

# **AJ Lucas Group Limited**

**(ABN 12 060 309 104)**

## **Notice of Extraordinary General Meeting and Explanatory Statement**

**Extraordinary General Meeting of the Company  
to be held at 10.00 am on 5 September 2012**

**at**

**Hyundai Building, 3<sup>rd</sup> Floor  
394 Lane Cove Road  
Macquarie Park NSW 2113**



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# Letter from the Lead Independent Director

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1 August 2012

Dear Shareholder

As announced today to the ASX, AJ Lucas Group Limited (**Lucas** or the **Company**) has reached agreement, subject to Shareholder approval, to raise a minimum of \$40 million. This will be achieved by making \$30 million of placements and through the exercise of options to raise a minimum of \$10 million.

The attached notice of meeting contains the details of the capital raising and explanations needed by Shareholders when considering the resolutions required to approve the placements and option exercise. The Board unanimously recommend you vote in favour of each of Resolutions 1, 2 and 3 to be put to the meeting and the Independent Directors unanimously recommends you vote in favour of each of Resolutions 4, 5, 6 and 7 to be put to the meeting.

The principal placement will be a \$30 million placement to Kerogen Investments No.1 (HK) Limited (**Kerogen**). However, to the extent that Inveraray Capital Pty Limited (an entity controlled by Mr Allan Campbell who is the Chairman and CEO of the Company) (**Inveraray**) subscribes for a placement of up to \$10 million or Inveraray and up to two third parties nominated by Inveraray and approved by Kerogen (in its absolute discretion) (**Third Party Investors**) subscribe for placements of up to \$10 million in aggregate on terms and amount of the investment acceptable to Kerogen (in its absolute discretion), then the placement to Kerogen will be scaled back by the amount subscribed and paid for by Inveraray and Third Party Investors.

The options will be exercised by Kerogen. Kerogen is required to exercise the options within 3 months of the date that the Extraordinary General Meeting is held (**EGM Date**), subject to Shareholder approval being obtained and other conditions being satisfied.

As agreed with the relevant parties:

- the placement price will be \$1.35 per Share, which is the same price at which the Entitlement Offer was made on 15 December 2011 (**Placement Price**); and
- the exercise price for the options will be the lower of \$1.70 and 120% of the 5 Day VWAP prior to the date of exercise, subject to a floor of \$1.35 per Share (**Placement Options Exercise Price**). It is anticipated, given the current Market Price, that the Placement Options Exercise Price will also be \$1.35 per Share.

To implement these transactions, the Company has entered into two subscription agreements:

1. a "Subscription Agreement" with Kerogen (**Kerogen Subscription Agreement**), an entity owned by Kerogen Energy Fund, L.P. and managed by Kerogen General Partner Limited, under which Kerogen has agreed:
  - (a) as a placement, to subscribe for 22,222,222 Shares at the Placement Price to raise \$30 million, subject to the placement being scaled back by a maximum of \$10 million (**Kerogen Placement**); and
  - (b) to exercise 7,407,407 Kerogen Options (**Placement Options**) to raise a minimum of \$10 million (**Placement Options Exercise**); and
2. a "Subscription Agreement" with Inveraray (**Inveraray Subscription Agreement**) under which Inveraray has the right itself (**Inveraray Placement**) or together with Third Party Investors (who are limited to subscribing for 3,703,704 Shares in total) (**Third Party Placements**) to subscribe for up to 7,407,407 Shares of the Kerogen Placement at the Placement Price to raise up to \$10 million.

The Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise are each conditional on Shareholder approval and a number of other conditions.

The Inveraray Placement and the Third Party Placements are conditional on approval of the Kerogen Placement and the Placement Options Exercise. Kerogen can terminate the Kerogen Placement and the

exercise of the Placement Options if the granting of the security contemplated by Resolution 3 is not approved.

## RESOLUTIONS TO BE PUT TO THE MEETING

Your Board has called an extraordinary general meeting of Shareholders (**EGM**) to consider and, if thought fit, approve the following resolutions:

1. a resolution authorising the Kerogen Placement (**Resolution 1**);
2. a resolution authorising the exercise of the Placement Options at the Placement Options Exercise Price to raise a minimum of \$10 million (**Resolution 2**);
3. a resolution authorising the Company and each Material Security Subsidiary to grant security (**Junior Facility Security**) to Kerogen in accordance with the Facility Agreement that the Company entered into with Kerogen on 21 December 2011 to provide a mezzanine loan of \$86.5 million (**Mezzanine Facility**). The granting of the security was a condition of the Facility Agreement. The Junior Facility Security will secure all amounts owing from time to time to Kerogen and each other Finance Party (as defined in the Mezzanine Facility and in the Advance Facilities) including approximately \$16 million loaned to the Company by Kerogen in May, June and July 2012 and up to \$5 million to be loaned to the Company by Kerogen in July and August 2012 under the Advance Facilities and an additional \$10 million which may be provided to the Company for the period from the Settlement Date (being, at the earliest, 3 Business Days after the EGM Date) to the date the Placement Options are exercised (**Placement Options Loan**). The Placement Options Loan will only be provided to the Company where Kerogen does not exercise the Placement Options on the Settlement Date (**Resolution 3**);
4. a resolution authorising the Inveraray Placement, if any (**Resolution 4**);
5. a resolution authorising the Third Party Placements, if any (**Resolution 5**);
6. a resolution authorising the grant to Allan Campbell, Chairman and CEO, of a total of 3,750,000 options to acquire Shares at the Placement Price (**Campbell Options**) (**Resolution 6**); and
7. a resolution authorising the grant to senior management of a total of 1,250,000 options to acquire Shares at the Placement Price (**Management Options**) (**Resolution 7**).

## BACKGROUND TO THE RESOLUTIONS

### *Recapitalisation*

As you will be aware, in February 2012, the Company completed a debt and equity recapitalisation which included (among other things) the entry into the Mezzanine Facility with Kerogen (as Lender) and a 1 for 2 underwritten non-renounceable entitlement offer intended to raise approximately \$51.3 million (**Entitlement Offer**) (**Recapitalisation**).

However, due to the non-subscription by a sub-underwriter to part of the shortfall under the Entitlement Offer, there was an approximate \$15.5 million deficiency in funds received by the Company under the Entitlement Offer (**Funding Shortfall**).

If the Company had received the additional \$15.5 million, it was anticipated that the Company would have used these funds, together with the cash flow expected to be generated from its operating businesses, to repay part of the debt due to the ATO.

The Funding Shortfall, together with a significant reduction in cash flow due to business disruption caused by the adverse weather and difficult trading environment, has resulted in the Company not being able to repay the ATO debt in full.

### *Capital required and alternatives considered*

The Board considered the options available to the Company to raise capital and the most appropriate means of doing so.

The Board has considered various methods by which this capital could be raised, including another rights issue and various types of convertible equity and asset sales. The objective in determining the structure of the capital raising was to minimise Shareholder dilution and maximise certainty of the monies being raised. It was apparent that the Company could not access more bank finance. In forming its view, the Board considered each of the obligations of the Company under its debt facilities, the future capital requirements of the Company over the medium term and the attitudes of each of Kerogen and Andial Holdings Pty Limited (**Andial**), as the largest shareholders in the Company.

As a result of these deliberations, the Board has formed the view that the Company now needs to raise additional capital of \$40 million. This amount is required to facilitate the Company repaying the approximately \$21 million debt under the Advance Facilities in full and part of the amount due to the ATO, to meet anticipated cash calls for its investment in Cuadrilla and to fund further investments in its direct European shale gas investments, held by Lucas Energy and otherwise make available working capital for the Company.

Each of Kerogen and Andial indicated to the Board that they were prepared to support a capital raise of up to \$40 million. The level of participation by Kerogen was, however, to be structured so that no single shareholder in the Company held more than 49.99% of the issue Shares. This was to ensure that the Change of Control provisions relating to the Company's investment in Cuadrilla are not triggered (see Section 3.11 of the Explanatory Statement for details). Kerogen's level of participation will comply with the 49.99% FIRB Limit.

The Board has accordingly determined that the most appropriate method of raising the capital is to conduct the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and to facilitate the Placement Options Exercise.

It is important for Shareholders to note that Resolutions 1, 2 and 3 must all be approved to ensure that the Company can raise \$40 million (assuming all other conditions precedent are satisfied).

#### ***Kerogen Placement (Resolution 1)***

In discussions with Kerogen, the Company's largest Shareholder, Kerogen advised the Company that it was prepared to commit to subscribe to a \$30 million capital raising at \$1.35 per Share, or approximately 35% more than the Market Price on the last business day before the date of this document and to exercise the Placement Options to raise a further minimum \$10 million.

Under the Kerogen Subscription Agreement, Kerogen has agreed, subject to certain conditions precedent in the Kerogen Subscription Agreement, to subscribe for 22,222,222 Shares at the Placement Price to raise \$30 million, subject to the placement being scaled back by a maximum of \$10 million if any of the following occur:

- (a) subject to Shareholder approval being obtained for the Inveraray Placement, Inveraray subscribes for up to 7,407,407 Shares of the Kerogen Placement at the Placement Price to raise up to \$10 million (the specific obligations of Inveraray in respect of evidencing its subscription for new Shares are set out in this letter below and in section 7.1 of this Notice of Meeting and Explanatory Statement); or
- (b) subject to Shareholder approval being obtained for the Third Party Placements, Third Party Investors subscribe for up to 3,703,704 Shares of the Kerogen Placement at the Placement Price to raise up to \$5 million,

in each case so that the aggregate amount raised from Kerogen, Inveraray and Third Party Investors under the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) is \$30 million.

A summary of the Kerogen Subscription Agreement is included in this Notice of Meeting and Explanatory Statement at **Annexure B**.

Kerogen has also committed, subject to certain conditions in the Kerogen Subscription Agreement, to exercise the Placement Options to raise a minimum of \$10 million as discussed in more detail in relation to Resolution 2 below.

Together, this will ensure that the full \$40 million is raised by the Company (if all conditions precedent are satisfied).

Please see sections 4.3 and 4.4 of the Notice of Meeting for a more detailed discussion of the reasons to **VOTE IN FAVOUR** of and **VOTE AGAINST** the Kerogen Placement.

### ***Placement Options Exercise (Resolution 2)***

Kerogen holds 14,694,403 Kerogen Options which can be exercised by Kerogen, subject to the restrictions of the terms of issue of the Kerogen Options and the Corporations Act and the limits imposed on it by the Foreign Investment and Review Board (**FIRB**), at any time. Kerogen also has a right to purchase from the Placement Agent 3,872,360 Gleneagle Options. Of the 14,694,403 Kerogen Options, 7,407,604 may be exercised prior to 31 August 2012 and up to 7,286,799 may be cancelled prior to 31 August 2012 if part of the Mezzanine Facility is repaid by that date.

Under the Placement Options Exercise, subject to Shareholder approval and certain other conditions in the Kerogen Subscription Agreement, Kerogen has agreed to exercise, within 3 months of the EGM Date, 7,407,407 Kerogen Options (**Placement Options**) to raise a minimum of \$10 million.

Under the Kerogen Option Terms, the exercise price for the Placement Options is the lower of \$1.70 and 120% of the 5 Day VWAP to the date of the exercise, subject to a floor price of \$1.35 per Share. At the date of this document, because the Market Price of the Shares is currently less than \$1.125 (being the Market Price at which the floor price of \$1.35 is reached), the Placement Options Exercise Price for the Placement Options would be \$1.35 per Share.

Please see sections 5.4 and 5.5 of the Notice of Meeting for a more detailed discussion of the reasons to **VOTE IN FAVOUR** of and **VOTE AGAINST** the Placement Options Exercise.

### ***Right of Kerogen to appoint an additional director***

As part of the Kerogen Placement and the Placement Options Exercise, Kerogen will receive the right to nominate a second director.

Kerogen currently has the right to appoint one director while its shareholding is 15% or more. It has not exercised that right to date.

The additional nominee will only be appointed to the Board if the Board approves. Kerogen presently has no intention to exercise these rights (but it reserves the right to do so).

### ***Junior Facility Security (Resolution 3)***

As detailed in the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011, the Company has entered into a debt facility with Kerogen under which Kerogen provided the Mezzanine Facility, totalling \$86.5 million, to the Company.

Under the terms of the Facility Agreement, Kerogen, the Company and each of the Material Security Subsidiaries are required to enter into a 'Security Trust Deed' and the Company and each of the Material Security Subsidiaries are required to grant the Junior Facility Security by 13 July 2012. Kerogen has agreed to extend the date for the execution of the Security Trust Deed and provision of the Junior Facility Security to no later than 20 September 2012. As part of these arrangements, the Company and the Material Security Subsidiaries will provide the Junior Facility Security.

More recently, in May and July 2012, the Company entered into the Advance Facilities with Kerogen under which Kerogen has advanced or will advance the Advance Loans to the Company. The Advance Loans will also be secured by the Junior Facility Security, as will all other amounts owing from time to time to Kerogen and the other Finance Parties (as defined in the Facility Agreement and the Advance Loans).

In addition, as part of arrangements with respect to the Placement Options Exercise, Kerogen has agreed, subject to the conditions precedent in the Kerogen Subscription Agreement, to provide the Company with the Placement Options Loan for the period between the Settlement Date and the date that the Placement Options are exercised. The Placement Options Loan will also be secured by the Junior Facility Security.

Before the Company and the Material Security Subsidiaries can provide the Junior Facility Security, however, the approval of Shareholders is required under the 'financial assistance' provisions of Chapter 2J of the Corporations Act.

Please see sections 6.4 and 6.5 of the Notice of Meeting for a more detailed discussion of the reasons to **VOTE IN FAVOUR** of and **VOTE AGAINST** the grant of the Junior Facility Security.

### ***Inveraray Placement (Resolution 4) and Third Party Investor Placement (Resolution 5)***

Inveraray is associated with Andial as Allan Campbell, the Chairman and CEO of the Company, controls both entities.

Under the Inveraray Subscription Agreement, Inveraray has the right either to subscribe for up to \$10 million of the Kerogen Placement itself or to nominate Third Party Investors to subscribe for up to \$5 million of the Kerogen Placement in place of Inveraray (subject to approval by Kerogen in its absolute discretion of the identity of the Third Party Investors and the terms and amount of the investment), provided that the aggregate subscriptions by Inveraray and Third Party Investors will not exceed \$10 million of the Kerogen Placement.

At the date of this Notice of Meeting and Explanatory Statement, Inveraray does not have the financial resources to enable it to subscribe for any Shares in the Inveraray Placement. However, Inveraray intends to seek available funds up until the Inveraray Commitment Deadline (which is 5.00 pm on 17 August 2012).

If Inveraray is going to subscribe, then, prior to the Inveraray Commitment Deadline, Inveraray must have provided evidence satisfactory to the Company and Kerogen that:

- it has deposited in the trust account of Holding Redlich in immediately available funds the full amount it commits to subscribe (being an amount not greater than \$10 million less any amount to be raised by any Third Party Investor under the Third Party Subscription Agreements); and
- such funds cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement.

If Inveraray wishes to nominate any Third Party Investor to subscribe, then, by Final Confirmation Date (being 17 August 2012), each of the following must have occurred: Inveraray must have nominated the proposed Third Party Investors; Kerogen must have approved the Third Party Investors and terms and amount of the subscription agreements in relation to the Third Party Placements; and the Company and the Third Party Investors must each have executed binding subscription agreements.

In the event that:

- (a) Inveraray does not provide evidence satisfactory to the Company and Kerogen by the Inveraray Commitment Deadline that it has deposited its subscription funds (being an amount not greater than \$10 million less any amount agreed to be raised by Third Party Investors) into the trust account of Holding Redlich and such funds cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement;
- (b) any Third Party Investor does not execute a binding subscription agreement with the Company by the Inveraray Commitment Deadline;
- (c) Shareholder approval is not obtained for the Inveraray Placement and/or the Third Party Placements; or
- (d) Inveraray and/or Third Party Investors fail to complete their settlement obligations in respect of the respective Inveraray Placement or Third Party Placement in accordance with the relevant subscription agreement or if for any reason the new Shares are not issued to Inveraray and/or Third Party Investors under the Inveraray Placement and/or Third Party Placements on the Settlement Date,

then the number of new Shares to be issued to Kerogen under the Kerogen Placement will not be reduced by the number of Shares that were to be issued to Inveraray and/or Third Party Investors had the Shareholder approvals described in paragraph (c) above been obtained and/or had the event described in paragraph (d) above not occurred.

A summary of the Inveraray Subscription Agreement is included in this Notice of Meeting and Explanatory Statement at **Annexure C**.

Please see sections 7.3 and 7.4 of the Notice of Meeting for a more detailed discussion of the reasons to **VOTE IN FAVOUR** of and **VOTE AGAINST** the Inveraray Placement.

Please see sections 8.3 and 8.4 of the Notice of Meeting for a more detailed discussion of the reasons to **VOTE IN FAVOUR** of and **VOTE AGAINST** the Third Party Placements.

***Board view of Kerogen Placement, Placement Options Exercise and Inveraray Placement and the granting of the Junior Facility Security***

The Board has unanimously agreed that the placement of the new Shares to Kerogen (with an ability of Inveraray and/or Third Party Investors to subscribe for a portion of that placement), together with the Placement Options Exercise and the granting of the Junior Facility Security, best meets the objectives of the capital raising and is, therefore, in the best interests of the Company and its existing Shareholders.

The price of \$1.35 and structure of the transaction resulted from negotiations between the Company, Kerogen and Andial having regard to a number of factors, the most material being:

- (a) the price under the Entitlement Offer made by the Company earlier this year. Since the close of the Entitlement Offer, the Market Price of the Shares has not closed at \$1.35 or above;
- (b) a desire by the independent directors, supported by Kerogen, not to inappropriately dilute existing shareholders. The substantial premium to the Market Price minimises Shareholder dilution;
- (c) the very limited participation by Shareholders, other than Kerogen, in the Entitlement Offer;
- (d) the change of control clauses in the Cuadrilla joint venture (see section 3.11 below);
- (e) Kerogen's current FIRB approval; and
- (f) the current financial, strategic and operational position of the Company and its investments.

By Kerogen agreeing to exercise options already issued to it under the Placement Options Exercise (rather than placing further new Shares to Kerogen or another party), Shareholder dilution is further minimised.

***Disadvantages of Kerogen Placement, Placement Options Exercise and Inveraray Placement***

Shareholders should note that the Kerogen Placement, the Placements Options Exercise and the Inveraray Placement may have some disadvantages. In particular:

- (a) the Kerogen Placement and the exercise of the Placement Options may increase the shareholding of Kerogen to a level that may act as a disincentive for a third party to make an offer for your Shares without the support of Kerogen. However, Kerogen is already the Company's largest Shareholder, so this disincentive may already apply; and
- (b) the Inveraray Placement may increase the combined shareholdings of Inveraray and its Associates (including Andial) to a level that may act as a disincentive for a third party to make an offer for your Shares without the support of Inveraray and its Associates (including Andial). However, Andial is already one of the Company's largest Shareholders, so this disincentive may already apply.

***Campbell Options (Resolution 6)***

The Independent Directors have decided to grant 3,750,000 management options to Mr Allan Campbell, the Chairman and CEO, subject to Shareholder approval (**Campbell Options**).

The purpose of the grant of the Campbell Options to Mr Campbell is for the Company to incentivise Mr Campbell in his role as CEO to address the existing business risks in a manner that benefits all Shareholders. The number of Campbell Options proposed to be granted to Mr Campbell has been designed to provide a sufficient incentive for Mr Campbell to maximise his performance.

The Independent Directors believe that it is important to all shareholders that the Chief Executive Officer is properly incentivised and remunerated to maximise value for all shareholders. Given the number of extraordinary challenges that the Company faces, particularly in the current difficult Australian economic environment, this demands additional effort of the CEO beyond that which would normally be expected.

The Company is currently constrained from paying additional cash remuneration to compensate the CEO for these additional efforts. Accordingly, it is proposed that the options be granted as a means of rewarding the CEO without placing additional demands on the Company's cash flow. In addition, the proposed option scheme, which only crystallises if the share price exceeds \$2.50 for at least 10 days in a 20 day trading period and which represents a significant premium to the current share price, provides an additional incentive to the CEO to improve the performance of the Company's businesses further aligning his interests with those of the other shareholders.

The exercise price for the Campbell Options is equal to the exercise price for the Kerogen Options, which aligns the interests of shareholders and Mr Campbell. The Campbell Options will be granted prior to the issue of new Shares to Kerogen under the Kerogen Placement. The Campbell Options will expire on 7 December 2015 if they have not vested or been exercised prior to that date.

The Independent Directors believe that it is appropriate and reasonable that the Campbell Options be issued for this purpose.

### ***Management Options (Resolution 7)***

The Independent Directors have decided to grant, subject to Shareholder approval, 1,250,000 management options to senior management of the Company (excluding Mr Campbell) (**Management Options**).

The purpose of the grant of the Management Options to senior management is for the Company to retain senior managers of high calibre and to provide cost effective remuneration for their ongoing commitment and contribution to the Company. The exercise price for the Management Options is equal to the exercise price for the Kerogen Options, which aligns the interests of shareholders and senior management.

The Management Options will be granted no later than 30 November 2012. The vesting date for the Management Options can occur no earlier than 31 December 2013 and will only occur if the Market Price for the Shares closes at in excess of \$2.50 each day for a period of 10 days in any 20 day trading period that occurs at least 12 months after the Grant Date. The Management Options will expire on 7 December 2015.

The Management Options will be allocated at the discretion of the Board to selected senior management as an incentive to encourage superior performance. The grant will also align the interests of senior management with Shareholders as a whole.

### ***Timing***

Subject to the relevant resolutions being approved by the Required Majority and all other relevant conditions being satisfied, the timetable for the implementation of the various transactions is as follows:

- (a) the grant of the Campbell Options prior to the issue of new Shares to Kerogen under the Kerogen Placement on or around 10 September 2012;
- (b) completion of each of the Kerogen Placement and, if applicable, the Inveraray Placement and the Third Party Placements on or around 10 September 2012;
- (c) entry into the Junior Facility Security on or around 20 September 2012;
- (d) the grant of the Management Options on or around 30 November 2012; and
- (e) completion of the Placement Options Exercise before 30 November 2012.

Please note that the above dates are indicative only and subject to change.

### ***Conditionality of Resolutions***

It is important to note that Resolution 4 and Resolution 5 are conditional on Resolution 1 and Resolution 2 being approved. Each of the other Proposed Resolutions is independent from the others and, therefore, each can be approved without the others being approved. However, Kerogen has the right to terminate the Kerogen Placement, the Placement Options Exercise, the Inveraray Placement and/or the Third Party Placements if Resolution 3 is also not approved.

**Therefore, to ensure that the Company raises \$40 million, you must vote in favour of each of Resolution 1, Resolution 2 and Resolution 3.** This does not, however, prevent you from voting in favour of each of Resolution 4 and Resolution 5 which will permit Inveraray and any Third Party Investors to participate in the Inveraray Placement.

### ***Voting intentions of Kerogen and Andial as substantial Shareholders***

The Company has been advised by Kerogen, a substantial Shareholder in the Company, that, subject to Resolutions 1, 2 and 3 being approved, it intends to vote all of its Shares in favour of Resolution 4 and 5 (noting that it cannot vote on any of Resolutions 1, 2 or 3). Kerogen has not advised its current intention in relation to Resolutions 6 or 7.

The Company has been advised by Andial, a substantial Shareholder in the Company and an associate of Inveraray, that it intends to vote all of its Shares in favour of Resolutions 1, 2, 3, 5 and 7 (noting that it cannot vote on either of Resolutions 4 or 6).

***Independent Expert's recommendation***

The Board has engaged PKF to prepare an Independent Expert's Report to express an opinion as to whether:

- (a) the Kerogen Placement are fair and reasonable to Shareholders who are not associated with Kerogen and its respective Associates;
- (b) the Placement Options Exercise is fair and reasonable to Shareholders who are not associated with Kerogen and its respective Associates;
- (c) the Inveraray Placement is fair and reasonable to Shareholders who are not associated with Inveraray and its respective Associates; and
- (d) the grant of the Campbell Options is fair and reasonable to Shareholders who are not associated with Inveraray and its respective Associates.

As more fully set out in its report annexed as **Annexure G**, the Independent Expert has concluded that:

- (i) the Kerogen Placement is fair and reasonable;
- (ii) the Placement Options Exercise is fair and reasonable;
- (iii) the Inveraray Placement is fair and reasonable; and
- (iv) the grant of the Campbell Options is fair and reasonable.

In respect of valuing the Company's investment in Cuadrilla and its direct European shale gas investments, as set out in section 5.2 of the Independent Expert's Report, the Independent Expert has undertaken discussions with a number of independent industry experts who have knowledge of the information needed to perform valuations of similar prospects. All of the industry experts the Independent Expert held discussions with advised that in their view there is insufficient information available to calculate production flow rates, extraction costs and other information necessary to determine a meaningful range of values.

The fact that these assets have neither been valued, nor the economic feasibility opined on by a technical expert, means these assets may have (and Shareholders are urged to consider) a value either higher or lower than their historical cost and there is uncertainty as to their value. The impact of this is addressed in Section 6.9.1 of the the Independent Expert's Report.

***Board recommendation on the Proposed Resolutions***

The Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise provide the Company with capital to pay down approximately \$21 million debt under the Advance Facilities, to repay part of the amount due to the ATO, to meet its working capital requirements, to meet anticipated capital calls made by Cuadrilla and to fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments.

Failure to raise the \$40 million will place the Company in significant financial difficulty, as it will not immediately be able to repay any part of the ATO liabilities, may not be able to pay future cash calls made by Cuadrilla or fund Lucas Energy and may have insufficient working capital for the Company. Additionally, the Company will not be able to repay the Advance Facilities. If the Advance Facilities are not repaid by 15 September 2012 (or a later date agreed by Kerogen), then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and the Senior Financier to exercise rights to recover amounts owing to them.

**Having regard to the critical importance of meeting all these funding requirements, the Board unanimously recommend the Shareholders VOTE IN FAVOUR of each of Resolutions 1, 2 and 3 to be put to the meeting and the Independent Directors unanimously recommend the Shareholders VOTE IN FAVOUR of each of Resolutions 4, 5, 6 and 7 to be put to the meeting.**

On behalf of the Directors, I thank you for your continued support.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Martin Green', with a stylized, cursive script.

Martin Green

**Lead Independent Director**

**AJ LUCAS GROUP LIMITED**

(ABN 12 060 309 104)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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Notice is given that the Extraordinary General Meeting of the Company is to be held as set out below.

**DETAILS OF MEETING**

**Date:** 5 September 2012

**Time:** 10.00 am

**Address:** Hyundai Building,  
3<sup>rd</sup> Floor  
394 Lane Cove Road  
Macquarie Park NSW 2113

**BUSINESS**

**Resolution 1: Approval for the issue of Shares to Kerogen**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That, for the purpose of section 611 item 7 of the Corporations Act 2001 (Cth), Listing Rules 7.1 and 10.11 and for all other purposes, approval is given for the issue by the Company, and acquisition by Kerogen Investments No.1 (HK) Limited, of a maximum of 22,222,222 ordinary shares in the capital of the Company at \$1.35 per Share on the terms and conditions of the Kerogen Subscription Agreement and as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012”.*

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 1 by Kerogen and each of its Associates. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 1.

**Resolution 2: Approval for the Placement Options Exercise by Kerogen**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That, for the purpose of section 611 item 7 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the exercise by Kerogen Investments No.1 (HK) Limited of 7,407,407 options to acquire Shares at the lower of \$1.70 and 120% of the 5 Day VWAP (as defined in the Notice of Meeting and Explanatory Statement), subject to a floor of \$1.35 per Share, on the terms and conditions of the Kerogen Subscription Agreement and as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012”.*

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 2 by Kerogen and each of its Associates. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 2.

**Resolution 3: Junior Facility Security approval**

To consider and, if thought fit, pass the following resolution as a special resolution:

*"That, for the purpose of Chapter 2J of the Corporations Act 2001 (Cth), and for all other purposes, approval is given for the Company and each of the Material Security Subsidiaries to enter into the Junior Finance Security, including providing financial assistance to Kerogen Investments No.1 (HK) Limited under those documents, as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012."*

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 3 by Kerogen and each of its Associates. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 3.

**Resolution 4: Approval for the issue of Shares to Inveraray**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*"That, conditional on Resolution 1 and Resolution 2 being passed by the requisite majority, for the purpose of section 611 item 7 of the Corporations Act 2001 (Cth), Listing Rules 7.1 and 10.11 and for all other purposes, approval is given for the issue by the Company, and acquisition by Inveraray Capital Pty Limited, of up to 7,407,407 ordinary shares in the capital of the Company at \$1.35 per Share, in accordance with the terms of the Inveraray Subscription Agreement and as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012".*

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 4 by Inveraray and each of its Associates (including Andial). However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 4.

**Resolution 5: Approval for the issue of Shares to Third Party Investors**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That, conditional on Resolution 1 and Resolution 2 being passed by the requisite majority, for the purpose of Listing Rule 7.1 of the ASX Listing Rules, approval is given for the issue by the Company of up to 3,703,704 ordinary shares in the capital of the Company at \$1.35 per Share to Third Party Investors (if applicable) in accordance with and as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012”.*

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 5 by any Third Party Investors and their Associates who have an interest in the resolution. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 5.

**Resolution 6: Campbell Options**

To consider and, if thought fit, pass the following resolution as a special resolution:

*“That, for the purpose of Chapter 2E of the Corporations Act 2001 (Cth), section 611 item 7 of the Corporations Act 2001 (Cth) and Listing Rule 10.11 and for all other purposes, approval is given for the issue by the Company to Allan Campbell of a total of 3,750,000 options over unissued ordinary shares in the Company at an exercise price for each Share of \$1.35 and to the acquisition of Shares upon exercise of the options, as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012”.*

**Voting exclusion:** The Company will disregard any votes cast in favour of Resolution 6 by Mr Allan Campbell and his Associates (including Andial). However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form;
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides; or
- (c) it is not cast on behalf of Mr Allan Campbell and his Associates (including Andial).

Further, any member of key management personnel and their closely related parties who are appointed as proxy may not vote as a proxy on this resolution if the appointment does not specify how the proxy is to vote. However, under Section 250BD(2) of the Corporations Act, this restriction does not apply if the appointed proxy is the chair of the meeting and the proxy appointment expressly authorises the chair to exercise the proxy even if the resolution is connected with the remuneration of a member of the key management personnel for the Company.

#### **Resolution 7: Grant of Management Options**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the issue by the Company to senior management nominated at the discretion of the Board by no later than 30 November 2012 of a total of 1,250,000 options over unissued ordinary shares in the Company at an exercise price for each Share of \$1.35 and to the acquisition of Shares upon exercise of the options, as further described in the Notice of Meeting and Explanatory Statement dated on or about 1 August 2012”.*

**Voting exclusion:** Any member of key management personnel and their closely related parties who are appointed as proxy may not vote as a proxy on this resolution if the appointment does not specify how the proxy is to vote. However, under Section 250BD(2) of the Corporations Act, this restriction does not apply if the appointed proxy is the chair of the meeting and the proxy appointment expressly authorises the chair to exercise the proxy even if the resolution is connected with the remuneration of a member of the key management personnel for the Company.

#### **ACCOMPANYING DOCUMENTS - IMPORTANT**

The following documents accompany this notice:

- (a) Explanatory Statement in relation to the Proposed Resolutions to be considered;
- (b) the Glossary (**Annexure A**);
- (c) a summary of the key terms of the Kerogen Subscription Agreement (**Annexure B**);
- (d) a summary of the key terms of the Inveraray Subscription Agreement (**Annexure C**);
- (e) a summary of the terms of the Campbell Options and the Management Options (**Annexure D**);
- (f) a summary of the terms of the Junior Facility Security (**Annexure E**);
- (g) a pro-forma balance sheet as at 31 May 2012 (**Annexure F**);
- (h) the Independent Expert’s Report prepared by PKF Corporate Advisory (East Coast) Pty Limited (**Annexure G**); and
- (i) a Proxy Form.

The Explanatory Statement forms part of this Notice of Meeting. The background and reasons behind the Proposed Resolutions to be considered are more fully set out in the Explanatory Statement. Members should read the Explanatory Statement in full and carefully consider its contents.

By Order of the Board

A handwritten signature in black ink, appearing to read 'N. J. W. Swan', written in a cursive style.

**Nicholas J W Swan**  
**Company Secretary**

**Date:** 1 August 2012

## Proxy Appointments and Notes

- 1 A member entitled to attend and vote at a meeting of members may appoint:
  - (a) a person ("person" can be an individual or a body corporate); or
  - (b) if the member is entitled to cast two or more votes at the meeting, two persons, as the member's proxy or proxies to attend and vote for the member at the meeting. A proxy need not be a member.
- 2 If the member appoints two proxies and the instrument does not specify the proportion or number of the member's votes, each proxy may exercise half of the votes.
- 3 The Company must receive at least 48 hours before the General Meeting:
  - (a) the proxy's appointment; and
  - (b) if signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority.
- 4 The proxy's appointment and, if applicable, the authority appointing an attorney, must be sent by post or fax to the Company's registered office or to the address or fax number of the Company's Registry, set out below:
  - (a) **By mail** to: Share Registry – Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne, VIC 3001 Australia;
  - (b) **By facsimile** to: 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
  - (c) **Vote online**: Shareholders can also cast their votes online at [www.investorvote.com.au](http://www.investorvote.com.au) and follow the prompts. To use this facility you will need your holder number (SRN or HIN), postcode and control number as shown on the Proxy Form. You will have been taken to have signed the Proxy Form if you lodge it in accordance with the instructions on the website; and
  - (d) **Custodian voting**: for Intermediary Online subscribers only (custodians), please visit [www.intermediaryonline.com](http://www.intermediaryonline.com) to submit your voting intentions.
- 5 For the purposes of determining entitlements to vote at the General Meeting, an entity or person will be recognised as a Shareholder at 5pm AEST on 3 September 2012 (**Entitlement Time**). All registered holders of ordinary Shares in the Company as at the Entitlement Time are entitled to attend and vote at the General Meeting.
- 6 The Board determined that all of the Shares that are quoted securities at the Entitlement Time will be taken, for the purposes of the General Meeting, to be held by the persons who held them at that time.

# Frequently asked questions

| Question                                                                                                                                        | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Where to find more information |
|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| <b>Background to Resolutions 1, 2, 3, 4 and 5</b>                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                |
| <b>What is the background to the Kerogen Placement, the Placement Options Exercise, the Inveraray Placement and the Third Party Placements?</b> | <p>The Company recently undertook an Entitlement Offer to raise approximately \$51.3 million. However, the Entitlement Offer raised approximately \$36.6 million (or approximately \$15.5 million less than expected).</p> <p>The Funding Shortfall and the reduced cash flow from the earnings deterioration have placed strain on the Company's balance sheet and prevented the Company from settling the amount owing to the ATO. It had also been the Company's intention to use surplus cash flow from operations to meet capital calls made by Cuadrilla and to fund Lucas Energy. However, the difficult trading conditions have restricted the Company from doing this.</p> <p>The Board, therefore, considers it appropriate to raise a further \$40 million which will enable it to pay down approximately \$21 million of debt that is expected to be outstanding under the Advance Facilities, to repay part of the amount due to the ATO, to meet its working capital requirements, to meet anticipated capital calls made by Cuadrilla and to fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments.</p>                              | <b>Sections 3.1 to 3.7</b>     |
| <b>How does the Company propose to raise the \$40 million?</b>                                                                                  | <p>The Board believes that the \$40 million is most effectively raised, by conducting a placement of \$30 million at the Placement Price to Kerogen (with the right of Inveraray and/or Third Party Investors subject to approval by Kerogen (in its absolute discretion) to take up to \$10 million of the placement) and allowing the exercise by Kerogen of the Placement Options at the Placement Options Exercise Price to raise a minimum of \$10 million.</p> <p>Considering the Placement Price and the Placement Options Exercise Price, relative to the Market Price, the Board also believes the structure of this capital raising will provide the best outcome to Shareholders.</p> <p>The Company has entered into binding subscription agreements with each of Kerogen and Inveraray.</p> <p>Under the Kerogen Subscription Agreement, subject to Shareholder approvals and other conditions, Kerogen has agreed to:</p> <p>(a) subscribe for 22,222,222 Shares at the Placement Price per Share to raise \$30 million, reduced by a maximum of 7,407,407 Shares to the extent to which Inveraray and Third Party Investors exercise their rights under the Inveraray Placement and/or Third Party Placements</p> | <b>Section 3.8</b>             |

| Question                                                                                                              | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Where to find more information |
|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
|                                                                                                                       | <p>to subscribe for up to \$10 million of the \$30 million by 5.00 pm on the Final Confirmation Date (the specific conditions on which Inveraray and a Third Party Investor may exercise the rights are set out in sections 7.1 and 8.1 of this Notice of Meeting and Explanatory Statement); and</p> <p>(b) exercise the Placement Options at the Placement Options Exercise Price to raise a minimum of \$10 million.</p> <p>Under the Inveraray Subscription Agreement, subject to Shareholder approvals and other conditions, Inveraray has a right to subscribe for up to 7,407,407 Shares of the Kerogen Placement at the Placement Price per Share to raise up to \$10 million. Inveraray can elect to:</p> <p>(a) subscribe for the full \$10 million itself; or</p> <p>(b) subscribe for less than \$10 million itself and also nominate up to two Third Party Investors, approved by Kerogen (in its absolute discretion) to subscribe for up to in aggregate 3,703,704 Shares at the Placement Price per Share to raise up to \$5 million under binding subscription agreements with the Company subject to approval by Kerogen (in its absolute discretion), provided that the aggregate amount that Inveraray and Third Party Investors subscribe for is no more than \$10 million.</p> |                                |
| <b>What is the effect on the capital structure if the Placements and the Placement Options Exercise are approved?</b> | Please see section 11 for a detailed analysis of the capital structure implications of each of the Placements and the Placement Options Exercise.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Section 11</b>              |
| <b>Resolution 1 - Kerogen Placement</b>                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                |
| <b>What will the Company use the proceeds of the Kerogen Placement for?</b>                                           | <p>The Company will use the proceeds of the Placements and the Placement Options Exercise, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and Placement Option Loan, in the following order of priority:</p> <p>(a) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;</p> <p>(b) to meet working capital expenses for the drilling and BCI businesses; and</p> <p>(c) for the partial repayment of ATO liabilities.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>Section 3.9</b>             |

| Question                                                                               | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Where to find more information |
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| <b>What are the terms of the Kerogen Placement?</b>                                    | <p>The terms of the Kerogen Placement are set out in Kerogen Subscription Agreement a summary of key terms of which is found in <b>Annexure B</b> to this Notice of Meeting and Explanatory Statement.</p> <p>The Kerogen Placement is subject to conditions precedent and termination events in the Kerogen Subscription Agreement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Annexure B</b>              |
| <b>Why is Shareholder approval being sought for the Kerogen Placement?</b>             | <p>As Kerogen already has greater than 20% voting power in the Company, Shareholder approval is required for Kerogen to be issued the Shares under the Kerogen Placement (and to exercise the Placement Options). This approval is required under section 611 (item 7) of the Corporations Act 2001.</p> <p>In addition, Kerogen is a related party under the Listing Rules and, in accordance with Listing Rule 10.11, Shareholder approval is required for an issue of Shares to Kerogen.</p> <p>Finally, the Company is prohibited from issuing more than 15% of its issued capital in any 12 month period unless it has authority from Shareholders under Listing Rule 7.1 of the Listing Rules.</p> <p>Following the placement to Kerogen in September 2011, the Company has no current authority to issue Shares under this Listing Rule. The Company has not sought to refresh this allowance at previous Shareholder meetings because the terms of the Mezzanine Facility restrict it from doing so.</p> <p>Shareholder approval is, therefore, required under Listing Rules 7.1.</p> <p>After completion of the Kerogen Placement and the Placement Options Exercise, Kerogen will have voting power in the range of 42.30% to 47.88% in the Company, an increase of 9.41% to 14.99% from its current voting power of 32.89%.</p> <p>Resolution 1 needs to be passed by a simple majority of Shareholders (i.e. a resolution approved by greater than 50% of votes cast by eligible Shareholders) to be approved.</p> | <b>Section 1(a) and 11.5</b>   |
| <b>Why is the Board recommending that Shareholders VOTE IN FAVOUR of Resolution 1?</b> | Please see sections 4.3 and 4.4 for a detailed discussion of the reasons to <b>VOTE IN FAVOUR</b> or <b>VOTE AGAINST</b> of Resolution 1 to approve the Kerogen Placement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>Sections 4.3 and 4.4</b>    |
| <b>Can Kerogen vote on Resolution 1?</b>                                               | Kerogen is prohibited from voting on Resolution 1 as it is interested in the outcome of the vote.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>Section 4.7</b>             |

| Question                                                                       | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Where to find more information     |
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| <b>What happens if Shareholders do not approve Resolution 1?</b>               | <p>If Shareholders do not approve Resolution 1, the Kerogen Placement and the Placement Options Exercise will not proceed.</p> <p>As Resolution 5 and Resolution 4 are conditional on Resolution 1, the Inveraray Placement and the Third Party Placements will also not proceed and the Company will not be able to raise any money.</p> <p>This will place the Company in significant financial difficulty as it will not immediately be able to repay part of the ATO liabilities, may not be able to pay future cash calls made by Cuadrilla or fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments and may have insufficient working capital for the Company.</p> <p>Additionally, the Company will not be able to repay the Advance Facilities. As noted below, if the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Kerogen Placement (and the Inveraray Placement and the Third Party Placements, if applicable), then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and ANZ to exercise rights to recover amounts owing to them.</p> <p>At this time, the Company has no arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it could do so.</p> | <b>Section 2.2</b>                 |
| <b>Is Resolution 1 inter-dependent on any other resolution being approved?</b> | Resolution 1 is not conditional on any other resolution being approved.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>Section 2.1</b>                 |
| <b>What does the Independent Expert recommend?</b>                             | The Independent Expert has concluded that making the Kerogen Placement to Kerogen is fair and reasonable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>Sections 4.6<br/>Annexure G</b> |
| <b>Resolution 2 - Placement Options Exercise</b>                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                    |
| <b>What is the background to the Placement Options Exercise?</b>               | <p>Kerogen holds 14,694,403 Kerogen Options which can be exercised by Kerogen in accordance with the Kerogen Option Terms, subject to the restrictions of the Corporations Act and the limits imposed on it by FIRB.</p> <p>Kerogen has agreed to exercise 7,407,407 Kerogen Options within 3 months after the EGM Date provided that it has obtained Shareholder approval to do so and other conditions are satisfied. The exercise price is the lower of \$1.70 and 120% of the 5 Day VWAP, subject to a floor price of \$1.35 per Share, to raise a minimum of \$10 million.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Section 5.1</b>                 |

| Question                                                                               | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Where to find more information |
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| <b>What are the terms of the Placement Option Exercise?</b>                            | <p>The terms of the Placement Option Exercise are set out in Kerogen Subscription Agreement a summary of which is found in <b>Annexure B</b> to this Notice of Meeting and Explanatory Statement and the terms of issue of the Placement Options.</p> <p>The Placement Options Exercise is subject to conditions precedent and termination events in the Kerogen Subscription Agreement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Annexure B</b>              |
| <b>What will the Company use the proceeds of the Placement Options Exercise for?</b>   | <p>The Company will use the proceeds of the Placements and the Placement Options Exercise, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and the Placement Option Loan, in the following order of priority:</p> <ul style="list-style-type: none"> <li>(a) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due</li> <li>(b) to meet working capital expenses for the drilling and BCI businesses; and</li> <li>(c) for the partial repayment of ATO liabilities.</li> </ul>                                                                                                                                                                                                               | <b>Section 3.9</b>             |
| <b>Why is Shareholder approval being sought for the Placement Options Exercise?</b>    | <p>As Kerogen already has greater than 20% voting power in the Company, Shareholder approval is required for Kerogen to be issued the Shares under the Placement Options Exercise (as well as the Kerogen Placement). This approval is required under section 611 (item 7) of the Corporations Act 2001.</p> <p>The new Shares upon exercise of the Placement Options do not need approval under Listing Rule 7.1 as the issue of the Placement Options was previously approved by Shareholders on 22 December 2011.</p> <p>After completion of the Kerogen Placement and Placement Options Exercise, Kerogen will have voting power in the range of 42.30% to 47.88% in the Company, an increase of 9.41% to 14.99% from its current voting power of 32.89%.</p> <p>Resolution 2 needs to be passed by a simple majority of Shareholders (i.e. a resolution approved by greater than 50% of votes cast by eligible Shareholders) to be approved.</p> | <b>Section 1(b) and 11.5</b>   |
| <b>Why is the Board recommending that Shareholders VOTE IN FAVOUR of Resolution 2?</b> | Please see sections 5.4 and 5.5 for a detailed discussion of the reasons to <b>VOTE IN FAVOUR</b> or <b>VOTE AGAINST</b> Resolution 2 to approve the Placement Options Exercise.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Sections 5.4 and 5.5</b>    |
| <b>Can Kerogen vote on Resolution 2?</b>                                               | Kerogen is prohibited from voting on Resolution 2 as it is interested in the outcome of the vote.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>Section 5.8</b>             |

| Question                                                                                                                    | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Where to find more information     |
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| <b>Is Resolution 2 inter-dependent on any other resolution being approved?</b>                                              | If Shareholders do not approve Resolution 2, none of the Placement Options Exercise or the Placements will proceed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Section 2.3</b>                 |
| <b>What happens if Shareholders do not approve Resolution 2?</b>                                                            | <p>If Shareholders do not approve Resolution 2, the Placement Options Exercise and Kerogen Placement will not proceed.</p> <p>As Resolution 5 and Resolution 4 are conditional on Resolution 2, the Inveraray Placement and the Third Party Placements will also not proceed and the Company will not be able to raise any money.</p> <p>This will place the Company in significant financial difficulty as it will not be able to make any repayments to the ATO, may not be able to pay future cash calls made by Cuadrilla or fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments and may have insufficient working capital for the Company.</p> <p>Additionally, the Company will not be able to repay the Advance Facilities. As noted below, if the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Placements, then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and ANZ to exercise rights to recover amounts owing to them.</p> <p>At this time, the Company has no other arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it could do so.</p> | <b>Section 2.1</b>                 |
| <b>What does the Independent Expert recommend?</b>                                                                          | The Independent Expert has concluded that the exercise of the Options by Kerogen is fair and reasonable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Sections 5.7<br/>Annexure G</b> |
| <b>Resolution 3- Junior Facility Security</b>                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                    |
| <b>What is the Junior Facility Security and why is approval being sought for the Company to enter into those documents?</b> | <p>On 22 December 2011, the Company entered into the Facility Agreement with Kerogen under which Kerogen provided the Mezzanine Facility. Subsequently Lucas also entered into the Advance Facilities with Kerogen under which Kerogen advanced the Advance Loans to the Company.</p> <p>Under the terms of the Facility Agreement and also to secure amounts owing under the Advance Facilities and all other amounts due from time to time to Kerogen and each other Finance Party (as defined in the Advance Facilities and the Facility Agreement), the Company and each Material Security Subsidiary is required to enter into a 'Security Trust Deed' and grant security over all of its assets under the Junior Facility Security with Kerogen by 13 July 2012. Kerogen has agreed to extend the date for execution of the Security Trust Deed and the provision of the Junior Facility</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>Section 6.1</b>                 |

| Question                                                         | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Where to find more information |
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|                                                                  | <p>Security to no later than 20 September 2012.</p> <p>The Junior Facility Security will rank behind the Senior Facility Security provided to the ANZ.</p> <p>Under the 'financial assistance' provisions of Chapter 2J of the Corporations Act, approval of Shareholders is required before the Junior Facility Security can be provided.</p> <p>The Junior Facility Security will also extend to secure all amounts loaned by Kerogen to the Company including under the Advance Facilities and the Placement Options Loan.</p> <p>If the Junior Facility Security is not granted by the Company and the Material Security Subsidiaries by 20 September 2012 an event of default will occur under the Facility Agreement, and if the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Placements, then an event of default will occur under that agreement which, in each case, will allow Kerogen (subject to the Intercreditor Deed) and ANZ to exercise rights to recover amounts owing to them, including the case of ANZ by enforcing its security.</p> <p>Resolution 3 needs to be passed by a special majority of Shareholders (i.e. a resolution approved by greater than 75% of votes cast by eligible Shareholders) to be approved.</p> |                                |
| <b>Can Kerogen vote on Resolution 3?</b>                         | Kerogen is prohibited from voting on Resolution 3 as it is interested in the outcome of the vote.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Section 6.8</b>             |
| <b>What happens if Shareholders do not approve Resolution 3?</b> | <p>Please see section 2.4 for a detailed discussion of the implications for the Company if Resolution 3 is not approved.</p> <p>Should Resolution 3 not be approved, Kerogen will have a right to terminate the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise.</p> <p>If Shareholders do not approve Resolution 3, the Company and its Material Security Subsidiaries will not be able to provide the Junior Facility Security to Kerogen by 20 September 2012.</p> <p>The consequences of a failure to grant the Junior Facility Security are:</p> <ul style="list-style-type: none"> <li>(a) it constitutes an 'Event of Default' under the Facility Agreement and the Advance Facilities;</li> <li>(b) it constitutes a cross default into the ANZ Facility; and</li> <li>(c) as a consequence, subject to the Intercreditor Deed arrangements between Kerogen and ANZ, Kerogen and/or ANZ may exercise rights against AJL and in the case of ANZ, subsidiaries of AJL to recover the amounts owing to them and, in the</li> </ul>                                                                                                                                                                                       | <b>Section 2.4</b>             |

