LUCAS GROUP

INTERIM REPORT

&

APPENDIX 4D

HALF YEAR ENDED 31 DECEMBER 2021

(Previous Corresponding Reporting Period:
half year ended 31 December 2020)

Appendix 4D

for the half year ended 31 December 2021

Name of entity: AJ LUCAS GROUP LIMITED

ACN: 060 309 104

	Change			Dec-21 $A'000	Dec-20 $A'000
Revenue					
Revenues from continuing operations	Decrease of	1.1%	to	60,642	61,309
Results from continuing operations					
Reported EBITDA [1]	Decrease of	28.0%	to	10,800	15,002
Profit before interest and tax	Decrease of	40.6%	to	7,078	11,918
Profit / (Loss) for the period attributable to members	Decrease of	133.8%	to	(3,357)	9,941

NTA Backing	**Dec-21**	**Jun-21**
Net tangible asset backing per ordinary security (cents per share)	7.0	7.1

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 from continuing operations refers to earnings before net financing costs, depreciation and amortisation, impairments and tax expense but excludes results from discontinued operations.

An interim financial report for the half year ended 31 December 2021 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 2021

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 2021.

	Dec 2021 $'000	Dec 2020 $'000	Change %
Total revenue from continuing operations	**60,642**	**61,309**	**(1.1%)**
Reported EBITDA - Australian operations	11,749	15,358	(23.5%)
Reported EBITDA - UK investments operations	(949)	(356)	(166.6%)
Total Reported EBITDA	**10,800**	**15,002**	**(28.0%)**
Depreciation and amortisation	(3,722)	(3,084)	(20.7%)
EBIT	**7,078**	**11,918**	**(40.6%)**
Net finance costs	(10,435)	(4,954)	(110.6%)
Income tax benefit (UK R&D Incentive)	–	2,977	(100.0%)
Net profit / (loss) for the year	**(3,357)**	**9,941**	**(133.8%)**
Basic profit / (loss) per share (cents)	(0.3)	0.8	(133.8%)

Lucas Group has continued to build on the structural and operational improvements implemented in the last financial year, including a Board and management restructure and the closure of the Sydney office as reported in the June 2021 Annual Report. As a result of these changes the Lucas Group remains well positioned to benefit from a more stable external environment in the future. Lucas Group’s consolidated results were underpinned by the continued strength of its domestic drilling operations, which continue to demonstrate our hard-earned reputation for delivering complex projects that enhance our clients’ businesses.

Lucas Group’s domestic drilling business continued to perform in general in line with expectations with first-half revenue falling 1.1% to $60.64 million. EBITDA, which fell 28.0% to $10.8 million, was largely impacted by a continuation of various delays and interruptions that were reported on 30 June 2021. These project delays and interruptions are not reflective of the usual project performance life cycle of Lucas Group’s drilling business.

Lucas Group’s consolidated results include the impact of our UK gas exploration business which has seen limited progress due to the UK Government’s moratorium on shale gas exploration. During the first half, the UK operations incurred administration and other expenses of $0.9 million, largely to support the maintenance of Lucas Group’s licences and to pursue strategies to overturn the moratorium.

Lucas Group’s first-half net loss was $3.4 million, compared to a profit of $9.9 million for the corresponding prior period. The net operating loss for the half year reflects a $5.5 million increase in net finance costs over the previous corresponding period, due in large part to a $1.5 million unrealised foreign exchange loss on its US Dollar related party debt as compared to a foreign exchange profit of $4.2 million for the previous corresponding period. It is also important to note that the consolidated result for the previous corresponding half included a one-off tax benefit of $2.97 million related to UK research and development credits.

Lucas Group has maintained its focus on 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.

Commentary on the Results

for the half year ended 31 December 2021

Lucas Drilling

	Dec 2021 $'000	Dec 2020 $'000	Change %
Revenue	60,642	61,309	(1.1%)
Reported EBITDA - Australian Operations	**11,749**	**15,358**	(23.5%)
EBITDA margin	19.4%	25.1%	

Lucas Drilling is the Group's main operating business and provides a range of essential drilling services to the Australian coal industry. The Lucas Group's work is subject to the variable nature of coal mining and the shifting priorities and challenges of clients.

