4 million during the period (Dec22: $18.3 million). This comprised net cash from operating activities of $12.0 million (Dec 22: $1.3 million net cash used in operating activities) after taking into account debt finance costs. $2.5 million was used for purchase of plant and equipment (Dec 22: $0.9 million) and $5.5 million was used for repayment of debt principal and lease obligation (Dec 22: $2.1 million proceeds from additional borrowings). The comparative period also included $18.4 million raised from equity.

Outlook

The current high metallurgical coal price, by historic standards, continues to drive strong demand for degasification and exploration drilling services for our clients and the industry, creating new opportunities that the Group will continue to pursue in order to expand and or diversify its services, where it makes sense to do so.

In the UK, the Group will continue to pursue strategies to encourage the removal of the moratorium on shale gas exploration and thus allow us the opportunity to develop our shale licences. We remain resolute in our view that shale gas has an important role to play as a potential transition fuel as the United Kingdom moves towards its Net Zero target by 2050. We will maintain a cost-effective operation to comply with licence conditions and evaluate and implement options including the development of conventional gas discoveries on our licences to deliver shareholder value.

LUCAS GROUP

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2023

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 2023 together with any public announcements made by the Lucas Group during the half year ended 31 December 2023 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

Contents	**Page**

Directors’ Report

for the half year ended 31 December 2023

The directors of AJ Lucas Group Limited (the “Lucas Group”) present their report together with the consolidated financial report for the half year ended 31 December 2023 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:

<u>Non-executive</u>

Andrew Purcell (Chairman)

Julian Ball

Austen Perrin

<u>Executive</u>

Brett Tredinnick (Resigned effective 31st August 2023)

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 9 and forms part of this report for the half year ended 31 December 2023.

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

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 significantly affect 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

23 February 2024

Building a better working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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 2023, 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;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene 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

Ernst & Young

Matthew Taylor
Partner
Brisbane
23 February 2024

Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2023

	Note	Dec 2023 $'000	Dec 2022 $'000
Revenue from contracts with customers	2	77,572	82,737
Total revenue		**77,572**	**82,737**
Other income		24	–
Operating costs of Australian operations		(65,491)	(66,975)
Depreciation and amortisation	4	(3,841)	(3,444)
Other expenses	4	(1,536)	(929)
Impairment of exploration assets		–	(157,324)
Results from operations		**6,728**	**(145,935)**
Finance costs	3	(9,266)	(11,270)
Loss before income tax		**(2,538)**	**(157,205)**
Income tax benefit		–	–
Net loss for the period		**(2,538)**	**(157,205)**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		154	1,167
Total items that may be reclassified subsequently to profit and loss		154	1,167
Other comprehensive income / (loss) for the period		**154**	**1,167**
Total comprehensive income / (loss) for the period		**(2,384)**	**(156,038)**
Net profit / (loss) for the period attributable to:			
Shareholders of AJL		(2,527)	(156,025)
Non-controlling interest		(11)	(1,180)
		(2,538)	**(157,205)**
Total comprehensive income / (loss) attributable to:			
Shareholders of AJL		(2,374)	(154,875)
Non-controlling interest		(10)	(1,163)
		(2,384)	**(156,038)**
Earnings per share:			
Basic and diluted (loss)/earnings per share (cents)	10	(0.2)	(12.2)

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

Consolidated Statement of Financial Position

as at 31 December 2023

	Note	Dec 2023 $'000	Jun 2023 $'000
Current assets			
Cash and cash equivalents		16,421	12,792
Cash in trust		1,534	1,253
Trade and other receivables		22,795	23,056
Contract assets		12,288	12,320
Inventories		5,236	5,228
Other assets		1,795	1,588
Total current assets		**60,069**	**56,237**
Non-current assets			
Plant and equipment	5	31,934	31,340
Right-of-use assets	6	4,419	5,612
Deferred tax asset		10,954	10,954
Exploration assets	7	–	–
Total non-current assets		**47,307**	**47,906**
Total assets		**107,376**	**104,143**
Current liabilities			
Trade and other payables		23,591	17,843
Contract liabilities		629	128
Interest-bearing loans and borrowings	8	39,109	38,369
Decommissioning provision	9	6,365	3,733
Employee benefits		6,324	6,494
Total current liabilities		**76,018**	**66,567**
Non-current liabilities			
Interest-bearing loans and borrowings	8	87,259	88,541
Decommissioning provision	9	2,908	5,465
Employee benefits		634	629
Total non-current liabilities		**90,801**	**94,635**
Total liabilities		**166,819**	**161,202**
Net assets / (liabilities)		**(59,443)**	**(57,059)**
Equity			
Share capital	10	514,590	514,590
Reserves		1,003	849
Accumulated losses		(574,996)	(572,468)
Total equity attributable to equity holders of the Company		(59,403)	(57,029)
Non-controlling interest		(40)	(30)
Total equity / (deficiency)		**(59,443)**	**(57,059)**