| Question                                                                               | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Where to find more information |
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|                                                                                        | <p>case of ANZ, take steps to enforce the security.</p> <p>In that case, the Company would need to immediately raise funds to repay Kerogen and ANZ all amounts owing to them or otherwise potentially risk Kerogen and ANZ commencing proceedings against the Company and its subsidiaries for the repayment of amounts then due.</p> <p>At this time, the Company has no other arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it could do so.</p>     |                                |
| <b>Is Resolution 3 inter-dependent on any other resolution being approved?</b>         | <p>Resolution 3 is not conditional on any other resolution being approved.</p> <p>However, should Resolution 3 not be approved, Kerogen will have a right to terminate the Kerogen Placement, the Inveraray Placement, the Third Party Placements and the Placement Options Exercise, which will leave the Company in significant financial difficulty.</p>                                                                                                                                                                                   | <b>Section 2.1</b>             |
| <b>Why is the Board recommending that Shareholders VOTE IN FAVOUR of Resolution 3?</b> | Please see sections 6.4 and 6.5 for a detailed discussion of the reasons to <b>VOTE IN FAVOUR</b> or <b>VOTE AGAINST</b> Resolution 3 to approve the granting of the Junior Facility Security.                                                                                                                                                                                                                                                                                                                                                | <b>Sections 6.4 and 6.5</b>    |
| <b>Resolution 4 - Inveraray Placement</b>                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                |
| <b>How does the Inveraray Placement work with the Kerogen Placement?</b>               | <p>The Inveraray Placement allows Inveraray to subscribe for up to \$10 million of the Kerogen Placement (either itself or with Third Party Investors approved by Kerogen in its absolute discretion) in priority to Kerogen.</p> <p>To the extent that Inveraray provides the relevant evidence that it and Third Party Investors are able to complete subscriptions under the Inveraray Placement, then the amount that Kerogen can subscribe for under the Kerogen Placement is reduced by the amount of those subscriptions.</p>          | <b>Section 7.1</b>             |
| <b>Is Inveraray obliged to subscribe for Shares?</b>                                   | <p>Inveraray has a right to take up to \$10 million of the \$30 million Kerogen Placement. However, it has no obligation to do so and will not be penalised or be in breach of any agreement if it does not subscribe for any amount.</p> <p>At the date of this Notice of Meeting and Explanatory Statement, Inveraray has informed the Company that it does not have any financial resources with which to make a subscription. However, Inveraray intends to seek available financial resources up until the Inveraray Final Deadline.</p> | <b>Section 7.1 and 13.6(d)</b> |

| Question                                                                      | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Where to find more information |
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| <b>What must Inveraray do to participate in the Placement?</b>                | <p>To participate in the Inveraray Placement, Inveraray is required to provide evidence satisfactory to the Company and to Kerogen by no later than the Inveraray Commitment Deadline that it has:</p> <ul style="list-style-type: none"> <li>(a) deposited in the trust account of Holding Redlich in Immediately Available Funds the full amount that it commits to subscribe for under the Inveraray Placement; and</li> <li>(b) such funds cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                             | <b>Section 7.1</b>             |
| <b>How can Third Party Investors participate in the Inveraray Placement?</b>  | <p>Under the Inveraray Subscription Agreement, Inveraray has the right to nominate up to two Third Party Investors to acquire up to 3,703,704 (having a value of \$5 million) of the 7,407,407 Shares that make up the Inveraray Placement.</p> <p>To do so, Inveraray must do all of the following before 5.00 pm on the Business Day prior to the Final Confirmation Date:</p> <ul style="list-style-type: none"> <li>(a) make the nomination or nominations to the Company and Kerogen;</li> <li>(b) secure Kerogen's approval of the nominations (to be provided or withheld in Kerogen's absolute discretion); and</li> <li>(c) cause the Company to enter into a binding subscription agreement in respect of an amount and on terms which have been approved by Kerogen (which it can provide or withhold in its absolute discretion) with the Third Party Investor(s).</li> </ul> <p>No other third party is entitled to participate in the Inveraray Placement.</p> | <b>Section 7.1</b>             |
| <b>What will the Company use the proceeds of the Inveraray Placement for?</b> | <p>The Company will use the proceeds of the Placements and the Placement Options Exercise, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and the Placement Option Loan, in the following order of priority:</p> <ul style="list-style-type: none"> <li>(a) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;</li> <li>(b) to meet working capital expenses for the drilling and BCI businesses; and</li> <li>(c) for the partial repayment of ATO liabilities.</li> </ul>                                                                                                                                                                                                                                     | <b>Section 3.9</b>             |

| Question                                                                                                       | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Where to find more information      |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| <p><b>Why is Shareholder approval being sought for the Inveraray Placement?</b></p>                            | <p>If</p> <p>(a) more than 7,331,783 Shares are issued to Inveraray under the Inveraray Placement prior to the issue of Shares as a result of the Placement Options Exercise; or</p> <p>(b) Inveraray acquires all of the Shares under the Inveraray Placement and all of the Campbell Options are issued, vest and Shares are issued on exercise,</p> <p>Inveraray's voting power in the Company, together with its Associates (including Andial), will rise to 20.06%. Accordingly, Shareholder approval is required under section 611 (item 7) of the Corporations Act to enable Inveraray to acquire this many Shares, if it elects to do so.</p> <p>In addition, Inveraray is a related party of the Company under the Listing Rules and, in accordance with Listing Rule 10.11, Shareholder approval is required for an issue of Shares to Inveraray.</p> <p>Finally, the Company is prohibited from issuing more than 15% of its issued capital in any 12 month period unless it has authority from Shareholders under Listing Rule 7.1 of the Listing Rules.</p> <p>Following the placement to Kerogen in September 2011, the Company has no current authority to issue Shares under this Listing Rule. The Company has not sought to refresh this allowance at previous Shareholder meetings because the terms of the Mezzanine Facility restrict it from doing so.</p> <p>Resolution 4 needs to be passed by a simple majority of Shareholders (i.e. a resolution approved by greater than 50% of votes cast by eligible Shareholders) to be approved.</p> | <p><b>Section 1(d) and 11.3</b></p> |
| <p><b>Why are the Independent Directors recommending that Shareholders VOTE IN FAVOUR of Resolution 4?</b></p> | <p>Please see sections 7.3 and 7.4 for a detailed discussion of the reasons to <b>VOTE IN FAVOUR</b> or <b>VOTE AGAINST</b> Resolution 4 to approve the Inveraray Placement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p><b>Sections 7.3 and 7.4</b></p>  |
| <p><b>Can Inveraray vote on Resolution 4?</b></p>                                                              | <p>Inveraray and its Associates (including Andial) are prohibited from voting on Resolution 4 as they are interested in the outcome of the vote.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p><b>Section 7.7</b></p>           |
| <p><b>What happens if Shareholders do not approve Resolution 4?</b></p>                                        | <p>If Shareholders do not approve Resolution 4, the Inveraray Placement will not proceed.</p> <p>However, if Resolution 1, Resolution 2 and Resolution 3 are each approved, then the Company can raise \$40 million from Kerogen and/or (if Resolution 5 is approved) Third Party Investors.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p><b>Section 2.5</b></p>           |

| Question                                                                       | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Where to find more information     |
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| <b>Is Resolution 4 inter-dependent on any other resolution being approved?</b> | Resolution 4 is conditional on each of Resolution 1 and Resolution 2 being approved.<br><br>So, unless Resolution 1 and Resolution 2 are each approved, the Inveraray Placement cannot proceed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Section 2.1</b>                 |
| <b>What does the Independent Expert recommend?</b>                             | The Independent Expert has concluded that making the Inveraray Placement to Inveraray is fair and reasonable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Sections 7.6<br/>Annexure G</b> |
| <b>Resolution 5 – Third Party Placements</b>                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                    |
| <b>When can Third Party Placements be made?</b>                                | Third Party Placements can only be made if each of the following occurs at least 1 Business Day before the Final Confirmation Date:<br><br>(a) Inveraray nominates no more than two Third Party Investor to subscribe;<br><br>(b) Kerogen approves the Third Party Investors and the terms of the subscription agreements in relation to the Third Party Placements; and<br><br>(c) the Company and the Third Party Investors each execute binding subscription agreements.                                                                                                                                                                                                                                            | <b>Section 7.1</b>                 |
| <b>Who can be a Third Party Investor?</b>                                      | Inveraray has the right to nominate up to two Third Party Investors.<br><br>To do so, Inveraray must do all of the following before 5.00 pm on the Business Day prior to the Final Confirmation Date:<br><br>(a) make the nomination or nominations to the Company and Kerogen;<br><br>(b) secure Kerogen's approval of the nominations (to be provided or withheld in Kerogen's absolute discretion); and<br><br>(c) cause the Company to enter into a binding subscription agreement in respect of an amount and on terms which have been approved by Kerogen (which it can provide and withhold in its absolute discretion) with the Third Party Investor(s).<br><br>No other person may be a Third Party Investor. | <b>Section 7.1</b>                 |
| <b>Why does the Company need authority to do the Third Party Placements?</b>   | The Company is prohibited from issuing more than 15% of its issued capital in any 12 month period unless it has authority from Shareholders under Listing Rule 7.1 of the Listing Rules.<br><br>Following the placement to Kerogen in September 2011, the Company has no current authority to issue Shares under this Listing Rule. The Company has not sought to refresh this allowance at previous Shareholder meetings because the terms of the Mezzanine Facility restrict it from doing so.<br><br>Resolution 5 will provide the Company with the                                                                                                                                                                 | <b>Section 8.2</b>                 |

| Question                                                                                                | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Where to find more information |
|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
|                                                                                                         | necessary authority to effect the Third Party Placements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                |
| <b>What happens if Shareholders do not approve Resolution 5?</b>                                        | If Shareholders do not approve Resolution 5, the Third Party Placements will not proceed.<br><br>However, if Resolution 1, Resolution 2 and Resolution 3 are each approved, then the Company can raise \$40 million from Kerogen and/or (if Resolution 4 is approved) Inveraray.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>Section 2.6</b>             |
| <b>Is Resolution 5 inter-dependent on any other resolution being approved?</b>                          | Resolution 5 is conditional on each of Resolution 1 and Resolution 2 being approved.<br><br>So, unless Resolution 1 and Resolution 2 are each approved, none of the Kerogen Placement, Inveraray Placement, Third Party Placements or Placement Option Exercise will proceed and the Company will not be able to raise any money.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>Section 2.1</b>             |
| <b>Why are the Independent Directors recommending that Shareholders VOTE IN FAVOUR of Resolution 5?</b> | Please see sections 8.3 and 8.4 for a detailed discussion of the reasons to <b>VOTE IN FAVOUR</b> or <b>VOTE AGAINST</b> Resolution 5 to approve the Third Party Placements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Sections 8.3 and 8.4</b>    |
| <b>Resolution 6 - Grant of Campbell Options</b>                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                |
| <b>Why is Shareholder approval being sought for the grant of the Campbell Options?</b>                  | Approval is sought under Listing Rule 10.11. Allan Campbell is a director of the Company and, therefore, a related party. Listing Rule 10.11 requires Shareholders to approve the issue of new securities to a director of the Company.<br><br>Approval is sought under Chapter 2E of the Corporations Act. Chapter 2E prohibits the Company giving a related party (including a director) a financial benefit unless Shareholders approve the giving of that financial benefit.<br><br>Approval is sought under section 611 (item 7) of the Corporations Act as Allan Campbell is also the controlling Shareholder of Andial and Inveraray.<br><br>Under the Inveraray Placement, Inveraray may acquire sufficient Shares that Allan Campbell's voting power, when he acquires new Shares on exercise of the Campbell Options, will exceed 20% or will increase from above 20% to a higher number. Accordingly, Shareholder approval is required under section 611 (item 7) to enable Allan Campbell to acquire new Shares on exercise of the Campbell Options.<br><br>Resolution 6 needs to be passed by a special majority of Shareholders (i.e. a resolution approved by greater than 75% of votes cast by eligible Shareholders) to be approved. | <b>Sections 9.2 to 9.5</b>     |

| Question                                                                                                    | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Where to find more information |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| <p><b>Why has the Board sought to grant the Campbell Options?</b></p>                                       | <p>The purpose of the grant of the Campbell Options to Mr Campbell is for the Company to incentivise Mr Campbell in his role as CEO to address the existing business risks in a manner that benefits all Shareholders. The number of Campbell Options proposed to be granted to Mr Campbell has been designed to provide a sufficient incentive for Mr Campbell to maximise his performance.</p> <p>The Independent Directors believe that it is important to all shareholders that the Chief Executive Officer is properly incentivised and remunerated to maximise value for all shareholders. Given the number of extraordinary challenges that the Company faces, particularly in the current difficult Australian economic environment, this demands additional effort of the CEO beyond that which would normally be expected.</p> <p>The Company is currently constrained from paying additional cash remuneration to compensate the CEO for these additional efforts. Accordingly, it is proposed that the options be granted as a means of rewarding the CEO without placing additional demands on the Company's cash flow. In addition, the proposed option scheme, which only crystallises if the share price exceeds \$2.50 for at least 10 days in a 20 day trading period and which represents a significant premium to the current share price, provides an additional incentive to the CEO to improve the performance of the Company's businesses further aligning his interests with those of the other shareholders.</p> <p>The exercise price for the Campbell Options is equal to the exercise price for the Kerogen Options, which aligns the interests of shareholders and Mr Campbell. The Campbell Options will be granted prior to the issue of new Shares to Kerogen under the Kerogen Placement. The Campbell Options will expire on 7 December 2015 if they have not vested or been exercised prior to that date.</p> | <p><b>Section 9.1</b></p>      |
| <p><b>What is the effect on the capital structure if the grant of the Campbell Options is approved?</b></p> | <p>Please see section 11 for a detailed analysis of the capital structure implications if the grant of the Campbell Options is approved.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p><b>Section 11</b></p>       |
| <p><b>When do the Campbell Options need to be issued?</b></p>                                               | <p>Subject to Resolution 6 being passed by the Requisite Majority, the Campbell Options must be issued prior to the issue of new Shares to Kerogen under the Kerogen Placement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p><b>Section 9.1</b></p>      |

| Question                                                                                               | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Where to find more information |
|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| <b>Can Allan Campbell or his Associates (including Inveraray) vote on Resolution 6?</b>                | As Allan Campbell will receive 3,750,000 Campbell Options if this Resolution 6 is approved, Mr Campbell and his Associates (including Andial and Inveraray) are prohibited from voting on Resolution 6 as they are interested in the outcome of the vote.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <b>Section 9.9</b>             |
| <b>What happens if Shareholders do not approve Resolution 6?</b>                                       | If Shareholders do not approve Resolution 6, the Campbell Options cannot be granted.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Section 2.7</b>             |
| <b>Is Resolution 6 inter-dependent on any other resolution being approved?</b>                         | Resolution 6 is not conditional on any other resolution being approved.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>Section 2.1</b>             |
| <b>Resolution 7 - Grant of Management Options</b>                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                |
| <b>Why is Shareholder approval being sought for the grant the Management Options?</b>                  | <p>The Company is prohibited from issuing more than 15% of its issued capital in any 12 month period unless it has authority from Shareholders under Listing Rule 7.1 of the Listing Rules.</p> <p>Following the placement to Kerogen in September 2011, the Company has no current authority to issue Shares under this Listing Rule. The Company has not sought to refresh this allowance at previous Shareholder meetings because the terms of the Mezzanine Facility restrict it from doing so.</p> <p>Resolution 7 will provide the Company with the necessary authority to issue the Management Options.</p> <p>Resolution 7 needs to be passed by a simple majority of Shareholders (i.e. a resolution approved by greater than 50% of votes cast by eligible Shareholders) to be approved.</p> | <b>Section 10.2</b>            |
| <b>Why has the Board sought to grant the Management Options?</b>                                       | <p>The purpose of the grant of the Management Options to senior management is for the Company to retain senior managers of high calibre and to provide cost effective remuneration for their ongoing commitment and contribution to the Company.</p> <p>The Management Options will be allocated as an incentive to encourage superior performance. The grant will also align the interests of senior management with Shareholders as a whole.</p>                                                                                                                                                                                                                                                                                                                                                     | <b>Section 10.1</b>            |
| <b>Who will be issued with the Management Options?</b>                                                 | The Management Options will be allocated at the discretion of the Board to selected senior management. The Management Options must be issued no later than 30 November 2012.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Section 10.1</b>            |
| <b>What is the effect on the capital structure if the grant of the Management Options is approved?</b> | Please see section 11 for a detailed analysis of the capital structure implications if the grant of the Management Options is approved.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>Section 11</b>              |

| Question                                                                       | Answer                                                                                                                                                                                                                                                                                                               | Where to find more information |
|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| <b>What happens if Shareholders do not approve Resolution 7?</b>               | If Shareholders do not approve Resolution 7, the Management Options cannot be granted.                                                                                                                                                                                                                               | <b>Section 2.8</b>             |
| <b>Is Resolution 7 inter-dependent on any other resolution being approved?</b> | Resolution 7 is not conditional on any other resolution being approved.                                                                                                                                                                                                                                              | <b>Section 2.1</b>             |
| <b>General</b>                                                                 |                                                                                                                                                                                                                                                                                                                      |                                |
| <b>What does the Board recommend?</b>                                          | The Board unanimously recommends that you <b>VOTE IN FAVOUR</b> of each of Resolutions 1, 2 and 3.                                                                                                                                                                                                                   | -                              |
| <b>What do the Independent Directors recommend?</b>                            | The Independent Directors unanimously recommend that you <b>VOTE IN FAVOUR</b> of each of Resolutions 4, 5, 6 and 7.                                                                                                                                                                                                 | -                              |
| <b>When and where will the General Meeting be held?</b>                        | <p>The EGM will be held at 10 am on 5 September 2012 at:</p> <p style="text-align: center;">Hyundai Building,<br/>3<sup>rd</sup> Floor<br/>394 Lane Cove Road,<br/>Macquarie Park NSW 2113</p> <p>Details as to how you can exercise your voting rights are contained in the Notice of Meeting in this document.</p> | -                              |
| <b>What should you do?</b>                                                     | Shareholders should read this entire document, decide how to vote and then exercise their right to vote at the EGM (either in person or by way of proxy).                                                                                                                                                            | -                              |
| <b>Do you need to complete the proxy form to vote at the General Meeting?</b>  | No, the proxy form is only included if you wish to appoint a proxy to vote your Shares at the EGM. Please see the Notice of Meeting for specific details as to how you can exercise your voting rights.                                                                                                              | <b>Notice of Meeting</b>       |
| <b>Who is entitled to vote?</b>                                                | Shareholders who are on the Share Register at 5pm AEST on 3 September 2012 will be entitled to vote on the Proposed Resolutions (subject to the Voting Exclusion Statements in the accompanying Notice of Meeting). Details as to how to exercise your right to vote are contained in the Notice of Meeting.         | <b>Notice of Meeting</b>       |
| <b>Where can you obtain further assistance?</b>                                | If Shareholders are in any doubt on these matters, they should consult their legal, financial, taxation or other professional adviser before deciding how to vote on the Proposed Resolutions.                                                                                                                       | -                              |

# Important Notices

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## Important Information

This Notice of Meeting and Explanatory Statement have been issued by AJ Lucas Group Limited in relation to the Extraordinary General Meeting to be held at 10 am on 5 September 2012 at Hyundai Building, 3rd Floor, 394 Lane Cove Road, Macquarie Park NSW 2113.

This Notice of Meeting and Explanatory Statement is important and requires your immediate attention. It is important that you read this document.

This Notice of Meeting and Explanatory Statement have been issued in relation to the Extraordinary General Meeting to consider six ordinary resolutions and one special resolution as set out in this Notice of Meeting and explained in the Explanatory Statement which are necessary to give effect to, respectively, approve the Kerogen Placement, the Placement Options Exercise, the entry by the Company and each Material Security Subsidiary into the Junior Facility Security, the Inveraray Placement, the Third Party Placements and the grant of the Campbell Options and Management Options.

This Notice of Meeting and Explanatory Statement must be read in the context of, and having regard to, the Company's continuous disclosure and publicly available information regarding the Company and its businesses.

## Definitions and Abbreviations

Unless otherwise stated, defined terms and abbreviations used in this document are outlined in the Glossary in **Annexure A** of this Notice of Meeting and Explanatory Statement.

## Limited responsibility for information

The information contained in this document, other than the Kerogen Information and Inveraray Information (the **Lucas Information**), has been prepared by the Company and its advisers and is the responsibility of the Company.

The information relating to Kerogen and concerning the intentions of Kerogen in section 12 of this document has been prepared and provided by Kerogen (**Kerogen Information**) and is the responsibility of Kerogen.

The information relating to Inveraray and concerning the intentions of Inveraray in section 13 of this document has been prepared and provided by Inveraray (**Inveraray Information**) and is the responsibility of Inveraray.

The company and its directors, officers and advisers disclaim any responsibility for the accuracy or completeness of the Kerogen Information and the Inveraray Information.

Kerogen and the other persons and affiliates in the Kerogen group of companies and each of their directors, officers and advisers expressly disclaim any responsibility for the accuracy or completeness of the Lucas Information and Inveraray Information.

Inveraray and each of its directors, officers and advisers expressly disclaim any responsibility for the accuracy or completeness of the Lucas Information and the Kerogen Information.

## Disclaimer

No representation or warranty, express or implied is made as to the fairness, accuracy, completeness or correctness or any information, opinions and conclusions contained in this Notice of Meeting and Explanatory Statement, to the maximum extent permitted by law. Except as required by law, and only to the extent so required, neither the Company nor any of its directors, officers, employees, intermediaries or advisers accepts any liability for any loss arising in connection with it, including, without limitation, any liability arising from fault or negligence on their part.

Except as required by law, and only to the extent so required, neither the Company nor its Directors, officers, employees or any other person warrants the future performance of the Company or any return on any investment in the Company. The pro forma financial information provided in the Explanatory Statement is not a forecast of operating results of the Company to be expected in future periods.

Except as may be required by law or the Listing Rules, neither the Company or its directors, officers, employees or any other person accepts any responsibility to update or revise any of the information in this Notice of Meeting or the Explanatory Statement, including any forward looking information.

## No Investment Advice

In preparing this Notice of Meeting and Explanatory Statement, no account has been taken of the investment objectives, financial situation and particular needs of any particular party and nothing in this Notice of Meeting and Explanatory Statement should be interpreted or construed as tax or legal advice or a recommendation in relation to an investment in the Company.

In making a decision in relation to an investment in the Company, the Company understands that Shareholders have engaged their own professional advisors to provide independent legal, tax and accounting advice on the merits and risks associated with implementation of the transactions detailed in this document, the Proposed Resolutions to be considered at the General Meeting and an investment generally in the Company.

## Governing Law

This Notice of Meeting and Explanatory Statement are governed by the laws of New South Wales, Australia.

## Key Dates

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| Action                                 | Date              |
|----------------------------------------|-------------------|
| EGM                                    | 5 September 2012  |
| Settlement of Placement*               | 10 September 2012 |
| Allotment Date                         | 11 September 2012 |
| Execution of Junior Facility Security* | 20 September 2012 |

\* Subject to relevant approvals at the General Meeting.

### Dates may change

These dates are indicative only and may change. The Company may elect to postpone the General Meeting date or to withdraw the Proposed Resolutions (or any of them) at any time before the meeting date.

### Voting entitlement information

As determined by the Board, all of the Shares that are quoted securities at 5pm AEST on 3 September 2012 will be taken, for the purposes of the General Meeting, to be held by the persons who were registered holders of those securities at that time and will be entitled to attend and vote at the General Meeting.

### Proxy votes and appointing an attorney or corporate representative

Proxy votes and any authority appointing an attorney or corporate representative will only be accepted prior to 10am AEST on 3 September 2012. A Proxy Form accompanies this Notice of Meeting and Explanatory Statement. You can also obtain a copy of this Notice of Meeting and Explanatory Statement on the Company's website ([www.lucas.com.au](http://www.lucas.com.au)) or arrange for a copy of this Notice of Meeting and Explanatory Statement and a Proxy Form to be sent to you by calling, within Australia, 1300 556 161 and, outside of Australia, +61 3 9415 4000 between the hours of 8.30 am and 5.30 pm (AEST).

# EXPLANATORY STATEMENT

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This Explanatory Statement forms part of the Notice of Meeting convening the Extraordinary General Meeting of Shareholders of the Company to be held at 10.00 am on 5 September 2012 and is to assist Shareholders in understanding the background to the Proposed Resolutions.

## 1 INTRODUCTION

Shareholders are being asked to consider and, if thought fit, approve:

- (a) **(Resolution 1)** the Company issuing, under the Kerogen Placement, up to 22,222,222 Shares to Kerogen at the Placement Price to raise up to \$30 million on the terms and conditions of the Kerogen Subscription Agreement. The approval is required as Kerogen already has greater than 20% voting power in the Company, is a “related party” for the purposes of Listing Rule 10.11 of the Listing Rules and the issue of new Shares by the Company to Kerogen would exceed the Company's 15% placement capacity for the purposes of Listing Rule 7.1 of the Listing Rules;
- (b) **(Resolution 2)** under the Placement Options Exercise, Kerogen exercising the Placement Options at the Placement Options Exercise Price per Share, to raise a minimum of \$10 million. The approval is required as Kerogen already has greater than 20% voting power in the Company;
- (c) **(Resolution 3)** the Company and each Material Security Subsidiary providing the Junior Facility Security to Kerogen which is a requirement under the Facility Agreement that the Company entered into with Kerogen in December 2011. The Junior Facility Security will also extend to secure all amounts owing from time to time by the Company and its subsidiaries to Kerogen from time to time including under the Advance Facilities and the Placement Options Loan to be made as part of the Placement Options Exercise;
- (d) **(Resolution 4)** under the Inveraray Placement, the Company issuing up to 7,407,407 Shares to Inveraray at the Placement Price to raise up to \$10 million. The approval is required as Inveraray (together with its Associates) may have greater than 20% voting power in the Company, is a “related party” for the purposes of Listing Rule 10.11 of the Listing Rules and the issue of new Shares by the Company to Inveraray would exceed the Company's 15% placement capacity for the purposes of Listing Rule 7.1 of the Listing Rules;
- (e) **(Resolution 5)** approve the capacity of the Company to issue up to 3,703,704 Shares at \$1.35 per Share to Third Party Investors under the Third Party Placements (if applicable) at the Placement Price to raise up to \$5 million. The approval is required as the Company does not have any placement capacity under which to issue these Shares and the issue of new Shares by the Company to Third Party Investors would exceed the Company's 15% placement capacity for the purposes of Listing Rule 7.1 of the Listing Rules;
- (f) **(Resolution 6)** the grant to Allan Campbell of 3,750,000 options to acquire Shares at \$1.35 per Share. The approval is required under Listing Rule 10.11 of the Listing Rules and Chapter 2E of the Corporations Act as Allan Campbell is a related party of the Company, and for the purposes of section 611 item 7 of the Corporations Act, as, should the Campbell Options be exercised, the voting power of Allan Campbell (together with his Associates, including Andial) in the Company may exceed 20%; and

- (g) **(Resolution 7)** the grant to senior management of 1,250,000 options to acquire Shares at \$1.35 per Share. The approval is required as the issue (and exercise) of the Management Options would exceed the Company's 15% placement capacity for the purposes of Listing Rule 7.1 of the Listing Rules.

Resolution 4 and Resolution 5 are conditional on Resolution 1 and Resolution 2 being approved. Each of the other Proposed Resolutions is independent from the others and, therefore, each can be approved without the others being approved. Kerogen, however, has the right to terminate the Kerogen Placement, the Placement Options Exercise, the Inveraray Placement and the Third Party Placements if Resolution 3 is also not approved.

**Therefore, to ensure that the Company raises \$40 million, you must vote in favour of each of Resolution 1, Resolution 2 and Resolution 3.** This does not, however, prevent you from voting in favour of each of Resolution 4 and Resolution 5 which will permit Inveraray and any Third Party Investors to participate in the Inveraray Placement and the Third Party Placements.

**The Board unanimously recommend the Shareholders VOTE IN FAVOUR of each of Resolutions 1, 2 and 3 to be put to the meeting.**

**The Independent Directors unanimously recommend the Shareholders VOTE IN FAVOUR of each of Resolutions 4, 5, 6 and 7 to be put to the meeting.**

## **2 INTER-CONDITIONALITY OF RESOLUTIONS**

### **2.1 Some Resolutions are interlinked**

Various of the resolutions are interlinked as follows:

- (a) Resolution 4 is conditional on each of Resolution 1 and Resolution 2 being approved;
- (b) Resolution 5 is conditional on each of Resolution 1 and Resolution 2 being approved; and
- (c) Kerogen can terminate the Kerogen Placement and the Placement Options Exercise, (and the Inveraray Placement and the Third Party Placements, if applicable) if Resolution 3 is not approved.

### **2.2 Impact on the Company if Resolution 1 is not approved**

If Shareholders do not approve Resolution 1, none of the Kerogen Placement or the Placement Options Exercise (or the Inveraray Placement or the Third Party Placements, if any) will proceed.

In this event, the Company will not be able to raise any money. This will place the Company in significant financial difficulty as it will not immediately be able to repay any part of the ATO liabilities, may not be able to pay future cash calls made by Cuadrilla Resources Holdings Limited (**Cuadrilla**) or fund further loans to or investments in Lucas Energy (UK) Limited (**Lucas Energy**) to enable it to meet its capital needs for its European shale gas investments and may have insufficient working capital for its needs. At this time, the Company has no arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether and, if so, on what terms, it could do so.

Additionally, the Company will not be able to repay the Advance Facilities. If the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Placements, then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and ANZ to exercise rights to recover amounts owing to them.

### **2.3 Impact on the Company if Resolution 2 is not approved**

If Shareholders do not approve Resolution 2, none of the Kerogen Placement or the Placement Options Exercise (or the Inveraray Placement or the Third Party Placements, if any) will proceed. In this event, the Company will not be able to raise any money. This will place the Company in significant financial difficulty as it will not immediately be able to repay any part of the ATO liabilities, may not be able to pay future cash calls made by Cuadrilla or fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments and may have insufficient working capital for its needs. At this time, the Company has no arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it could do so.

Additionally, the Company will not be able to repay the Advance Facilities. As noted below, if the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Placements, then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and ANZ to exercise rights to recover amounts owing to them.

### **2.4 Implications if Resolution 3 is not approved**

If Shareholders do not approve Resolution 3, this will constitute an 'Event of Default' under the Facility Agreement which could result in all secured monies under that agreement becoming immediately due and payable. This is because, under the Facility Agreement, the Company is contractually bound to procure Shareholder approval under Resolution 3 before it can provide the Junior Facility Security.

Kerogen also has the right to terminate the Kerogen Placement, the Placement Options Exercise, the Inveraray Placement and the Third Party Placements (if any) if Resolution 3 is also not approved.

If Shareholders do not approve Resolution 3, the Company and its Material Security Subsidiaries will not be able to provide the Junior Facility Security to Kerogen by 20 September 2012. The consequences of a failure to grant the Junior Facility Security are:

- (a) it constitutes an 'Event of Default' under the Facility Agreement and the Advance Facilities;
- (b) it constitutes a cross default into the ANZ Facility; and
- (c) as a consequence, subject to the Intercreditor Deed arrangements between Kerogen and ANZ, Kerogen and/or ANZ may exercise rights against AJL and in the case of ANZ, subsidiaries of AJL to recover the amounts owing to them, including, in the case of ANZ, by enforcing its security.

If the Company was unable to immediately raise funds to repay Kerogen in full each of the Mezzanine Facility, the Advance Facilities and the Placement Options Loan (through debt or equity), both Kerogen and ANZ would be entitled to commence proceedings against the Company and (in the case of ANZ) its subsidiaries for the repayment of all amounts then outstanding. At this time, the Company has no arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it could do so.

## **2.5 Impact on the Company if Resolution 4 is not approved**

If Shareholders do not approve Resolution 4, the Inveraray Placement will not proceed.

However, if Resolution 1, Resolution 2 and Resolution 3 are approved, then the Company can raise \$40 million from Kerogen and/or (if Resolution 5 is approved) Third Party Investors.

## **2.6 Impact on the Company if Resolution 5 is not approved**

If Shareholders do not approve Resolution 5, the Third Party Placements will not be able to be made.

However, if Resolution 1, Resolution 2 and Resolution 3 are each approved, then the Company can raise \$40 million from Kerogen and/or (if Resolution 4 is approved) Inveraray.

## **2.7 Impact on the Company if Resolution 6 is not approved**

If Shareholders do not approve Resolution 6, no Campbell Options will be issued.

However, the Kerogen Placement and the Placement Options Exercise (and the Inveraray Placement or the Third Party Placements, if any) can proceed if the respective other resolutions are approved.

## **2.8 Impact on the Company if Resolution 7 is not approved**

If Shareholders do not approve Resolution 7, no Management Options will be issued.

However, the Kerogen Placement and the Placement Options Exercise (and the Inveraray Placement or the Third Party Placements, if any) can proceed if the respective other resolutions are approved.

# **3 BACKGROUND TO RESOLUTIONS 1 TO 4**

## **3.1 Lucas' previous financial condition**

Prior to the Recapitalisation, the combination of difficult trading conditions, the continued investment obligations in Cuadrilla and in the European shale gas investments held by Lucas Energy and the legacy of the funding structure implemented to effect the acquisition of Mitchell Drilling in 2008 squeezed cash flows and curtailed business operations.

The financial difficulties resulted in the Company being unable to participate in or be awarded a number of important opportunities in its operating businesses, particularly during 2011 and the current financial year.

### 3.2 Recapitalisation

In September 2011, the Company, in conjunction with Kerogen, a Hong Kong-based private equity fund specialising in and providing capital to small and medium sized companies in the energy and energy related sectors, announced the Recapitalisation.

The Recapitalisation comprised:

- (a) a placement of 9,917,650 Shares at \$1.35 per Share to Kerogen which raised approximately \$13.4 million;
- (b) the provision of the Mezzanine Facility and the granting of the Kerogen Options under which Kerogen provided debt finance of \$86.5 million to the Company and also subscribed for 18,566,763 options over Shares (each Kerogen Option entitling the holder to be issued one Share on exercise);
- (c) the RCPS Buy Back comprising the buy-back of all of the redeemable convertible preference shares in the Company;
- (d) the grant of the Goldman Sachs Fund Options to the Goldman Sachs Funds; and
- (e) the Entitlement Offer, a 1 for 2 non-renounceable entitlement offer, to raise approximately \$51.3 million.

Other than the Entitlement Offer, which raised approximately \$15.5 million less than the target amount, the Recapitalisation has been completed.

The Recapitalisation strengthened the Company's balance sheet and improved the liquidity of the Group and, importantly, allowed the Company to maintain its European shale gas exploration investment portfolio held principally through its 43% shareholding in Cuadrilla and 100% shareholding in Lucas Energy.

The funds raised under the Recapitalisation were used to reduce debt levels, repay part of the debt to the ATO, partially repay debt owed to ANZ, meet capital calls from Cuadrilla, fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments and strengthen the working capital position of the Company.

### 3.3 Results of the Entitlement Offer

The Entitlement Offer completed on 15 February 2012. The results of the Entitlement Offer were as follows:

|                                                                        |                                                 |
|------------------------------------------------------------------------|-------------------------------------------------|
| Maximum number of Shares for subscriptions under the Entitlement Offer | 38,017,657                                      |
| Number of Shares applied for by eligible Shareholders                  | 6,798,094 (of which 4,958,825 was from Kerogen) |
| <b>Total Shortfall Shares</b>                                          | <b>31,219,563</b>                               |

The Entitlement Offer was fully underwritten by Gleneagle Securities (Aust) Pty Limited. The underwriting was conditional on the Entitlement Offer being 100% sub-underwritten.

The sub-underwriters subscribed for 19,749,569 of the 31,219,563 Shortfall Shares (or 12,210,735 Shares less than the total number of Shortfall Shares). In total, Kerogen provided \$25.7 million of the total amount of \$26.7 million raised. No other Shortfall Shares were taken up by sub-underwriters. This resulted in the Company raising approximately \$35.8 million, \$15.5 million less than the expected \$51.3 million.

### **3.4 Use of proceeds from the Entitlement Offer**

The total amount raised under the Entitlement Offer and the Mezzanine Facility was approximately \$122.3 million.

The Company used the funds raised under the Entitlement Offer and Mezzanine Facility to:

- (a) repay part of the debt owed to the ATO (\$15 million);
- (b) repay part of the amounts owing under the senior facility with ANZ (\$7.3 million);
- (c) complete the RCPS Buy-Back (\$59.2 million);
- (d) meet capital calls from Cuadrilla (\$11.2 million); and
- (e) increase available working capital (\$29.6 million).

### **3.5 Impact of the Funding Shortfall on the Company**

The total amount raised under the Entitlement Offer was approximately \$15.5 million less than the target subscription of approximately \$51.3 million.

If the Company had received the additional \$15.5 million, the Company was expecting to use these funds, together with the cash flow expected to be generated from its operating businesses, to repay part of the ATO liabilities. The resulting improved balance sheet was also expected to assist, in particular, the BC&I division in winning additional work.

As announced to the ASX on 29 March 2012, the funding gap was exacerbated by a significant reduction in cash flow generation due to business disruption principally caused by abnormal rainfall during February and March 2012 and the continued difficulty experienced by the BC&I division in generating significant new work due to its undercapitalised balance sheet (**March Profit Downgrade**).

The combination of the Funding Shortfall and the reduced operating cash flow resulted in the Company not being able to pay down the ATO to the level expected.

In May and July 2012, the Company was required to secure an additional short term \$16 million loan facility from Kerogen (that is, the Advance Facilities) to enable it to meet its short term commitments. Kerogen has also agreed to provide an additional \$5 million to the Company in July and August 2012 under the Advance Facilities which will also be secured.

As announced to the ASX on 29 June 2012, the Company expects that the full year underlying EBITDA will fall within the range of \$24 million to \$26 million as a result of the continued difficult trading conditions due to periods of significant rainfall, rising input costs (particularly in regards to labour) and the ability of clients to terminate contracts for convenience. In the same announcement, the Company also stated that it expects to recognise a non-cash impairment of approximately \$36.8 million for the Drilling Division in the second half of 2011/12 financial year in

addition to other provisions, accounting losses and overhead expenses. The impairment is in relation to goodwill ascribed to the carrying value of the drilling division, predominantly generated from the premium over net assets paid for the acquisition of Mitchell Drilling.

Therefore, the Company now needs an additional equity injection to address its current business and investment capital demands.

### **3.6 ATO**

Due to the circumstances outlined above, the Company has been unable to further repay its liabilities to the ATO.

As at 31 May 2012, the principal amount outstanding to the ATO was \$37.524 million plus accrued general interest charges and penalties (as at 4 April 2012) of \$14.894 million.

The Company has presented a formal proposal to the ATO to resolve the outstanding tax and accrued general interest charges and penalties. Under the proposal, the Company proposed to pay an amount up to \$15 million out of the proceeds from the placements set out in this Notice of Meeting and Explanatory Statement. The balance is to be repaid over a negotiated period with repayments to be based on expected available free cash flow from operations. There are also repayment arrangements applying where additional cash flow is available from any asset sales made.

As at the date of this Notice of Meeting and Explanatory Statement, the Company is continuing to negotiate in respect of that proposal. The Company cannot, at this stage, state what the outcome of those negotiations will be, what the level of liability by the Company to the ATO will ultimately be or what the dates by which that liability will need to be paid are.

### **3.7 Addressing the funding requirements**

To address the funding requirements, the Board considered a number of alternative methods, including raising additional debt, undertaking equity raisings, asset sales and a combination of these. Specifically:

- (a) with respect to debt finance, the Board consider based on discussions with its existing debt financiers that it would be difficult to raise additional finance. If it were available, such finance would be at an interest rate that is materially higher than the interest rates that the Company currently pays under its Senior Facility given the non-availability of first or second ranking security (and could be in the order of 15.0% above BBSY or around 20.0% per annum). As any security would rank behind the Senior Facility and Kerogen, any debt funding would be likely to include equity conversion rights or profit sharing mechanisms which would be at least equivalent to those granted to Kerogen under the Mezzanine Facility, but at a significantly higher cost to the Company, and would need to be supported by an intercreditor deed with the senior financier and Kerogen. Such finance is therefore considered to be prohibitively expensive;
- (b) with respect to equity funding:
  - (i) the Board notes that the level of Shareholder participation (other than by Kerogen) in the recently completed Entitlement Offer was low. This can be at least partially attributed to the fact that the Entitlement Offer price at \$1.35 per Share was materially above the market price prevailing throughout the offer period. Therefore, Shareholders were able to purchase Shares on market at a

cheaper price than subscribing to their rights under the Entitlement Offer. The Board considers, however, that the Entitlement Offer price was appropriate, being equal to the price at which the 2011 Placement was conducted and a price at which certain investors had indicated they were still prepared to invest; and

- (ii) since the Company's Shares were reinstated to official quotation on 28 December 2011, the Share price has at all times closed below \$1.35, which was the issue price under the Entitlement Offer. Therefore, the Board does not consider that the Company could undertake a further rights issue at \$1.35 per Share as Shareholders can (at the date of this Notice of Meeting and Explanatory Statement) acquire Shares cheaper on market and there would therefore likely be a substantial shortfall which would pass to an underwriter (assuming that the Company was able to enter into a binding arrangement with an underwriter, which can not be assured at this time); and
  - (iii) any further rights issue at a discount (which given the relative size of the raising to the Company's market capitalisation, would likely need to be significant) to the prevailing market price would be highly dilutive to existing Shareholders who do not participate and, given that there are investors who are prepared to pay a higher price for Shares, the Board does not believe it would be in the best interests of Shareholders as a whole to conduct a discounted rights issue process; and
- (c) with respect to asset sales, the Company previously engaged financial advisers to conduct a competitive sales process to sell the whole or part of the Company's Drilling Division but, following consideration of the various indicative bids received, the Company decided not to pursue the sales process.

### **3.8 Preferred method for addressing the funding requirements**

The Company has determined that the preferred method of addressing the funding requirements is to make the Kerogen Placement and to authorise the Placement Options Exercise, which will generate \$40 million of free cash before issue costs (expected to be approximately \$300,000, significantly all of which have been incurred prior to the EGM).

The Board considered various methods by which the \$40 million could be raised, including a rights issue and various types of convertible equity. The primary objectives in considering the structure of the capital raising were to minimise Shareholder dilution and maximise certainty of the monies being raised.

In discussions with Kerogen, the Company's largest Shareholder, Kerogen advised the Company that it was prepared to commit to subscribe to an aggregate of \$40 million at \$1.35 per Share by way of the Kerogen Placement and the exercise of the Placement Options.

The issue price of \$1.35 per Share is approximately 35% more than the Market Price on the last Business Day before the date of this Notice of Meeting and Explanatory Statement.

Kerogen has agreed with the Company to provide Inveraray with a right to subscribe for up to \$10 million of the \$30 million to be raised under the Kerogen Placement. To do this, Inveraray can either elect to subscribe for the whole amount itself or can nominate up to two Third Party Investors (who must be approved by Kerogen in its absolute discretion and then enter into a

binding subscription agreement with the Company) to subscribe for an aggregate \$5 million of the \$10 million prior to 5:00 pm on the Final Confirmation Date (**Inveraray Commitment Deadline**).

In the event that:

- (a) Inveraray does not provide evidence satisfactory to the Company and Kerogen by the Inveraray Commitment Deadline that it has deposited its subscription funds (being an amount no greater than \$10 million less any amount agreed to be raised by Third Party Investors) into the HR Trust Account and such funds cannot be used otherwise that to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement;
- (b) any Third Party Investor does not execute a binding subscription agreement with the Company by the Inveraray Commitment Deadline;
- (c) Shareholder approval is not obtained for the Inveraray Placement and/or the Third Party Placements; or
- (d) Inveraray and/or Third Party Investors fail to complete their settlement obligations in respect of the respective Inveraray Placement or Third Party Placement in accordance with the relevant subscription agreement or if for any reason the new Shares are not issued to Inveraray and/or Third Party Investors under the Inveraray Placement and/or Third Party Placements on the Settlement Date,

then the number of new Shares to be issued to Kerogen under the Kerogen Placement will not be reduced by the number of Shares that were to be issued to Inveraray and/or Third Party Investors had the Shareholder approvals described in paragraph (c) above been obtained and/or had the event described in paragraph (d) above not occurred.

The Board has agreed that the placement of the new Shares to Kerogen best meets the objectives of the capital raising and is, therefore, in the best interests of the Company and its existing Shareholders.

The Board also takes comfort in the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise for three other reasons:

- (a) exercising existing options rather than issuing new Shares minimises Shareholder dilution;
- (b) at \$1.35 per Share, the Placement Price is equivalent to that at which the Shares were offered in the recent Entitlement Offer and is approximately 35% more than the Market Price on the last Business Day before the date of this Notice of Meeting and Explanatory Statement. Since the close of the Entitlement Offer in February 2012, the Market Price of the Shares has not closed at \$1.35 or above. The substantial premium to the Market Price minimises Shareholder dilution;
- (c) the substantial financial support already provided to the Company by Kerogen; and
- (d) the Independent Expert has determined that the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise are fair and reasonable.

Accordingly, considering all of these matters, the Board considers that the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise provide the best outcome for the Company and its Shareholders.

Please see **section 4** for more details on the Kerogen Placement, **section 5** for more details on the Placement Options Exercise by Kerogen, **section 7** for more details on the Inveraray Placement and **section 8** for more details on the Third Party Placements.

### **3.9 Use of proceeds**

The Company will use the proceeds of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and the Placement Option Loan, in the following order of priority:

- (a) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;
- (b) to meet working capital expenses for the drilling and BCI businesses; and
- (c) for the partial repayment of ATO liabilities.

### **3.10 Further capital initiatives may be required**

Notwithstanding that the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise are approved and implemented, depending on the Company's and Lucas Energy's capital requirements in relation to the Bowland shale prospect and Cuadrilla, the Company may have to undertake further capital management initiatives or the possible sale of assets. At the date of this Notice of Meeting and Explanatory Statement, the Company has met all current capital calls in relation to the Bowland shale prospect and Cuadrilla and the capital raising has had regard to the current Cuadrilla work program and budget. However, the level and timing of future payments will depend on when the UK Department of Energy & Climate Change (**DECC**) provides further direction regarding their decision on the resumption of hydraulic fracturing and any modifications to the drilling and fracking programs Cuadrilla may adopt in response.

### **3.11 Avoiding a Cuadrilla Change of Control Event**

As set out in section 2.4 of the 'Notice of Meeting and Explanatory Statement' issued by the Company on 18 November 2011, an important restraint on the Company when it comes to capital raising is the presence of the Cuadrilla Change of Control Event under the Cuadrilla Shareholders Agreement. In summary, this is triggered if a new entity starts to hold the majority of the Shares in the Company.

The Company is of the view that the Kerogen Placement will not trigger the Cuadrilla Change of Control Event.

### **3.12 Status of Cuadrilla**

As announced to the ASX on 2 June 2011, since 27 May 2011 Cuadrilla has suspended hydraulic fracturing (**fracking**) operations on the Bowland shale prospect following the occurrence of two minor earth tremors that were close to an area where Cuadrilla had engaged in fracking activities.

Since that time, DECC has engaged three independent experts to determine whether there was a link between the tremors and the fracking activities and, if so, to make recommendations for allowing fracking in the future.

As announced to the ASX on 17 April 2012, DECC published the independent expert report which recommended measures to be taken to mitigate the risks of seismic tremors from fracking and invited the public to comment for a six weeks period, which ended on 25 May 2012.

As announced to the ASX on 29 June 2012, pending further direction from DECC regarding their decision for the resumption of hydraulic fracturing, Cuadrilla has commenced implementing a number of the recommendations from the independent expert report in the pursuit of best practice.

However, there are uncertainties over whether the fracking will recommence.

In addition, on 10 May 2012, the Company released to the ASX the presentation it made to a shale gas conference organised by the investment bank, JP Morgan. This set out some of the parameters and conclusions relating to the development of the Bowland shale and its prospectivity compared to certain similar shales in the United States. On 29 June 2012, the Company, in an ASX release, referred to a report entitled "Shale gas extraction in the UK: a review of hydraulic fracturing" published by The Royal Society and The Royal Academy of Engineering and referred readers to the Company's web-site if they wished to obtain a copy of the report. The report examines concerns and makes recommendations in relation to fracking in the UK.

Separately, from time to time approaches are made to Cuadrilla or Cuadrilla shareholders regarding a possible involvement in the Bowland shale prospect. Having regard to the considerable financial, management, political, regulatory and technical complexities involved in and required for the development of this resource, Cuadrilla has appointed advisors and consultants to assist in the formulation of a conceptual development plan, to advise on the options available to Cuadrilla and to hold discussions with potentially interested parties. To date, this has progressed to the stage of management presentations and the establishment of a virtual data room. However, it must be emphasised that this exercise may or may not produce an outcome which will alter the Company's budgeted commitments in relation to the next stage of development of the Bowland shale prospect or any other assessments of value.

At this stage of the process, there are uncertainties as to whether appropriate proposals will come forward from third parties which can be accepted by Cuadrilla.

Separately, Roy Franklin OBE, a member of the Kerogen executive board, was appointed as a Director of Cuadrilla on 3 February 2012.

### **3.13 Independent Expert's valuation of Cuadrilla**

For the valuation of mining tenements, a specialist report, i.e. a geologist's report is usually commissioned to estimate the amount of resources or reserves and their range of values. The likelihood of the prospects proceeding to economically feasible projects would be inherent in any geologist report or valuation range. The Independent Expert has undertaken discussions with a number of independent industry experts who have knowledge of the information needed to perform valuations of similar prospects. All of the industry experts the Independent Expert held discussions with advised that, in their view, there is insufficient information available to calculate production flow rates, extraction costs and other information necessary to determine a meaningful range of values.

The fact that these assets have neither been valued, nor the economic feasibility opined on by a technical expert, means these assets may have (and Shareholders are urged to consider) a value either higher or lower than their historical cost and there is uncertainty as to their value. The impact of this is addressed in Section 6.9.1 of the Independent Expert's Report.

## **4 KEROGEN PLACEMENT (RESOLUTION 1)**

### **4.1 Rationale for the Kerogen Placement**

As set out in section 3.8, the Company has determined that the preferred method of addressing the funding gap is to make the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and authorise the Placement Options Exercise, which will generate at least \$40 million of free cash before issue costs.