This was evident in the first half, with the Group's revenue falling slightly from $61.3 million to $60.6 million in the half and EBITDA on Australian operations falling 23.5% to $11.7 million. The mining plans of our customers, on which Lucas Drilling's business depends, were impacted by previously reported operational and regulatory challenges at key customer mine sites. These delays and interruptions have been addressed and all of the Group's higher value rigs were operating by January 2022 and delivering an increase in monthly EBITDA run rate which is expected to result in a strong second half performance.

The Lucas drilling operations have developed strong internal procedures to manage the potential impact of a COVID in line with industry expectations and have maintained an excellent record of operational continuity throughout the pandemic. Covid-related issues faced by Lucas Group have primarily affected clients, rather than the Lucas operations.

As well as managing COVID, Lucas has continued its proud history of maintaining safe and healthy workplaces. The total recordable injury frequency rate ("TRIFR") is to 4.59 at December 2021 which continues to be an industry leading level.

UK Oil & Gas

The Oil and Gas reporting segment comprises the Group's interest in onshore oil and gas exploration licences in the UK, held through the Company's UK subsidiaries. The Group has accumulated significant information through its own seismic surveys and through drilling of a number of vertical and horizontal exploration wells. Third party studies also support the Group's information on the potential gas resources held in the UK, particularly the UK Government commissioned British Geological Society Carboniferous Bowland Shale gas study in 2013, which estimated significant amount of gas was stored in the Bowland Shale.

Most recently the Group undertook drilling of the only two horizontal wells to have ever been drilled into UK shale rock, at Preston New Road ("PNR"), which were partially hydraulically fractured and flow tested. This confirmed the presence of significant amounts of very high-quality natural gas. Each of our two Lancashire gas exploration wells flowed very high-quality natural gas to surface from just a handful of fractures completed in the underlying shale rock. However, seismicity induced during the fracturing process meant that both wells could only be partially fractured and flow-tested. Under the UK Oil and Gas Authority's ("OGA") prevailing regulatory requirement, we were required to halt operations any time micro-seismicity induced by fracturing exceeded just 0.5 on the Richter scale. As a result, this did not allow for a full assessment of the amount of gas that could be commercially produced.

In November 2019, the UK Government announced a moratorium on hydraulic fracturing in the UK. The reason for introducing the moratorium according to the OGA was that it was not currently possible to accurately predict the possibility or magnitude of sub-surface tremors linked to hydraulic fracturing. However, induced seismicity is not a new phenomenon in shale or in other operations where fluid is injected at high pressure underground. In fact, the level of ground vibrations allowed for in other UK industries, such as quarrying or geothermal wells, is as high as that which was recorded at any stage during hydraulic fracturing at PNR.

Commentary on the Results

for the half year ended 31 December 2021

It has widely been reported that the UK is currently in the midst of an energy crises caused by supply shortages. Multiple UK energy suppliers have collapsed, and gas prices have increased significantly. Wholesale gas prices in the UK increased from typical levels of £0.50 per therm to a record peak of £4.50 per therm in December 2021. Whilst they subsequently fell back somewhat to around £2.0 per therm they are now rapidly rising again, following Russia's invasion of Ukraine, trading currently at close to £3.0 per therm. As a consequence of rising wholesale prices, the price cap that suppliers are permitted to charge UK domestic consumers for energy (including both electricity and gas) has been increased by a record-breaking 54% with further price rises forecast to come.

Very recent events in Ukraine have reinforced the criticality of security of gas supply and the benefits of having significant domestic gas production in a world where gas demand continues to increase and supply becomes increasingly constrained and potentially uncertain.

It is widely acknowledged that natural gas will continue to play a key role in UK energy supply for many decades to come, even as the country transitions to a Net Zero CO_2 economy. Indeed, recent events in the UK energy market show that in the absence of greater baseload generating capacity, the UK will likely be increasingly at risk of sustained higher electricity prices.

This crisis could have been foreseen with the decline of indigenous North Sea gas production having been known for many years. Meanwhile, the billions of pounds being spent annually on importing expensive gas from the Middle East, Russia and the US would be better directed on developing the UK's substantial onshore shale gas resource. Exploiting this resource would help provide energy security for the UK, create a significant number of new jobs in the North of England and provide substantial tax revenues for the UK.

Since then, the Group and other UK shale gas operators have been working together and collaborating with the UK regulator to address its concerns around induced seismicity, so that the moratorium can be lifted. We remain convinced that the gas held onshore in the UK has potential to be a very significant and clean contributor to UK energy supply, and in particular a source of fuel for heating our homes and businesses.