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 2023

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Non-controlling interest $'000	Accumulated losses $'000	Total equity / (deficiency)$'000
Balance 1 July 2023	514,590	(3,821)	637	4,033	(30)	(572,468)	(57,059)
Total comprehensive income							
Loss for the period	–	–	–	–	(11)	(2,527)	(2,538)
Other comprehensive income							–
Foreign currency translation differences	–	153	–	–	1	–	154
Total comprehensive income	–	153	–	–	(10)	(2,527)	(2,384)
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 2023	**514,590**	**(3,668)**	**637**	**4,033**	**(40)**	**(574,995)**	**(59,443)**
Balance 1 July 2022	495,986	(4,583)	637	4,033	1,152	(420,409)	76,816
Total comprehensive income							
Loss for the period	–	–	–	–	(1,180)	(156,025)	(157,205)
Other comprehensive income							–
Foreign currency translation differences	–	1,150	–	–	17	–	1,167
Total comprehensive income/(loss)	–	1,150	–	–	(1,163)	(156,025)	(156,038)
Transactions with owners recorded directly in equity							
Issue of ordinary shares, net of transaction costs	18,448	–	–	–	–	–	18,448
Total contributions by and distributions to owners	18,448	–	–	–	–	–	18,448
Balance 31 December 2022	**514,434**	**(3,433)**	**637**	**4,033**	**(11)**	**(576,434)**	**(60,774)**

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 2023

	Note	Dec 2023 $'000	Dec 2022 $'000
Cash flows from operating activities			
Cash receipts from customers		86,203	80,467
Cash paid to suppliers and employees		(70,125)	(77,123)
Cash from operations		**16,078**	**3,344**
Interest income		262	–
Interest and other costs of finance paid		(4,376)	(4,618)
Net cash from / (used in) operating activities		**11,964**	**(1,274)**
Cash flows from investing activities			
Acquisition of plant and equipment	5	(2,519)	(940)
Net cash used in investing activities		**(2,519)**	**(940)**
Cash flows from financing activities			
Proceeds from borrowings		83,746	86,612
Repayment of borrowings		(87,374)	(83,227)
Repayment of leases		(1,853)	(1,292)
Proceeds from issue of shares		–	19,739
Transaction costs on issue of shares		–	(1,291)
Net cash from financing activities		**(5,481)**	**20,541**
Net increase in cash and cash equivalents		3,964	18,327
Net foreign exchange difference		(54)	4
Cash and cash equivalents at beginning of the period		14,045	3,065
Cash and cash equivalents and cash in trust at end of the period		**17,955**	**21,396**

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

1. Basis of preparation

AJ Lucas Group Limited ("Lucas Group") is a company domiciled in Australia. The consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2023 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 2023. 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 23 February 2024.

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. Key points of note during the period end:

- The Group is in a net liability position at balance date of $59.4 million (June 2023: $57.1 million), and a net current liability position of $15.9 million (June 2023: $10.3 million). Within current liabilities is $29.1 million relating to the Senior syndicated loan facility, which is a revolving asset-based loan which expires in April 2025. It is classified as a current liability for accounting disclosure purposes due to it being a revolving facility by nature;
- The Group generated a loss before tax for the 1HY2024 of $2.5million (June 2023: loss of $164.2 million);
- The Group generated net cash from operating activities for the 1HY2024 of $12.0 million (December 2022: loss of $1.3 million used in operating activities).

The Directors, in their consideration of the appropriateness of using the going concern basis for the preparation of the financial statements, have reviewed a cash flow forecast prepared by management, covering a period through to at least 12 months following the signing of the financial statements, which had regard to the following matters in their consideration of their going concern assessment:

- In April 2023 the Group successfully extended its existing loan arrangements with all lenders to April 2025 and October 2025. This followed a competitive process during which multiple proposals were received and evaluated by the Company;

Going concern (cont.)