Under the Kerogen Placement, Kerogen has committed, subject to certain conditions in the Kerogen Subscription Agreement set out in **Annexure B**, to subscribe for 22,222,222 Shares at the Placement Price (which has been set at \$1.35) to raise \$30 million reduced by a maximum of 7,407,407 Shares calculated as the aggregate number of Shares that:

- (a) Inveraray subscribes for as determined by Inveraray providing evidence satisfactory to the Company and Kerogen, by 5 pm on the Final Confirmation Date, that:
  - (i) Inveraray has irrevocably deposited in the HR Trust Account in immediately available funds its subscription funds (being an amount not greater than \$10 million less any amount agreed to be raised by Third Party Investors); and
  - (ii) such funds cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement,unless Resolution 4 is not passed by the Requisite Majority, in which case zero; and
- (b) Third Party Investors have, by the Final Confirmation Date, executed binding subscription agreements (approved by Kerogen in its absolute discretion) to subscribe for up to a maximum of 3,703,704 Shares, unless Resolution 5 is not passed by the Requisite Majority, in which case, zero.

You should note that if Inveraray and/or any Third Party Investor fails to complete their settlement obligations in respect of the Inveraray Placement and/or the Third Party Placements in accordance with the relevant subscription agreement, or if for any reason the new Shares referred are not issued to Inveraray and/or any Third Party Investors under the relevant subscription agreement on the Settlement Date, the number of Shares to be issued to Kerogen will not be reduced by the number of Shares to which the failure or non-issue relates.

### **4.2 Information about Kerogen, including its intentions for the Company**

Please see section 12 for details about Kerogen, including its intentions for the Company if the Kerogen Placement proceeds.

Note in particular that, as part of the Kerogen Placement and the Placement Options Exercise, Kerogen will receive the right to nominate a second director. Kerogen currently has the right to appoint one director while its shareholding is 15% or more. It has not exercised that right. The

additional nominee will only be appointed to the Board if the Board approves. Kerogen presently has no intention to exercise these rights (but it reserves the right to do so or otherwise seek to change the Board).

#### 4.3 Reasons to VOTE IN FAVOUR of the Kerogen Placement

The Board considers that the Kerogen Placement is each in the best interests of the Company and recommends that you **VOTE IN FAVOUR** of Resolution 1 to approve the Kerogen Placement.

The Board considers that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 1. They are:

- (a) ***adds strength to the Company's balance sheet:*** the funds received from the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise of at least \$40 million will add strength to the Company's balance sheet and, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities, will be used in the following order of priority:
  - (i) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;
  - (ii) to meet working capital expenses for the drilling and BC&I divisions; and
  - (iii) for the partial repayment of ATO liabilities;
- (b) ***failure to raise \$40 million will put the Company in significant financial difficulty:*** failure to raise the \$40 million will place the Company in significant financial difficulty as it will not immediately be able to repay agreed amounts to the ATO, may not be able to pay future cash calls expected to be made by Cuadrilla in the short term or fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments and may have insufficient working capital for the Company. Additionally, the Company will not be able to repay the Advance Facilities. If the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and the senior financier to exercise rights to recover amounts owing to them. At this time, the Company has no other arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it would do so;
- (c) ***Shares are being issued at a premium:*** the Shares to be issued under the Kerogen Placement are being issued at a premium of 35% to the Market Price;
- (d) ***Independent Expert's view:*** the Independent Expert has concluded that the Kerogen Placement is fair and reasonable (see section 4.9); and
- (e) ***the advantages outweigh the disadvantages:*** the advantages of the proceeding with the Kerogen Placement (including the Inveraray Placement and the Third Party

Placements, if applicable) and the Placement Options Exercise outweigh the disadvantages noted below.

#### 4.4 Reasons to VOTE AGAINST the Kerogen Placement

The Board considers that there are some disadvantages associated with the Kerogen Placement and Shareholders should take these into consideration when deciding how to vote on Resolution 1.

These disadvantages include:

- (a) ***increase in Kerogen's voting power in the Company:*** following completion of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, Kerogen will have voting power of between 42.30% to 47.88% in the Company, an increase of between 9.41% to 14.99% from its current voting power of 32.89%. Kerogen's voting power on completion of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise will depend on various scenarios described in section 11 of the Notice of Meeting and Explanatory Statement. However, as Kerogen is already the Company's largest shareholder, this disadvantage may already apply. Kerogen also currently holds directly 14,694,403 Kerogen Options and has a right to purchase from the Placement Agent all of the Gleneagle Options, which consist of 3,872,360 Kerogen Options.

However:

- (i) while Kerogen has greater than 20% voting power in the Company, unless otherwise approved by Shareholders, it cannot exercise any of the Kerogen Options at any time other than on a limited basis each six months to increase its voting power in the Company by no more than the 3% "creep" pursuant to section 611 item 9 of the Corporations Act;
  - (ii) the Foreign Investment Review Board has only permitted Kerogen to acquire up to 49.99% of the Company. This limits Kerogen's ability to exercise some of the Kerogen Options. Nonetheless, Kerogen could apply to FIRB to increase the FIRB Limit; and
  - (iii) under the Kerogen Subscription Agreement, Kerogen is able to unilaterally give up its right to repurchase up to a maximum number of 2,108,736 Gleneagle Options by notice to the Placement Agent. When such notice is provided by Kerogen, its right to repurchase the number of Gleneagles Options specified in that notice will irrevocably cease. Kerogen intends to exercise these rights to ensure that it does not exceed the FIRB Limit.
- (b) ***potential disincentive for future offers for your Shares:*** the increased voting power of Kerogen as a result of the Kerogen Placement may deter a third party from making a takeover offer for your Shares, as any third party seeking control of the Company would require acceptance by Kerogen given its substantial shareholding of between 42.30% to 47.88% and its ownership and right to re-purchase additional Kerogen Options. In these circumstances, it is possible that a takeover premium could not be realised except through a transaction supported by Kerogen. However, as Kerogen is already the Company's largest shareholder, this disadvantage may already apply; and

- (c) **conflict of interest between Kerogen and other Shareholders:** the interests of Kerogen might not always be aligned with the interests of other Shareholders. However, in these circumstances, other Shareholders will have the benefit of certain protections provided by applicable laws and the Listing Rules in relation to certain dealings between the Company and Kerogen. In addition, ASX has issued the 'ASX Corporate Governance Principles and Recommendations'. These are principles as to the composition and functioning of a listed company's board of directors. However, these principles are not mandatory. A company that chooses not to implement specific principles is only required to disclose in its annual report the extent to which the principles have not been followed and why not.

#### **4.5 Impact on AJL's balance sheet**

**Annexure F** is a pro forma balance sheet showing the effect on the Company's consolidated balance sheet as if the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise for \$40 million were implemented as at 31 May 2012.

#### **4.6 Independent Expert Recommendation**

The Board has engaged the Independent Expert to prepare an Independent Expert's Report expressing an opinion as to whether the Kerogen Placement is fair and reasonable to Shareholders who are not associated with Kerogen and its respective Associates.

The Independent Expert has concluded that the Kerogen Placement is fair and reasonable.

The Independent Expert's Report is attached as **Annexure G** and you should read it in full as part of your assessment of the Kerogen Placement, including the reasons given at section 6.9.1 for a valuation of Cuadrilla and the Bowland shale prospect primarily on a historical cost basis.

#### **4.7 Voting requirement and voting exclusions**

To be passed, Resolution 1 must be passed by an ordinary resolution of 50% of Shareholders present at the General Meeting or having voted by proxy. No votes will be cast on Resolution 1 by Kerogen or its Associates.

#### **4.8 Statement of voting intentions of Andial and Kerogen**

The Company has been advised by Andial that it intends to vote all of its Shares in favour of Resolution 1, subject to no superior proposal emerging. However, there are no voting arrangements or agreements in place with Andial.

#### **4.9 Board' recommendation**

The Board recommends that Shareholders **VOTE IN FAVOUR** of Resolution 1 to approve the Kerogen Placement.

In forming their recommendation, the Board has carefully considered the expected advantages, potential disadvantages and risks of the Kerogen Placement and the opinion of the Independent Expert. These matters are described in further detail in sections 4.3 and 4.4 and in the Independent Expert's Report which is contained at **Annexure G**.

The Board believes that the expected advantages of the Kerogen Placement outweigh the potential disadvantages and risks.

## **5 PLACEMENT OPTIONS EXERCISE (RESOLUTION 2)**

### **5.1 Rationale for the Placement Options Exercise**

As set out in section 3.8, the Company has determined that the preferred method of addressing the funding gap is to make the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and authorise the Placement Options Exercise, which will generate at least \$40 million of free cash before issue costs.

Kerogen holds 14,694,403 Kerogen Options which can be exercised by Kerogen, subject to the restrictions of the terms of issue of the Kerogen Options and the Corporations Act and the limits imposed on it by the Foreign Investment and Review Board (**FIRB**), at any time. Kerogen also has a right to purchase from the Placement Agent 3,872,360 Gleneagle Options. Of the 14,694,403 Kerogen Options, 7,407,604 may be exercised prior to 31 August 2012 and up to 7,286,799 may be cancelled prior to 31 August 2012 if part of the Mezzanine Facility is repaid by that date.

Kerogen seeks approval to exercise the Placement Options at the Placement Options Exercise Price per Share, to raise a minimum of \$10 million.

### **5.2 Information about Kerogen, including its intentions for the Company**

Please see section 12 for details about Kerogen, including its intentions for the Company if the Placement Options Exercise proceeds.

Note in particular that, as part of the Kerogen Placement and the Placement Options Exercise, Kerogen will receive the right to nominate a second director. Kerogen currently has the right to appoint one director while its shareholding is 15% or more. It has not exercised that right. The additional nominee will only be appointed to the Board if the Board approves. Kerogen presently has no intention to exercise these rights (but it reserves the right to do so or otherwise seek to change the Board).

### **5.3 Placement Options Loan**

As the Kerogen Options can be exercised at any time within 3 months from the EGM Date, the funds expected to be sourced from the exercise of these options may not be immediately available. This would adversely affect the cash flow of the Company.

To cover this issue, under the terms of the Kerogen Subscription Agreement, Kerogen has agreed to lend the Company an additional \$10 million (**Placement Options Loan**), equivalent to the amount that would be raised if the Kerogen Options were exercised at \$1.35 per Share. The terms of the Placement Options Loan are summarised as follows:

- (a) the Placement Options Loan will be made available if Kerogen does not exercise the Kerogen Options in accordance with the Options Terms by the Settlement Date;
- (b) the Placement Options Loan will be a short term loan to the Company of \$10 million;

- (c) the Placement Options Loan will be made under, or on terms substantially similar to, the Advance Facilities and will set off against the exercise of the Placement Options at the Placement Options Exercise Price; and
- (d) the amount provided under the Placement Options Loan will be a Secured Amount for the purposes of the Junior Facility Security in accordance with the authority to provide the Junior Facility Security under Resolution 3. This is because the security to Kerogen will secure all amounts loaned by Kerogen to the Company, including the existing loans referred to and any future loans it may make.

#### 5.4 Reasons to VOTE IN FAVOUR of the Placement Options Exercise

The Board considers that the Placement Options Exercise is in the best interests of the Company and recommends that you **VOTE IN FAVOUR** of Resolution 2 to approve the Placement Options Exercise.

The Board considers that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 2. They are:

- (a) ***adds strength to the Company's balance sheet:*** the funds received from the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise of at least \$40 million, will add strength to the Company's balance sheet and, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and the Placement Options Loan, be used in the following order of priority:
  - (i) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;
  - (ii) to meet working capital expenses for the drilling and BCI businesses; and
  - (iii) for the partial repayment of ATO liabilities.

The proceeds of the Placement Options Exercise cannot be used for any other purpose, including to repay any amounts owing under the Mezzanine Facility or to fund or manage any investments other than in respect of Cuadrilla and/or Lucas Energy;

- (b) ***failure to raise \$40 million will put the Company in significant financial difficulty:*** failure to raise the \$40 million will place the Company in significant financial difficulty as it will not immediately be able to repay agreed amounts to the ATO, may not be able to pay future cash calls expected to be made by Cuadrilla in the short term or fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments and may have insufficient working capital for the Company. Additionally, the Company will not be able to repay the Advance Facilities. If the Advance Facilities are not repaid by 15 September 2012 (or later date agreed by Kerogen) from the proceeds of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), then an event of default will occur under that agreement allowing Kerogen (subject to the Intercreditor Deed) and the senior financier to exercise rights to recover amounts owing to them. At this time,

the Company has no other arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it would do so;

- (c) ***Shares are being issued at a premium:*** the Shares to be issued under the Placement Options Exercise are being issued at a minimum premium of 35% to the Market Price;
- (d) ***non-dilutory effect:*** the exercise of the existing Kerogen Options, rather than the issue of new Shares, serves to minimise the dilution to other Shareholders in raising the required funds;
- (e) ***Independent Expert's view:*** the Independent Expert has concluded that the Placement Options Exercise is fair and reasonable (see section 5.7); and
- (f) ***the advantages outweigh the disadvantages:*** the advantages of the proceeding with the Placement Options Exercise outweigh the disadvantages noted below.

## 5.5 Reasons to VOTE AGAINST the Placement Options Exercise

The Board considers that there are some disadvantages associated with the Placement Options Exercise and Shareholders should take these into consideration when deciding how to vote on Resolution 2.

These disadvantages include:

- (a) ***increase in Kerogen's voting power in the Company:*** following completion of the Placement Options Exercise and the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), Kerogen will have voting power of between 42.30% to 47.88% in the Company, an increase of between 9.41% to 14.99% from its current voting power of 32.89%. Kerogen's voting power on completion of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise will depend on various scenarios described in section 11 of the Notice of Meeting and Explanatory Statement. However, as Kerogen is already the Company's largest shareholder, this disadvantage may already apply;

Following the Placement Options Exercise, Kerogen will:

- (i) hold directly 7,286,996 Kerogen Options; and
- (ii) have the right to purchase the Gleneagle Options from the Placement Agent.

However:

- (iii) while Kerogen has greater than 20% voting power in the Company, unless otherwise approved by Shareholders, it cannot exercise any of the Kerogen Options at any time other than on a limited basis each six months to increase its voting power in the Company by no more than the 3% "creep" pursuant to section 611 item 9 of the Corporations Act;
- (iv) the Foreign Investment Review Board has permitted Kerogen to acquire up to 49.99% in the Company. This may limit Kerogen's ability to exercise some of the Kerogen Options. Nonetheless, Kerogen could apply to FIRB to increase the FIRB Limit; and

- (v) under the Kerogen Subscription Agreement, Kerogen is able to unilaterally give up its right to repurchase up to a maximum number of 2,108,736 Gleneagle Options by notice to the Placement Agent. When such notice is provided by Kerogen, its right to repurchase the number of Gleneagles Options specified in that notice will irrevocably cease. Kerogen intends to exercise these rights to ensure that it does not exceed the FIRB Limit;
- (b) ***potential disincentive for future offers for your Shares***: the increased voting power of Kerogen as a result of the Placement Options Exercise may deter a third party from making a takeover offer for your Shares, as any third party seeking control of the Company would require acceptance by Kerogen given its substantial shareholding of between 42.30% to 47.88% and its ownership and right to re-purchase additional Kerogen Options. In these circumstances, it is possible that a takeover premium could not be realised except through a transaction supported by Kerogen. However, as Kerogen is already the Company's largest shareholder, this disadvantage may already apply; and
- (c) ***conflict of interest between Kerogen and other Shareholders***: the interests of Kerogen might not always be aligned with the interests of other Shareholders. However, in these circumstances, other Shareholders will have the benefit of certain protections provided by applicable laws and the Listing Rules in relation to certain dealings between the Company and Kerogen. In addition, ASX has issued the 'ASX Corporate Governance Principles and Recommendations'. These are principles as to the composition and functioning of a listed company's board of directors. However, these principles are not mandatory. A company that chooses not to implement specific principles is only required to disclose in its annual report the extent to which the principles have not been followed and why not.

## 5.6 Impact on AJL's balance sheet

**Annexure F** is a pro forma balance sheet showing the effect on the Company's consolidated balance sheet as if the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise for \$40 million were implemented as at 31 May 2012.

## 5.7 Independent Expert Recommendation

The Independent Expert has prepared an Independent Expert's Report expressing an opinion as to whether the Placement Options Exercise is fair and reasonable to Shareholders who are not associated with Kerogen and its respective Associates.

The Independent Expert has concluded that the Placement Options Exercise is fair and reasonable.

The Independent Expert's Report is set out in **Annexure G** and you should read it in full as part of your assessment of the Placement Options Exercise.

## 5.8 Voting requirement and voting exclusions

To be passed, Resolution 2 must be passed by an ordinary resolution of 50% of Shareholders present at the General Meeting or having voted by proxy. No votes will be cast on Resolution 2 by Kerogen or its Associates.

## **5.9 Statement of voting intentions of Andial**

The Company has been advised by Andial that it intends to vote all of its Shares in favour of Resolution 2, subject to no superior proposal emerging. However, there are no voting arrangements or agreements in place with Andial.

## **5.10 Board' recommendation**

The Board recommends that Shareholders **VOTE IN FAVOUR** of Resolution 2 to approve the Placement Options Exercise.

In forming their recommendation, the Board has carefully considered the expected advantages, potential disadvantages and risks of the Placement Options Exercise and the opinion of the Independent Expert. These matters are described in further detail in sections 5.4 and 5.5 and in the Independent Expert's Report which is contained at **Annexure G**.

The Board believes that the expected advantages of the Placement Options Exercise outweigh the potential disadvantages and risks.

## **6 JUNIOR FACILITY SECURITY (RESOLUTION 3)**

### **6.1 Background and purpose of Resolution 3**

As detailed in the Notice of Extraordinary General Meeting and Explanatory Statement dated 18 November 2011, the Company has entered into a debt facility with Kerogen under which Kerogen provided the Mezzanine Facility to the Company.

On 11 May 2012, 6 July 2012 and on or about 26 July 2012, the Company entered into the Advance Facilities with Kerogen under which Kerogen agreed to advance the Advance Loans to the Company. Kerogen has also agreed, subject to satisfaction of the conditions precedent in the Kerogen Subscription Agreement, to provide the Company with the Placement Options Loan to ensure that the Company has access to the minimum amount to be raised under the Placement Options Exercise for the period between the Settlement Date and the date that the Placement Options are exercised.

The Junior Facility Security will apply to secure the amounts due under each of the Mezzanine Facility, Advance Facilities and the Placement Options Loan.

Under the terms of the Facility Agreement and to support the Advance Facilities and the Placement Options Loan, the Company and each Material Security Subsidiary is required to grant security over all of its assets by entering into a 'Security Trust Deed' and grant the Junior Facility Security by 20 September 2012. Under the Security Trust Deed, the Company and each Material Security Subsidiary will provide the Junior Facility Security.

However, before the Company and each Material Security Subsidiary can provide the Junior Facility Security, Shareholder approval is required under the provisions of Chapter 2J of the Corporations Act authorising the Company and each Material Security Subsidiary to provide 'financial assistance' in connection with Kerogen's acquisition of Shares in the Company.

Resolution 3 seeks Shareholder approval for the provision of this 'financial assistance' in accordance with the requirements of Chapter 2J of the Corporations Act.

This section of this Notice of Meeting and Explanatory Statement is provided to Shareholders for the purpose of section 260B(4) of the Corporations Act.

## **6.2 The requirement for Shareholder approval under section 260A of the Corporations Act**

Under section 260A of the Corporations Act (which is part of Chapter 2J), a company may financially assist a person to acquire shares (or units of shares) in the company or a holding company of the company only if:

- (a) giving the assistance does not materially prejudice:
  - (i) the interests of the company or its Shareholders; or
  - (ii) the company's ability to pay its creditors; or
- (b) the assistance is approved by Shareholders under section 260B of the Corporations Act; or
- (c) the assistance is exempt under section 260C of the Corporations Act.

A company may be regarded as giving financial assistance if it gives something needed in order that a transaction can be carried out or is something in the nature of aid or help. Examples of financial assistance include issuing a debenture, giving security over the company's assets and giving a guarantee or indemnity in respect of another person's liability.

## **6.3 The financial assistance under the Junior Facility Security**

By executing, or acceding to, the Junior Facility Security and granting security over all of its assets, the Company and each Material Security Subsidiary may be regarded as giving financial assistance to Kerogen, which may acquire Shares in the Company as part of the Kerogen Placement and the Placement Options Exercise and which acquired Shares in the Company as part of the Recapitalisation.

Shareholders are being asked to approve the financial assistance under section 260B of the Corporations Act. Specifically, Shareholders are being asked to approve the transactions described in this Notice of Meeting and Explanatory Statement and all elements of those transactions that may constitute financial assistance by the Company and each Material Security Subsidiary for the purposes of section 260A of the Corporations Act, including (without limitation) that the Company and each Material Security Subsidiary provide the Junior Facility Security.

## **6.4 Reasons to VOTE IN FAVOUR of Resolution 3**

The Board considers that the provision of the Junior Facility Security is in the best interests of the Company and recommends that you **VOTE IN FAVOUR** of Resolution 3 to approve the provision of the Junior Facility Security.

The Board considers that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 3. They are:

- (a) ***it will allow the Company to complete the Kerogen Placement and the Placement Options Exercise***: the provision of the Junior Facility Security is a condition precedent to Kerogen providing up to \$40 million under the Kerogen Placement and the Placement

Options Exercise. This will provide the benefits set out in sections 4.3 and 5.4. This condition precedent is for Kerogen's benefit solely and can only be waived by Kerogen;

- (b) ***it is an obligation of the Company under the Facility Agreement:*** under the terms of the Facility Agreement and also to support the Advance Facilities and all other amounts owing to Kerogen from time to time, the Company and each Material Security Subsidiary is required to enter into a 'Security Trust Deed' with Kerogen and to grant the Junior Facility Security by 13 July 2012. Kerogen has agreed to extend the date for the provision of the Junior Facility Security to no later than 20 September 2012. Approving Resolution 3 will keep the Company in compliance with its contractual obligations;
- (c) ***it is a default of the Mezzanine Facility if it is not approved:*** if the Company and its Material Security Subsidiaries cannot provide the Junior Facility Security to Kerogen by 20 September 2012, it constitutes an Event of Default under the Facility Agreement. The consequences of a failure to grant the Junior Facility Security are:
  - (i) it also constitutes a cross default into the ANZ Facility; and
  - (ii) as a consequence, subject to the Intercreditor Deed arrangements between Kerogen and ANZ, Kerogen and/or ANZ may exercise rights against AJL and in the case of ANZ, subsidiaries of AJL to recover the amounts owing to them, including in the case of ANZ by enforcing its security; and
- (d) ***no other arrangements:*** at this time, the Company has no other arrangements in place to obtain funding from an alternative source and there is uncertainty as to whether, and if so, on what terms, it could do so.

Approving Resolution 3 avoids this risk.

## 6.5 Reasons to VOTE AGAINST Resolution 3

The Board considers that there are NO disadvantages associated with the provision of the Junior Facility Security and Shareholders should take these into consideration when deciding how to vote on Resolution 3.

In particular, the Board are of the view that the Junior Facility Security is contractually required, it supports the funding requirements of the Company and the Group and, without it, Shareholders run the risk that the lenders will enforce and the value of their Shares will be materially eroded or eliminated.

A possible disadvantage is that the giving of the Junior Facility Security restricts the ability of the Company to incur further debt and it is possible that this could materially prejudice the interests of the Company and its Shareholders. However, representatives of the Company participated in negotiations in relation to the Junior Facility Security and the Board has agreed to those arrangements because they believe them to be in the Company's best interests.

## 6.6 Board' recommendation

For the reasons set out in section 6.4, the Board has formed a view that the giving of financial assistance and entering into the Junior Facility Security is in the best interests of the Company and each Material Security Subsidiary.

Therefore, the Board recommends that Shareholders **VOTE IN FAVOUR** of Resolution 3.

## **6.7 Statement of voting intentions of Andial**

The Company has been advised by Andial that it intends to vote all of its Shares in favour of Resolution 3. However, there are no voting arrangements or agreements in place with Andial.

## **6.8 Voting requirement and voting exclusions**

To be passed, Resolution 3 must be passed by a special resolution of 75% of Shareholders present at the General Meeting or having voted by proxy. No votes will be cast on Resolution 3 by Kerogen.

## **6.9 Notice to ASIC**

Copies of this Notice of Meeting and Explanatory Statement were lodged with ASIC before being sent to members in accordance with section 260B(5) of the Corporations Act.

# **7 INVERARAY PLACEMENT (RESOLUTION 4)**

## **7.1 Rationale for Inveraray Placement**

The Company and Inveraray have agreed that, by no later than the Inveraray Commitment Deadline, Inveraray will have the right to subscribe for up to \$10 million of the \$30 million Kerogen Placement, either itself and / or by nominating up to two Third Party Investors to subscribe for a maximum of, in aggregate, \$5 million of the \$10 million.

Inveraray can only elect to make the Inveraray Placement as follows:

- (a) if Inveraray is committing to subscribe for any of the Shares under the Inveraray Placement, by the Inveraray Commitment Deadline, Inveraray must provide evidence satisfactory to the Company and Kerogen that:
  - (i) it has deposited in the HR Trust Account in immediately available funds the full amount that it commits to subscribe (being an amount not greater than \$10 million less the Third Party Placement Amount); and
  - (ii) such funds cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement;
- (b) if Inveraray wants to nominate Third Party Investors, the Third Party Investors can only subscribe, in aggregate, for up to 3,703,704 (with a value of up to \$5 million) of the 7,407,407 Shares available under the Kerogen Placement;
- (c) to nominate a Third Party Investor, by the Inveraray Commitment Deadline, the following must occur:
  - (i) Inveraray must nominate the Third Party Investors and the amounts which each Third Party Investor is prepared to subscribe to the Company and Kerogen;
  - (ii) Kerogen must provide its approval of the nomination or nominations (to be provided or withheld in its absolute discretion); and

- (iii) once Kerogen approves the nomination, the Company and each Third Party Investor must enter into a binding subscription agreement in respect of an amount and on terms which has been approved by Kerogen (which it can provide or withhold in its absolute discretion);
- (d) to the extent that the requirements set out by paragraphs (a) to (c) above have been satisfied by the relevant party, the amount to be raised by Kerogen (and the number of new Shares to be issued to Kerogen) under the Kerogen Placement will be reduced by the amount subscribed for and paid (and the number of new Shares to be issued to Inveraray and/or Third Party Investors) by Inveraray and/or any Third Party Investors;
- (e) notwithstanding paragraphs (a) to (c) above, if Shareholder approval of Resolution 4 is not obtained, then Inveraray cannot subscribe for any of the Inveraray Placement Shares. In that case, the number of Shares to be issued to Kerogen under the Kerogen Placement will not be reduced by the number of new Shares that were to be issued to Inveraray under the Inveraray Placement. The Company must provide an Adjustment Notice to Kerogen should this event occur and Kerogen will then have 15 Business Days from when the Adjustment Notice is provided to settle that subscription;
- (f) notwithstanding paragraphs (a) to (c) above, if Shareholder approval of Resolution 5 is not obtained, then Third Party Investors cannot subscribe for any of the Third Party Placement Shares. In that case, the number of Shares to be issued to Kerogen under the Kerogen Placement will not be reduced by the number of new Shares that were to be issued to Third Party Investors under the Third Party Placement. The Company must provide an Adjustment Notice to Kerogen should this event occur and Kerogen will then have 15 Business Days from when the Adjustment Notice is provided to settle that subscription; and
- (g) where Inveraray and/or Third Party Investors fail to complete their settlement obligations in respect of the Inveraray Placement or the Third Party Placements (as applicable) in accordance with the relevant subscription agreement, or if for any reason the new Shares are not issued to Inveraray and/or Third Party Investors under the Inveraray Placements and/or Third Party Placements on the Settlement Date, then the number of Shares to be issued to Kerogen under the Kerogen Placement will not be reduced by the number of Shares to which the failure or non-issue relates. The Company must provide an Adjustment Notice to Kerogen should this event occur and Kerogen will then have 15 Business Days from when the Adjustment Notice is provided to settle that subscription.

## **7.2 Information about Inveraray, including its intentions for the Company**

Please see section 13 for details about Inveraray, including its intentions for the Company if the Inveraray Placement proceeds.

## **7.3 Reasons to VOTE IN FAVOUR of the Inveraray Placement**

The Independent Directors consider that the Inveraray Placement is in the best interests of the Company and recommend that you **VOTE IN FAVOUR** of and Resolution 4 to approve the Inveraray Placement.

The Independent Directors consider that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 4. They are:

- (a) ***adds strength to the Company's balance sheet:*** the funds received from the Kerogen Placement (including the Inveraray Placement and the Third Party Placements) and the Placement Options Exercise of at least \$40 million will add strength to the Company's balance sheet and, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and the Placement Options Loan, will be used in the following order of priority:
  - (i) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;
  - (ii) to meet working capital expenses for the drilling and BCI businesses; and
  - (iii) for the partial repayment of ATO liabilities.

**You should note that should Resolution 4 not be approved, but Resolution 1, Resolution 2 and Resolution 3 are approved, the Company can still raise \$40 million from Kerogen and/or (if Resolution 5 is approved) Third Party Investors;**

- (b) ***Shares are being issued at a premium:*** the Shares to be issued under the Inveraray Placement are being issued at a premium of 35% to the Market Price;
- (c) ***Independent Expert's view:*** the Independent Expert has concluded that the Inveraray Placement is fair and reasonable (see section 7.6); and
- (d) ***the advantages outweigh the disadvantages:*** the advantages of the proceeding with the Kerogen Placement (including the Inveraray Placement and the Third Party Placements) and the Placement Options Exercise outweigh the disadvantages noted below.

#### **7.4 Reasons to VOTE AGAINST the Inveraray Placement**

The Independent Directors consider that there are some disadvantages associated with the Inveraray Placement and Shareholders should take these into consideration when deciding how to vote on Resolution 4.

The disadvantages include that:

- ***increase in Andial and Inveraray's voting power in the Company:***
  - if the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) occurs prior to new Shares being issued as result of the Placement Options Exercise, Andial, Inveraray and their Associates will have voting power of between 14.15% and 20.06% in the Company, a maximum increase of up to 2.86% from its current voting power of 17.20%;and

- following completion of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, Andial, Inveraray and their Associates will have voting power of between 13.36% and 18.94% in the Company, a maximum increase of up to 1.74% from its current voting power of 17.20%; and
- it is possible that the disadvantages detailed in sections 4.4(b) and (c) could apply with respect to the Inveraray Placement.

## 7.5 Impact on AJL's balance sheet

**Annexure F** is a pro forma balance sheet showing the effect on the Company's consolidated balance sheet as if the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise for \$40 million were implemented as at 31 May 2012.

## 7.6 Independent Expert Recommendation

The Independent Directors have engaged the Independent Expert to prepare an Independent Expert's Report expressing an opinion as to whether the Inveraray Placement is fair and reasonable to Shareholders who are not associated with Inveraray and its respective Associates.

The Independent Expert has concluded that the Inveraray Placement is fair and reasonable.

The Independent Expert's Report is attached as **Annexure G** and you should read it in full as part of your assessment of the Inveraray Placement, including the reasons given at section 6.9.1 for a valuation of Cuadrilla and the Bowland shale prospect primarily on a historical cost basis.

## 7.7 Voting requirement and voting exclusions

To be passed, Resolution 4 must be passed by an ordinary resolution of 50% of Shareholders present at the General Meeting or having voted by proxy. No votes will be cast on Resolution 4 by Inveraray and each of its Associates (including Andial).

## 7.8 Statement of voting intentions of Kerogen

The Company has been advised by Kerogen that, subject to Resolution 1, Resolution 2 and Resolution 3 being approved, it intends to vote all of its Shares in favour of Resolution 4. However, there are no voting arrangements or agreements in place with Kerogen.

## 7.9 Independent Directors' recommendation

The Independent Directors recommend that Shareholders **VOTE IN FAVOUR** of Resolution 4 to approve the Inveraray Placement.

In forming their recommendation, the Independent Directors have carefully considered the expected advantages, potential disadvantages and risks of the Inveraray Placement and the opinion of the Independent Expert. These matters are described in further detail in sections 7.3 and 7.4 and in the Independent Expert's Report which is contained at **Annexure G**.

The Independent Directors believe that the expected advantages of the Inveraray Placement outweigh the potential disadvantages and risks.

## 8 THIRD PARTY PLACEMENTS (RESOLUTION 5)

### 8.1 Rationale for Resolution 5

Resolution 5 is necessary to enable Third Party Investors to subscribe for Shares as part of the Kerogen Placement (if applicable).

Under the Inveraray Subscription Agreement, Inveraray has the ability to nominate up to two Third Party Investors to subscribe for up to 3,703,704 Shares out of the 7,407,407 Shares of the 22,222,222 Shares under the Kerogen Placement. Kerogen (in its absolute discretion) has the right to approve that nomination and the amounts and terms of the subscription.

If approved, each Third Party Investor and the Company must execute a Third Party Subscription Agreement by the Final Confirmation Date.

### 8.2 Legal basis for Resolution 5

Listing Rule 7.1 of the Listing Rules provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as options), if the number of those securities exceeds 15% of the number of ordinary securities on issue at the commencement of that 12 month period.

The issue of Shares under the Kerogen Placement (including the Inveraray Placement, if applicable) are authorised by Resolution 1 and Resolution 4. However, the Third Party Placements (if any) will require separate placement capacity. At this time, the Company does not have any available capacity under Listing Rule 7.1.

The purpose of Resolution 5 is to provide this capacity.

### 8.3 Reasons to VOTE IN FAVOUR of the Third Party Placements

The Independent Directors consider that the Third Party Placements are in the best interests of the Company and recommend that you **VOTE IN FAVOUR** of and Resolution 5 to approve the Third Party Placements.

The Independent Directors consider that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 5. They are:

- (a) ***adds strength to the Company's balance sheet:*** the funds received from the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise of at least \$40 million will add strength to the Company's balance sheet and, after setting off against any amount owing by the Company to Kerogen under the Advance Facilities and the Placement Options Loan, will be used in the following order of priority:
  - (i) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, in each case, as they fall due;

- (ii) to meet working capital expenses for the drilling and BCI businesses; and
- (iii) for the partial repayment of ATO liabilities.

**You should note that, should Resolution 5 not be approved, but Resolution 1, Resolution 2 and Resolution 3 are approved, the Company can still raise \$40 million from Kerogen and/or (if Resolution 4 is approved) Inveraray; and**

- (b) ***Shares are being issued at a premium:*** the Shares to be issued under the Third Party Placements are being issued at a premium of 35% to the Market Price and, therefore, minimise dilution for current Shareholders.

#### **8.4 Reasons to VOTE AGAINST the Third Party Placements**

The Independent Directors consider that there are no disadvantages associated with the Third Party Placements and Shareholders should take this into consideration when deciding how to vote on Resolution 5.

#### **8.5 Impact on AJL's balance sheet**

**Annexure F** is a pro forma balance sheet showing the effect on the Company's consolidated balance sheet as if the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise for \$40 million were implemented as at 31 May 2012.

#### **8.6 Voting requirement and voting exclusions**

To be passed, Resolution 5 must be passed by an ordinary resolution of 50% of Shareholders present at the General Meeting or having voted by proxy.

No votes will be cast on Resolution 5 by the Third Party Investors and any of their Associates.

#### **8.7 Statement of voting intentions of Andial and Kerogen**

The Company has been advised by Andial that it intends to vote all of their Shares in favour of Resolution 5.

The Company has been advised by Kerogen that, subject to Resolution 1, Resolution 2 and Resolution 3 being approved, it intends to vote all of its Shares in favour of Resolution 5.

However, there are no voting arrangements or agreements in place with either Kerogen or Andial.

#### **8.8 Independent Directors' recommendation**

The Independent Directors recommend that Shareholders **VOTE IN FAVOUR** of Resolution 5 to approve the Third Party Placements.

The Independent Directors believe that the expected advantages of the Third Party Placements outweigh the potential disadvantages and risks.

## **9 GRANT OF CAMPBELL OPTIONS (RESOLUTION 6)**

### **9.1 Background to Resolution 6**

Resolution 6 seeks Shareholder approval in accordance with Listing Rule 10.11, Chapter 2E of the Corporations Act and section 611, Item 7 of the Corporations Act for the grant of 3,750,000 Management Options to Mr Allan Campbell, the Chairman and CEO (**Campbell Options**).

The purpose of the grant of the Campbell Options to Mr Campbell is for the Company to incentivise Mr Campbell in his role as CEO to address the existing business risks in a manner that benefits all Shareholders. The number of Campbell Options proposed to be granted to Mr Campbell has been designed to provide a sufficient incentive for Mr Campbell to maximise his performance.

The Independent Directors believe that it is important to all shareholders that the Chief Executive Officer is properly incentivised and remunerated to maximise value for all Shareholders. Given the number of extraordinary challenges that the Company faces, particularly in the current difficult Australian economic environment, this demands additional effort of the CEO beyond that which would normally be expected.

The Company is currently constrained from paying additional cash remuneration to compensate the CEO for these additional efforts. Accordingly, it is proposed that the options be granted as a means of rewarding the CEO without placing additional demands on the Company's cash flow. In addition, the proposed option scheme, which only crystallises if the share price exceeds \$2.50 for at least 10 days in a 20 day trading period and which represents a significant premium to the current share price, provides an additional incentive to the CEO to improve the performance of the Company's businesses further aligning his interests with those of the other shareholders.

The exercise price for the Campbell Options is equal to the exercise price for the Kerogen Options, which aligns the interests of shareholders and Mr Campbell. The Campbell Options will be granted prior to the issue of new Shares to Kerogen under the Kerogen Placement. The Campbell Options will expire on 7 December 2015 if they have not vested or been exercised prior to that date.

### **9.2 Listing Rule approvals**

Shareholder approval is required under Listing Rule 10.11 to permit a director to acquire new securities of the Company.

Further, Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as options), if the number of those securities exceeds 15% of the number of ordinary securities on issue at the commencement of that 12 month period. The Campbell Options to be issued under Resolution 6 would at this time fall within Exception 14 of Listing Rule 7.2.

If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

One of the effects of Resolution 6 in its current form would be to allow Mr Campbell to be granted the Campbell Options without using the Company's 15% annual placement capacity.

### 9.3 Further Information for Listing Rule 10.13

Pursuant to and in accordance with Listing Rule 10.13, the following information is provided in respect of the Campbell Options to which Resolution 6 relates:

- (a) the maximum number of Campbell Options to be granted is 3,750,000;
- (b) the Campbell Options will be granted prior to the issue of new Shares to Kerogen under the Kerogen Placement and it is intended that grant of all Campbell Options will occur on the same date, being on or around 10 September 2012 (**Grant Date**);
- (c) the vesting date for the Campbell Options can occur no earlier than 31 December 2013 and will only occur if the Market Price for the Shares closes at in excess of \$2.50 each day for a period of 10 days in any 20 day trading period that occurs at least 12 months after the Grant Date;
- (d) the Campbell Options will expire on 7 December 2015;
- (e) each Campbell Option entitles the holder to subscribe for 1 Share at an exercise price of \$1.35 per Share;
- (f) the recipient of the Campbell Options will be Mr Allan Campbell;
- (g) upon exercise of the Campbell Options, the Shares issued will rank pari passu with the Company's existing Shares on issue and the Company will apply for quotation of the Shares issued on the ASX. Further terms and conditions of the Campbell Options are set out in **Annexure D**; and
- (h) no funds will be raised by the grant of the Campbell Options. An amount of \$5,062,500 will be payable to the Company if all of the Campbell Options are exercised.

### 9.4 Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior Shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, Mr Campbell is a related party and the grant of the Campbell Options to him constitutes the giving of a financial benefit.

Accordingly, Shareholder approval is required.

### 9.5 Further Information for Chapter 2E

In accordance with the requirements of Chapter 2E and, in particular, section 219 of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of the Campbell Options to Mr Campbell:

(a) **Related Party**

The related party to whom the proposed resolutions would permit the financial benefit to be given is Allan Stuart Campbell.

(b) **Nature of the financial benefit**

The nature of the financial benefit to be given to Mr Campbell is the grant to him of 3,750,000 Campbell Options. No funds will be raised by the grant of the Campbell Options to Mr Campbell.

The particular number of the Campbell Options for Mr Campbell was chosen by the Independent Directors as an appropriate number having regard to other remuneration components, his vital contribution to the commercialisation of the Company's investment in Cuadrilla and its other oil and gas investments and to provide him with a realistic and meaningful incentive.

(c) **Independent Directors' recommendation and basis of financial benefit**

Mr Campbell has a material personal interest in the outcome of Resolution 6 and, therefore, he makes no recommendation to Shareholders.

The primary purpose of the issue of the Campbell Options to Mr Campbell is to properly incentivise and remunerate Mr Campbell to maximise value for all Shareholders for the reasons set out in section 9.1. Given this purpose, the Independent Directors do not consider that there is any opportunity cost or benefit foregone to the Company in issuing the Campbell Options proposed by Resolution 6.

The Independent Directors recommend that Resolution 6 be passed as it aligns the interests of the Company and Mr Campbell to maximise Shareholder value. None of the Independent Directors have any interest in the outcome of the proposed resolution.

(d) **Dilution**

As at the date of this Notice of Meeting and Explanatory Statement, the capital structure of the Company before the Placements, the Placement Options Exercise or the grant of either the Campbell Options or the Management Options is as follows:

| Securities      | Number                  |
|-----------------|-------------------------|
| Shares          | 103,027,291             |
| Existing Rights | 343,861                 |
| Goldman Options | 1,000,000               |
| Kerogen Options | 18,566,763 <sup>1</sup> |

If Shareholders approve Resolution 6, each of the Placements and the Placement Options Exercise occurs and the Campbell Options vest (and the underlying Shares are issued) but the Management Options do not vest, the issued capital of the Company

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<sup>1</sup> Assuming Kerogen has re-purchased all of the Gleneagle Options

would be as follows:

| Securities         | Number                  |
|--------------------|-------------------------|
| Shares             | 136,406,920             |
| Existing Rights    | 343,861                 |
| Goldman Options    | 1,000,000               |
| Kerogen Options    | 11,159,356 <sup>2</sup> |
| Management Options | 1,250,000               |

Accordingly, the issue of 3,750,000 Campbell Options to Mr Campbell will dilute the shareholding of existing members by approximately 2.75%, assuming that the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and Placement Options Exercise occurs but that the existing rights and other options remain unexercised.

(e) **Total remuneration package**

Details of Mr Campbell's remuneration for the year ended 30 June 2011 is as follows:

- (i) \$650,000 pa (including superannuation).

Details of the estimated remuneration payable to Mr Campbell for the year beginning 1 July 2011 is as follows:

- (i) Mr Campbell has had no salary increase in 2011/12.

(f) **Existing relevant interests**

As at the date of this Notice of Meeting and Explanatory Statement, Mr Campbell and his Associates (including Andial and Inveraray) hold the following securities in the Company (representing 17.20% of the issued capital of the Company):

| Nature of interest                                                                                       | Number     | Voting power |
|----------------------------------------------------------------------------------------------------------|------------|--------------|
| Andial holding of Shares                                                                                 | 11,990,000 | 11.64%       |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000  | 5.34%        |
| Allan Campbell holding of Shares                                                                         | 228,120    | 0.22%        |

<sup>2</sup> This is the maximum number of Kerogen Options that Kerogen may hold following the scenario described above. This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6.

(g) **If the Inveraray Placement occurs in full to Inveraray and the Campbell Options vest**

If Shareholders approve Resolution 6, each of the Kerogen Placement (including the issue to Inveraray of all of the Inveraray Placement Shares but the Third Party Placement does not occur (so that no new Shares are issued to Third Party Investors)) and the Placement Options Exercise occur, and the Campbell Options vest (and the underlying Shares are issued) but the other existing rights and options (including the Management Options) are not exercised, Mr Campbell and his Associates (including Andial and Inveraray) will hold, and voting power in, the following securities in the Company (representing 21.17% of the then issued capital of the Company):

| Nature of interest                                                                                       | Number            | Voting power  |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------|
| Allan Campbell holding of Shares                                                                         | 3,978,120         | 2.92%         |
| Andial holding of Shares                                                                                 | 11,990,000        | 8.79%         |
| Inveraray holding of Shares                                                                              | 7,407,407         | 5.43%         |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 4.03%         |
| <b>Total</b>                                                                                             | <b>28,875,527</b> | <b>21.17%</b> |

(h) **If the Inveraray Placement does not occur but the Campbell Options vest**

If Shareholders approve Resolution 6, each of the Kerogen Placement (but the Inveraray Placement does not occur (so that no new Shares are issued to Inveraray) and the Third Party Placement does not occur (so that no new Shares are issued to Third Party Investors)) and the Placement Options Exercise occur and the Campbell Options vest (and the underlying Shares are issued) but the other existing rights and options (including the Management Options) are not exercised, Mr Campbell and his Associates (including Andial and Inveraray) will hold, and have voting power in, the following securities in the Company (representing 15.74% of the then issued capital of the Company):

| Nature of interest                                                                                       | Number            | Voting power  |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------|
| Allan Campbell holding of Shares                                                                         | 3,978,120         | 2.92%         |
| Andial holding of Shares                                                                                 | 11,990,000        | 8.79%         |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 4.03%         |
| <b>Total</b>                                                                                             | <b>21,468,120</b> | <b>15.74%</b> |

(i) **Trading History**

During the last 12 months before the date of lodgement of this Notice of Meeting and Explanatory Statement with ASIC, the highest trading price of the Shares was \$1.50 on 28 December 2011 and the lowest trading price of the Shares was 87 cents on 10 May 2012 and 14 May 2012.

The Market Price of the Shares over the 5 days of trading on ASX up to and including 24 July 2012 has been between a minimum of 96 cents per share to a maximum of \$1.04 per Share.

On 16 July 2012, the last trading day before this Notice of Meeting and Explanatory Statement was lodged with ASIC, the Shares closed at a price of \$1.03 per Share.

(j) **Valuation of Campbell Options**

An indicative valuation for each Campbell Option as at 3 July 2012 has been calculated in accordance with the principles of AASB 2 and based on certain assumptions and has been determined to be 36.1 cents.

The valuation took into account the following matters:

- (i) the valuation of Campbell Options assumes that the exercise of a right does not affect the value of the underlying asset;
- (ii) under AASB 2 'Share Based Payments' and option valuation theory, no discount is made to the fundamental value for unlisted rights over listed shares; and
- (iii) the value of the Campbell Options takes into account a number of assumptions including the underlying Share price at the valuation date, exercise price, vesting conditions, expected Share price volatility and expiry date.

(k) **Other information**

The Company will incur no liabilities or costs in respect of the proposed issue of the Campbell Options to Mr Campbell other than:

- (i) the fees payable to ASX for quotation of the Shares which may be issued if the Campbell Options vest and are exercised. At the rates applying at the date of this Notice of Meeting and Explanatory Statement, these fees would be approximately \$11,531.25. These fees will not be payable until the Campbell Options have been exercised;
- (ii) the Market Price for Shares during the term of the Campbell Options would normally determine whether or not the Campbell Options are exercised. If, at any time, any of the Campbell Options are exercised and the Shares are trading on the ASX at a price that is higher than the exercise price of the Campbell Options, there may be a perceived cost to the Company;
- (iii) for the purposes of the *Payroll Tax Act 2007* (NSW), the definition of "wages" includes a share or option if the share or option is an ESS interest.

Accordingly payroll tax will be payable on the Campbell Options when they vest; and

- (iv) the value of the Campbell Options will be expensed through the Company's income statement in accordance with AASB2 share Based Payments.

Neither the Independent Directors nor the Company is aware of any other information that would reasonably be required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolution 6, other than as stated in this Notice of Meeting and Explanatory Statement.

## **9.6 Section 611 (Item 7) of the Corporations Act**

Approval is sought under section 611 (item 7) of the Corporations Act as Allan Campbell is also the controlling Shareholder of Andial and Inveraray.

Under the Inveraray Placement, Inveraray may acquire sufficient Shares that Allan Campbell's voting power, when he acquires new Shares on exercise of the Campbell Options, will exceed 20%.

Accordingly, Shareholder approval is required under section 611 (item 7) to enable Allan Campbell to acquire new Shares on exercise of the Campbell Options.

## **9.7 Additional information for section 611 (Item 7)**

The information set out below is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for the grant of the Campbell Options under section 611 (Item 7) of the Corporations Act.

### **(a) The identity of Allan Campbell's Associates**

Andial and Inveraray.

### **(b) Voting power of Allan Campbell's Associates**

If Shareholders approve Resolution 6 and each of the Kerogen Placement (including the issue to Inveraray of all of the Inveraray Placement Shares but no issue of Shares to Third Party Investors) and the Placement Options Exercise occur, and the Campbell Options vest (and the underlying Shares are issued) but the other existing rights and options (including the Management Options) are not exercised, Mr Campbell and his Associates (including Andial and Inveraray) will hold, and have voting power in, the following securities in the Company (representing 21.17% of the then issued capital of the Company):

| <b>Nature of interest</b>                                                       | <b>Number</b> | <b>Voting power</b> |
|---------------------------------------------------------------------------------|---------------|---------------------|
| Allan Campbell holding of Shares                                                | 3,978,120     | 2.92%               |
| Andial holding of Shares                                                        | 11,990,000    | 8.79%               |
| Inveraray holding of Shares                                                     | 7,407,407     | 5.43%               |
| Shares held by other entities but which Andial has a relevant interest in (and, | 5,500,000     | 4.03%               |

| Nature of interest       | Number            | Voting power  |
|--------------------------|-------------------|---------------|
| therefore, voting power) |                   |               |
| <b>Total</b>             | <b>28,875,527</b> | <b>21.17%</b> |

- (c) **Details of the terms of any other relevant agreement between Allan Campbell and the Company (or any of their Associates) that is conditional on (or directly or indirectly depends on) members' approval of the grant of the Campbell Options**

There are no relevant agreements between Allan Campbell and the Company (or any of their Associates) that are conditional on (or directly or indirectly depends on) members' approval of the grant of the Campbell Options.

- (d) **Other information**

There is no other information that it relevant to the grant of the Campbell Options.

## 9.8 Independent Expert Recommendation

The Independent Directors have engaged the Independent Expert to prepare an Independent Expert's Report expressing an opinion as to whether the grant of the Campbell Options is fair and reasonable to Shareholders who are not associated with Inveraray and its respective Associates.

The Independent Expert has concluded that the grant of the Campbell Options is fair and reasonable.

The Independent Expert's Report is attached as **Annexure G** and you should read it in full as part of your assessment of the grant of the Campbell Options.

## 9.9 Voting requirements and voting exclusions

To be passed, Resolution 6 must be passed by a special resolution of 75% of Shareholders present at the General Meeting or having voted by proxy.