Separately, Spirit Energy, a Joint Venture Partner on the Bowland exploration licence located in the UK, will provide funding towards the cost of plugging and abandoning the two PNR wells and the nearby suspended Elswick conventional gas production well (shut-in since 2013) as part of an agreement related to Spirit Energy's planned exit from the Lancashire Shale Licences. The plug and abandonment of these wells is expected to be completed during calendar year 2022.

Balance Sheet and cash flows

	Dec 2021 $'000	**Jun 2021 $'000**	**Change %**
Total assets	237,203	232,001	2.2%
Net assets	92,562	94,443	(2.0%)

Net assets fell slightly during the half from $94.4 million to $92.6 million, while total assets grew 2.2% to $237.2 million since the end of June 2021.

Net cash from operating activities fell from $20.56 million in the corresponding prior period to $1.7 million in the current half year's results. This was in part due to lower cash receipts from customers and reflects an increase in "Trade and other receivables" in the period. It should also be noted that the corresponding prior period benefits from a $4.3 million R&D grant.

The lower cash flows and greater demand for working capital as new contracts came online during the first half increased the utilisation of Lucas Group's borrowing facilities.

The $30 million senior facility provided by Balmain is a revolving asset-backed facility that matures in October 2022. As at 31 December 2021, this facility was drawn to $26.3 million.

The Group's borrowings also include a facility funded by junior loan notes. This balance of this debt continued to be reduced by regularly scheduled repayments of $4 million in the half year, and at 31 December 2021 there was approximately $37.4 million outstanding.

The Group also has a debt facility provided by its major shareholder Kerogen, which at 31 December 2021 held 65.4% of the ordinary equity of the Company. Kerogen's facility, which is US Dollar denominated, is subordinated and ranks behind the Senior syndicated facility and Junior loan notes. During the half to December 2021, the Kerogen loan increased to $46.3 million as a result of capitalised interest and foreign exchange movements.

As highlighted at the time of the full-year results, the Group has commenced the process of refinancing its debt obligations, including the senior debt facility. The Group will provide further updates to these negotiations as they become material.

Outlook

The Board and Management remain optimistic about trading conditions in the second half and are confident the Group's traditional weighting of a stronger relative second half performance compared to first remains the case. This confidence is underpinned by a strong order book, underpinned by Lucas Group's expertise in directional drilling. The Group also expects to increase utilisation of its exploration drilling fleet, which will make a positive contribution to revenue and earnings in the second half.

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 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.

LUCAS GROUP

INTERIM FINANCIAL REPORT
FOR HALF YEAR ENDED 31 DECEMBER 2021

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 2021 together with any public announcements made by the Lucas Group during the half year ended 31 December 2021 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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Directors' Report

for the half year ended 31 December 2021

The directors of AJ Lucas Group Limited (the "Company") present their report together with the consolidated financial report for the half year ended 31 December 2021 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:

Non-executive

Andrew Purcell (Chairman)

Julian Ball

Austen Perrin

Executive

Brett Tredinnick

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 10 and forms part of this report for the half year ended 31 December 2021.

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

25 February 2022

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Building a better working world

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 2021, 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
25 February 2022

Consolidated Statement of Comprehensive Income

for the half year ended 31 December 2021

	Note	Dec 2021 $'000	Dec 2020 $'000
Continuing operations			
Revenue from contracts with customers	2	60,642	61,309
Total revenue		**60,642**	**61,309**
Other income		–	62
Operating costs of Australian operations		(48,546)	(46,158)
Depreciation and amortisation	4	(3,722)	(3,084)
Other non-operating expenses	4	(1,296)	(211)
Results from operations		**7,078**	**11,918**
Net finance costs	3	(10,435)	(4,954)
Profit / (loss) before income tax		**(3,357)**	**6,964**
Income tax benefit		–	2,977
Net profit /(loss) for the period		**(3,357)**	**9,941**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		1,481	(1,862)
Total items that may be reclassified subsequently to profit and loss		1,481	(1,862)
Other comprehensive income / (loss) for the period		**1,481**	**(1,862)**
Total comprehensive income / (loss) for the period		**(1,876)**	**8,079**
Net profit / (loss) for the period attributable to:			
Shareholders of AJL		(3,353)	9,919
Non-controlling interest		(4)	22
		(3,357)	**9,941**
Total comprehensive income / (loss) attributable to:			
Shareholders of AJL		(1,913)	8,073
Non-controlling interest		37	6
		(1,876)	**8,079**
Earnings per share:			
Basic and diluted (loss)/earnings per share (cents)		(0.3)	0.8