- The strong financial performance of the Drilling Division which delivered $77.6 million (Dec 2022: $82.7 million) in revenue and $12.1 million (Dec 2022: $15.6 million) in earnings before interest, tax, depreciation and amortisation ("EBITDA") from our Australian operations. While the continued strong financial performance is subject to a degree of uncertainly as with all businesses, and dependent on successful extension or renewal of existing customer contracts, the outlook for metallurgical coal, which is essential for steel making and which the Company's customers are high quality and low-cost producers of, remains robust;
- The past ability of the Group to raise additional debt or equity should it be required;
- The Group has $17.9 million in cash on hand at 31 December 2023 (June 2023: $14.0 million) and has an effective budget and cash management process in place to track the balance between operating and capital spending and compliance with future covenants.

In considering the above and the factors available to the Directors to manage those risks, the Directors are satisfied it remains appropriate to prepare the financial statements on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

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 2023. 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 2023.

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.

2. Segment reporting

The Group comprises the following main business segments:

Drilling	This business segment encompasses the Australian Drilling business and the Groups head office and corporate costs. 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.

Costs associated with related party loans, including foreign exchange gains and losses recognised on translating US dollar balances outstanding to Australian dollars are not recognised within reportable segments and are disclosed as unallocated.

The Drilling reportable segment had three customers (Dec 2022: two customers) that each contribute over 10% of the Groups revenue, and in total contributed 80% (Dec 2022: 75%) of the Groups revenue. The segments reliance on its largest customer has reduced from 60% to 46% of total revenue.

	Drilling $'000	UK Oil & Gas Investments $'000	Reportable Segments $'000	Unallocated $'000	Total $'000
December 2023					
Reportable segment revenue					
Services rendered	77,572	–	77,572	–	77,572
Total consolidated revenue	**77,572**	**–**	**77,572**	**–**	**77,572**
EBITDA	**12,063**	**(1,494)**	**10,569**	**–**	**10,569**
Depreciation and amortisation	(3,841)	–	(3,841)	–	(3,841)
Net finance cost	(4,749)	(113)	(4,862)	(4,404)	(9,266)
Reportable segment profit / (loss)	**3,473**	**(1,607)**	**2,053**	**(4,404)**	**(2,538)**

	Drilling $'000	UK Oil & Gas Investments $'000	Reportable Segments $'000	Unallocated $'000	Total $'000
December 2022					
Reportable segment revenue					
Services rendered	82,737	–	82,737	–	82,737
Total consolidated revenue	**82,737**	**–**	**82,737**	**–**	**82,737**
EBITDA	**15,570**	**(737)**	**14,833**	**–**	**14,833**
Depreciation and amortisation	(3,444)	–	(3,444)	–	(3,444)
Net finance cost	(4,449)	–	(4,449)	(6,821)	(11,270)
Impairment expense	–	(157,324)	(157,324)	–	(157,324)
Reportable segment profit / (loss)	**7,677**	**(158,061)**	**(150,384)**	**(6,821)**	**(157,205)**

3. Net finance income and costs

	Dec 2023 $'000	Dec 2022 $'000
Interest income	(262)	–
Interest expense	10,091	9,310
Finance costs charged on lease liability	368	131
Amortisation of prepaid fees on debt facilities	1,179	974
Decommission provision discount unwind	113	–
Net foreign exchange loss / (gain)	(2,223)	855
Finance costs recognised in profit and loss	**9,266**	**11,270**

4. Other expenses

	Dec 2023 $'000	Dec 2022 $'000
Depreciation of plant and equipment	1,925	2,037
Amortisation of right-of-use asset	1,916	1,407
Total depreciation and amortisation	**3,841**	**3,444**
UK overhead costs	1,374	715
Other	162	214
Total other expenses	**1,536**	**929**

5. Plant and equipment

	Plant & equipment $'000	Enterprise development $'000	Total $'000
31 December 2023			
At cost	118,996	12,578	131,574
Accumulated depreciation/impairment	(87,067)	(12,573)	(99,640)
Carrying amount at 31 December 2023	**31,929**	**5**	**31,934**
30 June 2023			
At cost	116,477	12,578	129,055
Accumulated depreciation/impairment	(85,215)	(12,500)	(97,715)
Carrying amount at 30 June 2023	**31,262**	**78**	**31,340**

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 2023	31,262	78	31,340
Additions	2,519	–	2,519
Depreciation and amortisation	(1,852)	(73)	(1,925)
Carrying amount at 31 December 2023	**31,929**	**5**	**31,934**