No votes will be cast on Resolution 6 by Mr Campbell and his Associates (including Andial).

## 9.10 Statement of voting intentions of Kerogen

The Company has not been advised by Kerogen as to its current voting intention in relation to Resolution 6.

The Company has no voting arrangement or agreement in place with Kerogen.

## 9.11 Independent Directors' recommendation

Considering all of these matters, the Independent Directors have formed a view that the grant (and the issue of new Shares on exercise) of the Management Options is in the best interests of the Company and its members.

Therefore, the Independent Directors recommend that Shareholders **VOTE IN FAVOUR** of Resolution 6.

The Independent Expert's Report is attached as **Annexure G** and you should read it in full as part of your assessment of the grant of the Campbell Options.

## **10 GRANT OF MANAGEMENT OPTIONS (RESOLUTION 7)**

### **10.1 Background to Resolution 7**

Resolution 7 seeks Shareholder approval in accordance with Listing Rule 7.1 for the grant of 1,250,000 Management Options to senior management of the Company (**Management Options**).

The purpose of the grant of the Management Options to senior management is for the Company to retain senior managers of high calibre and to provide cost effective remuneration for their ongoing commitment and contribution to the Company.

The Management Options will be allocated at the discretion of the Board to selected senior management, other than a related party of the Company, as an incentive to encourage superior performance. The grant will also align the interests of senior management with Shareholders as a whole.

### **10.2 Listing Rule Approvals**

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as options), if the number of those securities exceeds 15% of the number of ordinary securities on issue at the commencement of that 12 month period.

One of the effects of Resolution 7 in its current form would be to allow senior management to be granted the Management Options without using the Company's 15% annual placement capacity.

### **10.3 Information on the Management Options**

The following information is provided in respect of the Management Options to which Resolution 7 relates:

- (a) the maximum number of Management Options to be granted is 1,250,000;
- (b) the Management Options will be granted and allotted no later than 30 November 2012 and it is intended that grant and allotment of all Management Options will occur on the same date (**Grant Date**);
- (c) the vesting date for the Management Options can occur no earlier than 31 December 2013 and will only occur if the Market Price for the Shares closes at in excess of \$2.50 each day for a period of 10 days in any 20 day trading period that occurs at least 12 months after the Grant Date;
- (d) the Management Options will expire on 7 December 2015;
- (e) each Management Option entitles the holder to subscribe for 1 Share at an exercise price of \$1.35 per Share;

- (f) the Management Options will be allocated at the discretion of the Board to selected senior management as an incentive to encourage superior performance. The grant will also align the interests of senior management with Shareholders as a whole;
- (g) upon exercise of the Management Options, the Shares issued will rank pari passu with the Company's existing Shares on issue and the Company will apply for quotation of the Shares issued on the ASX. Further terms and conditions of the Management Options are set out in **Annexure D**; and
- (h) no funds will be raised by the grant of the Management Options. An amount of \$1,687,500 will be payable to the Company if the Management Options are fully exercised.

#### **10.4 Voting requirements and voting exclusions**

To be passed, Resolution 7 must be passed by an ordinary resolution of 50% of Shareholders present at the General Meeting or having voted by proxy.

#### **10.5 Statement of voting intentions of Kerogen and Andial**

The Company has been advised by Andial that it intends to vote all of their shares in favour of Resolution 7.

The Company has not been advised by Kerogen as to its current voting intention in relation to Resolution 7.

The Company has no voting arrangement or agreement in place with Kerogen or Andial.

#### **10.6 Independent Directors' recommendation**

Considering all of these matters, the Independent Directors have formed a view that the grant of the Management Options is in the best interests of the Company and its members.

Therefore, the Independent Directors recommend that Shareholders **VOTE IN FAVOUR** of Resolution 7.

### **11 EFFECT OF KEROGEN PLACEMENT (INCLUDING INVERARAY PLACEMENT AND THIRD PARTY PLACEMENTS, IF APPLICABLE), PLACEMENT OPTIONS EXERCISE AND GRANT OF CAMPBELL OPTIONS AND MANAGEMENT OPTIONS ON THE CAPITAL STRUCTURE OF THE COMPANY**

#### **11.1 Background**

This section outlines the impact of the issue of each of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise and the issue of the Campbell Options and the Management Options on the capital structure of the Company.

## 11.2 Structure before Placements, Placement Options Exercise and issue of Campbell Options and Management Options

The Company's capital structure before the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise and the issue of the Campbell Options and the Management Options is set out in Table 11.2.1 below.

**Table 11.2.1**

| Securities                 | Number                  |
|----------------------------|-------------------------|
| Shares                     | 103,027,291             |
| Existing Rights            | 343,861                 |
| Goldman Sachs Fund Options | 1,000,000               |
| Kerogen Options            | 18,566,763 <sup>3</sup> |

The percentage of issued Shares held by substantial holders prior to 30 June 2012 (i.e. before the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise and the issue of the Campbell Options and the Management Options) is set out in Table 11.2.2.

**Table 11.2.2**

| Substantial holding                   | Number             | %              |
|---------------------------------------|--------------------|----------------|
| Kerogen                               | 33,885,303         | 32.89%         |
| Andial/Allan Campbell                 | 17,718,120         | 17.20%         |
| Cardiff Coupland Asset Management LLP | 7,236,435          | 7.02%          |
| Remaining Shareholders                | 44,187,433         | 42.89%         |
| <b>TOTAL</b>                          | <b>103,027,291</b> | <b>100.00%</b> |

The Existing Rights as at the date of this Notice of Meeting and Explanatory Statement are as set out in Table 11.2.3.

**Table 11.2.3**

| Recipient      | No. of Rights     | Grant Date           | Vesting Date         | Expiry Date          | Exercise Price   |
|----------------|-------------------|----------------------|----------------------|----------------------|------------------|
| Allan Campbell | 110,000<br>93,861 | 31/08/07<br>26/11/08 | 23/12/07<br>30/06/11 | 23/11/12<br>30/06/13 | \$2.11<br>\$0.00 |
| Andrew Lukas   | 70,000            | 31/08/07             | 23/12/07             | 23/11/12             | \$2.11           |

<sup>3</sup> Assuming Kerogen has re-purchased all of the Gleneagle Options

| Recipient            | No. of Rights  | Grant Date | Vesting Date | Expiry Date | Exercise Price |
|----------------------|----------------|------------|--------------|-------------|----------------|
| Ian Stuart-Robertson | 70,000         | 31/08/07   | 23/12/07     | 23/11/12    | \$2.11         |
| <b>TOTAL</b>         | <b>343,861</b> |            |              |             |                |

### 11.3 Structure following Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) but before Placement Options Exercise and the issue of Campbell Options and Management Options

The Company's capital structure following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) but before the Placement Options Exercise and issue of Campbell Options and Management Options is as set out in Table 11.3.1 below.

**Table 11.3.1**

| Securities                 | Number                  |
|----------------------------|-------------------------|
| Shares                     | 125,249,513             |
| Existing Rights            | 343,861                 |
| Goldman Sachs Fund Options | 1,000,000               |
| Kerogen Options            | 18,566,763 <sup>4</sup> |

The range of holdings by Shareholders following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) but before the Placement Options Exercise and issue of Campbell Options and Management Options and assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 11.3.2.

**Table 11.3.2**

| Substantial holder                    | Minimum Number* | Maximum Number** | % voting power range |
|---------------------------------------|-----------------|------------------|----------------------|
| Kerogen                               | 48,700,118      | 56,107,525       | 38.88% to 44.80%     |
| Andial/Inveraray/Allan Campbell       | 17,718,120      | 25,125,527       | 14.15% to 20.06%     |
| Cardiff Coupland Asset Management LLP | 7,236,435       | 7,236,435        | 5.78% to 5.78%       |
| Third Party Investors                 | 0               | 3,703,704        | 0.00% to 2.79%       |
| Remaining Shareholders                | 44,187,433      | 44,187,433       | 33.31% to 33.31%     |

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on

<sup>4</sup> Assuming Kerogen has re-purchased all of the Gleneagle Options

market provided their voting power in the Company does not exceed 20% other than on a limited basis each 6 months to increase its voting power in the Company by the 3% "creep" pursuant to section 611 item 9 of the Corporations Act.

\*\*The maximum holdings reflect maximum Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) positions (including as a consequence of Inveraray or any Third Party Investor not subscribing under any part of the Inveraray Placement or the Third Party Placements (as applicable)), but disregards any potential increase in their holdings that may occur by acquiring Shares on market.

#### **11.4 Structure following Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and Placement Options Exercise, but before issue of Campbell Options and Management Options**

The Company's capital structure following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise but before the issue of Campbell Options and Management Options is as set out in Table 11.4.1 below.

**Table 11.4.1**

| <b>Securities</b>          | <b>Number</b>           |
|----------------------------|-------------------------|
| Shares                     | 132,656,920             |
| Existing Rights            | 343,861                 |
| Goldman Sachs Fund Options | 1,000,000               |
| Kerogen Options            | 11,159,356 <sup>5</sup> |

The range of holdings by Shareholders following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, but before the issue of Campbell Options and Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 11.4.2.

**Table 11.4.2**

| <b>Substantial holder</b>             | <b>Minimum Number*</b> | <b>Maximum Number**</b> | <b>% voting power range</b> |
|---------------------------------------|------------------------|-------------------------|-----------------------------|
| Kerogen                               | 56,107,525             | 63,514,932              | 42.30% to 47.88%            |
| Andial/Inveraray/Allan Campbell       | 17,718,120             | 25,125,527              | 13.36% to 18.94%            |
| Cardiff Coupland Asset Management LLP | 7,236,435              | 7,236,435               | 5.46% to 5.46%              |
| Third Party Investors                 | 0                      | 3,703,704               | 0.00% to 2.79%              |

<sup>5</sup> This is the maximum number of Kerogen Options that Kerogen may hold following the scenario described above. This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6.

| Substantial holder     | Minimum Number* | Maximum Number** | % voting power range |
|------------------------|-----------------|------------------|----------------------|
| Remaining Shareholders | 44,187,433      | 44,187,433       | 33.31% to 33.31%     |

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on market provided their voting power in the Company does not exceed 20% other than on a limited basis each 6 months to increase its voting power in the Company by the 3% "creep" pursuant to section 611 item 9 of the Corporations Act.

\*\*The maximum holdings reflect maximum Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) positions (including as a consequence of Inveraray or any Third Party Investor not subscribing under any part of the Inveraray Placement or the Third Party Placements (as applicable)), but disregards any potential increase in their holdings that may occur by acquiring Shares on market

## 11.5 Structure following Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), Placement Options Exercise and issue but not exercise of Campbell Options and Management Options

The Company's capital structure following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise and the issue (but not exercise) of the Campbell Options and the Management Options will be as set out in Table 11.5.1 below.

**Table 11.5.1**

| Securities                 | Number                  |
|----------------------------|-------------------------|
| Shares                     | 132,656,920             |
| Existing Rights            | 343,861                 |
| Goldman Sachs Fund Options | 1,000,000               |
| Kerogen Options            | 11,159,356 <sup>6</sup> |
| Campbell Options           | 3,750,000               |
| Management Options         | 1,250,000               |

The range of holdings by Shareholders following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise but before the exercise of Campbell Options and Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 11.5.2.

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<sup>6</sup> This is the maximum number of Kerogen Options that Kerogen may hold following the scenario described above. This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6.

**Table 11.5.2**

| <b>Substantial holder</b>             | <b>Minimum Number*</b> | <b>Maximum Number**</b> | <b>% voting power range</b> |
|---------------------------------------|------------------------|-------------------------|-----------------------------|
| Kerogen                               | 56,107,525             | 63,514,932              | 42.30% to 47.88%            |
| Andial/Inveraray/Allan Campbell       | 17,718,120             | 25,125,527              | 13.36% to 18.94%            |
| Cardiff Coupland Asset Management LLP | 7,236,435              | 7,236,435               | 5.46% to 5.46%              |
| Third Party Investors                 | 0                      | 3,703,704               | 0.00% to 2.79%              |
| Remaining Shareholders                | 44,187,433             | 44,187,433              | 33.31% to 33.31%            |

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on market provided their voting power in the Company does not exceed 20% other than on a limited basis each 6 months to increase its voting power in the Company by the 3% "creep" pursuant to section 611 item 9 of the Corporations Act.

\*\*The maximum holdings reflect maximum Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) positions (including as a consequence of Inveraray or any Third Party Investor not subscribing for any part of the Inveraray Placement or the Third Party Placements (if applicable)), but disregards any potential increase in their holdings that may occur by acquiring Shares on market

## **11.6 Structure following exercise of the Campbell Options only**

The Company's capital structure following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise, the exercise of the Campbell Options, but before the exercise of the Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options), the Goldman Sachs Fund Options or the Management Options are exercised but assuming that all of the Campbell Options are exercised, will be as set out in Table 11.6.1 below.

**Table 11.6.1**

| <b>Securities</b>          | <b>Number</b>           |
|----------------------------|-------------------------|
| Shares                     | 136,406,920             |
| Existing Rights            | 343,861                 |
| Goldman Sachs Fund Options | 1,000,000               |
| Kerogen Options            | 11,159,356 <sup>7</sup> |
| Campbell Options           | 0                       |
| Management Options         | 1,250,000               |

<sup>7</sup> This is the maximum number of Kerogen Options that Kerogen may hold following the scenario described above. This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6.

The range of holdings by Shareholders following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise, the exercise of the Campbell Options, but before the exercise of the Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options), the Goldman Sachs Fund Options or the Management Options are exercised but assuming that the Campbell Options are exercised, will be as set out in Table 11.6.2.

**Table 11.6.2**

| <b>Substantial holder</b>             | <b>Minimum Number*</b> | <b>Maximum Number**</b> | <b>% voting power range</b> |
|---------------------------------------|------------------------|-------------------------|-----------------------------|
| Kerogen                               | 56,107,525             | 63,514,932              | 41.13% to 46.56%            |
| Andial/Inveraray/Allan Campbell       | 21,468,120             | 28,875,527              | 15.74% to 21.17%            |
| Cardiff Coupland Asset Management LLP | 7,236,435              | 7,236,435               | 5.31% to 5.31%              |
| Third Party Investors                 | 0                      | 3,703,704               | 0.00% to 2.72%              |
| Remaining Shareholders                | 44,187,433             | 44,187,433              | 32.39% to 32.39%            |

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on market provided their voting power in the Company does not exceed 20% other than on a limited basis each 6 months to increase its voting power in the Company by the 3% "creep" pursuant to section 611 item 9 of the Corporations Act.

\*\*The maximum holdings reflect maximum Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) positions (including as a consequence of Inveraray or any Third Party Investor not subscribing for any part of the Inveraray Placement or the Third Party Placements (if applicable)), but disregards any potential increase in their holdings that may occur by acquiring Shares on market

## **11.7 Structure following exercise of the Management Options only**

The Company's capital structure following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise, the exercise of the Management Options, but before the exercise of the Campbell Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options), the Goldman Sachs Fund Options or the Campbell Options are exercised but assuming that all of the Management Options are exercised, will be as set out in Table 11.7.1 below.

**Table 11.7.1**

| <b>Securities</b>          | <b>Number</b> |
|----------------------------|---------------|
| Shares                     | 133,906,920   |
| Existing Rights            | 343,861       |
| Goldman Sachs Fund Options | 1,000,000     |

| Securities         | Number                  |
|--------------------|-------------------------|
| Kerogen Options    | 11,159,356 <sup>8</sup> |
| Campbell Options   | 3,750,000               |
| Management Options | 0                       |

The range of holdings by Shareholders following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise and the exercise of the Management Options but before the exercise of the Campbell Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options), the Goldman Sachs Fund Options or the Campbell Options are exercised but assuming that the Management Options are exercised, will be as set out in Table 11.7.2.

**Table 11.7.2**

| Substantial holder                    | Minimum Number* | Maximum Number** | % voting power range |
|---------------------------------------|-----------------|------------------|----------------------|
| Kerogen                               | 56,107,525      | 63,514,932       | 41.90% to 47.43%     |
| Andial/Inveraray/Allan Campbell       | 17,718,120      | 25,125,527       | 13.23% to 18.76%     |
| Cardiff Coupland Asset Management LLP | 7,236,435       | 7,236,435        | 5.40% to 5.40%       |
| Third Party Investors                 | 0               | 3,703,704        | 0.00% to 2.77%       |
| Remaining Shareholders                | 45,437,433      | 45,437,433       | 33.93% to 33.93%     |

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on market provided their voting power in the Company does not exceed 20% other than on a limited basis each 6 months to increase its voting power in the Company by the 3% "creep" pursuant to section 611 item 9 of the Corporations Act.

\*\*The maximum holdings reflect maximum Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) positions (including as a consequence of Inveraray or any Third Party Investor not subscribing for any part of the Inveraray Placement or the Third Party Placements (if applicable)), but disregards any potential increase in their holdings that may occur by acquiring Shares on market

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<sup>8</sup> This is the maximum number of Kerogen Options that Kerogen may hold following the scenario described above. This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6.

## 11.8 Structure following exercise of the Campbell Options and the Management Options

The Company's capital structure following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise and the exercise of the Campbell Options and the Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options), the Goldman Sachs Fund Options or are exercised, but assuming that all of the Campbell Options and the Management Options are exercised, will be as set out in Table 11.8.1 below.

**Table 11.8.1**

| Securities                 | Number                  |
|----------------------------|-------------------------|
| Shares                     | 137,656,920             |
| Existing Rights            | 343,861                 |
| Goldman Sachs Fund Options | 1,000,000               |
| Kerogen Options            | 11,159,356 <sup>9</sup> |
| Campbell Options           | 0                       |
| Management Options         | 0                       |

The range of holdings by Shareholders following the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise, the exercise of the Campbell Options and the exercise of the Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 11.8.2.

**Table 11.8.2**

| Substantial holder                    | Minimum Number* | Maximum Number** | % voting power range |
|---------------------------------------|-----------------|------------------|----------------------|
| Kerogen                               | 56,107,525      | 63,514,932       | 40.76% to 46.14%     |
| Andial/Inveraray/Allan Campbell       | 21,468,120      | 28,875,527       | 15.60% to 20.98%     |
| Cardiff Coupland Asset Management LLP | 7,236,435       | 7,236,435        | 5.26% to 5.26%       |
| Third Party Investors                 | 0               | 3,703,704        | 0.00% to 2.69%       |
| Remaining Shareholders                | 45,437,433      | 45,437,433       | 33.01% to 33.01%     |

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on market provided their voting power in the Company does not exceed 20% other than on a limited basis each 6 months to increase its voting power in the Company by the 3% "creep" pursuant to section 611 item 9 of the Corporations Act.

<sup>9</sup> This is the maximum number of Kerogen Options that Kerogen may hold following the scenario described above. This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6.

**\*\***The maximum holdings reflect maximum Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) positions (including as a consequence of Inveraray or any Third Party Investor not subscribing for any part of the Inveraray Placement or the Third Party Placements (if applicable)), but disregards any potential increase in their holdings that may occur by acquiring Shares on market

## **12 INFORMATION ABOUT KEROGEN**

### **12.1 About Kerogen**

Kerogen is an indirect wholly owned subsidiary of Kerogen General Partner Limited (**Kerogen GP**) in its capacity as general partner of the Kerogen Energy Fund L.P (**Kerogen Fund**).

Kerogen was formed specifically for the purpose of investing in the Company. As of the date of this Notice of Meeting and Explanatory Statement, all of the shares in Kerogen are indirectly owned by investment vehicles which are controlled by Kerogen GP and which are ultimately beneficially owned by investors in the Kerogen Fund.

The Kerogen Fund is a close-ended Cayman Islands exempted limited partnership. Each investor is a limited partner in the Kerogen Fund. The limited partners in the Kerogen Fund have limited liability, meaning they are only liable for debts incurred by the Kerogen Fund to the extent of their investment and have no management authority.

Kerogen GP, a Cayman Islands exempted company with limited liability, is the general partner of the Kerogen Fund. Kerogen GP's role as the general partner is to manage the business and operations of the Kerogen Fund. Kerogen GP is wholly-owned by Kerogen Capital Limited (**Kerogen Capital**). Kerogen GP has engaged Kerogen Capital to advise and assist Kerogen GP on matters relating to the investment, management and operations of the Kerogen Fund.

Kerogen GP pays the limited partners a return on profits made on their investment (similar to a dividend). Kerogen GP is vested with all decision making authority. The limited partners have no management rights or control (including with respect to any acquisition or disposals).

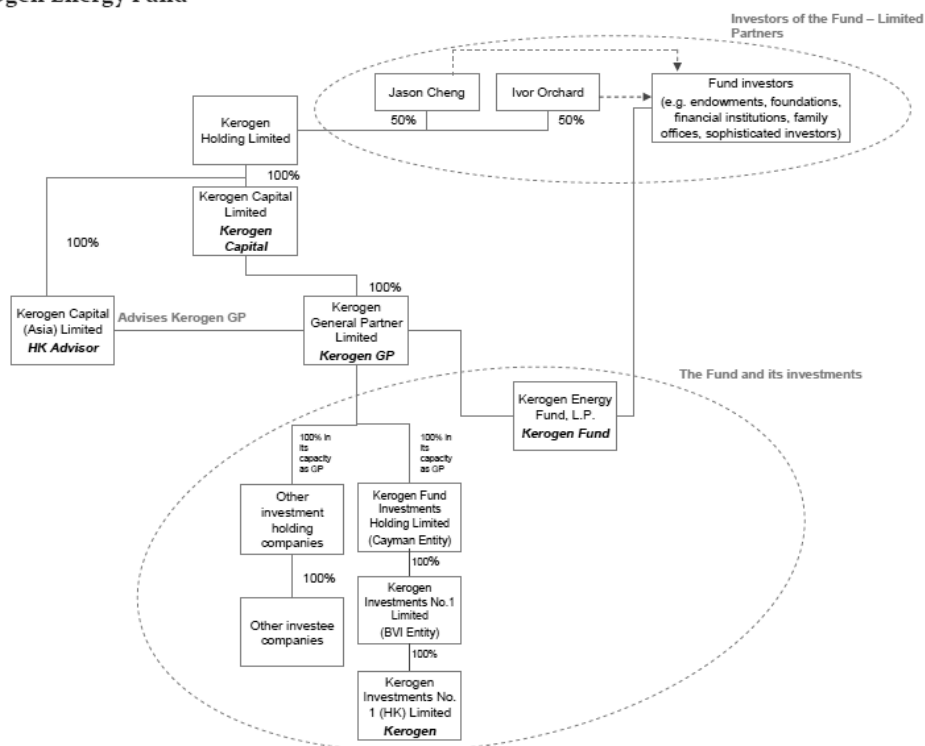
Kerogen GP has complete and exclusive control of the management and conduct of the business of the relevant Kerogen Fund and the authority to do all things necessary or appropriate to carry out the purposes of the Kerogen Fund without any further act, vote or approval of any limited partner subject to certain limited rights reserved for limited partners.<sup>10</sup> The limited partners are therefore passive investors in the Kerogen Fund.

Kerogen GP and Kerogen Capital are each owned by Kerogen Holding Limited, which in turn is owned equally by Ivor Orchard and Jason Cheng. Kerogen Holding Limited is the ultimate controller of Kerogen as a result of its control of the Kerogen Fund through Kerogen Capital and Kerogen GP.

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<sup>10</sup> These rights include the ability of a specified percentage of the limited partners to remove Kerogen GP for cause and to dissolve the Kerogen Fund, to approve certain amendments to the governing documents requested by Kerogen GP and any other rights afforded under applicable laws. The legal structure and contractual relationship between Kerogen GP and its limited partners is such that, in order for limited partners to maintain limited liability status, they necessarily need to have very limited rights with respect to Kerogen Fund and its investments.

## Kerogen Energy Fund



The Kerogen group of companies are led by the executive team of Ivor Orchard and Jason Cheng. Ivor Orchard was formerly Head of the Energy & Natural Resources Group in Asia Pacific for JP Morgan from 2002 to 2007 and before that was Head of Energy & Natural Resources at JP Morgan Australia. Jason Cheng was previously a Managing Director of Jade International Capital Partners which focused on investments and joint venture advisory assignments in China. Prior to that, Jason was with JP Morgan Australia focused on energy and natural resources.

The strength of the Kerogen group executive team is reinforced by the network and operational expertise of Kerogen Capital Advisory Board which includes:

- (a) Dr Alan Parsley (former Chairman of Shell Australia)
- (b) Roy Franklin OBE (Chairman of Keller Group, Director of Santos, Director of Statoil and Director of Cuadrilla)
- (c) Saad Al-Shuwaib (former CEO of Kuwait Petroleum Corporation)
- (d) Lord Malloch-Brown (former Deputy Secretary General of the United Nations and former Minister in the Foreign Office of the British Government)
- (e) Phillip Jackson (former Chief Executive of JP Morgan Asset Management's \$860 million Asian Infrastructure and Related Resources Opportunity Fund)
- (f) Dr Natasha Tsukanova (Co-founder of Xenon Capital, former head of JP Morgan Russia / CIS Investment Banking)

The Kerogen Capital Advisory Board advises Kerogen Capital in relation to the business and investments of the Kerogen Fund. However, the members of the Kerogen Capital Advisory Board do not take part in the management or control of the business of the Kerogen Fund or deal with third parties on behalf of the Kerogen Fund.

Kerogen Capital has appointed Kerogen Capital (Asia) Limited (**HK Advisor**) as its advisor. HK Advisor's role is to provide investment advisory services to Kerogen Capital. HK Advisor is a regulated entity in Hong Kong and is licensed by Securities and Futures Commission (**SFC**) of Hong Kong to provide investment recommendations on securities investments. HK Advisor currently has a team comprising twelve professional staff, with all the investment staff in Hong Kong licensed by the SFC to provide investment advisory services.

## **12.2 Kerogen Fund**

The Kerogen Fund currently has capital commitments of \$US1 billion from its investors. There are more than 10 investors in the Kerogen Fund, each of which is a limited partner. To the extent that new investors commit capital to the Kerogen Fund, they will become limited partners of the Kerogen Fund. As set out above, the limited partners are passive investors. The limited partners include entities owned by Ivor Orchard and Jason Cheng as well as endowments, foundations, pension funds, financial institutions, family officers and other sophisticated investors including CNOOC.

Kerogen Fund's investment strategy is to make long term investments in the energy sector. Its emphasis is on oil and gas-related investments, including oilfield services, with high growth potential backed by experienced management teams. Although the Kerogen Fund has a focus on early stage and growth capital, it will consider and has the ability to make investments in assets across all stages of their development.

The Kerogen Fund has a minimum term of 10 years, which can be extended for up to a further two years.

## **12.3 FIRB Limit**

Kerogen has been granted FIRB approval that enables it to acquire up to 49.99% of the Company (**FIRB Limit**). Any interest beyond the FIRB Limit level will require additional FIRB approval. Note that it is not a requirement for Kerogen to seek (or obtain) the Company's approval to seek an increase from the FIRB Limit.

## **12.4 Section 611 Item 7 of the Corporations Act**

Section 606 of the Corporations Act contains a general prohibition on the acquisition of a relevant interest in shares in a listed company if, as a result of the acquisition, that party's or someone else's "voting power" in the company increases from 20% or below to more than 20% or by any amount from a starting point above 20% and below 90%. Broadly, a party has a relevant interest in voting shares if it holds those shares or can directly or indirectly control the exercise of votes attached to those shares or the disposal of those shares.

A party's voting power is calculated with reference to the relevant interest in voting shares of the company which is held by the party and the party's associates. A party's associates include any person that controls the party, is controlled by the party, is controlled by the same person as the other person or is acting in concert with the party.

However, Item 7 of Section 611 of the Corporations Act provides an exception to the prohibition in section 606 in circumstances where:

- (a) the Shareholders of the company in general meeting pass a resolution approving an acquisition of shares in the company;
- (b) no votes are cast in favour of the resolution by parties proposing to make the acquisition, including their associates; and
- (c) Shareholders were provided with the prescribed information.

## 12.5 Kerogen's current equity interests in the Company

At the date of this Notice of Meeting and Explanatory Statement, Kerogen had a relevant interest in 32.89% of the Shares and voting power of 32.89% in the Company. In addition, Kerogen has interests in Kerogen Options to subscribe for new Shares in the Company.

Kerogen's interests in the Company are set out below<sup>11</sup>:

| Nature of interest                                                                                                                          | Number     | Voting power                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kerogen's holding of Shares and assuming no Kerogen Options have been exercised                                                             | 33,885,303 | 32.89%                                                                                                                                                                                                                             |
| The 14,694,403 Kerogen Options held by Kerogen (each option is over one unissued Share) <sup>12</sup>                                       | 14,694,403 | Assuming that these Kerogen Options only are exercised and the Placements do not occur, 41.27%.<br><br>Note, however, the restrictions on Kerogen's ability to exercise the Kerogen Options are discussed in sections 4.4 and 12.3 |
| Right for Kerogen to re-purchase 3,872,360 Kerogen Options from Gleneagle Securities (each option is over one unissued Share) <sup>13</sup> | 3,872,360  | Assuming that all of the Kerogen Options are exercised and the Placements do not occur, 43.14%.<br><br>Note, however, the restrictions on Kerogen's ability to exercise the Kerogen Options are discussed in sections 4.4 and 12.3 |

<sup>11</sup> All of the numbers in the table have been calculated on the assumption that that no other options or rights in the Company are exercised.

<sup>12</sup> A summary of the material terms and conditions of the options is contained at Annexure D of the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 which is available on the ASX website ([www.asx.com.au](http://www.asx.com.au))

<sup>13</sup> Kerogen sold 3,872,360 Kerogen Options to the Placement Agent to remain within its 40% FIRB Approval limit at the time of the Entitlement Offer. Subject to obtaining further FIRB approval to acquire such options (which it now has obtained), Kerogen will have a right to acquire those options back from the Placement Agent within two years at an aggregate price equal to the greater of \$250,000 or 20% of the 'in the money' value of the options.

## 12.6 Kerogen's equity interests in the Company after the Kerogen Placement and the Placement Options Exercise

After completion of the Kerogen Placement and the Placement Options Exercise, Kerogen will have the following interests in Shares:

- (a) if it subscribes for all Shares to be issued under the Kerogen Placement and Placement Options Exercise (and the Inveraray Placement occurs in full to Inveraray and/or a Third Party) (**Minimum Scenario**), a relevant interest in 42.30% of the Shares and voting power of 42.30% in the Company; and
- (b) if it subscribes for all Shares to be issued under the Kerogen Placement, Inveraray Placement and Placement Options Exercise (that is, no Shares are issued to Inveraray and/or a Third Party) (**Maximum Scenario**), a maximum relevant interest in 47.88% of the Shares and maximum voting power of 47.88% in the Company.

Kerogen may obtain a relevant interest and voting power in the Company in between the maximum and minimum percentages set out above depending on how many Shares are issued to Inveraray and/or Third Party Investors (refer to section 11.3).

In addition to the Shares it will own after completion of the Transaction, Kerogen will also have the following interests in options to subscribe for Shares:

- (a) 7,286,996 Kerogen Options held by Kerogen; and
- (b) a right to re-purchase 3,872,360 Gleneagle Options held by the Placement Agent.

Kerogen's ability to exercise these options is subject to Corporations Act and FIRB restrictions as described in sections 4.4 and 12.3 of the Notice of Meeting and Explanatory Statement. Additionally, under the Kerogen Subscription Agreement, Kerogen is able to unilaterally cancel its right to repurchase up to a maximum number of 2,108,736 Gleneagle Options by notice to the Placement Agent. When such notice is provided by Kerogen, its right to repurchase the number of Gleneagles Options specified in that notice will irrevocably cease. Kerogen intends to exercise these rights to ensure that it does not exceed the FIRB Limit.

## 12.7 Kerogen's intentions for the Company

If the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise are implemented, the current intentions of Kerogen in relation to the Company are as follows:

- (a) **Composition of the Board:** Kerogen currently has the right to appoint one director while its shareholding is 15% or more. It has not exercised that right. As part of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, Kerogen will receive the right to nominate a second director. The nominee will only be appointed to the Board if the Board approves. Kerogen presently has no intention to exercise these rights (but it reserves the right to do so or otherwise seek to change the Board);
- (b) **Business, Assets or Employees and Policies:** Kerogen has no current intention to seek to change the business, employment arrangements or policies of the Company, or seek to redeploy any asset of the Company (except as described elsewhere in this Notice of Meeting and Explanatory Statement); and

- (c) **Injection of further capital:** Kerogen has no current intention to inject further capital into the Company. However, if the Company wishes to raise further capital at some future time, Kerogen would, subject to the terms of the capital raising, consider supporting the Company's future capital raising initiatives.

To the extent requested by the Company, Kerogen will consider making its, expertise and experience available to the Company and executives.

## **12.8 Ongoing relationship between Kerogen, its Associates and the Company**

Kerogen is the Company's principal debt financier pursuant to:

- a Facility Agreement dated 21 December 2011 between Kerogen (as Lender) and the Company (as Borrower) (**Mezzanine Facility**) under which the Kerogen advanced a loan of \$86.5 million to the Company (**Mezzanine Loan**);
- Facility Agreements executed in May and July 2012 between Kerogen (as Lender) and the Company (as Borrower) (**Advance Facilities**) under which the Kerogen agreed to advanced the Advance Loans of \$21 million to the Company (**Advance Loans**); and
- the Placement Options Loan under which Kerogen may (subject to the satisfaction of certain conditions precedent) advance \$10 million as part of the Placement Options Exercise on the terms set out in section 5.

The amounts owing under the Advance Facilities will be repaid by way of set-off against Kerogen's obligations under the Kerogen Subscription Agreement (or otherwise paid from the proceeds raised under the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable)) and the amounts owing under the Placement Options Loan will be set off against the exercise of the Placement Options at the Placement Options Exercise Price. Otherwise, the Company will not be able to borrow any further amounts under the Advance Facilities.

## **12.9 Details of the terms of any other relevant agreement between Kerogen and the Company (or any of their Associates) that is conditional on (or directly or indirectly depends on) members' approval of the Kerogen Placement and Placement Options Exercise**

Other than as set out elsewhere in this Notice of Meeting and Explanatory Statement, there are no relevant agreements between Kerogen and the Company (or any of their Associates) that are conditional on (or directly or indirectly depends on) members' approval of the Kerogen Placement and Placement Options Exercise.

## **13 INFORMATION ABOUT INVERARAY**

### **13.1 About Inveraray**

Inveraray was incorporated on 2 July 2012 in Victoria.

The shares in Inveraray are held by Argyll Capital Partners Pty Limited as trustee for the Campbell Family Trust No. 2.

The sole director and secretary of Inveraray is Allan Campbell.

### 13.2 Inveraray, Andial and Allan Campbell's current equity interests in the Company

Inveraray is an Associate of Andial and Allan Campbell and will be taken to have a relevant interest in the Shares held by Andial and Allan Campbell.

At the date of this Notice of Meeting and Explanatory Statement and before the issue of any Shares to Inveraray under Resolution 2 or the grant of the Campbell Options under Resolution 6, Inveraray, Andial and Allan Campbell's equity interests in the Company are:

| Nature of interest                                                                                       | Number            | Voting power  |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------|
| Andial, Inveraray and Allan Campbell's holding of Shares                                                 | 12,218,120        | 11.86%        |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 5.34%         |
| <b>Total</b>                                                                                             | <b>17,218,120</b> | <b>17.20%</b> |

### 13.3 Inveraray, Andial and Allan Campbell's equity interests in the Company after the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) in the period prior to the Placement Options Exercise

After completion of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) but prior to the issue of new Shares as a result of the Placement Options Exercise, if more than 7,331,783 Shares are issued to Inveraray under the Inveraray Placement prior to the issue of new Shares as a result of the Placement Options Exercise, Mr Campbell and his Associates will have voting power in excess of 20% until the new Shares are issued as a result of the Placement Options Exercise. The voting power will depend on how many Shares are issued to Inveraray under the Inveraray Placement, but the maximum number of Shares that Mr Campbell and his Associates (including Andial and Inveraray) may hold and the maximum voting power that they may have (which will occur on issue to Inveraray of all of the Inveraray Placement Shares assuming that no Third Party Placements occur (so that no new Shares are issued to Third Party Investors), but not including the grant of the Campbell Options or the Management Options) and is as follows:

| Nature of interest                                                                                       | Number            | Voting power  |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------|
| Allan Campbell holding of Shares                                                                         | 228,120           | 0.18%         |
| Andial holding of Shares                                                                                 | 11,990,000        | 9.57%         |
| Inveraray holding of Shares                                                                              | 7,407,407         | 5.91%         |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 4.39%         |
| <b>Total</b>                                                                                             | <b>25,125,527</b> | <b>20.06%</b> |

In the scenario above, once the Placement Options Exercise occurs, Mr Campbell and his

Associates (including Andial and Inveraray) will hold, and have voting power in, less than 20% of the issued capital of the Company (as described in section 13.4 below).

#### **13.4 Inveraray, Andial and Allan Campbell's equity interests in the Company after the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise and the grant of the Campbell Options**

After completion of each of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise, but not including the grant of the Campbell Options or the Management Options, Inveraray, Andial and Allan Campbell's equity interests in the Company will be in the following minimum and maximum range:

| <b>Nature of interest</b>                                                                                                               | <b>Number range</b>             | <b>Voting power range</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------|
| Andial, Inveraray and Allan Campbell's holdings of Shares                                                                               | 12,218,120 to 19,625,527        | 9.21% to 14.79%           |
| Shares held by other entities but which Andial, Inveraray and Allan Campbell have a relevant interest in (and, therefore, voting power) | 5,500,000                       | 4.15%                     |
| <b>Total</b>                                                                                                                            | <b>17,218,120 to 25,125,527</b> | <b>13.36% to 18.94%</b>   |

After completion of each of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise and the exercise of the Campbell Options but not including the exercise of the Management Options, Inveraray, Andial and Allan Campbell's equity interests in the Company will be in the following minimum and maximum range:

| <b>Nature of interest</b>                                                                                                               | <b>Number range</b>             | <b>Voting power range</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------|
| Andial, Inveraray and Allan Campbell's holdings of Shares                                                                               | 15,968,120 to 23,375,527        | 11.71% to 17.14%          |
| Shares held by other entities but which Andial, Inveraray and Allan Campbell have a relevant interest in (and, therefore, voting power) | 5,500,000                       | 4.03%                     |
| <b>Total</b>                                                                                                                            | <b>21,468,120 to 28,875,527</b> | <b>15.74% to 21.17%</b>   |

The maximum extent of the increase in Andial, Inveraray and Allan Campbell's voting power in the Company that would result from the Inveraray Placement and the exercise of the Campbell Options is 3.13%, on the basis that Inveraray subscribes for all of the Inveraray Placement Shares and Allan Campbell exercises all of the Campbell Options.

### 13.5 Inveraray's intentions for the Company

If Inveraray acquires Shares under the Inveraray Placement, the current intentions of Inveraray in relation to the Company are as follows:

- (a) **Composition of the Board:** Inveraray and Andial's representative on the Board will be Mr Allan Campbell;
- (b) **Business or Employees:** Inveraray has no current intention to seek to change the business, employment arrangements or policies of the Company, or seek to redeploy any asset of the Company (except as described elsewhere in this Notice of Meeting and Explanatory Statement); and
- (c) **Injection of further capital:** Inveraray has no current intention to inject further capital into the Company. However, if the Company wishes to raise further capital at some future time, Inveraray would, subject to the terms of the capital raising, consider supporting the Company's future capital raising initiatives.

### 13.6 Additional information

The information set out below is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for the issue of Shares to Inveraray under the Inveraray Placement under section 611 (Item 7) of the Corporations Act.

#### (a) Identity of Inveraray's Associates

Andial

Allan Campbell

#### (b) Voting power of Inveraray's Associates

##### (i) If the Inveraray Placement occurs in full to Inveraray

##### **Scenario 1 – The Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) occurring before the Placement Options Exercise**

If more than 7,331,783 Shares are issued to Inveraray under the Inveraray Placement prior to the issue of new Shares as a result of the Placement Options Exercise, Mr Campbell and his Associates will have voting power in excess of 20% until the new Shares are issued as a result of the Placement Options Exercise. The voting power will depend on how many Shares are issued to Inveraray under the Inveraray Placement, but the maximum number of Shares that Mr Campbell and his Associates (including Andial and Inveraray) may hold and the maximum voting power that they may have (which will occur on issue to Inveraray of all of the Inveraray Placement Shares but the Third Party Placement does not occur (so that no new Shares are issued to Third Party Investors), but not including the grant of the Campbell Options or the Management Options) is as follows:

| Nature of interest                                                                                       | Number            | Voting power  |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------|
| Allan Campbell holding of Shares                                                                         | 228,120           | 0.18%         |
| Andial holding of Shares                                                                                 | 11,990,000        | 9.57%         |
| Inveraray holding of Shares                                                                              | 7,407,407         | 5.91%         |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 4.39%         |
| <b>Total</b>                                                                                             | <b>25,125,527</b> | <b>20.06%</b> |

In the scenario above, once the Placement Options Exercise occurs, Mr Campbell and his Associates (including Andial and Inveraray) will hold, and have voting power in, less than 20% of the issued capital of the Company.

**Scenario 2 – The Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable), the Placement Options Exercise and the grant of the Campbell Options occurring**

If Shareholders approve Resolution 6, each of the Kerogen Placement (including the issue to Inveraray of all of the Inveraray Placement Shares but the Third Party Placement does not occur (so that no new Shares are issued to Third Party Investors)) and the Placement Options Exercise occur, and the Campbell Options vest (and the underlying Shares are issued) but the other existing rights and options (including the Management Options) are not exercised, Mr Campbell and his Associates (including Andial and Inveraray) will hold, and have voting power in, the following securities in the Company (representing 21.17% of the then issued capital of the Company):

| Nature of interest                                                                                       | Number            | Voting power  |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------|
| Allan Campbell holding of Shares                                                                         | 3,978,120         | 2.92%         |
| Andial holding of Shares                                                                                 | 11,990,000        | 8.79%         |
| Inveraray holding of Shares                                                                              | 7,407,407         | 5.43%         |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 4.03%         |
| <b>Total</b>                                                                                             | <b>28,875,527</b> | <b>21.17%</b> |

(ii) **If the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) do not occur but the Campbell Options vest**

If Shareholders approve Resolution 6, the Kerogen Placement (including the Inveraray Placement and the Third Party Placements) and the Placement Options Exercise do not occur and the Campbell Options vest (and the underlying Shares are issued), Mr Campbell and his Associates (including Andial and Inveraray) will hold, and have voting power in, the following securities in the Company (representing 15.74% of the then issued capital of the Company):

| <b>Nature of interest</b>                                                                                | <b>Number</b>     | <b>Voting power</b> |
|----------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| Allan Campbell holding of Shares                                                                         | 3,978,120         | 2.92%               |
| Andial holding of Shares                                                                                 | 11,990,000        | 8.79%               |
| Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power) | 5,500,000         | 4.03%               |
| <b>Total</b>                                                                                             | <b>21,468,120</b> | <b>15.74%</b>       |

(c) **Details of the terms of any other relevant agreement between Inveraray and the Company (or any of their Associates) that is conditional on (or directly or indirectly depends on) Shareholder's approval of the Inveraray Placement**

Other than the Inveraray Subscription Agreement, there are no other relevant agreements between Inveraray and the Company (or any of their Associates) that are conditional on (or directly or indirectly depends on) Shareholder's approval of the Inveraray Placement.

(d) **Other information**

At the date of this Notice of Meeting and Explanatory Statement, Inveraray does not have the financial resources to enable it to subscribe for any Shares in the Inveraray Placement. However, Inveraray intends to seek available funds up until the Inveraray Commitment Deadline (which is 5.00 pm on 17 August 2012).

## **14 INFORMATION ABOUT DEBT POSITION OF THE COMPANY**

### **14.1 As at 31 December 2011**

The table below provides details of the Company's total interest bearing loans and borrowings as at 31 December 2011. Since that time, in May and July 2012, the Company entered into the Advance Facilities with Kerogen under which Kerogen advanced the Advance Loans to the Company.

| <b>Form of interest bearing loans and borrowings as at 31 December 2011</b> | <b>Amount</b>      | <b>Percentage of total</b> |
|-----------------------------------------------------------------------------|--------------------|----------------------------|
| Mezzanine Loan (under the Mezzanine Facility)                               | \$68,812,000       | 57.6%                      |
| Senior Facility (ANZ)                                                       | \$10,257,000       | 9.0%                       |
| Investec Bank (Development at Clarence Street)                              | \$2,286,000        | 2.0%                       |
| Lease liabilities                                                           | \$35,830,000       | 31.4%                      |
| <b>Total</b>                                                                | <b>114,185,000</b> | <b>100%</b>                |

The key terms of the Mezzanine Facility are detailed in Annexure B of the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 which is available on the ASX website ([www.asx.com.au](http://www.asx.com.au)).

In addition, the Company had a derivative liability of \$9,252,000, being the value of the Kerogen Options granted on the drawdown of the Mezzanine Facility.

#### **14.2 As at the date of this Notice of Meeting and Explanatory Statement**

The table below provides details of the Company's total interest bearing loans and borrowings as at the date of this Notice of Meeting, taking into account the payments made to reduce debt out of the funds raised in the Entitlement Offer.

| <b>Form of interest bearing loans and borrowings as at the date of this Notice of Meeting and Explanatory Statement</b> | <b>Amount</b>        | <b>Percentage of total</b> |
|-------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------|
| Mezzanine Loan (under the Mezzanine Facility)                                                                           | \$78,388,000         | 58.3%                      |
| Advance Loans (under the Advance Facilities)                                                                            | \$16,057,000         | 12.0%                      |
| Senior Facility (ANZ)                                                                                                   | \$2,3000,000*        | 1.7%                       |
| Investec Bank (Development at Clarence Street)                                                                          | \$2,190,000          | 1.6%                       |
| Lease liabilities                                                                                                       | \$30,610,000         | 22.8%                      |
| Other payables                                                                                                          | \$4,796,000          | 3.6%                       |
| <b>Total</b>                                                                                                            | <b>\$134,341,000</b> | <b>100%</b>                |

\*Excludes the ANZ overdraft

In addition, the Company had a derivative liability of \$9,252,000, being the value of the Kerogen Options granted on the drawdown of the Mezzanine Facility.

## **15 FURTHER INFORMATION**

### **15.1 Summary of the material terms of the Kerogen Subscription Agreement**

Please see **Annexure B** for a summary of the material terms of the Kerogen Subscription Agreement.

### **15.2 Summary of the material terms of the Inveraray Subscription Agreement**

Please see **Annexure C** for a summary of the material terms of the Inveraray Subscription Agreement.

### **15.3 Board and Independent Directors' resolutions to approve Resolutions 1, 2, 3, 4, 5, 6 and 7 being placed before Shareholders**

The Board unanimously voted in favour of each of the Resolutions 1, 2 and 3 being placed before Shareholders.

The Independent Directors unanimously voted in favour of each of the Resolutions 4, 5, 6 and 7 being placed before Shareholders.

Mr Allan Campbell has an interest in Resolution 4 as he controls Inveraray and, therefore, Mr Campbell did not participate in board deliberations regarding Resolution 4 and makes no recommendation to Shareholders about Resolution 4 or its subject matter.

Mr Allan Campbell has an interest in Resolution 6 and, therefore, Mr Campbell did not participate in board deliberations regarding Resolution 6 and makes no recommendation to Shareholders about Resolution 6 or its subject matter.

### **15.4 Directors' interests**

No Director has an interest in a Proposed Resolution other than:

- (a) Mr Allan Campbell who has an interest in Resolution 4 as he controls Inveraray;
- (b) Mr Allan Campbell who has an interest in Resolution 6; and
- (c) due to a shareholding in the Company.

### **15.5 Other information**

The Directors are not aware of any other information that would be material to the decision on how to vote on any of Resolution 1, Resolution 2, Resolution 3, Resolution 4, Resolution 5, Resolution 6 or Resolution 7 that is not disclosed in this document.

The Directors are not aware of any other information which would be reasonably required by Shareholders to determine whether or not to vote in favour of the Proposed Resolutions.