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

Consolidated Statement of Financial Position

as at 31 December 2021

	Note	Dec 2021 $'000	Jun 2021 $'000
Current assets			
Cash and cash equivalents		6,121	5,142
Cash in trust		1,704	1,510
Trade and other receivables		21,133	14,481
Contract assets		5,466	4,941
Inventories		4,964	6,540
Other assets		1,207	1,379
Total current assets		**40,595**	**33,993**
Non-current assets			
Plant and equipment	5	29,313	31,129
Right-of-use assets	6	3,346	4,488
Exploration assets	7	163,949	162,391
Total non-current assets		**196,608**	**198,008**
Total assets		**237,203**	**232,001**
Current liabilities			
Trade and other payables		15,128	16,148
Contract liabilities		370	370
Interest-bearing loans and borrowings	8	37,074	31,969
Decommissioning provision	9	8,149	5,690
Employee benefits		5,410	5,050
Total current liabilities		**66,131**	**59,227**
Non-current liabilities			
Interest-bearing loans and borrowings	8	76,755	75,422
Decommissioning provision	9	976	2,107
Employee benefits		779	802
Total non-current liabilities		**78,510**	**78,331**
Total liabilities		**144,641**	**137,558**
Net assets		**92,562**	**94,443**
Equity			
Share capital		495,981	495,986
Reserves		7,809	6,369
Accumulated losses		(412,441)	(409,088)
Total equity attributable to equity holders of the Company		91,349	93,267
Non-controlling interest		1,213	1,176
Total equity		**92,562**	**94,443**

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 2021

	Share capital $'000	Translation reserve $'000	Option reserve $'000	Employee equity benefits reserve $'000	Non-controlling interest $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2021	495,986	1,699	637	4,033	1,176	(409,088)	94,443
Total comprehensive income							
Loss for the period	–	–	–	–	(4)	(3,353)	(3,357)
Other comprehensive income							
Foreign currency translation differences	–	1,440	–	–	41	–	1,481
Total comprehensive income/(loss)	–	1,440	–	–	37	(3,353)	(1,876)
Transactions with owners recorded directly in equity							
Transaction costs on historic issue of ordinary shares	(5)	–	–	–	–	–	(5)
Total contributions by and distributions to owners	(5)	–	–	–	–	–	(5)
Balance 31 December 2021	**495,981**	**3,139**	**637**	**4,033**	**1,213**	**(412,441)**	**92,562**
Balance 1 July 2020	495,986	(2,414)	637	4,033	1,134	(412,427)	86,949
Total comprehensive income							
Profit for the period	–	–	–	–	22	9,919	9,941
Other comprehensive income							
Foreign currency translation differences	–	(1,846)	–	–	(16)	–	(1,862)
Total comprehensive income/(loss)	–	(1,846)	–	–	6	9,919	8,079
Transactions with owners recorded directly in equity							
Total contributions by and distributions to owners	–	–	–	–	–	–	–
Balance 31 December 2020	**495,986**	**(4,260)**	**637**	**4,033**	**1,140**	**(402,508)**	**95,028**

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 2021

	Note	Dec 2021 $'000	Dec 2020 $'000
Cash flows from operating activities			
Cash receipts from customers		62,699	77,211
Cash paid to suppliers and employees		(57,137)	(59,277)
Cash from in operations		**5,562**	**17,934**
UK Research and Development incentive		–	4,258
Interest and other costs of finance paid		(3,853)	(1,633)
Net cash from operating activities		**1,709**	**20,559**
Cash flows from investing activities			
Acquisition of plant and equipment	5	(773)	(1,009)
Proceeds from sale of plant and equipment		9	58
Net cash used in investing activities		**(764)**	**(951)**
Cash flows from financing activities			
Proceeds from borrowings		66,492	72,921
Repayment of borrowings		(65,223)	(83,547)
Repayment of leases		(1,075)	(924)
Net cash from / (used in) financing activities		**194**	**(11,550)**
Net increase in cash and cash equivalents		1,139	8,058
Net foreign exchange difference		34	(31)
Cash and cash equivalents at beginning of the period		6,652	4,478
Cash and cash equivalents at end of the period		**7,825**	**12,505**

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

Notes to the Consolidated Interim Financial Statements

for the half year ended 31 December 2021

1. Basis of preparation

AJ Lucas Group Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial statements ("interim financial statements") as at and for the half year ended 31 December 2021 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 2021. 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 25 February 2022.