6. Right-of-use assets

	Plant & equipment $'000	Property $'000	Total $'000
31 December 2023			
At cost	5,759	3,125	8,884
Accumulated depreciation/amortisation/impairment	(3,182)	(1,283)	(4,465)
Carrying amount at 31 December 2023	**2,577**	**1,842**	**4,419**
30 June 2023			
At cost	5,094	3,067	8,161
Accumulated depreciation/amortisation/impairment	(1,274)	(1,275)	(2,549)
Carrying amount at 30 June 2023	**3,820**	**1,792**	**5,612**

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 2023	3,820	1,792	5,612
Additions	665	58	723
Amortisation	(1,907)	(8)	(1,916)
Carrying amount at 31 December 2023	**2,577**	**1,842**	**4,419**

7. Exploration assets

	Dec 2023 $'000	Jun 2023 $'000
Opening carrying amount	–	156,112
Remeasurement of decommissioning provision	–	–
Foreign Exchange movement	–	1,212
Impairment of exploration assets	–	(157,324)
Closing value	**–**	**–**

7. Exploration assets (Cont.)

The exploration assets comprised of various UK onshore exploration licenses. On 22 September 2022 a moratorium on hydraulic fracturing in the UK, that had been in place since November 2019, was lifted by the then Prime Minister Liz Truss. Following the resignation of Ms Truss on 20 October 2022, the moratorium was abruptly reimposed on 25 October 2022 by her successor as Prime Minister Rishi Sunak. The reintroduction of the moratorium was unexpected, given that the Group has fully complied with strict regulations imposed by the government and considering the amount of money invested, along with our partners and the industry, following the UK Government's energy strategy to discover and then develop the UK's indigenous shale gas resources.

The Group continues to evaluate a range of options available to protect the substantial investment that we have made in these exploration licences and extract any potential value that exists, whether through eventual development as and when this is allowed, or by other means. However, as result of the adverse political circumstances in the UK, the U-turn on the moratorium and the lack of discernible political will within the governing or opposition party to progress onshore shale gas exploration, the Group is no longer planning or budgeting substantive expenditure on further exploration and evaluation in its specific shale exploration licences areas. In accordance with accounting standards, it recorded a non-cash impairment loss of $157.3 million in the prior period.

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. The Group's licences remain current at balance date.

8. Interest-bearing loans and borrowings

	Dec 2023 $'000	**Jun 2023 $'000**
Current		
Senior syndicated facility	29,142	29,536
Junior loan notes	6,277	4,931
Lease liabilities	3,670	3,881
Other	20	21
	39,109	**38,369**
Non-current		
Lease liabilities	1,389	2,280
Junior loan notes	17,759	21,835
Loans from related party	68,084	64,390
Other	27	36
	87,259	**88,541**
Total Current and Non-Current finance facilities	**126,368**	**126,910**

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

Senior syndicated facility-Balmain

The Senior syndicated facility is a senior ranking revolving asset-based loan which 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 $35 million subject to certain prescribed levels of Security Assets. Interest is calculated on the daily balance outstanding at the bank bill swap rate ("BBSY") plus a margin and is payable monthly in arrears. The current applicable interest rate on the facility has increased to 10.92% at 31 December 2023 (30 June 2023: 10.56%), in line with increases in the BBSY.

Given the revolving nature, the Senior syndicated facility matures in April 2025 and is classified as a current liability. Each repayment and subsequent drawdown is separately disclosed in the Cash Flow Statement as Repayment of Borrowings and Proceeds from Borrowings, respectively.

The facility is subject to financial covenants which may be amended from time to time by mutual agreement and have been complied with during the period.

Junior Loan notes-HSBC

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. Under the agreement quarterly scheduled principal repayments totalling $8m per annum are required, with the exception of the 12 months 1 April 2023 to 1 April 2024 over which repayments must total at least $4 million. Any balance remaining is repayable at maturity, which is currently April 2025. During the half year the Group made $4 million in amortisation repayment, consisting of $2 million in mandatory and $2 million voluntary repayments.

Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears. The applicable interest rate on the facility at 31 December 2023 was approximately 17.78% (30 June 2023: 17.23%). The facility is subject to financial convents 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 2023 held a 56.7% shareholding in the Company (30 June 2023: 56.7%). Kerogen's facility is subordinated to and ranks behind both the Senior syndicated facility and Junior loan notes facility. Maturity of this facility is in October 2025 or 9 months after full repayment of the Junior loan notes if earlier.