## ANNEXURE A– GLOSSARY

| Term                      | Meaning                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2011 Placement</b>     | The subscription by Kerogen for 9,917,650 Shares at the \$1.35 per Share which was completed on 30 September 2011                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>5 Day VWAP</b>         | VWAP (as defined in the Kerogen Options Terms) of the Shares in 5 trading day period to be calculated on and include the date (based only on the days which the Shares are actually traded on the ASX) which immediately precedes the date on which the notice to exercise the Kerogen Options is issued                                                                                                                                                                                                                                                                                                                     |
| <b>Advance Facilities</b> | The agreements titled “Facility Agreement” between the Company and Kerogen entered in on or about 11 May 2012, 7 July 2012 and on or about 26 July 2012 under which Kerogen agreed to advance the Advance Loans to the Company                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Advance Loans</b>      | Loans of \$21 million made or to be made under the Advance Facilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Adjustment Notice</b>  | A written notice provided by the Company to Kerogen as soon as possible and, in all cases, within 24 hours after any adjustment (which by way of scale back, or cancellation of a scale back) of the number of new Shares to be issued to Kerogen under the Kerogen Placement                                                                                                                                                                                                                                                                                                                                                |
| <b>Allotment Date</b>     | <p>The date for the completion of the issue of the new Shares under the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) being the later of:</p> <ul style="list-style-type: none"> <li>(a) 4 Business Days after the Shareholder Approvals are obtained; and</li> <li>(b) 16 Business Days after the last Adjustment Notice is given to Kerogen,</li> </ul> <p>or such later date that the parties agree for any or all of the new Shares to be issued under the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable)</p> |
| <b>Andial</b>             | Andial Holdings Pty Limited (ACN 087 777 660)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>ANZ</b>                | Australia and New Zealand Banking Group Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>ASIC</b>               | The Australian Securities and Investments Commission                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Associate</b>          | Has the meaning given to it in section 9 of the Corporations Act                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>ASX</b>                | ASX Limited (ACN 008 624 691)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>ATO</b>                | Australian Taxation Office                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>BBSY</b>               | The Bank Bill Swap Bid Rate, being the benchmark interest rate quoted and dispersed by Reuters Information Service                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Board</b>              | The board of Directors of the Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

| <b>Term</b>                  | <b>Meaning</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Business Day</b>          | A day (other than a Saturday or a Sunday or a public holiday) on which banks are generally open for business in Sydney                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Campbell Options</b>      | A maximum of 3,750,000 options to acquire Shares at \$1.35 per Share issued in accordance with the terms of the Campbell Option Terms                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Campbell Option Terms</b> | The terms of issue of the Campbell Options set out in <b>Annexure D</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Change of Control</b>     | <p>In relation to Lucas Cuadrilla, a situation where, as a result of any transaction or other arrangement, either:</p> <ul style="list-style-type: none"> <li>(a) the person that had Control of Lucas Cuadrilla as at the date of the relevant agreement ceases to have such Control or commences to share joint-Control; or</li> <li>(b) any other person otherwise gains Control of Lucas Cuadrilla excluding (for the avoidance of doubt) an associate or related body corporate of Lucas pursuant to an internal reorganisation,</li> </ul> <p>provided that the Company retains the ultimate Control of Lucas Cuadrilla</p>                                                                                                                                                                                                                                                     |
| <b>Company or Lucas</b>      | AJ Lucas Group Limited (ACN 060 309 104)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Control</b>               | <p>Of a company by a person means:</p> <ul style="list-style-type: none"> <li>(a) the ability to determine the composition of the board of directors of the company or has the capacity to do so;</li> <li>(b) the board of directors of the company is accustomed to act in accordance with the instructions, directions or wishes of the person; or</li> <li>(c) that the person holds or owns (alone or with its associates or related bodies corporate): <ul style="list-style-type: none"> <li>(i) the majority of the issued shares of the company;</li> <li>(ii) the majority of the issued shares of the ultimate holding company of the company; or</li> <li>(iii) the majority of any securities or other rights granted by the company entitling holders to distributions based on the profits, earnings or net liquidation proceeds of the company</li> </ul> </li> </ul> |
| <b>Corporations Act</b>      | <i>Corporations Act 2001</i> (Cth)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Cuadrilla</b>             | Cuadrilla Resources Holdings Limited, a company incorporated in England and Wales (registered no. 7147040), whose registered office is at Cuadrilla House Stowe Court, Stowe Street, Lichfield , Staffordshire WS13 6AQ                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Cuadrilla Board</b>       | The board of directors of Cuadrilla                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

| <b>Term</b>                                 | <b>Meaning</b>                                                                                                                                                                                                                                                 |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Cuadrilla Change of Control Event</b>    | A Change of Control that is not a Lucas Parent Change of Control, where the New Controller is not a Qualifying Transferee                                                                                                                                      |
| <b>Cuadrilla Shareholders Agreement</b>     | The Shareholder Agreement between Lucas Cuadrilla, Riverstone and others dated 15 February 2010                                                                                                                                                                |
| <b>DECC</b>                                 | Has the meaning given to it in section 3.12                                                                                                                                                                                                                    |
| <b>Director</b>                             | A director of the Company                                                                                                                                                                                                                                      |
| <b>Drilling Division</b>                    | The drilling division of the Company, which is more specifically described in the Prospectus                                                                                                                                                                   |
| <b>EGM Date</b>                             | The date that the Extraordinary General Meeting is to be held                                                                                                                                                                                                  |
| <b>Entitlement Offer</b>                    | A non-renounceable pro-rata fully underwritten 1 for 2 rights issue for Shares at \$1.35 per Share which was intended to raise approximately \$51.3 million originally announced to the ASX on 19 September 2011 with the offer being made on 15 December 2011 |
| <b>Entitlement Time</b>                     | The time for the purposes of determining entitlements to vote at the General Meeting, being 5pm AEST on 3 September 2012                                                                                                                                       |
| <b>Explanatory Statement</b>                | The 'Explanatory Statement' part of this Notice of Meeting and Explanatory Statement                                                                                                                                                                           |
| <b>Extraordinary General Meeting or EGM</b> | A duly convened extraordinary general meeting of the Shareholders to be held on 5 September 2012 for the purposes of, among other things, considering and approving the Proposed Resolutions                                                                   |
| <b>Facility Agreement</b>                   | The agreement so titled between the Company and Kerogen dated 21 December 2011 under which the Mezzanine Facility is provided                                                                                                                                  |
| <b>Final Confirmation Date</b>              | 17 August 2012                                                                                                                                                                                                                                                 |
| <b>FIRB</b>                                 | Foreign Investment Review Board                                                                                                                                                                                                                                |
| <b>FIRB Limit</b>                           | The limit imposed on Kerogen in the approval by FIRB under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) dated 30 May 2012 which allows an acquisition by Kerogen of up to 49.99% of the Company as detailed section 12.3                       |
| <b>HR Trust Account</b>                     | The trust account maintained by Holding Redlich                                                                                                                                                                                                                |
| <b>fracking</b>                             | Has the meaning given to it in section 3.12                                                                                                                                                                                                                    |
| <b>Funding Shortfall</b>                    | A shortfall of funds raised under the Entitlement Offer of \$15.5 million                                                                                                                                                                                      |
| <b>Gleneagle Options</b>                    | 3,872,360 options held by the Placement Agent which Kerogen has the right to repurchase under clause 5 of the Gleneagles Options Transfer Deed                                                                                                                 |

| <b>Term</b>                             | <b>Meaning</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Gleneagle Options Transfer Deed</b>  | The document entitled the 'Option Transfer and Call Back Deed' executed on 28 February 2012 between the Placement Agent and Kerogen                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Goldman Sachs Funds</b>              | The constituent entities of the Goldman Sachs Trans-Tasman Private Equity Fund 2007 (including, as applicable, their respective custodians) and, where applicable, the manager of the Fund, being Goldman Sachs & Partners Australia PIA (Management) Pty Limited (ACN 006 865 710) acting on behalf of the relevant constituent entities of the Fund                                                                                                                                                                |
| <b>Goldman Sachs Fund Options</b>       | 1,000,000 options to subscribe for Shares at \$2.13 per Share, issued by the Company to the Goldman Sachs Funds on the terms as set out in Annexure C of the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 which is available on the ASX website ( <a href="http://www.asx.com.au">www.asx.com.au</a> )                                                                                                                                                                 |
| <b>Group</b>                            | The Company and its subsidiaries                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Independent Directors</b>            | All directors of the Company other than Allan Campbell                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Independent Expert or PKF</b>        | PKF Corporate Advisory (East Coast) Pty Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Independent Expert's Report</b>      | The report attached to this Notice of Meeting and Explanatory Statement at <b>Annexure G</b>                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Inveraray</b>                        | Inveraray Capital Pty Limited (ACN 159 306 395)                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Inveraray Deposit</b>                | <p>The amount not greater than \$10 million less the Third Party Placement Amounts, in respect of which, as at the Inveraray Commitment Deadline, Inveraray has provided evidence satisfactory to the Company and Investor that:</p> <ul style="list-style-type: none"> <li>(a) it has deposited in immediately available funds into the HR Trust Account; and</li> <li>(b) such funds cannot be used other than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement</li> </ul> |
| <b>Inveraray Placement</b>              | A subscription by Inveraray for up to 7,407,407 Shares of the Kerogen Placement, but does not include any Third Party Placement Shares                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Inveraray Placement Shares</b>       | Up to 7,407,407 new Shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Inveraray Subscription Agreement</b> | The agreement titled Subscription Agreement between the Company Inveraray and the Placement Agent under which Inveraray has a right to subscribe for new Shares up to the Inveraray Placement Shares under the Inveraray Placement                                                                                                                                                                                                                                                                                   |
| <b>Inveraray Commitment</b>             | 5.00 pm on the Final Confirmation Date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| <b>Term</b>                           | <b>Meaning</b>                                                                                                                                                                                                                                                                                                          |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Deadline</b>                       |                                                                                                                                                                                                                                                                                                                         |
| <b>Junior Facility Security</b>       | A security interest to be granted by the Company and each Material Subsidiary to Kerogen, the key terms of which are set out in <b>Annexure E</b>                                                                                                                                                                       |
| <b>Kerogen</b>                        | Kerogen Investments No. 1 (HK) Limited                                                                                                                                                                                                                                                                                  |
| <b>Kerogen Capital</b>                | Kerogen Capital Limited                                                                                                                                                                                                                                                                                                 |
| <b>Kerogen Fund</b>                   | Kerogen Energy Fund L.P.                                                                                                                                                                                                                                                                                                |
| <b>Kerogen GP</b>                     | Kerogen General Partner Limited, the general partner of the Kerogen Fund                                                                                                                                                                                                                                                |
| <b>Kerogen Option Terms</b>           | The terms of issue of the Kerogen Options. A summary of the terms and conditions of the Kerogen Options was included in the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 and is available on the ASX website ( <a href="http://www.asx.com.au">www.asx.com.au</a> )       |
| <b>Kerogen Options</b>                | 18,566,763 options to subscribe for Shares (each option entitles the holder to be issued one Share) issued under the Kerogen Option Terms, of which Kerogen currently holds 14,694,403 options and has a right under the Gleneagles Options Transfer Deed to re-purchase the Gleneagle Options from the Placement Agent |
| <b>Kerogen Placement</b>              | A subscription by Kerogen for 22,222,222 new Shares at the Placement Price, subject to adjustment for the number of Shares subscribed and paid for under the Inveraray Placement and any Third Party Placements, in accordance with the Kerogen Subscription Agreement                                                  |
| <b>Kerogen Subscription Agreement</b> | The agreement titled Subscription Agreement between the Company Kerogen and the Placement Agent under which Kerogen will subscribe for 22,222,222 Shares under the Kerogen Placement                                                                                                                                    |
| <b>Listing Rules</b>                  | The ASX Listing Rules published by the ASX                                                                                                                                                                                                                                                                              |
| <b>Lodgement Date</b>                 | 5 Business Days prior to the EGM Date                                                                                                                                                                                                                                                                                   |
| <b>Lucas or Company</b>               | AJ Lucas Group Limited (ACN 060 309 104)                                                                                                                                                                                                                                                                                |
| <b>Lucas Cuadrilla</b>                | Lucas Cuadrilla Pty Limited (ACN 138 750 722)                                                                                                                                                                                                                                                                           |
| <b>Lucas Energy</b>                   | Lucas Energy (UK) Limited                                                                                                                                                                                                                                                                                               |
| <b>Lucas Operations</b>               | AJ Lucas Operations Pty Limited (ACN 087 777 633)                                                                                                                                                                                                                                                                       |
| <b>Lucas Parent Change of Control</b> | A Change of Control that occurs as a result of a public takeover of the Company                                                                                                                                                                                                                                         |
| <b>Management Options</b>             | 1,250,000 options to acquire Shares at \$1.35 per Share issued in                                                                                                                                                                                                                                                       |

| <b>Term</b>                                        | <b>Meaning</b>                                                                                                                                                                                    |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                    | accordance with the terms of the Management Option Terms                                                                                                                                          |
| <b>Management Option Terms</b>                     | The terms of issue of the Management Options set out in <b>Annexure D</b>                                                                                                                         |
| <b>March Profit Downgrade</b>                      | Has the meaning given to it in section 3.5                                                                                                                                                        |
| <b>Maximum Scenario</b>                            | Has the meaning given to it in section 12.6                                                                                                                                                       |
| <b>Material Security Subsidiaries</b>              | Any operating or investing company within the Group but does not include Lucas Cuadrilla or 257 Clarence Street Pty Limited                                                                       |
| <b>Market Price</b>                                | The market price of a Share as quoted on the ASX from time to time                                                                                                                                |
| <b>Mezzanine Facility</b>                          | A Facility Agreement dated 21 December 2011 between Kerogen (as Lender) and the Company (as Borrower) under which Kerogen advanced the Mezzanine Loan to the Company                              |
| <b>Mezzanine Loan</b>                              | A loan of \$86.5 million                                                                                                                                                                          |
| <b>Minimum Scenario</b>                            | Has the meaning given to it in section 12.6                                                                                                                                                       |
| <b>New Controller</b>                              | In respect of a Change of Control, the person who acquires Control or joint Control of Lucas Cuadrilla as a result of that Change of Control                                                      |
| <b>Notice of Meeting</b>                           | The Notice of Extraordinary General Meeting in this document                                                                                                                                      |
| <b>Notice of Meeting and Explanatory Statement</b> | This 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 1 August 2012                                                                                                      |
| <b>Placement Agent</b>                             | Gleneagle Securities (Aust) Pty Limited (ACN 136 930 526)                                                                                                                                         |
| <b>Placement Options</b>                           | 7,407,407 Kerogen Options held by Kerogen to subscribe for new Shares at the Placement Options Exercise Price                                                                                     |
| <b>Placement Options Exercise</b>                  | The exercise by Kerogen of the Placement Options at the Placement Options Exercise Price per Share to raise a minimum of \$10 million in accordance with Resolution 2                             |
| <b>Placement Options Exercise Price</b>            | The lower of \$1.70 and 120% of the 5 Day VWAP, subject to a floor of \$1.35 per Share                                                                                                            |
| <b>Placement Options Loan</b>                      | A loan of \$10 million to be provided by Kerogen to the Company on the terms described in section 5.3                                                                                             |
| <b>Placement Price</b>                             | An issue price of \$1.35 per Share                                                                                                                                                                |
| <b>Proposed Resolutions</b>                        | Resolution 1, Resolution 2, Resolution 3, Resolution 4, Resolution 5, Resolution 6 and Resolution 7                                                                                               |
| <b>Prospectus</b>                                  | The Prospectus dated 15 December 2011 issued by the Company in connection with the Entitlement Offer which is available on the ASX website ( <a href="http://www.asx.com.au">www.asx.com.au</a> ) |

| <b>Term</b>                  | <b>Meaning</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| <b>Qualifying Transferee</b> | A transferee approved in writing by the Cuadrilla Board (such approval not to be unreasonably withheld or delayed) after taking into account the financial strength, industry background, any issues relating to the <i>US Foreign Corrupt Practices Act 1977</i> in respect of such transferee and such other matters as it considers appropriate, acting reasonably                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Recapitalisation</b>      | <p>The package of financial arrangements that the Company entered into with Kerogen in September 2011 consisting of:</p> <ol style="list-style-type: none"> <li>1. the 2011 Placement;</li> <li>2. the Mezzanine Facility;</li> <li>3. the Entitlement Offer and the granting of the Kerogen Options;</li> <li>4. the conduct of the RCPS Buy Back;</li> <li>5. the grant of the Goldman Sachs Fund Options; and</li> <li>6. the participation by Kerogen in the sub-underwriting of the Entitlement Offer</li> </ol>                                                                                                                                                                                                                                                                                                                                                                 |
| <b>RCPS</b>                  | 450,000 redeemable convertible preference shares in the capital of the Company issued on the terms set out in the RCPS Prospectus on 8 December 2008                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>RCPS Buy Back</b>         | The selective share buy back of all of the issued RCPS, conducted to effect a Redemption of the RCPS, in accordance with the RCPS Terms                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>RCPS Prospectus</b>       | A prospectus dated on 8 December 2008 for an offer of 450,000 RCPS at \$100.00 each issued by the Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>RCPS Terms</b>            | The terms and conditions under which the RCPS were issued being the terms and conditions contained at Appendix 1 to the RCPS Prospectus                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Redemption</b>            | The redemption of the RCPS in accordance with the RCPS Terms                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Required Majority</b>     | <p>In respect of Resolution 1, means a resolution approved by greater than 50% of votes cast by eligible Shareholders</p> <p>In respect of Resolution 2, means a resolution approved by greater than 50% of votes cast by eligible Shareholders</p> <p>In respect of Resolution 3, means a resolution approved by greater than 75% of votes cast by eligible Shareholders</p> <p>In respect of Resolution 4, means a resolution approved by greater than 50% of votes cast by eligible Shareholders</p> <p>In respect of Resolution 5, means a resolution approved by greater than 50% of votes cast by eligible Shareholders</p> <p>In respect of Resolution 6, means a resolution approved by greater than 75% of votes cast by eligible Shareholders</p> <p>In respect of Resolution 7, means a resolution approved by greater than 50% of votes cast by eligible Shareholders</p> |

| <b>Term</b>                         | <b>Meaning</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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| <b>Riverstone</b>                   | Riverstone/Carlyle Global Energy and Power Fund IV (Cayman), LP, a limited partnership established in the Cayman Islands, whose registered office is at Walkers Corporate Services Limited, Walkers House, 87 Mary Street, George Town, Grand Cayman KY1-9005 by its general partner, Riverstone/Carlyle Energy Partners IV (Cayman), L.P., by its general partner, R/C GP IV Cayman LLC I                                                                                                                                                                          |
| <b>Settlement Date</b>              | Means the date of settlement of the amounts to be raised under the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) being: <p>(a) 3 Business Days after the necessary Shareholder approvals are obtained; and</p> <p>(b) 15 Business Days after the last Adjustment Notice is given to Kerogen,</p> <p>or such later date that the parties agree for any or all of the new Shares to be issued under the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable)</p> |
| <b>Senior Facility</b>              | The facilities provided by ANZ to the Company in accordance with the document entitled "Facilities Agreement" dated on or about 21 August 2008 as amended from time to time                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Share</b>                        | A fully paid ordinary share in the capital of the Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Shareholder</b>                  | A holder of Shares from time to time                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Share Register</b>               | The register of members maintained by (or on behalf of) the Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Shortfall Shares</b>             | The difference between the maximum number of Shares for subscriptions under the Entitlement Offer and the number of Shares applied for by eligible Shareholders under the Entitlement Offer, being 31,219,563 Shares as described in section 3.3                                                                                                                                                                                                                                                                                                                    |
| <b>Third Party Investors</b>        | Any third party investor nominated by Inveraray who intends to subscribe for new Shares in the Company that is approved by Kerogen (in its absolute discretion)                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Third Party Placements</b>       | The placement or placements of a portion of the Shares offered under the Kerogen Placement (not to exceed 3,703,704 Shares) to up to two Third Party Investors under Third Party Subscription Agreements approved by Kerogen (in its absolute discretion)                                                                                                                                                                                                                                                                                                           |
| <b>Third Party Placement Amount</b> | The aggregate amount raised under the Third Party Subscription Agreements                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Third Party Placement Shares</b> | The aggregate number of new Shares to be issued at the Placement Price per Share under the Third Party Subscription Agreements                                                                                                                                                                                                                                                                                                                                                                                                                                      |

| Term                                       | Meaning                                                                                                                                                                                              |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Third Party Subscription Agreements</b> | Binding subscription agreements in respect of, in aggregate, a number (not to exceed 3,703,704) of new Shares at the Placement Price approved by Kerogen (in its absolute discretion)                |
| <b>Voting Exclusion Statements</b>         | As the case requires, the relevant voting exclusion statement for Resolution 1, Resolution 2, Resolution 3, Resolution 4, Resolution 5, Resolution 6 and Resolution 7 contained in Notice of Meeting |

## ANNEXURE B – SUMMARY OF KEY TERMS OF KEROGEN SUBSCRIPTION AGREEMENT

| Feature                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <b>Kerogen Placement</b>        | <p>Subject to the satisfaction or waiver of certain conditions precedent and the agreement not being terminated, Kerogen will subscribe for, and the Company agrees to issue to Kerogen, the Placement Shares on the Allotment Date.</p> <p><b>"Placement Shares"</b> means 22,222,222 new Shares subject to adjustment under the Kerogen Subscription Agreement</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Placement Amount</b>         | <p>Kerogen must pay the Company, subject to the Placement Conditions being satisfied and the parties not exercising any Termination Rights, the amount equal to the number of new Shares issued to Kerogen at the Placement Price per Share divided by the Placement Price to a maximum of \$30 million</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Scale back of commitment</b> | <p>The Placement Shares to Kerogen will be reduced by the number of Shares up to a maximum of 7,407,407 Shares calculated as the aggregate number of Shares that:</p> <ul style="list-style-type: none"> <li>(a) is determined by dividing the Inveraray Deposit by the Placement Price at the Inveraray Commitment Deadline (unless Shareholder Approval is not obtained for the Inveraray Placement on the EGM Date, in which case, zero) ; and</li> <li>(b) in respect of which Third Party Investors have, by the Final Confirmation Date, executed binding Third Party Subscription Agreements in accordance with the Kerogen Subscription Agreement subject to a maximum of 3,703,704 Shares (unless Shareholder Approval is not obtained for the Third Party Placements on the EGM Date, in which case, zero);</li> </ul> <p>provided that if Inveraray and/or any Third Party Investor fails to complete their settlement obligations in respect of the Inveraray Placement and/or the Third Party Placements in accordance with the relevant subscription agreement or, if for any reason the new Shares referred to in paragraphs (a) or (b) above are not issued for this purpose on the Settlement Date (ignoring, for this purpose, the impact of any Adjustment Notice given as a result of such failure to issue), the Placement Shares will not be reduced by the number of Shares to which the failure or non-issue relates.</p> <p><b>"Inveraray Deposit"</b> means the amount not greater than \$10,000,000 less the Third Party Placement Amount, in respect of which, as at the Inveraray Commitment Deadline, Inveraray has provided evidence satisfactory to the Company and Investor that:</p> <ul style="list-style-type: none"> <li>(a) it has deposited in immediately available funds into the HR Trust Account; and</li> <li>(b) such funds cannot be used other than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement;</li> </ul> |

| Feature                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <b>Adjustment Notice</b>                         | The Company or Placement Agent must give the Investor a written notice ( <b>Adjustment Notice</b> ) as soon as possible and, in all cases, within 24 hours after any adjustment (whether by way of scale back or cancellation of a scale back) of the number of Placement Shares occurs as described above. The Adjustment Notice must set out the circumstances causing the adjustment required, the amount of the adjustment and the number of Placement Shares as at that date.                                                                                                                                                                                                                                                                                              |
| <b>Exercise of the Placement Options</b>         | <p>(<b>Exercise</b>) Subject to Placement Conditions and the parties not exercising any Termination Rights, Kerogen will exercise the Placement Options in accordance with the Placement Option terms within 3 months of the EGM Date.</p> <p>(<b>Issue and allotment</b>) Subject to Placement Conditions and the parties not exercising any Termination Rights, the Company will issue and allot new Shares issued on exercise of the Placement Options in accordance with the Option Terms.</p>                                                                                                                                                                                                                                                                              |
| <b>Failure to exercise the Placement Options</b> | If Kerogen fails to exercise the Placement Options by the Settlement Date then, subject to certain conditions, Kerogen will provide the Placement Options Loan to the Company, on terms substantially similar to the Advance Facilities, to be set off against the exercise of the Placement Options at a price determined in accordance with the Option Terms.                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Inveraray and Third Party Investors</b>       | <p>(a) The Company may, at Inveraray's request, by no later than one Business Day prior to the Inveraray Commitment Deadline enter into binding subscription agreements with not more than two Third Party Investors provided that and only if the Investor has approved the identity of the Third Party Investors and the terms of the subscription agreements (each, in its absolute discretion).</p> <p>(b) The Company must not amend any Third Party Subscription Agreement or the Inveraray Subscription Agreement or waive any rights or conditions precedent under a Third Party Subscription Agreement or the Inveraray Subscription Agreement without the Investor's written consent.</p>                                                                             |
| <b>Placement Conditions</b>                      | <p>(<b>Obligations of the parties</b>) The parties' obligations are conditional on each of the following being satisfied or waived by both the Company and Kerogen by the relevant time in each case:</p> <p>(a) (<b>ANZ Consent</b>) if required by ANZ, the Company obtaining the consent, on terms satisfactory to Kerogen (acting reasonably and without imposing additional conditions), of the ANZ to the application of any of the proceeds raised by the Company from the Kerogen Subscription Agreement, the Inveraray Subscription Agreement and any Third Party Subscription Agreement and the provision of further 'Secured Money' (as defined in the Facility Agreement) by Kerogen to the Company, including the Placement Options Loan, by the EGM Date; and</p> |

| Feature                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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|                                                                        | <p>(b) <b>(Shareholder Approvals)</b> the Company obtaining the relevant shareholder approvals necessary to proceed with the Kerogen Placement, on the EGM Date,</p> <p>(each of the above conditions precedent are referred to as the <b>Party Placement Conditions</b>)</p> <p><b>(Obligations on Kerogen)</b> The obligations of Kerogen are conditional on the following being satisfied or waived by Kerogen by the relevant time:</p> <p>(a) <b>(Prospectus lodgement)</b> the Company lodging the Prospectus with ASIC by 5.00 pm on the Lodgement Date (being 5 Business Days before the EGM Date);</p> <p>(b) <b>(Breach)</b> the Company has not breached any of its obligations in relation to the "Inveraray and Third Party Investors" (described in the box entitled "Inveraray and Third Party Investors" above);</p> <p>(c) <b>(Shareholder Approvals)</b> the Company obtaining all necessary shareholder approvals in relation to the Kerogen Placement and Placement Options Exercise by 5 September 2012;</p> <p>(d) <b>(Junior Facility Security)</b> the Company obtaining the shareholder approvals necessary for the grant and enforcement of the Junior Facility Security in favour of Kerogen by 5 September 2012; and</p> <p>(e) <b>(Management Options)</b> the Company has not:</p> <p>(i) issued or agreed to issue more than 5,000,000 Management Options, of which no more than 3,750,000 Campbell Options are issued or agreed to be issued to Allan Campbell; and</p> <p>(ii) breached its obligation to issue 3,750,000 Campbell Options prior to the issue of new Shares to Kerogen under the Kerogen Subscription Agreement,</p> <p>(each of the above conditions precedent are referred to as the <b>Kerogen Placement Conditions</b>)</p> <p>(All above conditions precedent are collectively referred to as the <b>Placement Conditions</b>)</p> <p><b>"Prospectus"</b>, for the purposes of this summary, means the document of that name to be lodged by the Company with ASIC under s718 of the Corporations Act in relation to the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the new Shares to be issued on exercise of the Placement Options.</p> |
| <p><b>Termination for failure to satisfy a Placement Condition</b></p> | <p>Subject to the conditions set out in the box below, if the Party Placement Conditions have not been satisfied or waived on or before the date referred to in respect of each Party Placement Condition, either party may serve notice on the other terminating the agreement.</p> <p>If the Kerogen Placement Conditions have not been satisfied or waived on or before the date referred to in respect of each Kerogen Placement Condition, Kerogen may serve notice on the Company terminating the agreement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

| Feature                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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|                                                                                      | Termination is without prejudice to the accrued rights and remedies of each party.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Conditions for termination regarding failure to satisfy a Placement Condition</b> | <p>Subject to the termination rights discussed immediately below, a party may only terminate the Kerogen Subscription Agreement if:</p> <ul style="list-style-type: none"> <li>(a) that party has complied with obligations under the Kerogen Subscription Agreement;</li> <li>(b) that party has given at 3 Business Days notice to the other party of intention to terminate the Kerogen Subscription Agreement; and</li> <li>(c) the Placement Conditions have not been validly waived in accordance with Kerogen Subscription Agreement.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Termination Rights</b>                                                            | <p><b>(Termination by the Company or Kerogen)</b> The Company or Kerogen may terminate the Kerogen Subscription Agreement by giving notice to the other party at any time prior to the 8.00 am on the Allotment Date, if any of the following occurs:</p> <ul style="list-style-type: none"> <li>(a) <b>(Insolvency)</b> a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other similar official is appointed in relation to, or to any property of the other party (or any subsidiary of that party)</li> <li>(b) <b>(Material breach)</b> the other party materially breaches the Kerogen Subscription Agreement or fails to perform any of its obligations under the Kerogen Subscription Agreement; or</li> <li>(c) <b>(Breach of representation or warranty)</b> a representation or warranty made or given, or deemed to have been made or given, by the other party under the Kerogen Subscription Agreement proves to be, has been, or becomes, untrue or incorrect.</li> </ul> <p><b>(Termination by Kerogen)</b> Kerogen may terminate all of its obligations under the Kerogen Subscription Agreement, upon notice to the Company, if any of the following occur:</p> <ul style="list-style-type: none"> <li>(a) <b>(Change in management)</b> a change in the board of directors of the Company occurs, in circumstances that would have a material adverse effect on the Company;</li> <li>(b) <b>(Capital)</b> the Company alters its capital structure or constitution without the prior consent of Kerogen;</li> <li>(c) <b>(Material adverse change)</b> Kerogen forms the view that any material adverse change has occurred in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company (or any entity in the Group insofar as the position in relation to an entity affects the overall position of the Company), including any material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company and the Group from those respectively disclosed in: <ul style="list-style-type: none"> <li>(i) information publicly available at the date of the Kerogen</li> </ul> </li> </ul> |

| Feature                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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|                          | <p>Subscription Agreement;</p> <p>(ii) the Notice of Meeting; or</p> <p>(iii) the Prospectus;</p> <p>(d) <b>(Disposal)</b> the Company sells, assigns, transfers or otherwise disposes of or parts with possession of any of its assets;</p> <p>(e) <b>(disclosures in the Prospectus)</b> in Kerogen's reasonable opinion, a statement contained in the Prospectus or Notice of Meeting is misleading or deceptive, or is likely to mislead or deceive, or a matter is omitted from the Prospectus; or</p> <p>(f) <b>(Prospectus to comply)</b> the Prospectus or Notice of Meeting does not comply with the Corporations Act, the ASX Listing Rules, ASIC or Takeovers Panel guidance or any other applicable law or regulation.</p>                                                                                                                                                                                                                                                                       |
| <b>Set off</b>           | Kerogen may set off the Placement Amount against the Advance Facilities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Use of Funds</b>      | <p>The Company undertakes and agrees that the funds raised by the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Placement Options Exercise will be used by the Company after setting off any amount owing by the Company under the Advance Facilities and Placement Options Loan, in the following order of priority:</p> <p>(a) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, as they fall due;</p> <p>(b) to meet working capital expenses for the drilling and BCI businesses; and</p> <p>(c) for the partial repayment of ATO liabilities,</p> <p>and must not be used for any other purpose, including to repay any amounts owing under the Facility Agreement or to fund or manage any investments other than in respect of Cuadrilla and/or Lucas Energy.</p> |
| <b>Gleneagle Options</b> | Kerogen, by notice to the Placement Agent, can cancel its right to repurchase the number of Gleneagle Options specified in that notice up to a maximum number of 2,108,736 Gleneagle Options; and upon the giving of such notice, Kerogen's right under the Gleneagles Options Transfer Deed to repurchase the number of Gleneagle Options specified in that notice will irrevocably cease.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Feature                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <b>Prospectus</b>                                 | <p><b>(Issue of Prospectus)</b> The Company must issue the Prospectus in respect of the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the Shares issued on the Placement Options Exercise under Chapter 6D of the Corporations Act by the Lodgement Date.</p> <p><b>(Provision of information)</b> Kerogen agrees:</p> <ul style="list-style-type: none"> <li>(a) to provide such information about itself for inclusion in the Prospectus as may be reasonably required by the Company, having regard to the Chapter 6D of the Corporations Act and relevant ASIC policy, guidance and requirements; and</li> <li>(b) to consent to the inclusion of information referred to above where such consent is required or prudent under Chapter 6D of the Corporations Act, provided that Andial has reviewed and approved the information in the form and context in which it appears in the Prospectus.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Recommendation and exception</b>               | <p><b>(Board Recommendation)</b> The Company undertakes to Kerogen to use best endeavours to ensure that the Board:</p> <ul style="list-style-type: none"> <li>(a) unanimously recommends in the Notice of Meeting that Shareholders vote in favour of each Shareholder Approval;</li> <li>(b) will give reasons for that recommendation in the Notice of Meeting; and</li> <li>(c) will not change or withdraw that recommendation and will not make any public statement that suggests the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the exercise of the Placement Options are no longer recommended.</li> </ul> <p><b>(Exception)</b> The obligations of the Board to use its best endeavours to ensure that the Board complies with items (a) to (c) discussed immediately above, will cease to apply if the Board, after having first obtained written advice from its legal advisers and, if appropriate, its financial advisers, determines:</p> <ul style="list-style-type: none"> <li>(a) that a proposal for an alternative capital raising constitutes a superior proposal; or</li> <li>(b) in good faith and acting reasonably, that the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) is no longer in the best interests of Shareholders and that by reason of the fiduciary or statutory duties of the members of the Board, it is required not to recommend the Placement or to change or withdraw that recommendation once made.</li> </ul> |
| <b>Right to match Alternative Capital Raising</b> | <p>Before the Allotment Date, the Company must:</p> <ul style="list-style-type: none"> <li>(a) not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) in relation to an alternative capital raising; and</li> <li>(b) use its best endeavours to procure that no member of the Board changes his or her recommendation in favour of the Kerogen</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

| Feature                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                           | <p>Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and/or publicly recommends an alternative capital raising,</p> <p>unless the Company has determined that the alternative capital raising would be, or would be likely to be, a superior proposal amongst other things.</p> <p>A <b>superior proposal</b> means a written bona fide proposal for an alternative capital raising which the Board, acting in good faith and after having first obtained written advice from the Company's legal advisers and, if appropriate, the Company's financial advisers determines is:</p> <ul style="list-style-type: none"> <li>(a) reasonably capable of being completed in a timely manner, taking into account all aspects of the proposal for the alternative capital raising and the Company's need for cash (as appropriate); and</li> <li>(b) more favourable to Shareholders than the transactions contemplated under this agreement, taking in to account all terms and conditions such transactions and the impact on the Company.</li> </ul> |
| <p><b>Appointment of directors</b></p>                                    | <p>For as long as Kerogen has voting power (as defined in the Corporations Act) in:</p> <ul style="list-style-type: none"> <li>(a) more than 15% but less than 30% in the Company, it will be entitled to nominate one director for appointment to the Board;</li> <li>(b) 30% or more in the Company, it will be entitled to nominate two directors for appointment to the Board,</li> </ul> <p>(in each case an <b>Investor Nominee</b>).</p> <p>If an Investor Nominee is nominated, subject to certain conditions, the Company undertakes to appoint the Investor Nominee as an additional director (or to fill a casual vacancy) and to support the election or re-election of the Investor Nominee at each Shareholder's meeting. Where Kerogen nominates a second Investor Nominee, the Company's obligation in relation to that second Investor Nominee is subject to approval of the Board of that nomination (which approval is not to be unreasonably withheld).</p>                                                                                                              |
| <p><b>Representations, Warranties and Undertakings by the Company</b></p> | <p>The Company has given various customary representations and warranties to Kerogen, as at the date of the Kerogen Subscription Agreement and at all times until the Allotment Date, including:</p> <ul style="list-style-type: none"> <li>(a) that the Placement Shares will be validly issued and be able to be sold without restriction under section 707(3) of the Corporations Act will not be subject to any pre-emptive or similar rights, will be free from all liens, charges and other encumbrances and such issue will not breach any obligation binding on the Company;</li> <li>(b) that Company is listed on the official list of the ASX it has not been removed from the official list and no removal from the official list has been threatened by ASX. The Company is not aware of any reason why ASX would not grant quotation of all Placement Shares and Shares issued after the Placement Options Exercise occurring, from</li> </ul>                                                                                                                                 |

| Feature                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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|                                                                | <p>the Settlement Date;</p> <p>(c) the Company is in compliance with the ASX Listing Rules and is not withholding any information under the exception in Listing Rule 3.1A;</p> <p>(d) the Notice of Meeting will be prepared in accordance with the Corporations Act and the ASX Listing Rules among others;</p> <p>(e) the Placement Shares and the new Shares to be issued after the Placement Options Exercise are not being issued by the Company for the purpose of resale (whether by selling or transferring them or granting, issuing or transferring interests in, or options or warrants over them);</p> <p>(f) the Prospectus will comply with the Corporations Act and ASX Listing Rules, not contain any misleading or deceptive statements or omit any matter required by the Corporations Act, and the issue and distribution of the Prospectus will not constitute misleading or deceptive conduct; and</p> <p>(g) all statements and information provided by or on behalf of the Company to Kerogen (to the best of the Company's knowledge and belief) in relation to the Shares, equity interests, options and other securities convertible or exchangeable into Shares or otherwise in connection with the Kerogen Placement or Placement Options Exercise, are in all material respects true, complete and accurate and not misleading or deceptive or likely to mislead or deceive, whether by omission or otherwise.</p> |
| <b>Representations, Warranties and Undertakings by Kerogen</b> | <p>Kerogen has given various customary representations and warranties to the Company, as at the date of the Kerogen Subscription Agreement and at all times until the Allotment Date.</p> <p>This includes a 'Due Diligence Warranty' which provides that Kerogen has had a sufficient opportunity to conduct due diligence and make its own inquiries in relation to its decision to invest in the Company and is relying on its own investigations and assessment of the information in relation to the Company (including information provided by or on behalf of the Company in connection with the Kerogen Placement and the Placement Options Exercise) and information from external or third party sources or otherwise as well as the warranties set out in the box above.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>ASX Listing</b>                                             | <p>The Company must use its reasonable endeavours to procure that official quotation is granted for the Placement Shares on the ASX by 10 am on the date that is no later than 2 Business Days after the Allotment Date.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>No assignment</b>                                           | <p>A party cannot assign its rights or benefits under the Kerogen Subscription Agreement to any person without the consent of the other party.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

## ANNEXURE C – SUMMARY OF KEY TERMS OF INVERARAY SUBSCRIPTION AGREEMENT

| Feature                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <b>Inveraray Placement</b>  | Subject to the satisfaction or waiver of certain conditions precedent and the agreement not being terminated, Inveraray has the right to subscribe for, and the Company agrees to issue to Inveraray if it subscribes, the number of Shares (but not in any circumstances to exceed 7,407,407 Shares less the Third Party Placement Shares) calculated as the number of Shares that is determined by dividing the Inveraray Deposit by the Placement Price at the Inveraray Commitment Deadline (unless shareholder approval for the Placement is not obtained on the EGM Date, in which case, zero) ( <b>Inveraray Placement Shares</b> ).                                                                                                                                                                                                                                                                                                                                                     |
| <b>Placement Amount</b>     | Subject to the Placement Conditions being satisfied and the parties not exercising any Termination Rights, the Inveraray Placement Shares multiplied by the Placement Price (but not, in any circumstances, to exceed \$10,000,000 less the Third Party Placement Amounts (if any)) ( <b>Inveraray Placement Amount</b> ).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Third Party Investor</b> | <p><b>Third Party Subscription Agreement</b></p> <p>The Company may, at Inveraray's request, by no later than one Business Day prior to the Inveraray Commitment Deadline enter into binding subscription agreements with not more than two Third Party Investors provided that and only if Kerogen has approved the identity of the Third Party Investors and the terms of the subscription agreements (each, in its absolute discretion).</p> <p><b>No Amendment to Third Party Subscription Agreement</b></p> <p>The parties to the agreement acknowledge and agree that:</p> <ul style="list-style-type: none"> <li>(a) Kerogen has the right to approve the identity of the Third Party Investors and the terms of the Third Party Subscription Agreements (in its absolute discretion); and</li> <li>(b) the Company must not amend any Third Party Subscription Agreement or waive any rights under any Third Party Subscription Agreement without Kerogen's written consent.</li> </ul> |
| <b>Placement Conditions</b> | <p><b>(Obligations of the parties)</b> The parties' obligations are conditional on each of the following conditions precedent being satisfied or waived by both the Company and Inveraray:</p> <ul style="list-style-type: none"> <li>(a) <b>(ANZ Consent)</b> if required by the ANZ, the Company obtaining the consent, on terms satisfactory to Inveraray (acting reasonably and without imposing additional conditions), of the ANZ, to the application of any of the proceeds raised under the Inveraray Subscription Agreement, the Kerogen Subscription Agreement and any Third Party Subscription Agreement and the provision of further 'Secured Money' (as defined in the Facility Agreement) by Kerogen to the Company including the Placement Options Loan, by the EGM Date;</li> </ul>                                                                                                                                                                                             |

| Feature |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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|         | <p>(b) <b>(Financiers)</b> if required, the Company obtaining the consent, on terms satisfactory to the Company, of each of the lenders under the Senior Facility and the Mezzanine Facility, to the Inveraray Placement on or before the date that those proceeds are applied by the EGM Date;</p> <p>(c) <b>(Shareholder approvals)</b> the Company obtaining the relevant shareholder approvals necessary to proceed with the Inveraray Placement (but not, for the avoidance of doubt, the other shareholder approvals) being approved by the Required Majority on the EGM Date <b>(Shareholder Approvals)</b>; and</p> <p>(d) <b>(Settlement)</b> the Company has first issued the relevant Shares to Kerogen under the Kerogen Subscription Agreement prior to the issue of the Inveraray Placement Shares or any Third Party Placement Shares,</p> <p>(each of the above conditions precedent are referred to as the <b>Party Placement Conditions</b>).</p> <p><b>(Obligations on Inveraray)</b> The obligations on Inveraray are conditional on each of the following conditions precedent being satisfied or waived by Inveraray:</p> <p>(a) <b>(Prospectus lodgement)</b> the Company lodging the Prospectus with ASIC by 5.00 pm on the Lodgement Date (being 5 Business Days before the EGM Date);</p> <p>(b) <b>(Breach)</b> the Company has not breached any of its obligations in relation to Third Party Investors (as set out in the box titled 'Third Party Investor' above);</p> <p>(c) <b>(Shareholder Approvals)</b> the Company obtaining the Shareholder Approvals by 5 September 2012; and</p> <p>(d) <b>(Junior Facility Security)</b> the Company obtaining the shareholder approvals necessary for the grant and enforcement of the Junior Facility Security in favour of Kerogen by 5 September 2012 or Kerogen waiving the condition precedent in clause 5.1(b)(iv) of the Kerogen Subscription Agreement,</p> <p>(each of the above conditions precedent are referred to as the <b>Inveraray Placement Conditions</b>).</p> <p>(All above conditions precedent are collectively referred to as the <b>Placement Conditions</b>)</p> <p><b>“Prospectus”</b>, for the purposes of this summary, means the document of that name to be lodged by the Company with ASIC under s718 of the Corporations Act in relation to the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the new Shares to be issued on exercise of the Placement Options.</p> |

| Feature                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <b>Termination for failure to satisfy a Placement Condition</b>                      | <p>Subject to the conditions set out in the box below, if the Party Placement Conditions have not been satisfied or waived on or before the date referred to in respect of each Party Placement Condition, either party may serve notice on the other terminating the agreement.</p> <p>If the Inveraray Placement Conditions have not been satisfied or waived on or before the date referred to in respect of each Inveraray Placement Condition, Inveraray may serve notice on the Company terminating the Inveraray Subscription agreement.</p> <p>However, the Company and Inveraray must not waive or amend any Placement Condition or any other term of the Inveraray Subscription Agreement without prior written approval of Kerogen.</p> <p>If:</p> <ul style="list-style-type: none"> <li>(a) the Shareholder Approvals and all approvals of Shareholders required under the Corporations Act and the ASX Listing Rules which are necessary to effect the Kerogen Placement;</li> <li>(b) the Kerogen Subscription Agreement is terminated and/or there is a failure to complete the Kerogen Placement; or</li> <li>(c) Inveraray fails to complete the Inveraray Placement by the settlement date,</li> </ul> <p>the Inveraray Subscription Agreement immediately terminates.</p> <p>Termination is without prejudice to the accrued rights and remedies of each party.</p> |
| <b>Conditions for termination regarding failure to satisfy a Placement Condition</b> | <p>Subject to the termination rights discussed immediately below, a party may only terminate the Inveraray Subscription Agreement if:</p> <ul style="list-style-type: none"> <li>(a) that party has complied with obligations under the Inveraray Subscription Agreement;</li> <li>(b) that party has given at 3 Business Days notice to the other party of intention to terminate the Inveraray Subscription Agreement; and</li> <li>(c) the Placement Conditions have not been validly waived in accordance with Inveraray Subscription Agreement.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Termination Rights</b>                                                            | <p><b>(Termination by the Company or Inveraray)</b> The Company and Inveraray may terminate the Inveraray Subscription Agreement by giving notice to the other party at any time prior to the 8.00 am on the Allotment Date, if any of the following occurs:</p> <ul style="list-style-type: none"> <li>(a) <b>(Insolvency)</b> a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other similar official is appointed in relation to, or to, any property of the other party;</li> <li>(b) <b>(Material breach)</b> the other party materially breaches the Inveraray Subscription Agreement or fails to perform any of its obligations under Inveraray Subscription Agreement; or</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

| Feature             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
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|                     | <p>(c) <b>(Breach of representation or warranty)</b> a representation or warranty made or given, or deemed by to have been made or given, by the other party under the Inveraray Subscription Agreement proves to be, has been, or becomes, untrue or incorrect.</p> <p><b>(Termination by Inveraray)</b> Inveraray may terminate all of its obligations under the Inveraray Subscription Agreement, upon notice to the Company, if any of the following occur:</p> <p>(a) <b>(Capital)</b> the Company alters its capital structure or constitution without the prior consent of Inveraray;</p> <p>(b) <b>(Material adverse change)</b> Inveraray forms the view that any material adverse change has occurred in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company (or any entity in the Group insofar as the position in relation to an entity affects the overall position of the Company), including any material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company and the Group from those respectively disclosed in:</p> <p>(i) information publicly available at the date of the Kerogen Subscription Agreement;</p> <p>(ii) the Notice of Meeting; or</p> <p>(iii) the Prospectus;</p> <p>(c) <b>(Disposal)</b> the Company sells, assigns, transfers or otherwise disposes of or part with possession of any of its assets;</p> <p>(d) <b>(disclosures in the Prospectus)</b> in Inveraray's reasonable opinion, a statement contained in the Prospectus or Notice of Meeting is misleading or deceptive, or is likely to mislead or deceive, or a matter is omitted from the Prospectus; or</p> <p>(e) <b>(Prospectus to comply)</b> the Prospectus or Notice of Meeting does not comply with the Corporations Act, the ASX Listing Rules, ASIC or Takeovers Panel guidance or any other applicable law or regulation.</p> |
| <b>Use of Funds</b> | <p>The Company undertakes and agrees that the funds raised by the Kerogen Subscription Agreement, the Inveraray Subscription Agreement and from any Third Party Investor will be used by the Company after setting off any amount owing by the Company under the Advance Facilities, in the following order of priority:</p> <p>(a) to make reserves for, and for the payment of, capital calls in relation to Cuadrilla and to fund further loans to or investments in Lucas Energy to enable it to meet its capital needs for its European shale gas investments, as they fall due;</p> <p>(b) to meet working capital expenses for the drilling and BCI businesses; and</p> <p>(c) for the partial repayment of ATO liabilities,</p> <p>and must not be used for any other purpose, including to repay any amounts</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

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|                                                   | owing under the Facility Agreement or to fund or manage any investments other than in respect of Cuadrilla and/or Lucas Energy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Prospectus</b>                                 | <p><b>(Issue of Prospectus)</b> The Company must issue the Prospectus in respect of the Inveraray Placement, the Kerogen Placement, the Third Party Placement (if relevant) and the Shares issued on the Placement Options Exercise under Chapter 6D of the Corporations Act by the Lodgement Date.</p> <p><b>(Provision of information)</b> Inveraray agrees:</p> <ul style="list-style-type: none"> <li>(a) to provide such information about itself for inclusion in the Prospectus as may be reasonably required by the Company, having regard to the Chapter 6D of the Corporations Act and relevant ASIC policy, guidance and requirements; and</li> <li>(b) to consent to the inclusion of information referred to above where such consent is required or prudent under Chapter 6D of the Corporations Act, provided that Inveraray has reviewed and approved the information in the form and context in which it appears in the Prospectus.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Recommendation and exception</b>               | <p><b>(Board Recommendation)</b> The Company undertakes to Inveraray to use best endeavours to ensure that the Board:</p> <ul style="list-style-type: none"> <li>(a) unanimously recommends in the Notice of Meeting that Shareholders vote in favour of each Shareholder Approval;</li> <li>(b) will give reasons for that recommendation in the Notice of Meeting; and</li> <li>(c) will not change or withdraw that recommendation and will not make any public statement that suggests the Kerogen Placement (including the Inveraray Placement and the Third Party Placements, if applicable) and the exercise of the Placement Options are no longer recommended.</li> </ul> <p><b>(Exception)</b> The obligations of the Board to use its best endeavours to ensure that the Board complies with items (a) to (c) discussed immediately above, will cease to apply if the Board, after having first obtained written advice from its legal advisers and, if appropriate, its financial advisers, determines:</p> <ul style="list-style-type: none"> <li>(a) that a proposal for an alternative capital raising constitutes a superior proposal; or</li> <li>(b) in good faith and acting reasonably, that the Inveraray Placement is no longer in the best interests of Shareholders and that by reason of the fiduciary or statutory duties of the members of the Board, it is required not to recommend the Inveraray Placement or to change or withdraw that recommendation once made.</li> </ul> |
| <b>Right to match Alternative Capital Raising</b> | <p>Before the Allotment Date, the Company must:</p> <ul style="list-style-type: none"> <li>(a) not enter into any legally binding agreement, arrangement or understanding (whether or not in writing) in relation to an alternative capital raising; and</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

| Feature                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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|                                                        | <p>(b) use its best endeavours to procure that no member of the Board changes his or her recommendation in favour of the Inveraray Placement and/or publicly recommends an alternative capital raising, unless the Company has determined that the alternative capital raising would be, or would be likely to be, a superior proposal amongst other things.</p> <p>A <b>superior proposal</b> means a written bona fide proposal for an alternative capital raising which the Board, acting in good faith and after having first obtained written advice from the Company's legal advisers and, if appropriate, the Company's financial advisers determines is:</p> <p>(a) reasonably capable of being completed in a timely manner, taking into account all aspects of the proposal for the alternative capital raising and the Company's need for cash (as appropriate); and</p> <p>(b) more favourable to Shareholders than the transactions contemplated under this agreement, taking in to account all terms and conditions such transactions and the impact on the Company.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Placement, settlement and allotment</b>             | <p>On or before 5pm on the Final Confirmation Date, Inveraray must::</p> <p>(a) written notice under which Inveraray states the number of Inveraray Placement Shares and the Inveraray Placement Amount that it irrevocably commits to subscribe for on the Allotment Date (<b>Placement Confirmation Notice</b>);</p> <p>(b) deposit and Holding Redlich must have received in immediately available funds in the HR Trust Account an amount equal to the Placement Amount stated in the Placement Confirmation Notice (not to exceed \$10,000,000 less the Third Party Placement Amounts);</p> <p>(c) provide the Company and Kerogen with evidence that:</p> <p>(i) it has complied with and performed its obligations described in paragraph (b) of this box;</p> <p>(ii) the above funds cannot be used other than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement,</p> <p><b>(Evidence).</b></p> <p>If Inveraray does not strictly comply with each of the matters set out above and does not provide Evidence satisfactory to the Company and Kerogen (in its absolute discretion) that such funds referred to in paragraph (b) above have been so deposited and cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement, the Inveraray Subscription Agreement will immediately terminate and Inveraray will have no further rights under the agreement, including to participate in the Inveraray Placement.</p> |
| <b>Representations, Warranties and Undertakings by</b> | <p>The Company has given various customary representations and warranties to Inveraray, as at the date of the Inveraray Subscription Agreement and at all times until the Allotment Date, including:</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

| Feature                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| <b>the Company</b>                                               | <p>(a) that the Inveraray Placement Shares will be validly issued and be able to be sold without restriction under section 707(3) of the Corporations Act will not be subject to any pre-emptive or similar rights, will be free from all liens, charges and other encumbrances and such issue will not breach any obligation binding on the Company;</p> <p>(b) the Inveraray Placement Shares are not being issued by the Company for the purpose of resale (whether by selling or transferring them or granting, issuing or transferring interests in, or options or warrants over them);</p> <p>(c) that Company is listed on the official list of the ASX it has not been removed from the official list and no removal from the official list has been threatened by ASX. The Company is not aware of any reason why ASX would not grant quotation of all the Inveraray Placement Shares from the Settlement Date;</p> <p>(d) the Company is in compliance with the ASX Listing Rules and is not withholding any information under the exception in Listing Rule 3.1A;</p> <p>(e) the Notice of Meeting will be prepared in accordance with the Corporations Act and the ASX Listing Rules among others;</p> <p>(f) the Prospectus will comply with the Corporations Act and ASX Listing Rules, not contain any misleading or deceptive statements or omit any matter required by the Corporations Act, and the issue and distribution of the Prospectus will not constitute misleading or deceptive conduct; and</p> <p>(g) all statements and information provided by or on behalf of the Company to Inveraray (to the best of the Company's knowledge and belief) in relation to the Shares, equity interests, options and other securities convertible or exchangeable into Shares or otherwise in connection with the Inveraray Placement, are in all material respects true, complete and accurate and not misleading or deceptive or likely to mislead or deceive, whether by omission or otherwise.</p> |
| <b>Representations, Warranties and Undertakings by Inveraray</b> | Inveraray has given various customary representations and warranties to the Company, as at the date of the Inveraray Subscription Agreement and at all times until the Allotment Date, including that Inveraray has conducted its own due diligence has and made its own inquiries in relation to its decision to invest in the Company.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>ASX Listing</b>                                               | The Company must use its reasonable endeavours to procure that official quotation is granted for the Inveraray Placement Shares on the ASX by 10 am on the date that is no later than 2 Business Days after the Allotment Date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>No assignment</b>                                             | A party cannot assign its rights or benefits under the Inveraray Subscription Agreement to any person without the consent of the other party.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

## ANNEXURE D – TERMS OF CAMPBELL OPTIONS AND MANAGEMENT OPTIONS

Each Campbell Option and Management Option entitles the holder to subscribe for Shares on the following material terms and conditions:

- (a) each Campbell Option and Management Option gives the holder the right to subscribe for one Share. To obtain the right given by each Campbell Option and Management Option, a holder must exercise the Campbell Options and the Management Options in accordance with the terms and conditions of the Campbell Options and the Management Options;
- (b) the vesting date for the Campbell Options and the Management Options can occur no earlier than 31 December 2013 and will only occur if the Market Price for the Shares closes at in excess of \$2.50 each day for a period of 10 days in any 20 day trading period that occurs at least 12 months after the Grant Date;
- (c) the Campbell Options and the Management Options will expire at 5.00 pm on 7 December 2015 (**Expiry Date**). Any Campbell Option or Management Option not exercised before the Expiry Date will automatically lapse at midnight on the Expiry Date;
- (d) the amount payable upon exercise of each Campbell Option and Management Option will be \$1.35 (**Exercise Price**);
- (e) the Campbell Options or the Management Options held by the holder may be exercised in whole or in part and, if exercised in part, multiples of 1,000 must be exercised on each occasion;
- (f) the holder may exercise the Campbell Options or the Management Options by lodging with the Company before the Expiry Date:
  - (i) a written notice of exercise of the Campbell Options or the Management Options specifying the number of the Campbell Options or the Management Options being exercised; and
  - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of the Campbell Options or the Management Options being exercised (**Exercise Notice**);
- (g) an Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds;
- (h) within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of the Campbell Options or the Management Options specified in the Exercise Notice;
- (i) all Shares allotted upon the exercise of the Campbell Options or the Management Options will upon allotment rank pari passu in all respects with other Shares;
- (j) the Company will not apply for quotation of the Campbell Options or the Management Options on ASX;
- (k) the Campbell Options and Management Options cannot be transferred for a period of 12 months from the Grant Date. Subject to the Corporations Act, the Constitution and the Listing Rules, the Campbell Options or the Management Options will be freely transferable from the day that is 12 months after the Grant Date;

- (l) the Company will apply for quotation of all Shares allotted pursuant to the exercise of the Campbell Options or the Management Options on ASX within 10 Business Days after the date of allotment of those Shares;
- (m) if, at any time, the issued capital of the Company is reconstructed, all rights of the holders of the Campbell Options or the Management Options are to be changed in a manner that is not inconsistent with the Corporations Act and Listing Rules at the time of reconstruction;
- (n) there are no participating rights or entitlements inherent in the Campbell Options or the Management Options and the holder will not be entitled to participate in new issues of capital or any share buy back of capital offered to Shareholders during the currency of the Campbell Options or the Management Options. However, the Company will ensure that, for the purposes of determining entitlements to any such issue or share buy back, the record date will be at least 7 Business Days after the issue or share buy back is announced. This will give the holder the opportunity to exercise the Campbell Options or the Management Options prior to the date for determining entitlements to participate in any such issue or share buy back;
- (o) a Campbell Option or a Management Options does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Campbell Option or the Management Option can be exercised;
- (p) the holders of the Campbell Options and Management Options have no right to participate in a Bonus Issue without first exercising the Option. However, if there is a bonus issue to Shareholders (**Bonus Issue**), the number of Shares over which a Campbell Option or a Management Option is exercisable will be increased by the number of Shares which the holder would have received if the Campbell Option or the Management Option had been exercised before the record date for the Bonus Issue (**Bonus Shares**);
- (q) in the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry Date, all rights of the holder are to be changed in a manner consistent with the Listing Rules; and
- (r) in the event that the Company makes a pro rata issue of securities, the exercise price of the Campbell Options or the Management Options will be adjusted in accordance with the formula set out in Listing Rule 6.22.2.