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.

The directors note the following events and conditions which raise doubt about the entities ability to continue as a going concern:

- The Group is in a net current liability position of $25.5 million (June 2021: $25.2 million). $26.3 million (June 2021: $20.6 million) is related to the classification of the Senior syndicated loan facility which is a 3-year revolving asset-based loan provided by the Balmain Group and which expires in October 2022 as a current liability;
- The Group generated a loss after tax from continuing operations for the period of $3.4 million (December 2020: $9.9 million profit) and generated net cash flows from operating activities of $1.7 million (December 2020: $20.6 million);
- The existing finance facilities mature in October 2022, April 2023 and October 2023 respectively, with the loan facilities having covenant requirements, where the Australian operations and the Group is required to meet certain key financial ratios. The Group expects to meet relevant covenant requirements and debt services obligations as reflected in note 8;
- The COVID-19 pandemic has impacted our customers mine plans, leading to changes in demand for our drilling services which has had an impact on the results of the reporting period. However, the Lucas Drilling Business is well placed to capitalise on continued strong demand for its services and to operate profitably in the future. Continued strong performance is dependent on extension or renewal of existing contracts, and, as with all businesses the future impact of the pandemic is unknown and cannot be reasonably predicted;

Going concern (cont.)

- At balance date the Group held interests in a number of UK exploration licences which remain valid and current. On 2 November 2019 the UK Government imposed a moratorium on hydraulic fracturing. The Government has stated that lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other UK shale gas operators are working together and with the UK regulators to address these technical issues, so that the moratorium can be lifted; and
- The Group will be required to continue to fund UK operations, including maintaining of licence interests, as well as meeting any rehabilitation liabilities and progressing efforts to address the issues raised by the moratorium. Under its Senior syndicated and Junior loan notes facilities as disclosed in Note 8, Australian operations cash flows cannot be used for investment in any of the UK shale gas assets.

In assessing the appropriateness of using the going concern assumption, the directors have had regard to the following matters:

- The financial performance of the Drilling Division, noting that continued financial performance is dependent on successful extension or renewal of existing customer contracts;
- The ability of the Group to successfully re-finance its current debt, and raise additional debt and / or equity with the support of its financiers and shareholders; and
- The Group's focus on managing the cash flows associated with exploration and rehabilitation activities in the UK.

In light of the uncertainties above, if the Company is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business at amounts different from those stated in the statement of financial position.

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 2021. 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 2021.

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:

Lucas 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.

	Lucas Drilling $'000	UK Oil & Gas Investments $'000	Reportable Segments $'000	Unallocated $'000	Total $'000
December 2021					
Reportable segment revenue					
Services rendered	60,642	–	60,642	–	60,642
Total consolidated revenue	**60,642**	**–**	**60,642**	**–**	**60,642**
EBITDA continuing operations	**11,749**	**(949)**	**10,800**	**–**	**10,800**
Depreciation and amortisation	(3,722)	–	(3,722)	–	(3,722)
Net finance cost	(4,388)	–	(4,388)	(6,047)	(10,435)
Reportable segment profit / (loss)	**3,639**	**(949)**	**2,690**	**(6,047)**	**(3,357)**

	Lucas Drilling $'000	UK Oil & Gas Investments $'000	Reportable Segments $'000	Unallocated $'000	Total $'000
December 2020					
Reportable segment revenue					
Services rendered	61,309	–	61,309	–	61,309
Total consolidated revenue	**61,309**	**–**	**61,309**	**–**	**61,309**
EBITDA continuing operations	**15,358**	**(356)**	**15,002**	**–**	**15,002**
Depreciation and amortisation	(3,084)	–	(3,084)	–	(3,084)
Net finance cost	(5,393)	–	(5,393)	439	(4,954)
Income tax benefit	–	2,977	2,977	–	2,977
Reportable segment profit / (loss)	**6,881**	**2,621**	**9,502**	**439**	**9,941**

Notes to the Consolidated Interim Financial Statements
for the half year ended 31 December 2021