The loan is a US Dollar denominated debt. Interest is charged at 18% of the balance outstanding which compounds quarterly, if unpaid. Interest charged on the Kerogen facility will be reduced from 18% on 16%, backdated to 24 April 2023 if the outstanding balance on the Kerogen loan (excluding deferred interest) is reduced to below US$40 million, and will be further reduced to 14% if the outstanding balance (excluding deferred interest) is reduced to below US$20 million. In addition, interest paid in cash within the first two years will benefit from an additional 4% reduction on the portion paid in cash and backdated to apply from 24 April 2023. Payment of any amount of principal or interest to Kerogen, is subject to various restrictions in the senior and junior loan agreements and requires consent.

9. Decommissioning provision

Set out below is the carrying amounts of decommissioning provision as at 31 December 2023.

	Dec 2023 $'000	Jun 2023 $'000
Current	6,365	3,733
Non-current	2,908	5,465
Closing value	**9,273**	**9,198**

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

	Dec 2023 $'000	Jun 2023 $'000
Carrying amount at 1 July	9,198	7,659
Net remeasurement of decommissioning provision	279	915
Foreign exchange movement	(204)	624
Closing value	**9,273**	**9,198**

The current portion of the decommissioning provision relates to estimated costs at licences in which the Group is required under its licence to plug and abandon in the coming twelve-month period.

10. Share Capital

	Issue Price Per Share (Cents)	No. of Shares	$000
2023			
On issue at 1 July 2023		1,375,729,630	514,590
On issue at 31 December 2023		**1,375,729,630**	**514,590**

	Issue Price Per Share (Cents)	No. of Shares	$000
2022			
On issue at 1 July 2021		1,196,286,635	495,986
Placement	11.0 cents	179,442,995	19,739
Transaction costs incurred		–	(1,291)
On issue at 31 December 2022		**1,375,729,630**	**514,434**

The Group undertook a share placement to institutional, sophisticated, and professional investors during the comparative period at an issue price of 11 cents, which settled on 5 October 2022.

Earnings per share

The calculation of basic loss per share at 31 December 2023 was based on the loss after tax attributable to ordinary shareholders of $2,527,000 (Dec 2022: $156,025,000) divided by a weighted average number of ordinary shares outstanding for the period being 1,375,729,630 (Dec 2022: 1,291,859,535). There were no dilutive potential ordinary shares outstanding at 31 December 2023 or 31 December 2022, therefore no adjustments have been made to basic earnings per share to arrive at diluted earnings per share.

11. 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 2023.

Dec-23	Carrying Amount $'000	Fair value $'000
Bank balances	17,955	17,955
Trade and other receivables	22,795	22,795
Trade and other payables	(23,591)	(23,591)
Senior syndicated facility	(29,142)	(29,743)
Junior loan notes	(24,036)	(24,758)
Loans from related party	(68,084)	(68,604)
Other	(47)	(47)
	(104,150)	**(105,993)**

12. Reconciliation of liabilities arising from financing activities

	As at 1 July 2023	Cash Flow [1]	Non-Cash		As at 31 December 2023
			Finance costs [2]	Other	
	$'000	$'000	$'000	$'000	$'000
Interest bearing liabilities	**126,910**	(9,857)	9,266	49	**126,368**

(1) Comprises proceeds from borrowings of $83.7 million less repayments of borrowings of $87.4 million, repayment of leases of $1.9 million, and interest and other costs of finance paid of $4.4 million.
(2) Comprises interest costs disclosed in Note 3.

	As at 1 July 2022	Cash Flow [3]	Non-Cash		As at 31 December 2022
			Finance costs [4]	Other	
	$'000	$'000	$'000	$'000	$'000
Interest bearing liabilities	**110,123**	(2,525)	11,270	1,370	**120,238**

11 Comprises proceeds from borrowings of $86.6 million less repayments of borrowings of $83.2 million, repayment of leases of $1.3 million, and interest and other costs of finance paid of $4.6 million.
12 Comprises interest costs disclosed in Note 3.

13. Subsequent events

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 significantly affect 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:

1. the consolidated financial statements and notes set out on pages 11 to 22 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 2023 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
23 February 2023

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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 condensed statement of financial position as at 31 December 2023, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed 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, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply 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 2023 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410). Our responsibilities are further described in the Auditor's responsibilities for the review of the half-year financial report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us 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 financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Building a better working world

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.

Ernst + Young

Ernst & Young

Matthew Taylor
Partner
Brisbane
23 February 2024