## ANNEXURE E – SUMMARY OF KEY TERMS OF JUNIOR FACILITY SECURITY

| Feature                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Grantor</b>            | The Company and each Material Subsidiary.<br>Each Grantor will enter into a General Security Deed with the Security Trustee.                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Security Trustee</b>   | Kerogen in its capacity as security trustee of the security trust established under the security trust deed to be between, among others, Kerogen and each Grantor ( <b>Security Trust Deed</b> ).                                                                                                                                                                                                                                                                                                                     |
| <b>Secured Property</b>   | All of the present and future property, undertaking and rights of each Grantor, including all of its real and personal property, uncalled capital, capital which has been called but is unpaid, any choses in action and goodwill and any “PPSA Retention of Title Property” as defined in the Personal Property Securities Act 2009 (Cth) ( <b>PPSA</b> ).                                                                                                                                                           |
| <b>Grant of Security</b>  | Each Grantor:<br><br>(a) grants a “security interest” as defined in the PPSA ( <b>PPSA Security Interest</b> ) over all of the Secured Property which is “personal property” as defined in the PPSA ( <b>Personal Property</b> ); and<br><br>(b) charges all of the Secured Property, excluding Personal Property ( <b>Other Property</b> ),<br><br>to the Security Trustee as security for the Secured Money.                                                                                                        |
| <b>Secured Money</b>      | All present and future debts and monetary liabilities of each of the Obligors (as defined under the as defined in the Facility Agreement) to each Finance Party (as defined in the Security Trust Deed) for any reason under or in connection with any Finance Document (as defined in the Facility Agreement) and irrespective of the nature of those debts or liabilities.                                                                                                                                          |
| <b>Nature of Security</b> | The charge over all Other Property is fixed and floating and where it is floating (over those acquired for disposal in the ordinary course of a Grantor’s ordinary business ( <b>Relevant Property</b> )), it will immediately crystallise in certain circumstances.                                                                                                                                                                                                                                                  |
| <b>Restricted Account</b> | While an event of default is subsisting, upon notice from the Security Trustee, each Grantor must deposit any proceeds forming part of the Secured Property into a restricted account and cannot withdraw from that account without the prior written consent of the Security Trustee.                                                                                                                                                                                                                                |
| <b>Restricted Dealing</b> | The Grantor may not, and may not agree, attempt or take any step to, do any of the following other than with the prior written consent of the Security Trustee or as otherwise expressly permitted by a Finance Document:<br><br>(a) create, permit to subsist or agree to any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar commercial or legal effect, and includes an agreement to grant or create any of those agreements |

| Feature                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                            | <p>or arrangements, including a security interest with the meaning of section 12 of the PPSA, other than an interest in personal property that would not be a security interest but for the operation of section 12(3) of the PPSA (<b>Security Interest</b>) over any Secured Property; or</p> <p>(b) other than in the ordinary course of the Grantor's ordinary business or as permitted under the Facility Agreement, sell, transfer, licence, lease, assign, dispose of or part with possession of or otherwise undertake an action which is substantially the same as the above, any Secured Property or any interest in it, or (other than to the extent arising under law) allow any interest in it to arise or to be varied (including allowing any Secured Property to become an Accession (as defined in the PPSA) to or Comingled (as defined in the PPSA) with any property that is not Secured Property or to be affixed to any land which is not Secured Property).</p> <p>The Grantor may deal with Relevant Property over which the security is floating if the dealing is in the ordinary course of the Grantor's ordinary business and is otherwise permitted under the Finance Documents.</p> |
| <b>Perfecting Security</b> | <p>The Grantor must, at its own cost, do whatever the Security Trustee, Receiver or attorney requires for:</p> <p>(a) perfecting, protecting or maintaining the effectiveness of each Security Interest and PPSA Security Interest over the Secured Property created under this deed (<b>Security</b>);</p> <p>(b) securing or protecting the priority of the Security; or</p> <p>(c) facilitating the realisation of any Secured Property, or the exercise of any power or rights by the Security Trustee, Receiver or Attorney under the General Security Deed or a Finance Document.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Enforcing Security</b>  | <p>In an event of default occurs, the amounts secured by the Security become immediately due and payable and the Security is immediately enforceable without further notice and the Secured Money is immediately due and payable without further notice with the exception of any notice expressly required under a Finance Document or at law.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Enforcement</b>         | <p>After the Security has become enforceable, the Security Trustee has absolute discretion in its enforcement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Receiver</b>            | <p>The Security Trustee may appoint a Receiver of all or any part of the Secured Property if the Security has become enforceable.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Proceeds</b>            | <p>Clause 6.2 of the Security Trust Deed sets out the application of proceeds of the enforcement of the Security.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Priority</b>            | <p>To the extent permitted by law, the Security takes priority over all other Security Interests and PPSA Security Interests over the Secured Property of</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

| Feature          |                                                                                                                                                                                                                                                                                  |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                  | the Grantor except for security granted in favour of the ANZ.                                                                                                                                                                                                                    |
| <b>Discharge</b> | <p>Secured Property will not be released unless:</p> <ul style="list-style-type: none"> <li>(a) no Secured Money is or will be reasonably foreseeable to be owing;<br/>and</li> <li>(b) each Obligor has fully performed its obligations under each Finance Document.</li> </ul> |

## ANNEXURE F – PRO-FORMA BALANCE SHEET

|                                           | May 2012<br>Unaudited | Advance<br>Loans | Drilling<br>Division<br>Goodwill and<br>Property<br>Impairment | Other<br>Adjustments<br>and<br>Reclassification<br>ns | Pro-Forma<br>Balance Sheet<br>before Capital<br>Raising | Placement<br>and<br>Placement<br>Options<br>Exercise | Repayment of<br>Advance<br>Loans and<br>Interest | ATO<br>Repayment | Transaction<br>Costs | Campbell and<br>Management<br>Options<br>Granted | Pro-Forma<br>Balance Sheet<br>after Capital<br>Raising |
|-------------------------------------------|-----------------------|------------------|----------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------|--------------------------------------------------|------------------|----------------------|--------------------------------------------------|--------------------------------------------------------|
| <b>Current assets</b>                     |                       |                  |                                                                |                                                       |                                                         |                                                      |                                                  |                  |                      |                                                  |                                                        |
| Cash and cash equivalents                 | (4,011)               | 10,143           | -                                                              | -                                                     | 6,132                                                   | 40,000                                               | (21,353)                                         | (15,000)         | (300)                | -                                                | 9,479                                                  |
| Trade and other receivables               | 43,672                | -                | -                                                              | -                                                     | 43,672                                                  | -                                                    | -                                                | -                | -                    | -                                                | 43,672                                                 |
| Inventories                               | 99,744                | -                | -                                                              | -                                                     | 99,744                                                  | -                                                    | -                                                | -                | -                    | -                                                | 99,744                                                 |
| Asset classified as held for sale         | 5,503                 | -                | -                                                              | -                                                     | 5,503                                                   | -                                                    | -                                                | -                | -                    | -                                                | 5,503                                                  |
| Other assets - prepayments                | 1,228                 | -                | -                                                              | -                                                     | 1,228                                                   | -                                                    | -                                                | -                | -                    | -                                                | 1,228                                                  |
| <b>Total current assets</b>               | <b>146,137</b>        | <b>10,143</b>    | <b>-</b>                                                       | <b>-</b>                                              | <b>156,279</b>                                          | <b>40,000</b>                                        | <b>(21,353)</b>                                  | <b>(15,000)</b>  | <b>(300)</b>         | <b>-</b>                                         | <b>159,627</b>                                         |
| <b>Non-current assets</b>                 |                       |                  |                                                                |                                                       |                                                         |                                                      |                                                  |                  |                      |                                                  |                                                        |
| Property, plant and equipment             | 134,634               | -                | (1,870)                                                        | -                                                     | 132,764                                                 | -                                                    | -                                                | -                | -                    | -                                                | 132,764                                                |
| Investments in equity accounted investees | 75,105                | 1,707            | -                                                              | -                                                     | 76,812                                                  | -                                                    | -                                                | -                | -                    | -                                                | 76,812                                                 |
| Exploration assets                        | 14,365                | -                | -                                                              | -                                                     | 14,365                                                  | -                                                    | -                                                | -                | -                    | -                                                | 14,365                                                 |
| Intangible assets                         | 112,546               | -                | (34,960)                                                       | -                                                     | 77,586                                                  | -                                                    | -                                                | -                | -                    | -                                                | 77,586                                                 |
| <b>Total non-current assets</b>           | <b>336,650</b>        | <b>1,707</b>     | <b>(36,830)</b>                                                | <b>-</b>                                              | <b>301,527</b>                                          | <b>-</b>                                             | <b>-</b>                                         | <b>-</b>         | <b>-</b>             | <b>-</b>                                         | <b>301,527</b>                                         |
| <b>Total assets</b>                       | <b>482,786</b>        | <b>11,850</b>    | <b>(36,830)</b>                                                | <b>-</b>                                              | <b>457,806</b>                                          | <b>40,000</b>                                        | <b>(21,353)</b>                                  | <b>(15,000)</b>  | <b>(300)</b>         | <b>-</b>                                         | <b>461,153</b>                                         |
| <b>Current liabilities</b>                |                       |                  |                                                                |                                                       |                                                         |                                                      |                                                  |                  |                      |                                                  |                                                        |
| Trade and other payables                  | 114,410               | -                | -                                                              | -                                                     | 114,410                                                 | -                                                    | (91)                                             | -                | -                    | -                                                | 114,319                                                |
| Interest-bearing loans and borrowings     | 41,556                | -                | -                                                              | 26,929                                                | 68,485                                                  | -                                                    | -                                                | -                | -                    | -                                                | 68,485                                                 |
| Advance loan                              | 9,000                 | 12,000           | -                                                              | -                                                     | 21,000                                                  | -                                                    | (21,000)                                         | -                | -                    | -                                                | -                                                      |
| Current tax liabilities                   | 32,692                | -                | -                                                              | -                                                     | 32,692                                                  | -                                                    | -                                                | (15,000)         | -                    | -                                                | 17,692                                                 |
| Employee benefits                         | 7,387                 | -                | -                                                              | -                                                     | 7,387                                                   | -                                                    | -                                                | -                | -                    | -                                                | 7,387                                                  |
| <b>Total current liabilities</b>          | <b>205,045</b>        | <b>12,000</b>    | <b>-</b>                                                       | <b>26,929</b>                                         | <b>243,974</b>                                          | <b>-</b>                                             | <b>(21,091)</b>                                  | <b>(15,000)</b>  | <b>-</b>             | <b>-</b>                                         | <b>207,883</b>                                         |
| <b>Non-current liabilities</b>            |                       |                  |                                                                |                                                       |                                                         |                                                      |                                                  |                  |                      |                                                  |                                                        |
| Interest-bearing loans and borrowings     | 76,785                | -                | -                                                              | (26,929)                                              | 49,856                                                  | -                                                    | -                                                | -                | -                    | -                                                | 49,856                                                 |
| Derivative liability                      | 9,252                 | -                | -                                                              | -                                                     | 9,252                                                   | (3,691)                                              | -                                                | -                | -                    | -                                                | 5,561                                                  |
| Employee benefits                         | 1,052                 | -                | -                                                              | -                                                     | 1,052                                                   | -                                                    | -                                                | -                | -                    | -                                                | 1,052                                                  |
| Deferred tax liabilities                  | 5,681                 | -                | -                                                              | -                                                     | 5,681                                                   | -                                                    | -                                                | -                | -                    | -                                                | 5,681                                                  |
| <b>Total non-current liabilities</b>      | <b>92,770</b>         | <b>-</b>         | <b>-</b>                                                       | <b>(26,929)</b>                                       | <b>65,841</b>                                           | <b>(3,691)</b>                                       | <b>-</b>                                         | <b>-</b>         | <b>-</b>             | <b>-</b>                                         | <b>62,150</b>                                          |
| <b>Total liabilities</b>                  | <b>297,816</b>        | <b>12,000</b>    | <b>-</b>                                                       | <b>-</b>                                              | <b>309,816</b>                                          | <b>(3,691)</b>                                       | <b>(21,091)</b>                                  | <b>(15,000)</b>  | <b>-</b>             | <b>-</b>                                         | <b>270,034</b>                                         |
| <b>Net assets</b>                         | <b>184,970</b>        | <b>(150)</b>     | <b>(36,830)</b>                                                | <b>-</b>                                              | <b>147,990</b>                                          | <b>43,691</b>                                        | <b>(262)</b>                                     | <b>-</b>         | <b>(300)</b>         | <b>-</b>                                         | <b>191,120</b>                                         |
| <b>Equity</b>                             |                       |                  |                                                                |                                                       |                                                         |                                                      |                                                  |                  |                      |                                                  |                                                        |
| Share capital                             | 138,343               | -                | -                                                              | -                                                     | 138,343                                                 | 43,691                                               | -                                                | -                | -                    | -                                                | 182,034                                                |
| Reserves                                  | 1,659                 | -                | -                                                              | -                                                     | 1,659                                                   | -                                                    | -                                                | -                | -                    | 1,805                                            | 3,464                                                  |
| Retained profits                          | 84,758                | -                | -                                                              | -                                                     | 84,758                                                  | -                                                    | -                                                | -                | -                    | -                                                | 84,758                                                 |
| Profit / (loss) - current year            | (39,790)              | (150)            | (36,830)                                                       | -                                                     | (76,770)                                                | -                                                    | (262)                                            | -                | (300)                | (1,805)                                          | (79,136)                                               |
| <b>Total equity</b>                       | <b>184,970</b>        | <b>(150)</b>     | <b>(36,830)</b>                                                | <b>-</b>                                              | <b>147,990</b>                                          | <b>43,691</b>                                        | <b>(262)</b>                                     | <b>-</b>         | <b>(300)</b>         | <b>-</b>                                         | <b>191,120</b>                                         |

## **ANNEXURE G – INDEPENDENT EXPERT’S REPORT**

# **AJ Lucas Group Limited**

Independent Expert's Report and  
Financial Services Guide  
31 July 2012

|                                                                                               |
|-----------------------------------------------------------------------------------------------|
| <p><b>THIS FINANCIAL SERVICES GUIDE FORMS PART OF<br/>THE INDEPENDENT EXPERT'S REPORT</b></p> |
|-----------------------------------------------------------------------------------------------|

31 July 2012

## FINANCIAL SERVICES GUIDE

This Financial Services Guide (**FSG**) is issued in relation to an independent expert's report (**IER**) prepared by PKF Corporate Advisory (East Coast) Pty Limited (ABN 70 050 038 170) (**PKFCA, we or us**) at the request of the independent directors (**Independent Directors**) of AJ Lucas Group Ltd (**Lucas** or the **Company**) in relation to the following:

- Kerogen Investments No 1 (HK) Limited (**Kerogen**) to subscribe for 22,222,222 Lucas shares (**Shares**) at an issue price of \$1.35 per Share to raise \$30.0 million, subject to the placement being scaled back by a maximum of \$10.0 million (**Kerogen Placement**).
- Kerogen to exercise 7,407,407 options (**Placement Options**) to raise a minimum of \$10.0 million (**Placement Options Exercise**).
- Inveraray Capital Pty Limited (an entity controlled by Mr Allan Campbell who is the Chairman and CEO of Lucas) (**Inveraray**) has the right itself (**Inveraray Placement**) or together with up to two third parties nominated by Inveraray and approved by Kerogen (in its absolute discretion) (**Third Party Investors**) (who are limited to subscribing for 3,703,704 Shares in total) (**Third Party Placements**) to subscribe for up to 7,407,407 Shares of the Kerogen Placement at \$1.35 per Share to raise up to \$10.0 million.
- Lucas proposes to grant to Allan Campbell, Chairman and CEO, a total of 3,750,000 options to acquire Shares at \$1.35 per Share (**Campbell Options**).

The Kerogen Placement, Placement Options Exercise, Inveraray Placement, Third Party Placements and Campbell Options are collectively referred to as the Proposed Transactions (**Proposed Transactions**).

## Engagement

The IER is intended to accompany a notice of extraordinary general meeting (**Notice of Meeting**) and explanatory statement (**Explanatory Statement**) that are to be provided by the Directors to assist the Lucas shareholders not associated with the Proposed Transactions (**Non-Associated Shareholders**) whether to accept the Proposed Transactions.

## Financial Services Guide

PKFCA holds an Australian Financial Services Licence (Licence No: 247420) (**Licence**). As a result of our IER being provided to you, PKFCA is required to issue to you, as a retail client, a FSG. The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of an Australian Financial Services Licence.

### Financial services PKFCA is licensed to provide

The Licence authorises PKFCA to carry on a financial services business to provide (a) financial product advice for derivatives limited to old law securities, options contracts and warrants and securities and (b) deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of securities, to retail and wholesale clients.

PKFCA provides financial product advice by virtue of an engagement to issue the IER in connection with the issue of securities of another person.

Our IER includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our IER (as a retail client) because of your connection with the matters on which our IER has been issued.

Our IER is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the IER.

### **General financial product advice**

Our IER provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial situation or your needs.

Some individuals may place a different emphasis on various aspects of potential investments. An individual's decision in relation to the Proposed Transactions described in the Explanatory Statement and the Notice of Meeting may be influenced by their particular circumstances and, therefore, individuals should consider the appropriateness of the IER having regard to your own objectives, financial situation and needs before you act on the advice in an IER and seek independent advice.

Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

### **Associations and relationships**

PKFCA is the licensed corporate advisory arm of PKF (East Coast Practice), Chartered Accountants and Business Advisers. The directors of PKFCA may also be partners in PKF (East Coast Practice), Chartered Accountants and Business Advisers.

PKF (East Coast Practice), Chartered Accountants and Business Advisers is comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients.

### **Benefits that PKFCA may receive**

PKFCA has charged fees for providing our IER. The basis on which our fees are determined has been agreed with, and our fees will be paid by, the person who engaged us to provide the IER. Our fees have been agreed on either a fixed fee or time cost basis.

PKFCA will receive a fee based on the time spent in the preparation of this IER in the amount of approximately \$155,000 (plus GST and disbursements). PKFCA will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

### **Remuneration or other benefits received by our employees**

Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. Bonuses are based on overall productivity and contribution to the operation of PKFCA or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our IER was provided.

### **Referrals**

PKFCA does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that PKFCA is licensed to provide.

### **Complaints resolution**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, PKF Corporate Advisory (East Coast) Pty Limited, Level 10, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited (**FOS**). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. PKFCA is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited  
GPO Box 3  
Melbourne VIC 3001

Toll free: 1300 78 08 08  
Email: [info@fos.org.au](mailto:info@fos.org.au)

31 July 2012

The Independent Directors  
AJ Lucas Group Limited  
Level 3, 394 Lane Cove Road  
Macquarie Park, NSW 2113

Dear Independent Directors

## **INDEPENDENT EXPERT'S REPORT IN RELATION TO THE KEROGEN PLACEMENT, PLACEMENT OPTIONS EXERCISE, INVERARAY PLACEMENT AND GRANT OF THE CAMPBELL OPTIONS**

### **Introduction**

The independent directors (**Independent Directors**) of AJ Lucas Group Limited (**Lucas** or the **Company**) have engaged PKF Corporate Advisory (East Coast) Pty Limited (**PKFCA, us or we**) to prepare an independent expert's report (**IER**) setting out our opinion as to whether the Proposed Transactions (defined below), are fair and reasonable to the non-associated shareholders of Lucas (**Non-Associated Shareholders**).

The regulatory requirements relevant to this IER are set out in Section 1.2.

Lucas is listed on the Australian Securities Exchange (**ASX**) and is a diversified drilling services, construction and engineering/infrastructure services group. Lucas offers services to the water and waste water, energy, resources and public infrastructure sectors in Australia, and is a leading Australian drilling services provider to both the coal and coal seam gas (**CSG**) sectors. Lucas is also an explorer and developer of unconventional hydrocarbon properties.

### **Proposed Transactions**

On 29 June 2012, Lucas announced to the ASX that it had entered into various placements to raise \$40.0 million. In summary, the placements are:

- Kerogen Investments No 1 (HK) Limited (**Kerogen**) to subscribe for 22,222,222 Lucas shares (**Shares**) at an issue price of \$1.35 per Share to raise \$30.0 million, subject to the placement being scaled back by a maximum of \$10.0 million (**Kerogen Placement**).
- Kerogen to exercise 7,407,407 options (**Placement Options**) to raise a minimum of \$10.0 million (**Placement Options Exercise**).
- Inveraray Capital Pty Limited (an entity controlled by Mr Allan Campbell who is the Chairman and CEO of Lucas) (**Inveraray**) has the right itself (**Inveraray Placement**) or together with up to two third parties nominated by Inveraray and approved by Kerogen (in its absolute discretion) (**Third Party Investors**) (who are limited to subscribing for 3,703,704 Shares in total) (**Third Party Placements**) to subscribe for up to 7,407,407 Shares of the Kerogen Placement at \$1.35 per Share to raise up to \$10.0 million.

In addition to the above, Lucas has resolved to undertake the grant to Allan Campbell, a total of 3,750,000 options to acquire Shares at \$1.35 per Share (**Campbell Options**).

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | [www.pkf.com.au](http://www.pkf.com.au)

PKF Corporate Advisory (East Coast) Pty Limited | Australian Financial Services Licence 247420 | ABN 70 050 038 170

Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia

The consideration (**Consideration**) is cash as follows:

- Cash offer price of \$1.35 per Share for the Kerogen Placement.
- Anticipated cash Placement Options Exercise Price (defined below) of \$1.35 per option, in accordance with the terms of the Placement Options which have an exercise price of between \$1.35 and \$1.70 per option.
- Cash offer price of \$1.35 per Share for the Inveraray Placement.
- Cash exercise price of \$1.35 per option for the Campbell Options.

The following transactions are collectively referred to as the **Proposed Transactions**:

- Kerogen Placement
- Placement Options Exercise
- Inveraray Placement
- Third Party Placements
- Grant of the Campbell Options

Details of each of the above Proposed Transactions are provided in Section 2 of this IER and are set out fully in the notice of extraordinary general meeting (**Notice of Meeting**) and explanatory statement (**Explanatory Statement**) that are to be provided to the Lucas shareholders (**Shareholders**) by the Directors. This IER will accompany the Notice of Meeting and Explanatory Statement.

Our assessment and our opinion of the Proposed Transactions is as at 24 July 2012 (**Assessment Date**).

## Scope of IER

PKFCA has been engaged to prepare this IER providing our opinion as to whether:

- the Kerogen Placement is fair and reasonable to the Non-Associated Shareholders.
- the Placement Options Exercise is fair and reasonable to the Non-Associated Shareholders.
- the Inveraray Placement is fair and reasonable to the Non-Associated Shareholders.
- the grant of the Campbell Options is fair and reasonable to the Non-Associated Shareholders.

## Assessment of Proposed Transactions

### *Summary opinion*

#### **In our opinion:**

- **The Kerogen Placement is fair and reasonable to the Non-Associated Shareholders**
- **The Placement Options Exercise is fair and reasonable to the Non-Associated Shareholders**
- **The Inveraray Placement is fair and reasonable to the Non-Associated Shareholders**
- **The grant of the Campbell Options is fair and reasonable to the Non-Associated Shareholders**

## Fairness

For the purposes of assessing whether the Proposed Transactions are "fair" to the Non-Associated Shareholders, we have compared the assessed fair value of the Shares before the implementation of the Proposed Transactions, on a control basis, to the Consideration being paid by Kerogen and Inveraray.

The fair value of the Shares, on a control basis, was determined on a 'sum of the parts' basis. To value the Shares, we have considered:

- The capitalisation of earnings valuation method for the valuation of Lucas' drilling services business (**Drilling Services**) and Lucas' building, construction and infrastructure business (**BCI**). This approach involves the assessment of Drilling Services' and BCI's future maintainable earnings (**FME**) and selection of an appropriate earnings multiple. Apart from the assets and liabilities valued separately and disclosed below, it has been assumed that all assets and liabilities currently recorded in the balance sheet of Lucas have been captured in our valuation of Drilling Services and BCI.
- The value of the Investments and Exploration Expenditure. We have valued the following items recorded in the balance sheet as:
  - Cuadrilla - investment in associate
  - Bowland and Bolney Basins - exploration assets
 together throughout this IER. The various interests held in these projects, whether they be JVs, associates or any other form of investment are defined in this IER as **Investments and Exploration Expenditure**
- Capitalised overhead costs.
- Net debt.
- Capital expenditure requirements.
- Surplus assets and transaction costs.

We used the share market trading method and residual value as cross checks.

In Section 6, we set out our valuation calculations. We have compared the Consideration to our assessed fair value per Share, on a control basis, as at the Assessment Date. Our fairness assessment as at the Assessment Date is set out below:

**Table 1: Fairness Assessment**

|                                      | Ref    | Low Value | High Value |
|--------------------------------------|--------|-----------|------------|
| Consideration (\$ per Share)         | A      | 1.35      | 1.35       |
| Fair value of a Share (\$ per Share) | 6.1, B | 0.60      | 0.80       |

**Source:** PKFCA analysis

Based on the above, as the Consideration is higher than the assessed fair value on a control basis per Share, in our opinion:

- The Kerogen Placement is fair to the Non-Associated Shareholders.
- The Placement Options Exercise is fair to the Non-Associated Shareholders.
- The Inveraray Placement is fair to the Non-Associated Shareholders.
- The grant of the Campbell Options is fair to the Non-Associated Shareholders.

### *Valuation of Investments and Exploration Expenditure*

For the valuation of mining tenements, a specialist report, i.e. a geologist's report is usually commissioned to estimate the amount of resources or reserves and their range of values. The likelihood of the prospects proceeding to economically feasible projects would be inherent in any geologist report or valuation range.

We have undertaken discussions with a number of independent industry experts who have knowledge of the information needed to perform valuations of prospects similar to the Investments and Exploration Expenditure held by Lucas. All of the industry experts we held discussions with advised that in their view there is insufficient information available to calculate production flow rates, extraction costs and other information necessary to determine a meaningful range of values.

The fact that these assets have neither been valued, nor the economic feasibility opined on by a technical expert, means these assets may have (and readers are urged to consider) a value either higher or lower than their historical cost and there is uncertainty as to their value. The impact of this is addressed in Section 6.9.1 of our IER.

#### *Reasonableness*

RG 111 provides that an offer to acquire securities is considered to be "reasonable", if it is "fair". On this basis, as we have concluded that the Proposed Transactions are "fair", therefore they are also considered to be "reasonable" under RG 111.

#### *Other Factors*

We have considered various factors that we believe Non-Associated Shareholders should consider when deciding whether or not to accept the Proposed Transactions. The factors that we have considered are:

- If the Proposed Transactions are not approved, Lucas may not have the ability to meet its debts as and when they fall due.
- Further capital initiatives may be required.
- Absence of a superior alternative.
- Financial strength.
- Opportunity to refocus on the business.
- Certainty of fund raising.
- Benefits may not eventuate.
- Minimise transaction costs.
- Support of the Independent Directors.
- Continue to participate in the strong mining and energy outlook.
- Increased influence by Kerogen and Inveraray, Andial Holdings Pty Limited (**Andial**) (an entity controlled by Mr Allan Campbell who is the Chairman and CEO of Lucas) and their associates.
- Dilution of existing Shareholders' interest.
- Potential reduction in share liquidity.
- One off transaction costs.

Section 7.2 provides our assessment of the commercial and qualitative factors relevant to the consideration of the Proposed Transactions. Individual shareholders may interpret these factors differently depending on their own individual circumstances.

#### *Impact of alternate valuation assessment of Investments and Exploration Expenditure*

As discussed in Section 5 below, we have valued the Investments and Exploration Expenditure using their historical cost. There is a high probability that the value of the Investments and Exploration Expenditure could be significantly less than or greater than our assessed value. If the value of the Investments and Exploration Expenditure was less than our assessed value, our opinion that the Proposed Transactions are 'fair' will remain unchanged. If the value of the Investments and Exploration Expenditure was greater than our assessed value, this may result in a conclusion that the Proposed Transactions were 'not fair'. Even if we concluded that the Proposed Transactions were 'not fair' we would still conclude that they would be 'reasonable' due to the factors discussed above, particularly that if the Proposed Transactions did not proceed, there may be a going concern issue for the Directors to address. In summary, regardless of whether we would assess the value to be either 'fair' or 'not fair' our opinion in all cases would be that the Proposed Transactions are 'reasonable' to Non-Associated Shareholders.

### **Other Matters**

#### *Non-Associated Shareholders' individual circumstances*

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. We have not considered the effect of the Proposed Transactions on the particular circumstances of individual Non-Associated Shareholders. Some individual Non-Associated Shareholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in this IER. Accordingly, individual

Non-Associated Shareholders may reach different conclusions as to whether or not the Proposed Transactions are "fair" and "reasonable" based on their individual circumstances. As the decision of an individual Non-Associated Shareholder in relation to the Proposed Transactions may be influenced by their particular circumstances (including their taxation position), Non-Associated Shareholders are advised to seek their own independent advice.

#### *Current market conditions*

Our opinions are based on economic, market and other conditions prevailing at the Assessment Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in the light of material information existing at the Assessment Date that subsequently becomes known to us.

#### *Limitations*

The IER has been prepared at the request of the Independent Directors for the sole benefit of the Independent Directors and the Non-Associated Shareholders to assist them in their decision whether to accept or reject the Proposed Transactions. This IER is to accompany the Explanatory Statement and Notice of Meeting to be sent to the Shareholders to consider the Proposed Transactions and has not been prepared for any other purpose.

This IER and the information contained herein may not be relied upon by anyone other than the Independent Directors and Non-Associated Shareholders. PKFCA accepts no responsibility to any person other than the Independent Directors and Non-Associated Shareholders in relation to this IER.

The IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our prior written consent.

We have consented to the inclusion of the IER in the Explanatory Statement and Notice of Meeting. Except for this IER, we are not responsible for the contents of the Explanatory Statement and Notice of Meeting or any other document associated with the Proposed Transactions. We acknowledge that this IER may be lodged with regulatory authorities.

#### **Sources of Information**

Appendix 2 identifies the information referred to, and relied upon, by us during the course of preparing this IER and in forming our opinion.

#### **Financial Services Guide**

PKFCA holds an Australian Financial Services Licence which authorises us (inter alia) to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A Financial Services Guide is attached at the front of this IER.

Yours faithfully

**PKF Corporate Advisory (East Coast) Pty Limited**



**Bruce Gordon**  
Director and representative



**Dan Taylor**  
Director and representative

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# 1 SCOPE OF REPORT

## 1.1 Purpose of the Report

We have been appointed by the Independent Directors to prepare an IER setting out our opinion as to whether the Kerogen Placement, the Placement Options Exercise, the Inveraray Placement and the grant of the Campbell Options are fair and reasonable to Non-Associated Shareholders.

Details of the Proposed Transactions are set out in full in the Explanatory Statement accompanying the Notice of Meeting that is to be provided to the Non-Associated Shareholders by the Directors in relation to the Proposed Transactions. This IER will accompany the Notice of Meeting and Explanatory Statement.

## 1.2 Regulatory Requirements

### 1.2.1 Section 606 and Section 611 of the Corporations Act 2001 (Cth)

Section 606 of the Corporations Act 2001 (Cth) (the **Act**) does not allow a person to acquire a relevant interest in shares such that they would control 20% or more of the voting shares in a company without making a takeover offer. The voting power of a person associated with an entity and the entity's voting power are viewed collectively for the purposes of Section 606.

Section 611 item 7 provides an exemption to Section 606 if the transaction is approved by a resolution of the shareholders at a general meeting called for that purpose. Section 611 item 7 requires Shareholders to be given all relevant information known to the person making the acquisition, their associates or the company, which is material to the transaction, prior to the general meeting taking place.

The following transactions are within the scope of Section 611 item 7:

- *Kerogen Placement and the Placement Options Exercise* - Kerogen currently has an equity interest of 32.89% in Lucas, which is more than the 20% threshold. Therefore, Shareholder approval is required for Kerogen to be issued the Shares under the Kerogen Placement and the Placement Options Exercise.
- *Inveraray Placement* - Inveraray's voting power in Lucas, together with its associates (including Andial), will exceed 20% if :
  - more than 7,331,783 Shares are issued to Inveraray under the Inveraray Placement prior to the issue of Shares as a result of the Placement Options Exercise; or
  - Inveraray acquires all of the Shares under the Inveraray Placement and all of the Campbell Options are issued, vest and Shares are issued on exercise.

Accordingly, Shareholder approval is required for Inveraray to be issued the Shares under the Inveraray Placement.

- *The grant of the Campbell Options* - Mr Allan Campbell is the controlling shareholder of Inveraray, Andial and their associates. Under the Inveraray Placement, Inveraray may acquire sufficient Shares that Inveraray's voting power, together with Andial and Mr Allan Campbell, will exceed 20%. Accordingly, Shareholder approval is required under Section 611 to enable Mr Allan Campbell to acquire new Shares on exercise of the Campbell Options.

Whilst Section 611 does not explicitly state that an expert's opinion is required in relation to such acquisitions, Australian Securities and Investments Commission (**ASIC**) RG74 *Acquisitions approved by members (RG 74)* states that shareholders should be given an analysis of whether the transaction is "fair and reasonable". Such an analysis may be provided by the Independent Directors who are not associated with the transaction, however, it is market practice and good corporate governance that such reports are usually prepared by an independent expert.

### 1.2.2 APES 225

APES 225 *Valuation Services* issued by the Accounting Professional & Ethical Standards Board in July 2008 sets out mandatory requirements for the provision of quality and ethical valuation services. We have complied with this standard in the preparation of this IER.

### 1.2.3 General requirements in relation to the IER

In preparing the IER we have considered the necessary legal requirements and guidance of the Act, ASIC's RGs and commercial practice. This IER includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between PKFCA and any of the parties to the Proposed Transactions.
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- In the IER, that we have been appointed as independent expert for the purposes of providing an IER for inclusion in the Explanatory Statement.
- That we have relied on information provided by the Independent Directors and management of the company and that we have not carried out any form of audit or independent verification of the information provided.
- That we have received representations from the Independent Directors of the company in relation to the completeness and accuracy of the information provided to us for the purpose of the IER.

## 1.3 Basis of Assessment

Neither the Act nor the ASX Listing Rules define the terms "fair" and "reasonable". However, guidance is provided by ASIC's regulatory guides that establish certain guidelines in respect of independent expert's reports under the Act. In particular, RG 111 *Content of expert reports (RG 111)* and RG 112 *Independence of experts (RG 112)* have been considered.

Under RG 111 a key matter the expert needs to consider is that the form of the analysis used in evaluating a transaction should address the issues faced by the security holders. In this regard, the Proposed Transactions represent a capital raising with a related party. From a Lucas shareholder perspective, it is important that the Company is adequately compensated for the issue of shares. Accordingly, in assessing whether or not the Proposed Transactions are 'fair' and 'reasonable' to the Non-Associated Shareholders, a major part of our assessment has been the comparison of the value of the consideration being offered by Kerogen and Inveraray with the value of the issued Share before the Proposed Transactions.

RG 111 is framed largely in relation to reports prepared involving 'control transactions' (i.e. where a change in control occurs) and comments on the meaning of 'fair and reasonable' in this context.

Clause 24 of RG 111 states that an issue of shares by a company otherwise prohibited under Section 606 may be approved under Item 7 of Section 611 and the effect on the company's shareholding is comparable to a takeover bid. An example would be when a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company. If this is the case, the transaction should be analysed as if it was a takeover bid for the company.

In analysing a control transaction, the tests are:

- is the offer 'fair'; and
- is it 'reasonable'?

That is, the terms 'fair' and 'reasonable' are regarded as separate elements and are not regarded as a compound phrase.

#### *Fairness*

An offer is 'fair' if the value of the offer price or consideration (i.e. \$1.35 per Share in this instance) is equal to or greater than the value of the securities that is the subject of the offer (i.e. new Shares), on a control basis. This comparison should be made:

- Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- Assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison.

Accordingly, we have assessed whether the Proposed Transactions are fair by comparing the Consideration offered under the Proposed Transactions of \$1.35 cash to the value of an issued Share, on a control basis. The issued Shares have been valued at fair value, which we have defined as the amount at which the Shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell acting at arm's length.

#### *Reasonableness*

An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of a higher bid before the close of the offer.

In assessing the reasonableness of the Proposed Transactions, we have considered the following significant factors, in addition to determining whether the Proposed Transactions are fair:

- The existing shareholders of Lucas.
- The possibility of the Non-Associated Shareholders receiving a control premium, implied in the Consideration.
- The future growth opportunities available to Lucas.
- The likely market price and liquidity of a Share in the absence of the Proposed Transactions.
- Other costs and benefits to the Non-Associated Shareholders pursuant to the Proposed Transactions.
- Any special value to Kerogen or Inveraray, Andial and their associates.
- Likelihood of an alternative offer being made.
- Other implications associated with the Non-Associated Shareholders rejecting the Proposed Transactions.

## **1.4 Limitations**

### **1.4.1 General**

Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards and consequently we may not become aware of all significant matters that might be identified in an audit or assurance engagement. Accordingly, we do not express an audit or assurance engagement opinion.

We have consented to the inclusion of the IER with the Explanatory Statement accompanying the Notice of Meeting to be issued by Lucas. Apart from the IER, we are not responsible for the contents of the Explanatory Statement, any other document or announcement associated with the Proposed Transactions. We acknowledge that its IER may be lodged with regulatory authorities, including the ASX.

The IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

### **1.4.2 Reliance on information**

This IER is based upon financial and other information provided by the Independent Directors and management of Lucas. We have considered and relied upon this information. We believe the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld.

It was not our role to undertake, and we have not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities in respect of the Proposed Transactions. We understand that the Independent Directors have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary. We do not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the Independent Directors and/or their advisors.

We do not provide any warranty or guarantee that our inquiries have identified or verified all of the matters which an audit, extensive examination or 'due diligence' investigation might disclose. An opinion as to whether a corporate transaction is "fair" and "reasonable" is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that we advise that we are not in a position, nor is it practical for us, to undertake such an extensive verification exercise.

It is understood that except where noted, the accounting information provided to us was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by Lucas in previous accounting periods.

We provided draft copies of this report to the Independent Directors and management of Lucas for their comments as to factual accuracy, as opposed to opinions, which are our responsibility alone. Amendments made to this report as a result of this review have not changed the methodology or conclusions reached by us.

### **1.4.3 Assumptions**

In forming our opinion, we made certain assumptions, including:

- Information in relation to the Proposed Transactions that is distributed to Shareholders, or any information issued to a statutory body is complete, accurate and fairly presented in all material respects.
- Publicly available information relied on by us is accurate, complete and not misleading.

- If the Proposed Transactions are implemented, that the Proposed Transactions will be implemented in accordance with their stated terms.
- The legal mechanisms to implement the Proposed Transactions are correct and effective.

## **1.5 Various Recapitalisation Announcements**

We were initially engaged by Lucas to opine on the first proposed private placement to raise \$15.5 million as set out in the ASX announcement dated 29 March 2012. Whilst we commenced work on this first proposed private placement, we did not issue any draft reports (or IERs) to Lucas in relation to this proposed placement. The proposed private placement was subsequently increased to \$30.0 million plus the \$10.0 million Placement Option Exercise, pursuant to an ASX announcement dated 29 June 2012.

This IER (and all drafts issued to Lucas) assesses only the Proposed Transactions.

## 2 PROPOSED TRANSACTIONS

Set out below is a brief outline of the Proposed Transactions. For details, refer to the Notice of Meeting and Explanatory Statement. An extraordinary general meeting (**EGM**) of Shareholders to vote on the Proposed Transactions is scheduled to be held on 5 September 2012.

The aggregate amount proposed to be raised under the Kerogen Placement, the Inveraray Placement and the Third Party Placements is \$30.0 million. This together with the Placement Options Exercise will ensure that at least \$40.0 million is raised by Lucas if the Proposed Transactions are approved or implemented.

Funds raised from the Proposed Transactions will primarily be used to pay down outstanding debt under the bridging loans from Kerogen (**Advance Facilities**), to repay part of the amount due to the Australian Tax Office (**ATO**), to meet Lucas' working capital requirements and to meet anticipated capital calls made by Cuadrilla and to fund further loans to, or investments in Lucas Energy (UK) Limited to enable it to meet its capital requirements for its European shale gas investments.

### **Entitlement Offer**

In February 2012, Lucas undertook a 1 for 2 non-renounceable pro rata rights issue for new ordinary shares at an offer price of \$1.35 per new fully paid share to raise approximately \$51.3 million (**Entitlement Offer**). Due to a partial failure with respect to the sub-underwriting of the Entitlement Offer, the total amount raised by the Entitlement Offer was approximately \$35.8 million representing a \$15.5 million shortfall. Subsequent to the Entitlement Offer, Lucas now intends to raise \$40.0 million via the Kerogen Placement, Placement Options Exercise and Inveraray Placement and Third Party Placements (if any).

### **Kerogen Placement and the Placement Options Exercise**

Kerogen is currently the largest Shareholder and debt holder of Lucas. Kerogen is currently subject to a 49.99% shareholding limit issued by the Foreign Investment Review Board.

Lucas and Kerogen entered into a Subscription Agreement (**Kerogen Subscription Agreement**), under which Kerogen has agreed to:

- *Kerogen Placement* - to subscribe for 22,222,222 Shares at an issue price of \$1.35 per Share to raise \$30 million, subject to the placement being scaled back by a maximum of \$10.0 million if any of the following occur:
  - Subject to Shareholder approval being obtained for the Inveraray Placement, Inveraray commits to subscribe for up to 7,407,407 Shares of the placement at \$1.35 per Share to raise up to \$10.0 million.
  - Subject to Shareholder approval being obtained for the Third Party Placements, Third Party Investors commit to subscribe for up to 3,703,704 Shares of the placement at \$1.35 per Share to raise up to \$5.0 million.
- *Placement Options Exercise* - to exercise 7,407,407 Placement Options to raise a minimum of \$10.0 million.
- As part of the Kerogen Placement and the Placement Options Exercise, Kerogen will receive the right to nominate a second Director. Kerogen currently has the right to appoint one Director while its shareholding is 15% or more. It has not exercised that right to date. The additional nominee will only be appointed to the Board if the Board approves. As set out in the Notice of Meeting, Kerogen presently has no intention to exercise these rights (but it reserves the right to do so).
- The Kerogen Placement and the Placement Options Exercise are subject to Shareholder approval.

The Placement Options have an exercise price of the lower of \$1.70 per option and 120% of the 5 day VWAP, subject to a floor of \$1.35 per option (**Placement Options Exercise Price**). As set out in the Notice of Meeting, the Independent Directors anticipate that, since the Share price is less than \$1.125 per Share, the Placement Options Exercise Price will be \$1.35 per option. This IER assumes that the Placement Options Exercise Price will be \$1.35 per option.

### ***Inveraray Placement***

Andial and its associates are currently the second largest Shareholder(s) of Lucas and a related party of Lucas (Inveraray and Andial are entities controlled by Mr Allan Campbell who is the Chairman and CEO of Lucas).

Lucas and Inveraray entered into a Subscription Agreement (**Inveraray Subscription Agreement**), under which:

- *Inveraray Placement* - Inveraray has the right either to subscribe for up to \$10.0 million of the Kerogen Placement itself or to nominate Third Party Investors to subscribe for up to \$5.0 million of the Kerogen Placement in place of Inveraray (subject to approval by Kerogen in its absolute discretion), provided that the aggregate subscriptions by Inveraray and Third Party Investors will not exceed \$10.0 million of the Kerogen Placement.
- If Inveraray is going to subscribe, then, prior to the Inveraray Commitment Deadline (being 5pm on 17 August 2012), Inveraray must have provided evidence satisfactory to Lucas and Kerogen that:
  - It has deposited in the trust account of Holding Redlich, in immediately available funds, the full amount it commits to subscribe.
  - Such funds cannot be used otherwise than to satisfy Inveraray's settlement obligations under the Inveraray Subscription Agreement.
- The Inveraray Placement is subject to Shareholder approval.