3. Net finance income and costs

	Dec 2021 $'000	Dec 2020 $'000
Net Interest expense	7,669	8,011
Finance costs charged on lease liability	141	142
Amortisation of prepaid fees on debt facilities	1,119	1,017
Net foreign exchange loss / (gain)	1,506	(4,216)
Net finance costs recognised in profit and loss	**10,435**	**4,954**

4. Other expenses

	Dec 2021 $'000	Dec 2020 $'000
Depreciation of plant and equipment	2,518	2,250
Amortisation of right-of-use asset	1,204	834
Total depreciation and amortisation	**3,722**	**3,084**
UK overhead costs	922	443
Net restructuring and redundancy costs	46	(114)
Net (profit) / loss on sales of assets	62	(58)
Other expenses	266	(60)
Total non-operating expenses	**1,296**	**211**

(1) UK overhead costs represents the Group's share of licence and administration costs incurred in relation to its interest in UK exploration licences.

5. Plant and equipment

	Plant & equipment $'000	Enterprise development $'000	Total $'000
31 December 2021			
At cost	108,159	12,578	120,737
Accumulated depreciation/amortisation/impairment	(79,241)	(12,183)	(91,424)
Carrying amount at 31 December 2021	**28,918**	**395**	**29,313**
30 June 2021			
At cost	107,556	12,578	120,134
Accumulated amortisation	(76,929)	(12,076)	(89,005)
Carrying amount at 30 June 2021	**30,627**	**502**	**31,129**

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 2021	30,627	502	31,129
Additions	773	–	773
Disposals	(71)	–	(71)
Depreciation and amortisation	(2,411)	(107)	(2,518)
Carrying amount at 31 December 2021	**28,918**	**395**	**29,313**

6. Right-of-use assets

	Plant & equipment $'000	Property $'000	Total $'000
31 December 2021			
At cost	4,485	2,846	7,331
Accumulated depreciation/amortisation/impairment	(2,792)	(1,193)	(3,985)
Carrying amount at 31 December 2021	**1,693**	**1,653**	**3,346**

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 2021	2,648	1,840	4,488
Additions	62	–	62
Amortisation	(955)	(249)	(1,204)
Carrying amount at 31 December 2021	**1,755**	**1,591**	**3,346**

7. Exploration assets

	Dec 2021 $'000	Jun 2021 $'000
Opening carrying amount	162,391	158,977
Remeasurement of decommissioning provision	–	(790)
Foreign Exchange movement	1,558	4,204
Closing value	**163,949**	**162,391**

The exploration assets represent exploration expenditure incurred in relation to the Group's equity interest in UK exploration licences.

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.

7. Exploration assets (Cont.)

Recoverability of exploration and evaluation expenditure and UK Moratorium on Hydraulic Fracturing

The recoverability of the capitalised exploration and evaluation expenditure recognised as a non-current asset is dependent upon the successful exploration, development, or alternatively sale, of the respective tenements which comprise the assets.

On 2 November 2019, the UK Government imposed a moratorium on hydraulic fracturing in England, stating that lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other UK shale gas operators are working together with the industry body "UKOG" and with the UK regulator to address these technical issues, so that the moratorium can be lifted.

As a result of the current moratorium, exploration activities have been impacted, and significantly reduced until such time that the moratorium is lifted. The recoverability of exploration and evaluation assets has been assessed on the basis that the moratorium would be lifted in the future. In the event the moratorium is not lifted, and hydraulic fracturing is not allowed to recommence the recoverable amount of exploration assets will significantly differ to the amounts stated in the statement of financial position.

8. Interest-bearing loans and borrowings

	Dec 2021 $'000	Jun 2021 $'000
Current		
Senior syndicated facility	26,321	20,609
Junior loan notes	9,018	9,084
Lease liabilities	1,716	2,276
Other	19	–
	37,074	**31,969**
Non-current		
Junior loan notes	28,354	31,929
Lease liabilities	2,000	2,515
Loans from related party	46,338	40,887
Other	63	91
	76,755	**75,422**

Senior syndicated facility-Balmain

The Senior syndicated facility is a senior ranking revolving asset-based loan provided initially by Investec Bank Plc and which was acquired by Balmain in May 2021. This facility 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 $30 million, or $35 million if Junior lender consent is obtained, but in all cases subject to a sufficient level of Security Assets. Interest is calculated on the daily balance outstanding at the bank bill swap rate plus a margin and is payable monthly in arrears.