### ***Grant of the Campbell Options***

The grant of the Campbell Options will result in the issue of 3,750,000 options to Mr Allan Campbell, the Chairman and CEO (or his nominee) of Lucas. As set out in the Notice of Meeting, the purpose of the grant of the Campbell Options is to provide cost effective remuneration for Mr Campbell's roles as the Chairman and CEO. Details of the Campbell Options include:

- The maximum number of Campbell Options to be granted is 3,750,000.
- The Campbell Options will be granted prior to the issue of new Shares to Kerogen under the Kerogen Placement and it is intended that grant of all Campbell Options will occur on the same date (**Grant Date**).
- The vesting date for the Campbell Options can occur no earlier than 31 December 2013 and will only occur if the market price for the Shares closes at in excess of \$2.50 each day for a period of 10 days in any 20 day trading period that occurs at least 12 months after the Grant Date.
- The Campbell Options will expire on 7 December 2015.
- Each Campbell Option entitles the holder to subscribe for one Share at an exercise price of \$1.35 per option.
- The recipient of the Campbell Options will be Mr Allan Campbell (or his nominee).
- Upon exercise of the Campbell Options, the Shares issued will rank pari passu with the existing Shares.
- No funds will be raised by the grant of the Campbell Options. An amount of \$5,062,500 will be payable to Lucas if the Campbell Options are fully exercised.

### 3 PROFILE OF LUCAS

#### 3.1 Overview

Lucas is a diversified drilling services, construction and engineering / infrastructure services group. Lucas services the water and waste water, energy, resources and public infrastructure sectors as well as to the coal and CSG sectors, in Australia. Lucas is also an explorer and developer of unconventional hydrocarbon properties.

#### 3.2 Business Units

Lucas and all its controlled entities (**Lucas Group**) have two main businesses. Details in relation to these businesses are summarised below:

##### *Drilling Services*

Lucas' drilling services are provided through a wholly owned subsidiary, AJ Lucas Coal Technologies Pty Ltd headquartered in Brisbane, Queensland. Drilling Services has a strong presence in the Bowen, Surat and Galilee basins in Queensland and the Hunter Valley, Gunnedah and Illawarra regions of New South Wales.

It provides drilling services to the coal and CSG sectors for the degasification of coal mines and the recovery and commercialisation of CSG and associated services. It owns 77 drilling rigs in Australia and employs more than 630 staff. For the year ended 30 June 2011 (**FY2011**), Drilling Services contributed \$185.9 million or 40.7% of Lucas' total revenue.

A summary of services provided by Drilling Services is as follows:

##### *Exploration*

Drilling Services has a strong presence in CSG exploration drilling. It currently has 56 drilling rigs deployed in the coal industry with capabilities including down the hole hammer, diamond core, conventional core and rotary mud drilling.

Key clients of Drilling Services include Xstrata, Anglo Coal and BHP Billiton.

##### *Production drilling*

Production drilling deploys drilling rigs capable of drilling vertical, horizontal and extended reach wells to depths of 2,000 metres. Key clients of Drilling Services for production drilling include Santos, Origin Energy, Peabody Energy and Anglo Coal.

##### *Directional drilling*

Directional drilling provides services to underground coal mines to extract coal mine methane to the surface for up to 3 years in advance of mining activity. Drilling Services operates 7 directional and 2 vertical rigs and is considered the industry leader in directional drilling. Drilling Services was one of the first to use large diameter holes for coal mine degasification.

On 5 December 2011, Lucas announced that it had entered into a \$240 million contract with Xstrata to provide directional drilling services. Current clients for directional drilling include Xstrata, Arrow Energy and Anglo Coal.

##### *Well services*

Drilling Services performs well installations, well commissioning and maintenance, installation of surface infrastructure, monitoring systems, gas gathering lines and flares.

### *Engineering and steering*

Drilling Services has experienced in-house drilling engineers to optimise drilling results for its clients.

Drilling Services' engineering and steering services include:

- Conceptual design, simulation and detailed engineering of vertical, deviated and horizontal wells including casing and cementing programmes.
- Drilling engineering to improve reach, efficiencies and mitigate risk.
- Professional steering teams and a range of steering tools to execute the drilling program.

### ***Building Construction and Infrastructure (BCI)***

BCI services are provided by a wholly owned subsidiary, AJ Lucas Operations Pty Limited. BCI provides construction and civil engineering services to the energy, water and waste water, and the public utilities sectors together with associated services. BCI contributed \$247.4 million or 54.1% of Lucas' total revenue for FY2011.

A summary of services provided by BCI is as follows:

#### *Pipelines and horizontal directional drilling*

BCI installs long distance water, gas and slurry pipelines leveraging off its expertise in horizontal directional drilling.

BCI's past projects include Queensland's Western Corridor Recycled Water Pipeline, the Northern Territory Bonaparte Gas Project comprising 287 km of pipeline and the Barrow Island Crossing for the Gorgon Project in Western Australia.

#### *Water and waste water*

BCI supplies and constructs water and sewage treatment plants, water storage facilities and on-farm irrigation systems as well as sewer mains and reticulation networks using horizontal directional drilling and trenchless drilling technology.

BCI's recent water and waste water projects include the South Perth Desalination Plant in Western Australia and the Robertson Re-Use and Sewer Reticulation Project in New South Wales.

#### *Building and civil infrastructure*

BCI offers design and construction services for commercial, industrial, government, residential building projects, desalination plants and educational facilities with expertise in specialist construction techniques for challenging sites.

BCI's building projects include the Slipways in Roselle Bay, Wildlife World for Sydney Aquarium Limited and the Alliance Francaise Centre on Clarence Street, Sydney.

BCI's clients include Western Australian Water Corporation, Southern SeaWater Alliance JV (**SSJV**), Chevron Australia, Gladstone Area Water Board, Bechtel and APA Group.

BCI's recent civil construction projects include the Dungog Clear Water Tank and Anna Bay Reservoir for Hunter Water and the South Perth Desalination Plant. Under the Federal Government's Building the Education Revolution Program, BCI delivered projects for more than 50 schools throughout New South Wales.

### *Asset Services*

Lucas offered facilities management and construction maintenance services to gas and water reticulation networks. This asset services business unit (**Asset Services**) was a relatively new operation for Lucas and was reported within BCI. At the date of this IER, we have been advised that the Asset Services operations will be discontinued.

BCI also has interests in the following joint ventures (**JVs**):

- 19% participation interest in SSJV.
- 50% participation interest in Amec Spie Capag Lucas (**Amec Spie JV**).
- 46% participation interest in Eastern Pipeline Alliance (**Eastern Pipeline JV**).
- 50% JV interests in Marais-Lucas Technologies Pty Limited (**Marais-Lucas JV**).

Further details of the JVs are set out in Table 2 below.

## **3.3 Key Investments and Exploration Expenditure**

Lucas also holds a number of key investments and JVs with other parties. The largest of these being an interest in Cuadrilla Resources Holdings Limited (**Cuadrilla**).

### ***Cuadrilla***

Cuadrilla is an associate company based in Lichfield, Staffordshire, England. The principal business of Cuadrilla is exploration for unconventional oil and gas in Europe.

### *Ownership*

Lucas holds a 43% equity interest in Cuadrilla through its wholly owned subsidiary, Lucas Cuadrilla Pty Limited. The remaining interests are held by investor funds managed by Riverstone LLC, Cuadrilla management and Cuadrilla employees.

Lucas and Riverstone LLC have no direct role in the day to day operations of Cuadrilla.

### *Strategy*

Cuadrilla's strategy since establishment in 2007 has been to:

- Identify and obtain exploration permits in prospective unconventional energy sedimentary basins in Europe.
- Build a diversified portfolio of licences across several exploration areas.
- Explore these areas sufficiently to identify the probability of prospective commercial reserves of gas, condensates or oil.
- Invite interest of larger partners which are better suited in terms of financial, technical and production capability to exploit any prospective reserves which have been identified.

Cuadrilla owns and operates its own drilling rig, hydraulic stimulation and well services equipment.

### *Exploration licences*

Cuadrilla owns a diversified portfolio of exploration permits over six sedimentary basins in Europe. It has exploration license applications pending in the Netherlands, Poland, Czech Republic and Hungary (through a 29.33% interest in a company). Other than in Hungary, all of Cuadrilla's exploration licences and applications are through wholly-owned subsidiaries incorporated in the countries where the licences are held.

Cuadrilla has approximately 1.65 million acres in its exploration portfolio. If awarded the pending applications in the Netherlands, Poland and Czech Republic are expected to add a further 0.8 million acres.

### ***Bowland and Bolney Basins***

Cuadrilla has a 75% interest in the Bowland and Bolney basin shale prospects in association with Lucas who owns the remaining 25% directly. Cuadrilla is the operator of the exploration programme for these sites. Lucas has entered into operating agreements with Cuadrilla which obliges it to contribute 25% of the direct exploration expenses.

Cuadrilla believes based on preliminary estimates, which do not constitute certified reserves, that there is 200 trillion cubic feet (**tcf**) of gas in the Bowland Basin shale prospect. Hydraulic fracturing (**Fracking**) operations have been voluntarily suspended since May 2011 due to seismic activity and pending an investigation by the UK Department of Energy and Climate Change. A report in relation to the investigation was released on 17 April 2012 and concluded that it was safe to resume fracking, provided certain recommended measures are taken to mitigate the risks of seismic tremors.

### ***Other Assets / Investments***

Lucas also has other assets and investments. These are summarised in the table below:

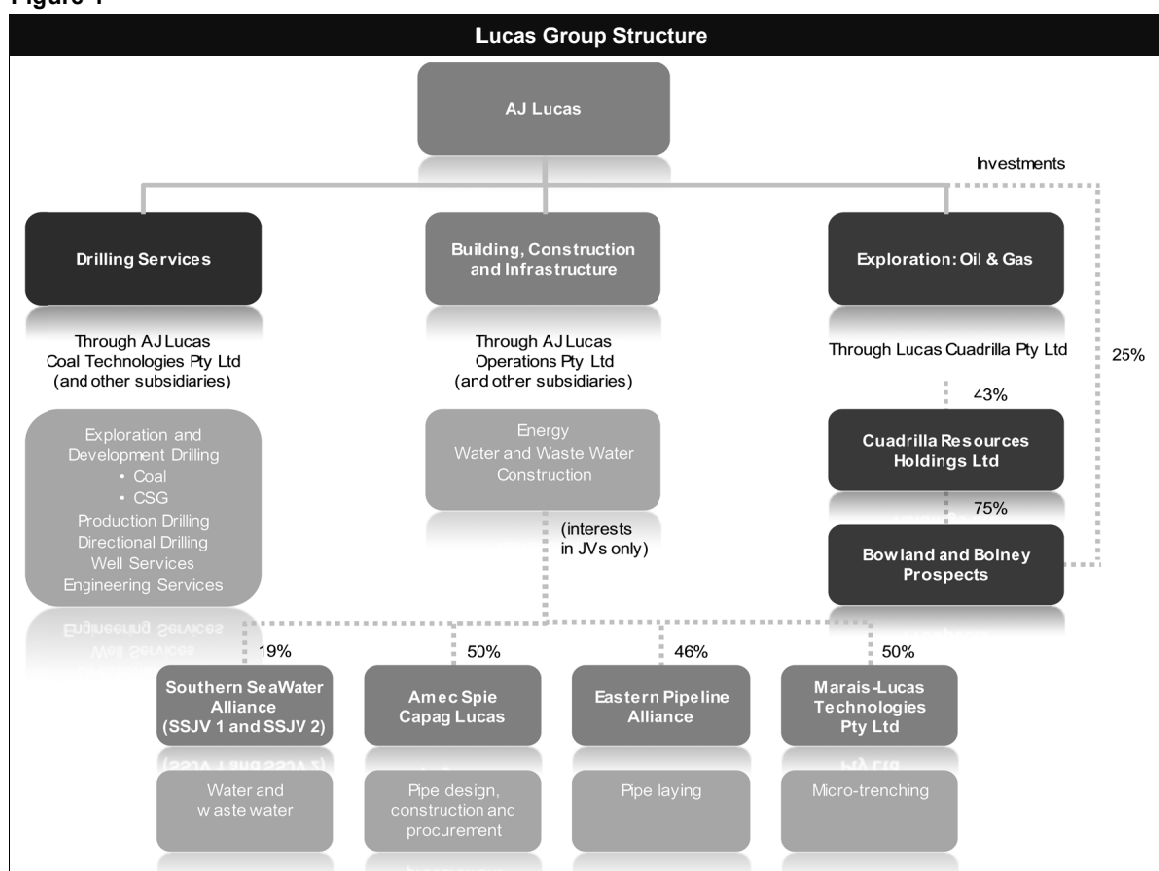
**Table 2: Assets / Investments**

| <b>Assets / Investments</b>             | <b>Business Activities</b>                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Monument Prospect (net profit interest) | Lucas holds a contractual 10% net profit interest in East Texas Monument Prospect. The pre-permit drilling application has been lodged for this project with the primary focus being on the recovery of liquids. This investment cost \$87.8 million and has been fully impaired due to insufficient drilling data to assess the recoverability of the investment. |
| Canning Basin                           | Lucas has a beneficial interest in an application to be granted relating to a petroleum permit covering 8,010 square kilometres of the Canning Basin. The site is considered prospective for shale gas, shale oil and tight gas. Lucas is currently in negotiations with traditional land owners in relation to access and future exploration.                     |
| SSJV                                    | Lucas has a 19% interest in the SSJV which is responsible for the construction and operation of the desalination plant located at Bunningup, 150km from Perth.                                                                                                                                                                                                     |
| Marais-Lucas JV                         | Lucas has a 50% interest in the Marais-Lucas JV. The other 50% interest is held by Marais SA, a French company which applies micro-trenching technology for the installation of underground infrastructure with minimal environmental impact. This technology has an application for the installation of fibre optic cables.                                       |
| Amec Spie JV                            | Lucas has a 50% interest in this JV which specialises in the engineering, design, procurement and construction of pipelines. This JV is currently dormant.                                                                                                                                                                                                         |
| Eastern Pipeline JV                     | Lucas has a 46% interest in this JV. The principle activities being pipe laying and related construction. This JV is currently dormant.                                                                                                                                                                                                                            |

**Source:** Lucas management

Lucas' group structure comprising its businesses, investments and JVs, is set out below:

Figure 1



Source: Lucas management

Legend: SSJV 1 denotes Southern SeaWater Alliance JV 1 and SSJV 2 denotes Southern SeaWater Alliance JV 2

### 3.4 Strengths, Weakness, Opportunities, Threats Analysis

Set out below is a SWOT analysis for Drilling Services and BCI.

#### Drilling Services

Table 3: Drilling Services

| Strengths                                                                                                                                                                                                                           | Weaknesses                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Largest rig service offering in the coal sector in Australia</li> <li>Leading edge drilling techniques (SIS)</li> <li>Strong safety culture</li> <li>Developed operating platform</li> </ul> | <ul style="list-style-type: none"> <li>Ageing rig fleet</li> <li>Shortage of qualified labour</li> <li>Capital intensive</li> <li>Exposure to two sectors only</li> </ul>                                                                                                     |
| Opportunities                                                                                                                                                                                                                       | Threats                                                                                                                                                                                                                                                                       |
| <ul style="list-style-type: none"> <li>Efficiency improvements</li> <li>Service extension leveraging existing customer relationships</li> <li>Technical and project management services</li> <li>Shale gas exploration</li> </ul>   | <ul style="list-style-type: none"> <li>Escalating labour costs</li> <li>Increased union activity</li> <li>Carbon tax reduces growth of coal and CSG industries</li> <li>Increased competition from international drilling companies</li> <li>Unpredictable weather</li> </ul> |

Source: Lucas management

## BCI

**Table 4: BCI**

| Strengths                                                                                                                                                                                                                                                                                                            | Weaknesses                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Specialist pipelines and trenchless technical expertise and equipment</li> <li>Project management capability</li> <li>Strong safety culture</li> <li>Design capability</li> <li>Strong customer relationships</li> <li>Strong footprint in the market</li> </ul>              | <ul style="list-style-type: none"> <li>Lack of succession planning</li> <li>Lack of strong presence in Queensland and Western Australia markets</li> <li>Weak balance sheet</li> </ul>                                                      |
| Opportunities                                                                                                                                                                                                                                                                                                        | Threats                                                                                                                                                                                                                                     |
| <ul style="list-style-type: none"> <li>Integrated offering with Drilling Services</li> <li>Growth of resource related infrastructure combining building, engineering and process requirements</li> <li>Leverage traditional innovativeness into engineering and construction</li> <li>Contract management</li> </ul> | <ul style="list-style-type: none"> <li>Escalating labour costs</li> <li>Increased competition from larger contracting companies</li> <li>Slowdown of New South Wales building industry</li> <li>Ability to obtain skilled labour</li> </ul> |

**Source:** Lucas management

## 3.5 Financial Performance

### 3.5.1 Lucas Group

The audited statements of comprehensive income for the years ended 30 June 2010 (**FY2010**) and 30 June 2011, and forecast performance for the year ending 30 June 2012 (**FY2012**) are set out below:

**Table 5: Statement of Comprehensive Income and Forecast - FY2010 to FY2012**

| (\$000s unless otherwise indicated)                                            | FY2010 Audited | FY2011 Audited  | FY2012 Forecast |
|--------------------------------------------------------------------------------|----------------|-----------------|-----------------|
| Revenue from continuing operations                                             | 358,490        | 433,373         | 531,195         |
| Other revenue                                                                  | 101,831        | 23,686          | (261)           |
| <b>Total revenue</b>                                                           | <b>460,321</b> | <b>457,059</b>  | <b>530,933</b>  |
| Expenses                                                                       | (408,001)      | (427,654)       | (563,067)       |
| Earnings before interest, tax, depreciation and amortisation ( <b>EBITDA</b> ) | <b>52,320</b>  | <b>29,405</b>   | <b>(32,134)</b> |
| <i>Normalised EBITDA</i>                                                       | (4,593)        | 16,950          | 31,308          |
| Depreciation and amortisation                                                  | (27,839)       | (28,078)        | } (49,074)      |
| Net finance costs                                                              | (16,282)       | (22,749)        |                 |
| Taxation                                                                       | (15,327)       | 9,895           |                 |
| <b>Net profit/(loss) after tax (NPAT/Net loss after tax)</b>                   | <b>(7,128)</b> | <b>(11,527)</b> | <b>(81,208)</b> |
| Other comprehensive (loss)/ income for the period                              | 3,332          | (5,946)         | -               |
| <b>Total comprehensive (loss)/ income for the year</b>                         | <b>(3,796)</b> | <b>(17,473)</b> | <b>(81,208)</b> |
| <i>Revenue growth from continuing operations %</i>                             | <i>n/a</i>     | 20.9%           | 22.6%           |
| <i>Normalised EBITDA growth %</i>                                              | <i>n/a</i>     | 469.0%          | 84.7%           |
| <i>Normalised EBITDA margin %</i>                                              | <i>(1.0%)</i>  | 3.7%            | 5.9%            |

**Sources:** Lucas' annual reports; management accounts; FY2012 forecast model

We make the following comments in relation to the statements of comprehensive income and forecast:

- *Revenue* - is largely driven by Drilling Services and BCI. FY2010 was adversely impacted mainly by worsening market conditions. Other revenue in FY2010 and FY2011 related to disposal of interests in assets.
- *Expense*:
  - Other than head office overhead costs, Lucas has other corporate overheads in relation to its interests in JVs.
  - Expenses include impairment expenses in relation to intangible assets, interest in assets and JVs.
  - FY2012 forecast includes \$6.4 million in relation to restructuring costs incurred as part of Lucas' overall long term strategy and \$36.8 million for impairments.

### 3.5.2 Operating business units

Financial performance of Drilling Services and BCI for FY2010, FY2011 and FY2012 is set out below:

**Table 6: Financial Performance - Drilling Services and BCI**

| (\$000s unless otherwise indicated) | FY2010<br>Audited | FY2011<br>Audited | FY2012<br>Forecast |
|-------------------------------------|-------------------|-------------------|--------------------|
| <b>Drilling Services</b>            |                   |                   |                    |
| Revenue                             | 203,207           | 185,936           | 206,505            |
| EBITDA                              | 23,656            | 42,800            | (21,442)           |
| Normalised EBITDA                   | 23,656            | 19,114            | 21,896             |
| <i>Revenue growth %</i>             | <i>n/a</i>        | (8.5)%            | 11.1%              |
| <i>Normalised EBITDA growth %</i>   | <i>n/a</i>        | (19.2)%           | 14.6%              |
| <i>Normalised EBITDA margin %</i>   | 11.6%             | 10.3%             | 10.6%              |
| <b>BCI</b>                          |                   |                   |                    |
| Revenue                             | 155,282           | 247,437           | 331,461            |
| EBITDA                              | (19,503)          | (2,557)           | 5,582              |
| Normalised EBITDA                   | (19,503)          | 6,339             | 14,883             |
| <i>Revenue growth %</i>             | (46.0)%           | 59.3%             | 34.0%              |
| <i>Normalised EBITDA growth %</i>   | <i>n/a</i>        | 132.5%            | 134.78%            |
| <i>Normalised EBITDA margin %</i>   | (12.6)%           | 2.6%              | 4.5%               |

**Sources:** Lucas annual reports; management accounts; FY2012 forecast model

We note the following in relation to the financial performance of Drilling Services and BCI:

#### **Drilling Services**

- Revenue is derived primarily from existing contracts. Approximately 93% of June 2012 forecast revenue is contracted. Weather conditions can have significant impact on revenue. Quarter four (**Q4**) is generally stronger, due to better weather conditions, compared to the previous two quarters which are impacted by less favourable weather conditions and the Christmas period.

- Revenue decreased by 8.5% in FY2011 due to unfavourable weather conditions from August 2010 to May 2011 and therefore continuous disruptions to drilling operations. FY2012 forecast includes eleven months actual and one month forecast. Revenue is forecast to increase by 11.1% in FY2012 mainly due to a new contract with Xstrata, which commenced in March 2012, to provide CSG extraction services to three Xstrata mines. Revenue of \$240 million is expected from this contract over a three year period. Rig availability is expected to increase in FY2012 as scheduled maintenance and fleet upgrades were carried out in FY2011.
- FY2010 EBITDA was impacted by significant expenditure on repairs and maintenance incurred on upgrading the Mitchell Drilling drill rig fleet purchased in August 2008 and interruptions caused by unusually wet weather. Weather interruptions were estimated to have resulted in \$38.9 million lost revenue and a reduction in EBITDA of \$6.3 million. Delays in the granting of environmental approval for the various projects further impacted the demand for drilling services. FY2011 normalised EBITDA decreased by approximately 19.2% following a 8.5% decline in revenue, over FY2010. The financial results were adversely impacted by the closure of several maintenance facilities, rationalisation of the logistics operations and increased maintenance expenditure to upgrade the rig fleet. FY2012 normalised EBITDA is expected to improve by 14.6% over the FY2011 normalised EBITDA largely driven by the award of an Xstrata contract and utilisation of an improved fleet.

**BCI**

- Lucas management advised that all of June 2012 forecast revenue is contracted.
- FY2010 revenue was adversely impacted by the global financial crisis. A number of projects were delayed due to market uncertainties. FY2011 revenue increased over FY2010 by approximately 59.3% as delayed projects accelerated and contracting terms were renegotiated. FY2012 revenue is forecast to increase 34.0% as additional projects, which were delayed in FY2010 and FY2011, gathered momentum.
- FY2010 EBITDA was impacted by reduced sales and overhead costs which did not decrease in proportion to the reduction in revenue. FY2011 EBITDA was impacted by higher overheads which were structured to support higher revenue. In FY2010 and FY2011, Lucas invested in skilled personnel to develop expertise in water and waste water management to enhance its trenching capabilities.

### 3.5.3 FY2012 financial performance by operating business units

The following table sets out the FY2012 forecast financial performance by business unit:

**Table 7: FY2012 Forecast Financial Performance by Business Units**

| (£000s unless otherwise indicated)                         | FY2012<br>Drilling<br>Forecast | FY2012<br>BCI<br>Forecast | FY2012<br>Corporate<br>Forecast | FY2012<br>Total<br>Forecast |
|------------------------------------------------------------|--------------------------------|---------------------------|---------------------------------|-----------------------------|
| <b>Forecast financial performance</b>                      |                                |                           |                                 |                             |
| Revenue from continuing operations                         | 206,505                        | 331,461                   | (6,771)                         | 531,195                     |
| Other revenue                                              | -                              | -                         | (261)                           | (261)                       |
| <b>Total revenue</b>                                       | <b>206,505</b>                 | <b>331,461</b>            | <b>(7,032)</b>                  | <b>530,933</b>              |
| Expenses                                                   | (227,946)                      | (325,879)                 | (9,242)                         | (563,067)                   |
| <b>EBITDA</b>                                              | <b>(21,442)</b>                | <b>5,582</b>              | <b>(16,274)</b>                 | <b>(32,134)</b>             |
| Finance costs, depreciation and amortisation               | (25,825)                       | (6,378)                   | (16,871)                        | (49,074)                    |
| Tax                                                        | -                              | -                         | -                               | -                           |
| <b>NPAT</b>                                                | <b>(47,266)</b>                | <b>(796)</b>              | <b>(33,145)</b>                 | <b>(81,208)</b>             |
| <b>Normalisations</b>                                      |                                |                           |                                 |                             |
| <b>EBITDA</b>                                              | <b>(21,442)</b>                | <b>5,582</b>              | <b>(16,274)</b>                 | <b>(32,134)</b>             |
| <b>Normalisations</b>                                      |                                |                           |                                 |                             |
| Impairment                                                 | 36,830                         | -                         | -                               | 36,830                      |
| Reversal of work in progress (WIP)                         | 3,614                          | -                         | -                               | 3,614                       |
| Darra premises                                             | 1,174                          | -                         | -                               | 1,174                       |
| Retention bonuses                                          | 581                            | -                         | -                               | 581                         |
| Loss on disposal of rig                                    | 439                            | -                         | -                               | 439                         |
| Redundancies                                               | 420                            | -                         | -                               | 420                         |
| Consultant fees                                            | 279                            | -                         | -                               | 279                         |
| Asset Services                                             | -                              | 3,600                     | -                               | 3,600                       |
| Provisions for Mortlake, Brooklyn Lara and Ivy contracts   | -                              | 4,821                     | -                               | 4,821                       |
| SSJV 1 and SSJV 2                                          | -                              | 773                       | -                               | 773                         |
| Marais-Lucas JV                                            | -                              | 107                       | -                               | 107                         |
| Balance sheet restructure costs                            | -                              | -                         | 6,449                           | 6,449                       |
| Equity accounting loss and share of overheads of Cuadrilla | -                              | -                         | 3,726                           | 3,726                       |
| Goldman Sachs options                                      | -                              | -                         | 637                             | 637                         |
| Asset held for sale                                        | -                              | -                         | 261                             | 261                         |
| Insurance recovery                                         | -                              | -                         | (270)                           | (270)                       |
| <b>Normalised EBITDA</b>                                   | <b>21,896</b>                  | <b>14,883</b>             | <b>(5,471)</b>                  | <b>31,308</b>               |

**Source:** FY2012 forecast model

**Note:** The above may include rounding differences.

#### Drilling Services

- *Impairment* - the FY2012 forecast includes a non recurring impairment charge for goodwill on acquisition and the Wyong premises.
- *Reversal of WIP* - Lucas management advised that there was a WIP write off of \$3.6 million which related to prior year's WIP and not FY2012. This has been normalised as it does not relate to FY2012 and is non recurring.

- *Darra premises* - the lease at Darra, Brisbane expired and Lucas incurred a one-off reinstatement cost. This also resulted in costs associated with stock relocation from the Darra depot to satellite sites.
- *Retention bonuses* - Drilling Services paid one-off retention bonuses to retain key staff during business uncertainties caused by the proposed Drilling Services business sale in Q2 and Q3 of FY2012.
- *Loss on disposal of rig* - Drilling Services incurred a loss as a result of a rig disposal.
- *Redundancies* - relates to non recurring redundancy costs which occurred in April 2012.
- *Consultancy fees* – non recurring consultancy costs incurred in respect of Drilling Services' business restructuring.

#### BCI

- *Asset Services* - as discussed in Section 3.2 above, Asset Services was a new business unit in Lucas and currently has only one contract. Asset Services incurred a loss on this initial contract due to poor contracting terms. Lucas management has advised that Asset Services will be discontinued.
- *Provisions for Mortlake, Brooklyn Lara and Ivy contracts*
  - In May 2012, Lucas agreed to a commercial settlement of a prior year WIP balance (March 2010) in relation to the Mortlake project. There was a shortfall between the commercial settlement value and the WIP's book value.
  - Lucas management advised that current negotiations in relation to a prior year balance (June 2009) for the Brooklyn Lara project suggest that Lucas is likely to settle at a value that is lower than the WIP's book value. As such Lucas management made a provision against this WIP balance.
  - The FY2012 forecast includes an additional provision for expected legal fees over the next six months in relation to the Ivy project which are non recurring.
- *SSJV 1 and SSJV 2* - the FY2012 forecast was prepared based on preliminary estimates of earnings contribution from SSJV 1 and SSJV 2. Subsequent to the preparation of the FY2012 forecast, Lucas management received management accounts from SSJV 1 and SSJV 2 which identified higher earnings forecast. As earnings contribution from these JVs are in the normal course of business for BCI, these upsides have been included in Lucas' normalised earnings.
- *Marais-Lucas JV:*
  - This adjustment includes the effects of timing differences between the FY2012 forecast preparation and receipt of the JV's management accounts as described above.
  - This adjustment removes the effect of Lucas' share of the Marais-Lucas JV's loss after tax, and includes the effect of Lucas' share of the Marais-Lucas JV's EBITDA instead.

#### Corporate

- *Balance sheet restructure costs* - restructuring cost relates primarily to the recent Entitlement Offer which completed in February 2012 and the mezzanine facility approved by Shareholders in December 2011. Lucas incurred transaction costs for the Entitlement Offer including underwriting fees, advisers' fees, printing costs, etc.
- *Equity accounting loss and share of overheads of Cuadrilla* - this item is normalised for the corporate overheads division as Cuadrilla has been valued separately under the 'sum of the parts'.
- *Goldman Sachs options* - these options were issued as a fee to Goldman Sachs for granting Lucas an extended term to redeem the redeemable convertible preference shares which were issued when Lucas acquired Mitchell Drilling.
- *Asset held for sale* - relates to cost incurred and profit derived from the sale of level 10 of 257 Clarence Street, Sydney.
- *Insurance recovery* - Lucas received claims from insurance which related to a prior year. This has been normalised as it does not relate to FY2012 and is non recurring.

### 3.6 Balance Sheet

The consolidated balance sheets of Lucas Group as at 30 June 2011, 31 December 2011 and 31 May 2012 are set out below.

**Table 8: Balance Sheets**

| (\$000s unless otherwise indicated)      | 30 June 2011<br>Audited | 31 December 2011<br>Reviewed | 31 May 2012<br>Unaudited |
|------------------------------------------|-------------------------|------------------------------|--------------------------|
| <b>Current assets</b>                    |                         |                              |                          |
| Cash and cash equivalents                | 1,348                   | 7,577                        | (4,011)                  |
| Trade and other receivables              | 61,193                  | 47,079                       | 43,672                   |
| Inventories                              | 52,946                  | 67,272                       | 99,744                   |
| Assets classified as held for sale       | 11,072                  | 6,911                        | 5,503                    |
| Other assets                             | 1,899                   | 2,425                        | 1,228                    |
| <b>Total current assets</b>              | <b>128,458</b>          | <b>131,264</b>               | <b>146,137</b>           |
| <b>Non current assets</b>                |                         |                              |                          |
| Property, plant and equipment            | 136,896                 | 134,313                      | 134,634                  |
| Exploration assets                       | 7,946                   | 12,968                       | 14,365 <sup>1</sup>      |
| Other intangible assets                  | 112,930                 | 112,703                      | 112,546                  |
| Investment in equity accounted investees | 52,687                  | 65,591                       | 75,105 <sup>2</sup>      |
| <b>Total non current assets</b>          | <b>310,459</b>          | <b>325,575</b>               | <b>336,650</b>           |
| <b>Total assets</b>                      | <b>438,917</b>          | <b>456,839</b>               | <b>482,786</b>           |
| <b>Current liabilities</b>               |                         |                              |                          |
| Trade and other payables                 | 88,412                  | 98,832                       | 114,410                  |
| Interest bearing loans and borrowings    | 99,745                  | 43,262                       | 50,556                   |
| Current tax liabilities                  | 47,922                  | 47,692                       | 32,692                   |
| Employee benefits                        | 7,031                   | 8,016                        | 7,387                    |
| <b>Total current liabilities</b>         | <b>243,110</b>          | <b>197,802</b>               | <b>205,045</b>           |
| <b>Non current liabilities</b>           |                         |                              |                          |
| Interest bearing loans and borrowings    | 12,718                  | 70,923                       | 76,785                   |
| Derivative liability                     | -                       | 9,252                        | 9,252                    |
| Deferred tax liabilities                 | 5,677                   | 115                          | 5,681                    |
| Employee Benefits                        | 1,529                   | 685                          | 1,052                    |
| <b>Total non current liabilities</b>     | <b>19,924</b>           | <b>80,975</b>                | <b>92,770</b>            |
| <b>Total liabilities</b>                 | <b>263,034</b>          | <b>278,777</b>               | <b>297,816</b>           |
| <b>Net assets</b>                        | <b>175,883</b>          | <b>178,062</b>               | <b>184,971</b>           |
| <b>Equity</b>                            |                         |                              |                          |
| Issued capital                           | 91,935                  | 105,323                      | 138,343                  |
| Reserves                                 | (810)                   | 1,600                        | 1,659                    |
| Retained earnings                        | 84,758                  | 71,139                       | 44,969                   |
| <b>Total equity</b>                      | <b>175,883</b>          | <b>178,062</b>               | <b>184,971</b>           |

**Sources:** Lucas' annual report; half yearly financial report; management accounts

**Note:** The above may include rounding differences.

We note that going concern issues were raised by Lucas' auditors in FY2010 and FY2011.

We make the following comments in relation to the balance sheets set out above:

- *Inventory* - relates to work in progress for both Drilling Services and BCI. Inventory increased as a result of the increase in the order book for drilling and commencement of Stage 2 of the South Perth Desalination Plant in Western Australia.
- *Assets classified as held for sale* - relate to a commercial strata title investment property developed by Lucas at 257 Clarence Street, Sydney. There are four floors remaining for sale (levels 5, 7, 8 and 11). These floors have a carrying value of \$5.5 million as at 31 May 2012 and is based on a property valuation report dated 3 August 2011 by CBRE Valuations Pty Ltd (**CBRE**) of \$5.85 million less \$0.4 million for holding costs.
- *Exploration assets* - relate to Lucas' 25% direct interest in the Bowland and Bolney basin shale prospects.
- *Intangible assets* - relate primarily to customer contracts and goodwill relating to Drilling Services and BCI.
- *Investments in equity accounted investees* - relate to Lucas' 43% equity interest in Cuadrilla and 50% interest in Marais-Lucas JV. As at 31 May 2012, these investment assets had carrying values of \$73.9 million and \$1.2 million respectively.
- *Trade and other payables* - the increase in trade and other payables is largely driven by the ramp up of activity at the South Perth Desalination Plant in Western Australia and the Gladstone Area Water Board projects.

- *Interest bearing loans and borrowings* - total interest bearing liabilities increased at each balance sheet date, due to the capital restructuring undertaken by Lucas. The current portion of the interest bearing loans and borrowings decreased as at 31 December 2011 as Lucas completed a \$44.4 million buy back of the redeemable convertible preference shares. Non-current interest bearing loans and borrowings increased due to the \$86.5 million mezzanine debt facility agreement with Kerogen, which Lucas undertook to fund the above buy back and for working capital requirements. Lucas' debt facilities include:

**Table 9: Debt Facilities**

| Funder                           | Purpose of the Facility                                                                           | Facility Limit (\$million) | Book Value as at 31 May 2012 (\$000) |                       |                |
|----------------------------------|---------------------------------------------------------------------------------------------------|----------------------------|--------------------------------------|-----------------------|----------------|
|                                  |                                                                                                   |                            | Current Liability                    | Non Current Liability | Total          |
| Kerogen (Note 1)                 | Buyback of redeemable convertible preference shares, working capital and Cuadrilla capital calls. | 86.5                       | 16,135                               | 63,450                | 79,585         |
| Kerogen                          | Advance Facilities to be repaid from the Kerogen Placement.                                       | 12.0 (Note 3)              | 9,000                                | -                     | 9,000          |
| ANZ                              | Overdraft                                                                                         | 13.5                       | Note 2                               | Note 2                | Note 2         |
| ANZ                              | Purchase of Lot 44, Donaldson Street, Wyong                                                       | 2.5                        | 2,300                                | -                     | 2,300          |
| Investec Bank                    | Development of Clarence Street, Sydney                                                            | 2.2                        | 2,190                                | -                     | 2,190          |
| Hunter Funding                   | Workers compensation premium funding                                                              | 1.0                        | 129                                  | -                     | 129            |
| ATO                              | PAYG withholding                                                                                  | 4.7                        | 4,667                                | -                     | 4,667          |
| ANZ and others                   | Plant and equipment and hire purchase finance leases                                              | 43.5                       | 16,750                               | 13,860                | 30,610         |
| <b>Subtotal</b>                  |                                                                                                   |                            | <b>51,171</b>                        | <b>77,310</b>         | <b>128,481</b> |
| Add: accrued interest            |                                                                                                   |                            | 57                                   | -                     | 57             |
| Less: capitalised borrowing cost |                                                                                                   |                            | (671)                                | (526)                 | (1,197)        |
| <b>Total</b>                     |                                                                                                   |                            | <b>50,556</b>                        | <b>76,785</b>         | <b>127,341</b> |

**Source:** Lucas management

**Notes:**

- 1: As at 31 May 2012 Lucas has drawn down the full \$86.5 million debt. The book value represents the face value of the debt less the unamortised portion of the derivative liability. Adjustment for the unamortised portion of the derivative liability aims to reflect a fair value interest rate which is applicable for this debt instrument.
- 2: The overdraft is presented as a negative 'cash and cash equivalents' on the balance sheet above.
- 3: Facility limit on the Advance Facilities was subsequently increased from \$12.0 million (31 May 2012) to \$22.0 million.
- 4: The above may include rounding differences.

- *Current tax liabilities and deferred tax liabilities* - Lucas is in discussions with the ATO on repayment terms.
- *Derivative liability* - relates to 18,566,763 options over ordinary shares held by Kerogen and Gleneagle in relation to the mezzanine debt facility. In addition, Goldman Sachs Australia PIA (Management) Pty Limited has been granted 1,000,000 options in conjunction with the buy back of the redeemable convertible preference shares. Section 3.7 sets out details of these options. Lucas management advised that this derivative liability will be 'marked to market' (remeasured) at each reporting date.

- *Issued capital* - has increased due to the Entitlement Offer which completed in February 2012, where 1 entitlement share for every 2 shares held by eligible Shareholders was offered at an issue price of \$1.35 per Share. This resulted in the allotment of 26,547,663 Shares for a gross amount of \$35.8 million.

### 3.7 Capital Structure and Ownership

#### *Ordinary Shares*

As at 31 May 2012, Lucas had 103,027,291 fully paid Shares on issue.

The top 10 Shareholders and total issued Shares are summarised below:

**Table 10: Top 10 Shareholders as at 31 May 2012**

| Shareholder                                        | Number of Shares Held | Percentage of Total Shares Held |
|----------------------------------------------------|-----------------------|---------------------------------|
| Kerogen                                            | 33,885,303            | 32.9%                           |
| Andial (Note 1)                                    | 11,990,000            | 11.6%                           |
| National Nominees Limited                          | 6,968,304             | 6.8%                            |
| JP Morgan Nominees Australia (cash income account) | 4,952,174             | 4.8%                            |
| JP Morgan Nominees Australia                       | 2,457,963             | 2.4%                            |
| Amalgamated Dairies Limited                        | 2,333,000             | 2.3%                            |
| CitiCorp Nominees Pty Limited                      | 1,819,310             | 1.8%                            |
| UBS Nominees Pty Ltd                               | 1,797,383             | 1.7%                            |
| HSBC Custody Nominees (Australia) Limited          | 1,752,128             | 1.7%                            |
| Forty Traders Limited                              | 1,566,348             | 1.5%                            |
| <b>Top 10 Shareholders</b>                         | <b>69,521,913</b>     | <b>67.5%</b>                    |
| Other Shareholders                                 | 33,505,378            | 32.5%                           |
| <b>Total Shareholders</b>                          | <b>103,027,291</b>    | <b>100.0%</b>                   |

**Source:** Lucas shareholder register

**Note 1:** In addition to the above, Andial also holds shares in Lucas via nominee accounts.

The two largest shareholders are Kerogen and Andial and its associates.

The top 10 shareholders hold approximately 67.5% of the total Shares on issue.

## Options and Rights

Set out below are details of issued options and rights as at Assessment Date:

**Table 11: Options and Rights**

|                      | No. of Options/<br>Rights | Exercise Price (\$)                                                                                                                                                                                                                         | When Holder Can Exercise                                                                                                                                                                                                           | Expiry    | Conversion<br>Factor | Comments      |
|----------------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------------------|---------------|
| <b>Options</b>       |                           |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                    |           |                      |               |
| Kerogen              | 14,694,403                | Variable exercise price as follows: <ul style="list-style-type: none"> <li>Lower of 20% premium to the 5-day VWAP of Shares and \$1.70 per Share.</li> <li>The exercise price will not be less than \$1.35 in any circumstances.</li> </ul> | <ul style="list-style-type: none"> <li>11,279,984 Options are exercisable at any time during the four year holding period.</li> <li>7,286,799 Options cannot be exercised prior to the Test Date, being 31 August 2012.</li> </ul> | 27-Dec-15 | 1 : 1                | Refer Note 1. |
| Gleneagle            | 3,872,360                 |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                    |           |                      |               |
| Goldman Sachs        | 1,000,000                 |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                    |           |                      |               |
| <b>Total options</b> | <b>19,566,763</b>         | \$2.13                                                                                                                                                                                                                                      | Options are exercisable at any time.                                                                                                                                                                                               | 27-Dec-16 | 1 : 1                | -             |
| <b>Rights</b>        |                           |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                    |           |                      |               |
| AC - Tranche 1       | 93,861                    | nil                                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>Rights vested on 30 June 2011 and are subject to performance hurdles which we understand have been met.</li> <li>Rights are exercisable at any time after vesting date.</li> </ul>          | 30-Jun-13 | 1 : 1                | -             |
| AC - Tranche 2       | 110,000                   | \$2.11                                                                                                                                                                                                                                      | Rights are exercisable at any time.                                                                                                                                                                                                | 23-Nov-12 | 1 : 1                | -             |
| ISR                  | 70,000                    | \$2.11                                                                                                                                                                                                                                      | Rights are exercisable at any time.                                                                                                                                                                                                | 23-Nov-12 | 1 : 1                | -             |
| Andrew Lukas         | 70,000                    | \$2.11                                                                                                                                                                                                                                      | Rights are exercisable at any time.                                                                                                                                                                                                | 23-Nov-12 | 1 : 1                | -             |
| <b>Total rights</b>  | <b>343,861</b>            |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                    |           |                      |               |

**Sources:** Option deeds; Lucas management

**Note 1:** In the event Lucas repays a portion of the \$86.5 million mezzanine debt facility by 31 August 2012, the following number of options will be cancelled:

- 3,014,086 options will be cancelled if the amount repaid is between \$30.0 million and \$35.0 million.
- 4,470,329 options will be cancelled if the amount repaid is between \$35.0 million and \$40.0 million.
- 5,894,211 options will be cancelled if the amount repaid is between \$40.0 million and \$45.0 million.
- 7,286,799 options will be cancelled if the amount repaid is in excess of \$45.0 million.

Lucas management advised that it is likely that less than \$30 million of the mezzanine debt facility will be repaid by 31 August 2012, as such, it is likely that nil options will be cancelled.

**Legend:** ISR denotes Ian Stuart-Robertson and AC denotes Allan Campbell. ISR is a former and AC is a current Executive Director of Lucas.

### 3.8 Share Price Analysis

We have considered the trading activity and the ASX market price for Lucas in the period leading up to the Assessment Date. In 2011 Lucas traded on the ASX until 20 May 2011, with no trades occurring on 21 May 2011 and 22 May 2011. Lucas was then placed in a trading halt on 23 May 2011. Lucas was subsequently suspended from quotation on the ASX between 25 May 2011 and 28 December 2011. As such, we have considered the trading range of Lucas over two separate periods:

- The twelve months until the last actual trade before the suspension of trading on the ASX (being 20 May 2011) (**Trading Period 1**).
- From the resumption of trading (being 28 December 2011) until the Assessment Date (being 24 July 2012) (**Trading Period 2**).

The table below summarises trades over Trading Period 1 and Trading Period 2:

**Table 12: VWAP of Daily Trades**

|                             | High | Low  | VWAP | Total Volume Traded | Annualised Turnover (Note 1) | Average Bid/Ask Spread |
|-----------------------------|------|------|------|---------------------|------------------------------|------------------------|
|                             | (\$) | (\$) | (\$) | ('000s)             | (%)                          | (%)                    |
| <b>Trading Period 1</b>     |      |      |      |                     |                              |                        |
| As at 20 May 2011 (Note 2)  | 1.40 | 1.35 | 1.37 | 85                  | 32.34%                       | 3.33%                  |
| 1 month to 20 May 2011      | 1.75 | 1.33 | 1.57 | 2,102               | 42.33%                       | 3.67%                  |
| 3 months to 20 May 2011     | 2.42 | 1.33 | 1.78 | 5,397               | 33.31%                       | 3.14%                  |
| 6 months to 20 May 2011     | 3.02 | 1.33 | 2.11 | 10,233              | 31.83%                       | 3.01%                  |
| 12 months to 20 May 2011    | 3.02 | 1.33 | 2.08 | 24,612              | 37.37%                       | 2.58%                  |
| <b>Trading Period 2</b>     |      |      |      |                     |                              |                        |
| As at 24 July 2012          | 1.03 | 0.96 | 1.00 | 432                 | 106.57%                      | 3.50%                  |
| 15 days to 24 July 2012     | 1.07 | 0.96 | 1.01 | 1,076               | 24.12%                       | 2.91%                  |
| 1 month to 24 July 2012     | 1.08 | 0.96 | 1.02 | 1,601               | 17.94%                       | 3.80%                  |
| 3 months to 24 July 2012    | 1.14 | 0.87 | 0.99 | 8,909               | 34.86%                       | 4.51%                  |
| 28 Dec 2011 to 24 July 2012 | 1.50 | 0.87 | 1.11 | 26,320              | 48.77%                       | 3.45%                  |

**Sources:** Bloomberg; PKFCA analysis

**Notes:**

**1:** Annualised turnover is calculated as period turnover divided by trading days in the period, multiplied by trading days in the year.

**2:** 20 May 2011 was the last day of trading activity before the suspension of trading on the ASX.

**Legend:** VWAP denotes volume weighted average share price

We note the following with respect to the share trading of Lucas over Trading Period 1:

- The last closing price prior to the suspension of trading was \$1.35 per Share on 20 May 2011.
- The shares traded between \$1.33 per Share and \$3.02 per Share.
- On six (6) separate days over the period analysed, the daily volume increased above 400,000 Shares. These spikes in volume are charted in Figure 2 below. Whilst on some days announcements to the ASX were made (which provide possible reasons for the unusual trading activity), reasons for the unusual trading activity are not always traceable to any particular event(s).
- VWAP prices are observed to be on a downward trend.

- There is moderate to high trading volume over the period, as the total traded volume of Shares over the 12 months to 20 May 2011 was approximately 37% of the total weighted average number of Shares on issue over the period.
- Over the year analysed, there were 253 days of trading activity out of a total of 253 trading days.
- The average bid-ask spread over each period ranged from 2.58% to 3.67% which indicates moderate liquidity.

We note the following with respect to the trading price of Lucas over Trading Period 2:

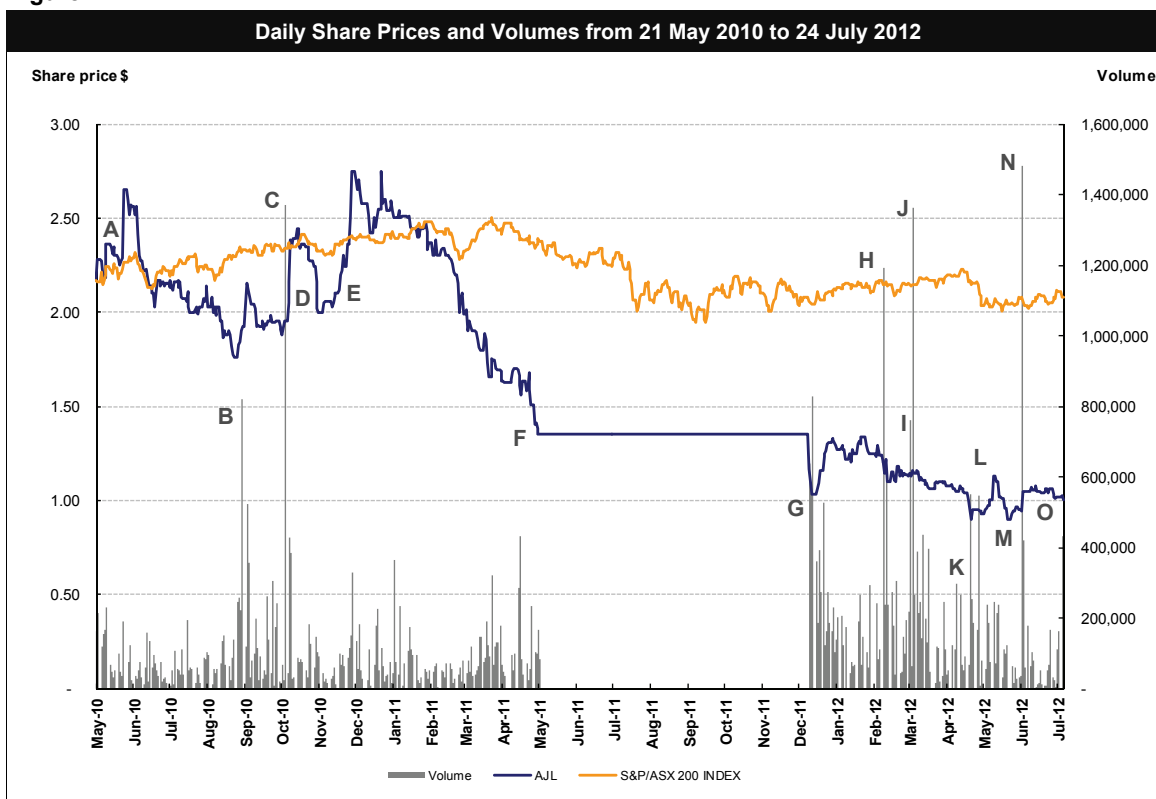
- The closing price on 24 July 2012 was \$1.00 per Share.
- The share traded between \$0.87 per Share and \$1.50 per Share.
- On fourteen separate days over the period analysed, the daily volume rose above 400,000 Shares.
- The VWAP for the 15 days to 24 July 2012 was \$1.01 per Share.
- There is higher trading volume over the Trading Period 2 compared to Trading Period 1, as the annualised traded volume of Shares over the period to 24 July 2012 was approximately 49% of the total weighted average number of Shares on issue over the period.
- Over the period analysed, there were 141 days of trading activity out of a total of 144 trading days.
- The average bid-ask spread over each period ranged from 2.91% to 4.51% which indicates moderate liquidity.