While the Senior syndicated facility is a 3-year facility maturing in October 2022, in accordance with accounting standards it is shown in the balance sheet as current in the current and prior periods because of its revolving nature. Each repayment and subsequent draw down are separately disclosed in the Cash Flow Statement as Repayment of Borrowings and Proceeds from borrowings, respectively. The facility is subject to a number of financial covenants including cash management and earnings based financial covenants which have been varied from time to time. The financial covenants, as varied from time to time, have been complied with.

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

Junior Loan notes-HSBC

The $50 million 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, and matures in April 2023. Interest is charged at the bank bill swap rate plus a margin and is payable quarterly in arrears.

The facility is subject to a number of financial covenants including cash management, gearing and earnings based financial covenants 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 Loan from related party is provided by Kerogen, which at 31 December 2021 holds 65.4% of the shares of the Company. Kerogen's facility is subordinated and ranks behind the Senior syndicated facility and Junior loan notes, and matures in October 2023.

9. Decommissioning provision

Set out below is the carrying amounts of decommissioning provision as at 31 December 2021.

	Dec 2021 $'000	Jun 2021 $'000
Current	8,149	5,690
Non-current	976	2,107
Closing value	**9,125**	**7,797**

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

	Dec 2021 $'000	Jun 2021 $'000
Carrying amount at 1 July	7,797	8,455
Decommissioning liability assumed (1)	1,238	–
Remeasurement of decommissioning asset	–	(790)
Foreign Exchange movement	90	132
Closing value	**9,125**	**7,797**

(1) Spirit Energy, the 25% Joint Venture partner on the Bowland and Elswick licences, has agreed with AJ Lucas terms to allow Spirit Energy to exit from the Lancashire Shale Licences. As part of this agreement, Spirit Energy has agreed to provide funding to cover a substantial part of the expected cost of plugging and abandoning the wells recently drilled at Preston New Road and the nearby suspended Elswick conventional gas production well (shut-in since 2013). In return the Group has assumed Spirit Energy's 25% share of decommissioning liability and will undertake the well plugging and abandoning work during calendar year 2022.

10. 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 2021.

Dec-21	Carrying Amount $'000	Fair value $'000
Bank balances	7,825	7,825
Trade and other receivables	21,133	21,133
Trade and other payables	(15,128)	(15,128)
Senior syndicated facility	(26,321)	(26,833)
Junior loan notes	(37,372)	(37,931)
Loans from related party	(46,338)	(46,338)
Other	(63)	(63)
	(96,264)	**(97,335)**

11. Reconciliation of liabilities arising from financing activities

	As at 1 July 2021	Cash Flow (1)	Non-Cash		As at 31 Dec 2021
			Finance costs (2)	other	
	$'000	$'000	$'000	$'000	$'000
Interest bearing liabilities	**107,391**	(3,659)	10,435	(338)	**113,829**

(1) Comprises proceeds from borrowings of $66.5 million less repayments of borrowings of $65.2 million, repayment of leases of $1.1 million, and interest and other costs of finance paid of $3.9 million.
(2) Comprises interest costs disclosed in Note 3.

	As at 1 July 2020	Cash Flow (3)	Non-Cash		As at 31 Dec 2020
			Finance costs (4)	other	
	$'000	$'000	$'000	$'000	$'000
Interest bearing liabilities	**114,558**	(13,183)	4,954	(332)	**105,997**

(3) Comprises proceeds from borrowings of $72.9 million less repayments of borrowings of $83.5 million, repayment of leases of $0.9 million, and interest and other costs of finance paid of $1.6 million.
(4) Comprises interest costs disclosed in Note 3.

12. 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.

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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 2021 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
25 February 2022

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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 2021, 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 2021 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*.

Emphasis of Matter – Material Uncertainty Related to UK moratorium on hydraulic fracturing and exploration and evaluation assets

We draw attention to Note 7 of half-year financial report which describes the uncertainties the Group is facing as a result of the UK moratorium on hydraulic fracturing. Management has considered the recoverability of the exploration and evaluation assets on the basis that this moratorium will be lifted in the future, but there is uncertainty around this outcome. Should the moratorium not be lifted the carrying value would become impaired. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to Note 1 (ii) of the half-year financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These conditions along with other matters set forth in Note 1 (ii), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' Responsibility 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.

Building a better working world

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 2021 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.

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
25 February 2022