As noted in Figure 2 below, over Trading Period 1 and Trading Period 2, Lucas largely underperformed the S&P/ASX 200 Index (a capitalisation weighted index that represents the top 200 companies in the ASX by market capitalisation).

The Consideration's cash offer of \$1.35 per Share represents a 33.7% and 32.4% premium over the 15 days and 1 month VWAP respectively, immediately prior to the Assessment Date.

The graph below illustrates the movement in the daily share price and volumes traded over Trading Period 1 and Trading Period 2:

**Figure 2**



Sources: Bloomberg; PKFCA analysis

Factors which may have had an impact on trading in Lucas Shares are detailed below:

**Table 13: Lucas Announcements**

| Note | Date      | Announcement Details                                                                                                                                                                                                                                             | Opening Share Price | Closing Share Price | % Movement |
|------|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|------------|
| A    | 3 Jun 10  | Lucas executed customer contracts with Oracle and CSG.                                                                                                                                                                                                           | 2.31                | 2.35                | 1.7%       |
| B    | 16 Sep 10 | Announcement of rights granted under the management rights plan.                                                                                                                                                                                                 | 1.84                | 1.90                | 3.3%       |
| C    | 22 Oct 10 | The Federal Environmental Minister announced environmental approval for the proposed BG and Santos CSG export projects. As a major provider of drilling and infrastructure services to the coal and CSG industries, Lucas may benefit if these projects proceed. | 1.92                | 1.95                | 1.8%       |
| D    | 17 Nov 10 | Wellington Management Company ceased to be a substantial holder.                                                                                                                                                                                                 | 2.24                | 2.16                | (3.6)%     |
| E    | 7 Dec 10  | Cuadrilla activity update report provided to ASX stating successful drilling of first "true" shale well in Europe, to reach a target depth of 9,100 feet.                                                                                                        | 2.12                | 2.20                | 3.8%       |
| F    | 25 May 11 | Suspension from trading due to inability to raise adequate working capital.                                                                                                                                                                                      | 1.35                | 1.35                | 0.0%       |
| G    | 28 Dec 11 | First day of trading after reinstatement to official quotation.                                                                                                                                                                                                  | 1.35                | 1.17                | (13.7)%    |
| H    | 27 Feb 11 | An update on the Entitlement Offer, with Kerogen taking up the maximum number of shares, being 19,008,828 Shares.                                                                                                                                                | 1.24                | 1.20                | (3.2)%     |
| I    | 29 Feb 12 | Half yearly report released.                                                                                                                                                                                                                                     | 1.14                | 1.22                | 7.0%       |

| Note | Date       | Announcement Details                                                                                                                                                                     | Opening Share Price | Closing Share Price | % Movement |
|------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|------------|
| J    | 22 Mar 12  | Unexplained as at 22 March 2012, however an operations update and earnings guidance was released 29 March 2012.                                                                          | 1.13                | 1.16                | 2.7%       |
| K    | 29 Mar 12  | Operations update and announcement of intention to raise additional equity.                                                                                                              | 1.11                | 1.12                | 0.9%       |
| L    | 31 May 12  | Lucas responded to media articles regarding the alleged failure to pay subcontractors for work on the Curtis Island Water and Sewerage Infrastructure Project.                           | 1.10                | 1.10                | 0.0%       |
| M    | 8 June 12  | Gladstone Area Water Board and Gladstone Regional Council reached an agreement with Lucas to terminate their contract relating to the construction of water and sewerage infrastructure. | 0.96                | 0.90                | (6.2)%     |
| N    | 20 June 12 | Coupland Cardiff Asset Management LLP purchased 1.48 million Shares                                                                                                                      | 0.95                | 0.94                | (1.1)%     |
| O    | 29 June 12 | Operations update, earnings guidance and revised details of the Proposed Transactions.                                                                                                   | 1.07                | 1.06                | (1.4)%     |

**Source:** ASX

## 4 INDUSTRY OVERVIEW

### 4.1 Mining Services Industry

#### 4.1.1 Mining Services Industry Overview

Drilling Services operates in the mining services industry (**Mining Services Industry**). The Mining Services Industry comprises companies which carry out parts of a mining operation on a fee or contract basis. The following observations regarding Mining Services Industry conditions are based on PKFCA's review of generally available industry reports published by IBISWorld for Mining Services in Australia dated March 2012, coupled with discussions and information provided by Lucas management.

#### 4.1.2 Current performance

According to IBISWorld, Mining Services Industry revenue was expected to increase 6.8% p.a. over the five years to 2011/12 due to high levels of mining activity. Mine output and contract-mining operations increased strongly during the five years to 2011/12, buoyed by rising demand for minerals and high commodity prices.

Whilst a large proportion of Mining Services Industry activity is in Western Australia, Queensland plays an important part. Extensive flooding of the Queensland coal mining areas in early 2011 exerted downward pressure on contract mining revenue in that state, as mining contractors are generally paid only when the mines are active and when their equipment is being used, or paid at a reduced rate depending on the stand-by terms.

According to IBISWorld, the Mining Services Industry is in the growth phase of its life cycle. In recent years, it has expanded far more rapidly than both gross domestic product (**GDP**) and overall mining sector revenue. This growth reflects increased outsourcing by mining companies.

#### 4.1.3 Key drivers of demand

Demand for the products and services delivered by the Mining Services Industry are primarily driven by the following:

- *Anticipated levels of mine production* - the overall level of mineral production in Australia sets the underlying level of demand for mining services.
- *World price of steaming coal* - when coal prices are high, coal-mining companies are likely to use more Mining Services Industry services to increase output.
- *Prevalence of out-sourcing* - shifts in mine-management preferences for outsourcing versus in-house production varies with prevailing market conditions.
- *Duration of anticipated mining operation* - short-term operations are more likely to make use of contract miners, as it is likely to be less economically viable to purchase or lease mining equipment.

#### 4.1.4 Key success factors

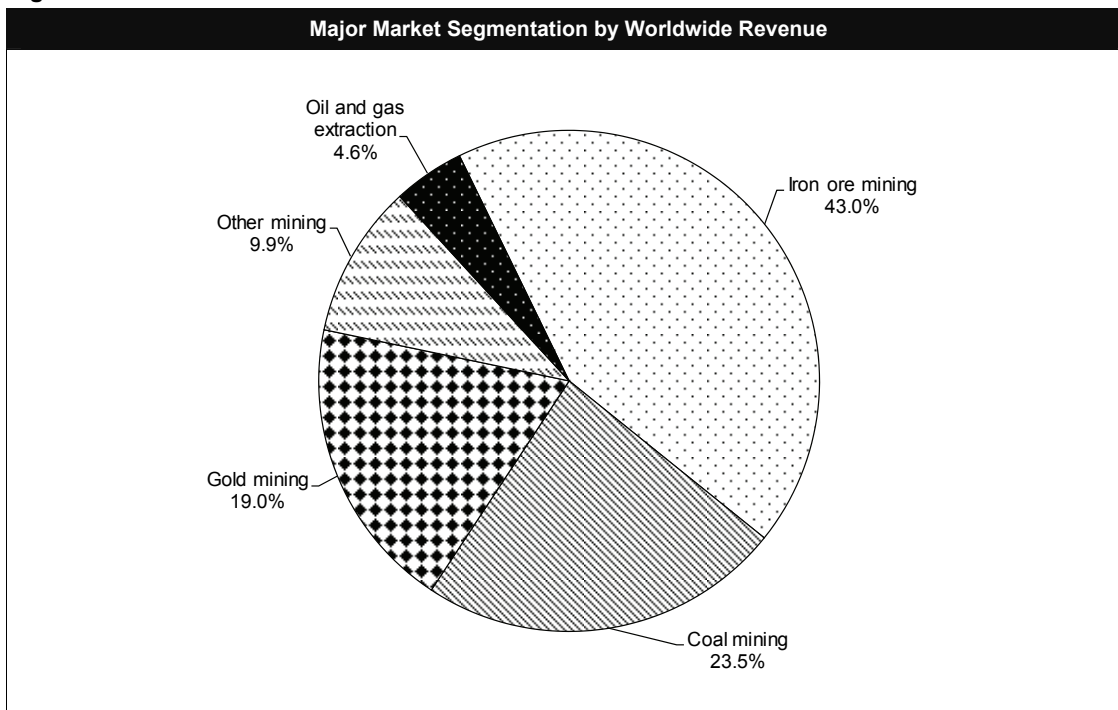
Based on an analysis of competitor activities, the key success factors for the Mining Services Industry include:

- *Successful industrial relations policy* - maintaining harmonious industrial relations is crucial to contain costs and meet targets.
- *Securing large contracts* - companies that are able to secure long-term contracts to mine large resource deposits ensure ongoing revenue and profit generation.
- *Access to highly skilled workforce* - to be successful in the Mining Services Industry, companies need access to skilled labour.

- *Economies of scale* - the ability to undertake work at a number of sites simultaneously provides a buffer against losing a contract at a particular site.

#### 4.1.5 Major market segmentation

**Figure 3**



Source: IBISWorld

As shown in Figure 3 above, the Mining Services Industry's main customers are companies operating in metallic mining industries. Contract mining expanded from metallic mining in the mid-1990s to the black coal mining industry, despite initially strong resistance from unions.

#### 4.1.6 Mining Services Industry outlook/forecast

According to IBISWorld, the Mining Services Industry is expected to perform strongly, with predicted revenue growth of 9.0% p.a. over the five years to 2016/17. Stronger global growth will underpin rising demand for a range of minerals, providing the basis for growth in mining services. Contract-mining activity will be supported by an expansion in coal output capacity in both Queensland and New South Wales, as well as by growth in coal seam methane production.

Mining Services Industry rationalisation is expected to continue, as small and medium-size companies look for synergies and as large companies continue acquiring smaller operators. The scale of many contract-mining operations will make it increasingly difficult for small companies to compete effectively.

#### 4.1.7 Carbon tax

Participants in the Mining Services Industry will face increasing costs due to the implementation of carbon pricing from 1 July 2012, when the Federal Government introduced a tax on greenhouse gas emissions, but should be able to pass on this cost to their customers.

The starting rate of the tax will be \$23 per tonne of carbon dioxide equivalent emitted. The price of carbon permits will increase by 2.5% over the following two years, before a market-based emissions trading scheme commences on 1 July 2015.

Under the carbon pricing arrangements, the Mining Services Industry will pay an effective carbon price on transport fuels used in mining operations. The Australian Federal Government plans to impose the carbon tax on this type of fuel use by reducing the fuel tax credit currently available.

#### **4.1.8 Mineral Resource Rent Tax**

In July 2010 the Federal Government proposed to introduce a new resource rent tax on mining profits called the Mineral Resource Rent Tax (**MRRT**) from 1 July 2012. The MRRT will be applied to iron ore and coal projects at the rate of 30% after allowing for extraction costs, the recouping of capital investments and a return on capital equivalent to the long-term government bond rate plus 7%. Mining companies will be able to access a 25% extraction allowance, which reduces the effective MRRT rate to 22.5% and is intended to recognise the contribution made by the miner. The MRRT is not expected to have a significant effect on contract mining activity.

#### **4.1.9 Conclusion**

The Mining Services Industry is heavily reliant on trends in mining activity. Conditions faced by companies in the Mining Services Industry are expected to improve over the next five years as world growth becomes stronger and demand for resources improves.

### **4.2 Engineering and Construction Industry**

#### **4.2.1 Engineering and Construction Industry overview**

BCI operates in the engineering and construction industry (**Engineering and Construction Industry**). The Engineering and Construction Industry encompasses the design, management and construction of engineering infrastructure projects, environmental projects and industrial processes and equipment.

The following observations regarding the Engineering and Construction Industry conditions are based on PKFCA's review of generally available industry reports published by IBISWorld for 'Engineering Consultancy Services in Australia' dated February 2012 and 'Heavy Industry and Other Non-Building Construction in Australia' dated September 2011, coupled with discussions and information provided by Lucas management.

#### **4.2.2 Current performance**

There has been unprecedented investment over the past decade in engineering infrastructure such as desalination plants and gas pipelines in Australia. Private sector investment in resources developments, energy and transport infrastructure were the principal drivers of this growth.

Improved Engineering and Construction Industry profitability occurred through structural change amongst the larger contractors, which resulted in the emergence of multidisciplinary companies. Furthermore, the private sector has increased its share of total funding to approximately 73% of the total value of investment in this market in 2011/12. The Engineering and Construction Industry's performance is currently boosted by the initial clean-up and repair work on infrastructure damaged by floods in Queensland and Victoria.

The range of services offered by the leading construction companies have broadened over the past decade. It is typical for the leading contractors to have capabilities spanning traditional construction services, technical services (i.e. soil decontamination), professional services (i.e. consulting engineering), specialist contracting (i.e. mine or power plant operation) along with project financing and asset management.

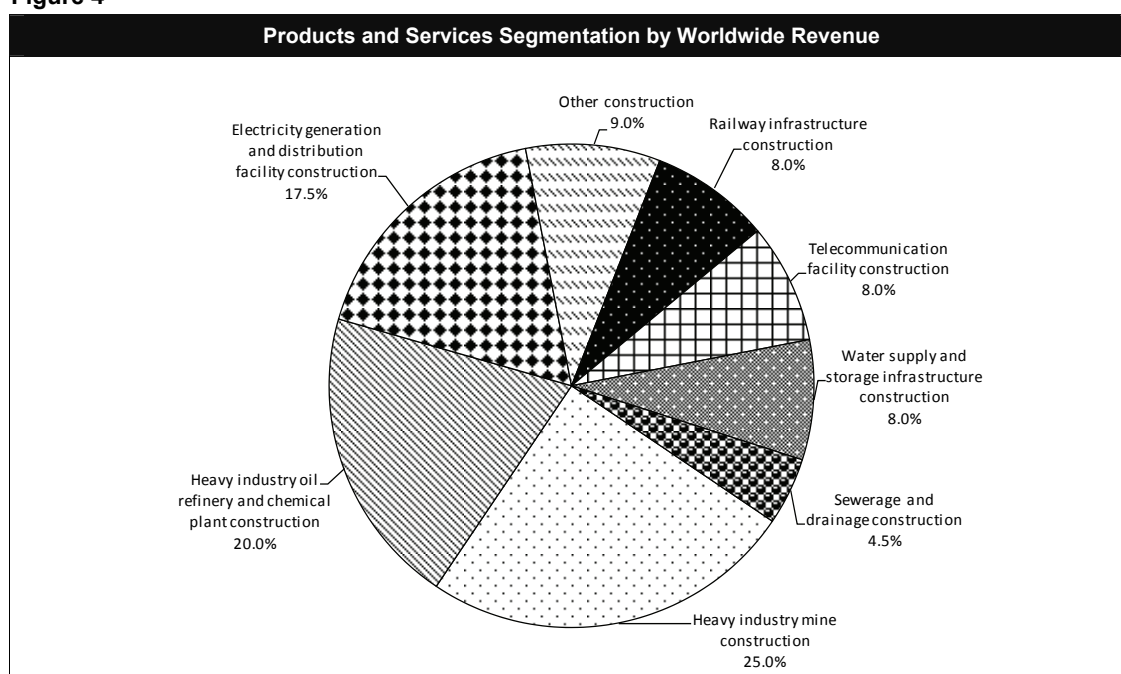
### 4.2.3 Key drivers of demand

Demand for the products and services delivered by the Engineering and Construction Industry is primarily driven by the following:

- *Demand from electricity, gas and water supply* - the construction of electricity, water and sewerage infrastructure generates a large part of industry revenue.
- *Actual capital expenditure on mining* - the mining sector directs the pattern of investment growth in the Engineering and Construction Industry.
- *Population* - public infrastructure such as transport, sanitation and energy distribution is influenced by the pace of population growth and the pattern of demographic change.
- *Capital expenditure by the public sector* - the public sector contributes a substantial share of investment into engineering construction activity. Governments may use counter-cyclical investment in infrastructure to stimulate the economy.

### 4.2.4 Products and services

Figure 4



Source: IBISWorld

As shown in Figure 4 above, the Engineering and Construction Industry's principal services are mine construction, oil refinery construction, cable laying, pipeline laying, power-generation plant construction and railway track laying.

### 4.2.5 Key success factors

Based on an analysis of competitor activities, the key success factors for the Engineering and Construction Industry include:

- *Ability to compete on tender* - successful companies have a proven capacity to compete on tenders without compromising their long-term profit margins and short-term cash flows.
- *Having a good reputation* - maintaining a reputation for quality and efficiency is essential in generating repeat business with clients and capturing longer-term contracts.

- *Management of seasonal production* - the capacity to control the flow of contract work to minimise the effects of cyclical fluctuations in demand is important.
- *Ability to change which market the company operates in* - the flexibility to shift operations between different segments of the Engineering and Construction Industry is important.
- *Good project management skills* - successful companies have a proven capacity to productively manage a project including financial control and operating in a consortium.
- *Ability to quickly adopt new technology* - companies must understand and adopt emerging technological advancements to maintain competitiveness.

#### **4.2.6 Engineering and Construction Industry outlook/forecast**

According to IBISWorld, the Engineering and Construction Industry is expected to decline in a cyclical pattern over the five years through 2016/17, but will remain at historically high levels of more than twice those of the mid-2000s. This is due to the predicted scaling back of investment in mining and energy developments from 2014/15 on the completion of current projects and prior to the start-up of new projects.

The demand conditions for the Engineering and Construction Industry are driven by large-scale projects currently under way or planned in the mining, railway, telecommunications and electric power markets. Investments in mining are expected to be driven by the Greater Gorgon project and iron ore developments in Western Australia, copper and uranium mine expansions in South Australia, and CSG projects in Queensland.

Profit margins are expected to narrow for contractors contesting the water infrastructure market, the railway market, the pipeline market and the heavy industrial construction markets in Western Australia and Queensland. This contraction is associated with the tightening of profit margins as competitive conditions intensify across several key markets in the next five years.

#### **4.2.7 Conclusion**

The market for the Engineering and Construction Industry has increased over the past decade in both size and scale. Growth has stemmed mainly from the resources boom and the subsequent investment into mineral and energy resource developments and accompanying railway and pipeline projects. A cyclical contraction in the value of total non-building construction is expected from 2014/15 due to the expected scaling back of investment into energy and mineral infrastructure projects.

### **4.3 Shale Gas Industry**

#### **4.3.1 Shale Gas Industry overview**

Lucas' key investment, Cuadrilla, operates in the shale gas industry (**Shale Gas Industry**) in Europe. Companies in the Shale Gas Industry are involved in the exploration and/or production of unconventional gas resources, specifically from within shale rock. The following observations regarding Shale Gas Industry conditions are based on PKFCA's review of publically available industry reports, coupled with discussions and information provided by Lucas management.

Shale gas is natural gas that is produced from a type of sedimentary rock, known as shale. Shale contains organic material which was compressed over long periods of time. Over time, the organic matter produces hydrocarbons, which can migrate as either a liquid or a gas through existing fissures and fractures in the rock until they reach the earth's surface or until they become trapped by strata of impermeable rock. This gas can be extracted commercially, as has been proven in various basins in the United States of America (**US**).

The techniques required for extraction of shale gas can make it more expensive than conventional gas to extract. However, the in-place gas resource can be large, given the significant lateral extent and thickness of many shale formations. The methods used to retrieve the gas that is commercially viable is a key determinant of success.

#### 4.3.2 Recent developments in the Shale Gas Industry

The technological development of the Shale Gas Industry in Europe is less advanced than that in the US. The total European production volume of unconventional gas is small compared to the several hundred billion cubic metres (**bcm**) per year in the US.

However, the improvements in shale gas exploration and production technology has led to a number of companies searching for global opportunities in new geological basins and markets outside North America. In Europe, most of the exploration concessions are located in Poland, however corresponding activities have also begun in Austria, France, Germany, the Netherlands, Sweden and the United Kingdom (**UK**). Total proved reserves in Europe are estimated at 63.1 trillion cubic metres (**tcm**).

#### 4.3.3 Possible environmental impacts

Some possible environmental issues with the activities of the Shale Gas Industry include:

- *Degradation of landscape* - due to requirements for technical equipment, fluid storage and road access.
- *Air and noise pollution* - created by the operation of combustion engines and possible release of harmful substances into the air from fluids and waste water.
- *Water contamination* - from the chemicals used in the fracking or waste water from deposits that may contain heavy metals.
- *Seismic events* - induced by fracking or waste water injection.

#### 4.3.4 Shale Gas Industry in the UK

Set out below are key events in relation to the Shale Gas Industry in the UK:

- On 1 April and 27 May 2011 two seismic events with magnitudes 2.3 and 1.5 were felt in the Blackpool area. These seismic events were suspected to be linked to fracking at the Preese Hall well operated by Cuadrilla. Fracking was carried out during exploration of a shale gas reservoir in the Bowland Basin. As a result of these seismic events, fracking operations at Preese Hall were voluntarily suspended by Cuadrilla.
- On 2 November 2011 Cuadrilla submitted to the British Department of Energy and Climate Change (**DECC**) a complete report prepared by independent experts which examines seismological and geomechanical aspects of the seismicity in relation to fracking at Preese Hall and concluded that it is likely that the fracking caused the seismic event.
- On 16 April 2012 DECC released an independent expert report in which it concluded that it substantially agreed with Cuadrilla's report above and that it was safe to resume fracking at the Preese Hall site, provided that the recommended risk mitigation procedures were adopted. DECC commenced a six week public consultation process but has not at the date of this IER released its findings from this process which may or may not change the position of DECC.
- Until the release of the findings from the public consultation process by DECC, Cuadrilla continues to voluntarily suspend its fracking operations, pending further direction from DECC. In the mean time Cuadrilla has begun installing the equipment recommended by its and DECC's independent experts.

#### 4.3.5 Shale Gas Industry outlook/forecast

The outlook for the Shale Gas Industry in Europe is mixed due to the relative inexperience of European operations compared to the established markets in the US.

According to Douglas Westwood in its report *Unconventional Gas: World Production & Drilling Forecast 2011-2020 (October 2011)*, shale gas production in Europe is estimated to reach 35 bcm by 2020, with Poland and the UK being the leading countries in its development.

The European Parliament in its report *Impacts of shale gas and shale oil extraction on the environment and on human health (June 2011)*, concluded that the available reserve of unconventional gas is too small and is unlikely to have a substantial influence on total gas production in Europe. In addition, obtaining approval from local authorities and communities may not be straightforward due to the possible environmental impacts. The development of unconventional natural gas resources in Europe will probably be led by Poland which is believed to possess between 1.4 tcm and 5.3 tcm of shale gas.

Ernst & Young concluded in its report *Shale gas in Europe: revolution or evolution? (December 2011)* that the impact of shale gas is unlikely to be transformational for the European energy market as a whole, but it could prove to be significant for individual countries such as the UK by helping reduce their dependence on imports. There is no consensus across Europe on shale gas development and government attitudes vary. The UK is monitoring the Shale Gas Industry, however does not support a moratorium on the use of fracking.

#### 4.3.6 Conclusion

The Shale Gas Industry is experiencing increased investment due to the shortfalls in domestic supply and increased volatility of imports. However, the underdeveloped state of the Shale Gas Industry in Europe compared to the US means that uncertainty surrounding the commercial viability of production will persist in the near future.

## 5 VALUATION METHODOLOGY

### 5.1 Valuation Methodology and Approach

RG 111 provides guidance on the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of preparing an independent expert's report. These include:

- Discounted cash flow (**DCF**).
- Capitalisation of future maintainable earnings (**CFME**).
- Net realisable value of assets.
- The quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis.
- Recent genuine offers received by the target for any business units or assets.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

Set out in Appendix 3 are the descriptions of valuation methodologies considered.

Set out below is a discussion of the valuation methodologies we consider appropriate for the purposes of undertaking our valuation assessment in relation to the Proposed Transactions.

### 5.2 Valuation Methodology Selected

In valuing the Lucas business we have valued the "sum of the parts", as follows:

- Drilling Services using CFME.
- BCI using CFME.
- Investments and Exploration Expenditure using historical cost and residual value.
- Corporate overheads using CFME.
- Net interest bearing liabilities, transaction costs and surplus assets using book value.

Our approach is discussed further below:

#### ***Drilling Services and BCI***

In our opinion, the CFME methodology is the most appropriate methodology with which to value Drilling Services and BCI. The BCI business includes interests in JVs.

This methodology is appropriate for the following reasons:

- Future profitability is expected.
- These businesses are well established with a history of proven operations and profitability.
- The Mining Services Industry is expected to improve over the next five years as world growth firms and demand for resources continues to grow. Lucas is well positioned to participate in this growth.
- Availability of current market multiples of comparable companies.
- Limitations of other valuation methods as they apply to Drilling Services and BCI.

We have determined the enterprise values of Drilling Services and BCI separately by applying a range of earnings multiples to the estimated FME of Drilling Services and BCI, after adjusting for any abnormal, non recurring or non operating income and expenses. The ranges of earnings multiples have been assessed with reference to market evidence and the earnings multiples of broadly comparable listed companies.

### ***Investments and Exploration Expenditure***

We understand that the Bowland Basin and Bolney Basin prospects are at an early exploration and evaluation stage. We understand from the Independent Directors that given the early stage of these prospects, no meaningful estimates of any reserves can be presently established.

From discussions with the Independent Directors they have advised that:

- If a geologist report was to be commissioned, given the very early stage of the exploration of the tenements, the fact that this is an unconventional gas resource and the significant uncertainties of the extent or otherwise of the proven or probable reserves, it is unlikely that the geologist would be able to determine a meaningful value of the Investments and Exploration Expenditure.
- Any attempt to establish the amount of reserves in relation to the tenements without further investment in exploration and evaluation would be highly judgemental and speculative.
- Cuadrilla is currently in a voluntary suspension of its fracking operations, pending further direction from DECC as discussed in Section 4. As a consequence, Cuadrilla is currently unable to determine the amount of the recoverable hydrocarbon reserves at the Bowland prospect. This has added to the difficulties in assessing comparability with other shale resources elsewhere.

For the valuation of mining tenements, a specialist report, i.e. a geologist's report is usually commissioned to estimate the amount of resources or reserves and their range of values. The likelihood of the prospects proceeding to economically feasible projects would be inherent in any geologist report or valuation range.

We have undertaken discussions with a number of independent industry experts who have knowledge of the information needed to perform valuations of prospects similar to the Investments and Exploration Expenditure held by Lucas. All of the industry experts we held discussions with advised that in their view there is insufficient information available to calculate production flow rates, extraction costs and other information necessary to determine a meaningful range of values.

In addition, as noted above, and in Section 4.3.4 of this IER, DECC has not released its findings from the public consultation process. This creates uncertainty over the likelihood of the project proceeding.

The fact that these assets have neither been valued, nor the economic feasibility opined on by a technical expert, means these assets may have (and readers are urged to consider) a value either higher or lower than their historical cost and there is uncertainty as to their value. The impact of this is addressed in Section 6.9.1 of our IER.

As a result of the information currently available being insufficient to enable a meaningful geological valuation of reserves to be undertaken, we have, therefore, considered the following valuation methodologies:

- *Prospectivity exploration multiplier (PEM)* - this methodology is typically used by geologists and is applicable for tenements in the very early stages where other valuation methods are not appropriate. This methodology involves identification of a base value and selection of an appropriate prospectivity index. This methodology was not adopted as a base value was unable to be determined due to the above reasons.

- *Comparable transaction method* - a method of determining asset values by conducting a comparable analysis with other recent transactions on equivalent assets, preferably within similar geographic and geological environments, with the same exploration potential and style of mineralisation, and at the same stage of development. We were unable to use the comparable transaction method due to insufficient publicly available information in relation to the tenements involved in our identified comparable transactions.
- *Historical cost* - previous exploration expenditure on a tenement can be used to provide a cost based assessment of value. This valuation methodology may have limitations as sunk costs may not be reflective of current fair value and historical costs ignore the value of future earnings and may limit the value of any identified intangible assets.
- *Residual value* - the overall value of the business is determined with reference to the market capitalisation of the company. The business units or divisions, are valued separately and the 'residual value' represents the value of the undeveloped tenement(s). This approach assumes that any excess value over and above the value of the business units relates to the exploration assets, which may or may not be case.

Due to the limitations associated with the PEM and comparable transaction methods, specifically the lack of information in relation to the prospects, we have used historical cost as our primary valuation methodology and the residual value to cross check our primary valuation.

We note that historical cost may overvalue (due to the inclusion of sunk costs that may not be value enhancing) or undervalue (due to the lack of recognition of future income being able to be generated) the Investments and Exploration Expenditure, however due to the lack of information, it is the only methodology that is available to us in order to provide a substantiable valuation.

### ***Capitalisation of Corporate Overheads***

Lucas' ongoing corporate overheads have not been included in the value of Drilling Services, BCI or the Investments and Exploration Expenditure. These costs relate to maintaining head office premises, the executive management team and other corporate administration functions.

We valued the corporate overheads as an ongoing activity and applied a capitalisation multiple to the corporate overheads "maintainable" costs.

## **5.3 Valuation Cross Check**

To provide additional evidence of value, we have assessed the reasonableness of the primary valuation methods with reference to the recent traded share prices of Lucas, having regard to the portfolio value of share trading prices, liquidity and control premiums.

## **5.4 Consideration**

The Consideration for the Kerogen Placement, Placement Options Exercise, Inveraray Placement and the grant of the Campbell Options have been taken to be \$1.35 per Share.

## 6 VALUATION OF LUCAS

### 6.1 Valuation Summary

Set out below is our calculation of the fair value of a Share using the 'sum of the parts' approach which estimates the value of the Lucas Group by aggregating the value of Drilling Services, BCI, Investments and Exploration Expenditure and surplus assets and adjusting for capitalised corporate overheads, net debt and transaction costs:

**Table 14: Sum of the Parts Valuation Summary**

|                                                                                              | Ref        | Low Value     | High Value    |
|----------------------------------------------------------------------------------------------|------------|---------------|---------------|
| Enterprise value (control basis) - Drilling Services (\$000s)                                | 6.2.3      | 98,550        | 109,500       |
| Enterprise value (control basis) - BCI (\$000s)                                              | 6.3.3      | 59,600        | 67,050        |
| Less: capitalised overheads (\$000s)                                                         | 6.4.3      | (26,400)      | (23,650)      |
| Less: net debt (\$000s)                                                                      | 6.5        | (165,444)     | (165,444)     |
| Less: transaction costs (\$000s)                                                             | 6.7        | (300)         | (300)         |
| Add: surplus assets (\$000s)                                                                 | 6.8        | 7,203         | 7,203         |
| Equity value (control basis)<br>(excluding Investments and Exploration Expenditure) (\$000s) |            | (26,791)      | (5,641)       |
| Investments and Exploration Expenditure (\$000s)                                             | 6.9.1      | 88,260        | 88,260        |
| <b>Equity value (control basis) (\$000s)</b>                                                 | <b>A</b>   | <b>61,469</b> | <b>82,619</b> |
| Number of issued Shares                                                                      | 6.10, B    | 103,027,291   | 103,027,291   |
| <b>Value per Share (control basis) (\$/Share)</b>                                            | <b>A/B</b> | <b>0.60</b>   | <b>0.80</b>   |

**Source:** PKFCA analysis

**Notes:**

- 1: The above may include rounding differences.
- 2: As our assessed value is lower than the Consideration, if all the options in Section 3.7 were exercised, this will marginally increase the assessed value of the Shares, however, it would not increase it above the Consideration value. Hence there will be no impact to our fairness assessment.

Our assessment of each of the 'sum of the parts' is discussed below.

### 6.2 Drilling Services

#### 6.2.1 FME

Our estimate of FME for Drilling Services has been determined after consideration of:

- The historical operational and financial performance of Drilling Services from FY2009 to FY2011 and the period ended 31 May 2012 (**YTD2012**).
- The projected financial performance of Drilling Services in FY2012.
- Discussions with the Independent Directors and management regarding the expected operational and financial performance of Drilling Services for the foreseeable future, including expected growth and the nature of the Drilling Services business going forward.
- The nature and quantum of any adjustments to normalise earnings. These may include adjustments for any acquisitions or divestments of part of the business, non-arm's length income or expenses, changes in accounting policies or unusual accounting treatments and adjustments for non recurring items.
- The growth prospects for Drilling Services, including an analysis of industry trends and the effects of any expected changes in industry conditions that may impact on the sustainability of earnings.
- The risk profile of Drilling Services.

Based on the above analysis, we have estimated EBITDA FME for Drilling Services to be \$21.9 million. We note the following:

- The estimated EBITDA FME is broadly consistent with the normalised FY2012 forecast which is based on eleven months of actual financial results (July 2011 to May 2012) and one month of forecast performance (June 2012).
- Lucas management advised that 93% of Drilling Services' forecast June 2012 revenue is supported by contracts and strong Q4 performance is anticipated as Q4 is generally less affected by seasonal drilling activities.
- Lucas management advised that poor historical performance was attributable to long running 'wet' weather and continuous interruptions to drilling activities which resulted in margin reductions, restructuring and closure of several maintenance facilities, rationalisation of logistics operations and increased maintenance expenditure to upgrade the rig fleet.

## 6.2.2 Capitalisation multiple

The appropriate earnings multiple is usually assessed by collecting market evidence with respect to the earnings multiples of companies with operations that are comparable to those of the business being valued.

In selecting this multiple range, we have considered:

- Earnings multiples derived from share market prices of broadly comparable listed companies (usually reflecting a minority interest value).
- Earnings multiples derived from prices achieved in mergers and acquisitions of broadly comparable companies (usually reflecting a controlling interest value).
- Identified specific factors relevant to the business.

Our analysis was performed based on data available as at the Assessment Date.

### *Share market trading multiples*

In selecting an appropriate range of earnings multiples to apply to FME for the valuation of Drilling Services, we have had regard to the trading EBITDA multiples implicit in the share prices of broadly comparable listed companies operating in Australia. A description of each of the broadly comparable listed companies is set out in Appendix 4.

A summary of the share market trading multiples of the broadly comparable listed companies is set out in Appendix 5. The share market trading multiples outlined in Appendix 5 are based on market trading in minority parcels of shares and represent multiples determined on a minority interest (as against a controlling) basis.

We note the following in relation to the selected comparable companies:

- Maca Ltd (**Maca**), Swick Mining Services Ltd (**Swick**) and Drill Torque Ltd (**Drill Torque**) are considered to be the most comparable companies. Maca, Swick, and Drill Torque have operations primarily focused in Australia.
- Macmahon Holdings Ltd (**Macmahon**) and Downer EDI Ltd (**Downer**) have a more diversified service offering compared to Drilling Services. Macmahon and Downer offer engineering and construction services to several industries (e.g. mining, infrastructure, telecommunications, etc), in addition to specialist drilling services. Whilst these comparable companies operate in the same industry, are direct competitors of Drilling Services and share similar risks and dependencies, these comparable companies may not be as vulnerable and dependent on one industry (being specialist drilling services) as Drilling Services is. Macmahon and Downer also have a wider geographical presence compared to Drilling Services.

- Ausdrill Ltd (**Ausdrill**) and Boart Longyear Ltd (**Boart Longyear**) have a wider geographical presence compared to Drilling Services.

Our assessment of the broadly comparable listed companies produced the following range of EBITDA multiples, on a minority interest basis:

- Forecast FY2012 EBITDA multiples of 2.3 times (minimum) to 3.9 times (maximum).
- Average and median forecast FY2012 EBITDA multiples of 3.1 times and 3.1 times respectively.

Whilst there are some key differences between Drilling Services and the broadly comparable listed companies, the analysis provides an indicative range of EBITDA multiples (on a minority interest basis) that may be regarded as being relevant for the purpose of valuing Drilling Services.

### ***Transaction multiples***

We have performed research into transactions involving companies broadly comparable to Drilling Services.

Transaction multiples provide a useful insight in the valuation of businesses. However, caution must be exercised in utilising this data as the transaction multiples may reflect companies with different business activities and (unlike the share market trading multiples) in most instances include premiums for control and synergies.

Set out in Appendix 6 is a summary of transaction multiples observed. We note the following:

- The historic transaction EBITDA multiples (excluding outliers) ranged from 5.1 times to 7.1 times, with an average of 6.1 times.
- The acquisition premium of one transaction where it could be calculated was 48.7% (based on 1-week VWAP).

### ***Premium for control***

Trading multiples are based on the market price for minority or portfolio holdings of shares and do not include a premium for control. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:

- The ability to realise synergistic benefits, for example by merging the target company's operations with those of the acquiring entity.
- Access to cash flows.
- Access to tax benefits.
- Control of the board of directors and the direction of the company.

Evidence from studies indicates that control premiums on successful takeovers have frequently been in the range of 20% to 40% and that the premium will vary significantly from circumstance to circumstance.

RG 111 requires the independent expert to value 100% of a company and therefore incorporate a premium for control.

In considering control premiums in relation to Drilling Services we have considered the nature of a possible acquirer of Drilling Services and note that they could include parties such as:

- Other participants in the Australian mining services industry. These local participants may seek to increase their market share in Australia and benefit from economies of scale.

- Other participants in the mining services market internationally. Should such a party seek to acquire Drilling Services, depending upon their own circumstances they may be able to derive some operating synergies through global arrangements and expertise and through the elimination of the public company listing and some corporate costs in Australia.
- Financial or other investors who may be able to eliminate some costs through the privatisation of the company but will otherwise be reliant on their ability to generate improved results from the company than the incumbent management.

As a consequence of the above factors and the requirements of RG 111 we have reflected a premium for control into our valuation of a 100% interest in Drilling Services. However, given the limited number and the nature of potential purchasers we would consider it most appropriate to consider a premium at a lower end of the range noted above.

We note that the transaction multiples shown above are inclusive of control. We note however that a number of these are now quite dated.

### ***Selection of earnings multiple***

Based on our analysis of the comparable companies and transactions, we have selected a forecast EBITDA multiple (on a control basis) range applicable to the EBITDA FME of Drilling Services of 4.5 times to 5.0 times. In selecting this EBITDA multiple range, we have considered:

- Broadly comparable companies' FY2012 forecast EBITDA multiples, as noted in Appendix 5.
- Transaction multiples, as noted in Appendix 6.
- *Size of the business:* Larger companies tend to be valued at higher earnings multiples as compared with smaller companies, which reflect the benefits of size in matters such as market power, control over prices and costs, depth of management, diversity of customers, and general operational and financial robustness. In addition, larger listed companies may trade at higher earnings multiples because of the liquidity of the shares and the likelihood of greater interest in the shares from a wider base of investors (e.g. institutions or foreign investors). Most of the comparable listed companies are larger than Drilling Services. As such, Drilling Services may command a lower earnings multiple.
- *Growth opportunities for the business:* A company which is expected to grow more strongly will tend to have a higher earnings multiple for a given level of earnings than one which is expected to experience slower growth. Drilling Services' FY2012 forecast normalised EBITDA growth of 14.6% is lower than the average FY2012 forecast EBITDA growth of the comparable listed companies of 33.6%. Despite the lower short term FY2012 forecast growth, Lucas management anticipates stronger growth in the long term due to the resumption of normal drilling activities as the wet weather abates, the existence of a drilling backlog, the award of a \$240 million Xstrata contract which commenced in March 2012, utilisation of an improved fleet following a recent upgrade and an improvement in the underlying business mix. As such, Drilling Services may command a higher earnings multiple in this respect.
- *Historical financial performance:* Drilling Services' FY2011 normalised historical EBITDA margin of 10.3% is significantly lower to that of the comparable listed companies' average FY2011 historical EBITDA margin of 15.3%. As such, Drilling Services may command a lower earnings multiple.

- *Diversity and quality of earnings:* The range of services provided by Macmahon and Downer can be considered much wider when compared to those provided by Drilling Services. Such a characteristic enables not only a maximisation of potential revenue streams, but also disperses the risk associated with revenues for the comparable companies. As such, Drilling Services may require a discount in its earnings multiple for this factor in comparison to the more diversified comparable companies.
- *Market position* - We understand from Lucas management that Drilling Services is amongst the largest drilling services providers to the coal and CSG industries. As such, Drilling Services may command a higher earnings multiple.
- *Level of gearing:* a company which is heavily geared will often trade on a lower earnings multiple than a company which is more conservatively geared, which reflects the greater risk attached to the earnings of a highly leveraged company. Lucas' gearing ratio is higher compared to those of the selected companies. As such, Drilling Services may command a lower earnings multiple in this respect.
- A premium for control as discussed above.

### 6.2.3 Drilling Services valuation summary

The enterprise value of Drilling Services is calculated as follows:

**Table 15: Drilling Services - Valuation Summary**

| (\$000 unless otherwise indicated)      | Ref   | Low Value     | High Value     |
|-----------------------------------------|-------|---------------|----------------|
| Maintainable EBITDA                     | 6.2.1 | 21,900        | 21,900         |
| EBITDA multiple (control basis) (times) | 6.2.2 | 4.5           | 5.0            |
| <b>Enterprise value (control basis)</b> |       | <b>98,550</b> | <b>109,500</b> |

Source: PKFCA analysis

### 6.2.4 Cross check

We have undertaken a cross check of our valuation of Drilling Services with reference to the following indicative non binding offers received in the 2011 calendar year prior to the Entitlement Offer being undertaken:

- *An indicative non binding offer for Drilling Services and BCI with an implied multiple of 4.4 times FY2012 forecast EBITDA* - the implied combined multiple for Drilling Services and BCI in relation to the indicative non binding offer is lower than our range of forecast EBITDA multiples for Drilling Services. We note that our selected multiples for BCI are lower than the implied transaction multiple.
- *Indicative non binding offers for Drilling Services which ranged from \$110 million to \$150 million* - our assessed enterprise value of Drilling Services, on a control basis is below the range of the indicative non binding offers.

We note that these non binding offers were indicative and pre any detailed financial due diligence enquiries. Hence, these indicative non binding offers could be significantly different to any final offers for the business which might have been subsequently made. We note that none of the above indicative offers proceeded to a formal offer, making any comparison to our valuation conclusion less relevant.

## 6.3 BCI

The valuation of BCI includes the valuation of:

- BCI.
- BCI's interest in the SSJV and the Marais-Lucas JV. Lucas' share of profits of these JVs are reported within BCI.

Together, the above have been referred to as "BCI".

BCI also has an interest in each of the Amec Spie JV and the Eastern Pipeline JV. We have been advised that these JVs are dormant.

In estimating the FME of BCI and selecting an appropriate earnings multiple range for BCI, we have used a similar approach as set out in Section 6.2 above for Drilling Services.

### 6.3.1 FME

Our estimate of FME for BCI has been determined after consideration of:

- The historical financial performance of BCI from FY2009 to FY2011 and YTD2012.
- The projected financial performance of BCI in FY2012.
- Discussions with the Independent Directors and management regarding the expected operational and financial performance of BCI for the foreseeable future, including expected growth and the nature of the BCI business going forward.
- The nature and quantum of any adjustments to normalise earnings. These may include adjustments for any acquisitions or divestments of part of the business, non-arm's length income or expenses, changes in accounting policies or unusual accounting treatment and adjustments for non recurring items.
- The growth prospects for BCI, including an analysis of industry trends and the effects of any expected changes in industry conditions that may impact on the sustainability of earnings.
- The risk profile of BCI.

Based on the above analysis, we have estimated the EBITDA FME for BCI to be \$14.9 million. We note the following:

- The estimated EBITDA FME is broadly consistent with the normalised FY2012 forecast which is based on eleven months of actual financial results (July 2011 to May 2012) and one month of forecast performance (June 2012).
- Lucas management advised that all of BCI's forecast revenue (June 2012) is supported by contracts.
- Lucas management anticipates an improvement in BCI's short term outlook from the anticipated award of a significant number of projects in the water sector, which is a result of the recent investment in skilled personnel.
- Lucas management advised that BCI continues to face tough competition and significant working capital requirements, which may be limiting factors to its long term growth prospects.
- Lucas management advised that poor historical performance was attributed to working capital constraints, collection of receivables and resolution of disputes on past projects and significant investment in skilled personnel to develop expertise in water and waste water management.

## 6.3.2 Capitalisation multiple

### *Share market trading multiples*

For details of share market trading multiples, refer to:

- Appendix 4 for a description of the listed companies which are comparable to BCI.
- Appendix 5 for a summary of the share market trading multiples of the listed companies which are broadly comparable to BCI. These trading multiples are based on market trading minority parcels of shares and represent values determined on a minority interest basis.

We note the following in relation to the selected broadly comparable listed companies:

- Forge Group (**Forge**) is considered to be the most comparable company as it offers both construction and engineering services, similar to BCI. In addition, Forge specialises in the mining, infrastructure and construction industries and has operations primarily focused in Australia.
- Downer, Clough Ltd (**Clough**) and UGL Ltd (**UGL**) also offer both construction and engineering services, however, these companies are significantly larger in operations and geographic spread compared to BCI.
- Macmahon, Brierty Ltd (**Brierty**), NRW Holdings Ltd (**NRW**), Seymour Whyte Ltd (**Seymour Whyte**) and Watpac Ltd (**Watpac**) primarily provide contracting and construction services only.
- Cardno Ltd (**Cardno**) and Worley Parsons Ltd (**Worley**) provide consulting engineering services only. Cardno and Worley do not engage extensively in construction. Accordingly, Cardno and Worley are more dependent on one line of business (being engineering consulting) and are not as diversified as BCI.
- We note that most of the broadly comparable listed companies have significantly larger operations in terms of revenue and EBITDA compared to BCI.

Our assessment of the broadly comparable listed companies produced the following range of EBITDA multiples, on a minority interest basis:

- Forecast FY2012 EBITDA multiples of 3.0 times to 9.1 times, excluding outliers.
- Average and median forecast FY2012 EBITDA multiples of 5.3 times and 4.3 times respectively, excluding outliers.

Whilst there are some key differences between BCI and the selected broadly comparable listed companies, the analysis provides an indicative range of EBITDA multiples that may be regarded as being relevant for the purpose of valuing BCI.

### *Transaction multiples*

We have undertaken research for transactions involving companies comparable to BCI. Set out in Appendix 6 is a summary of the transaction multiples observed. We note the following:

- The historic transaction EBITDA multiples (excluding outliers) ranged from 3.1 times to 13.2 times, with an average of 7.6 times.
- Acquisition premium data was available for only one transaction which had a 28.3% discount based on the 1-week VWAP. Due to insufficient information, we have placed limited reliance on this acquisition premium.

### *Premium for control*

We have applied a premium for control for BCI, as was undertaken for Drilling Services.

### **Selection of earnings multiple**

Based on our analysis of the comparable companies and transactions, we have selected a forecast EBITDA multiple (on a control basis) range applicable to the EBITDA FME of BCI of 4.0 times to 4.5 times. In selecting this EBITDA multiple range, we have considered:

- FY2012 forecast EBITDA multiples of the broadly comparable listed companies, as noted in Appendix 5.
- Transaction multiples, as noted in Appendix 6.
- *Size of the business*: As noted in Section 6.2.2 above, larger companies tend to be valued at higher earnings multiples as compared with smaller companies due to many factors. Most of the comparable listed companies are larger than BCI. As such, BCI may command a lower earnings multiple.
- *Growth opportunities for the business*: A company which is expected to grow more strongly will tend to have a higher earnings multiple for a given level of earnings than one which is expected to experience slower growth. Lucas management has indicated that BCI faces stiff competition and future long term growth of the BCI business may be limited due to working capital constraints. As such, BCI may command a lower earnings multiple in this respect.
- *Historical financial performance*: BCI's FY2011 normalised historical EBITDA margin of 2.6% is significantly lower than that of the comparable listed companies' average FY2011 historical EBITDA margin of 6.3%. As such, BCI may command a lower earnings multiple.
- *Diversity and quality of earnings*: The range of services provided by BCI is similar to most of its comparable companies. As such, BCI may command a comparable earnings multiple in this respect.
- *Market position* - the engineering and construction industries are very competitive and largely led by key global players. BCI faces stiff competition from both large and small players. BCI does not hold a dominant position in the market. As such, BCI may command a lower earnings multiple.
- *Level of gearing*: a company which is heavily geared will often trade on a lower earnings multiple than a company which is more conservatively geared, which reflects the greater risk attached to the earnings of a highly leveraged company. Lucas' gearing ratio is higher compared to that of the selected companies. As such, BCI may command a lower earnings multiple in this respect.
- A premium for control as discussed above.

### **6.3.3 BCI valuation summary**

The enterprise value of BCI is calculated as follows:

**Table 16: BCI - Valuation Summary**

| (\$000 unless otherwise indicated)      | Ref   | Low Value     | High Value    |
|-----------------------------------------|-------|---------------|---------------|
| Maintainable EBITDA                     | 6.3.1 | 14,900        | 14,900        |
| EBITDA multiple (control basis) (times) | 6.3.2 | 4.0           | 4.5           |
| <b>Enterprise value (control basis)</b> |       | <b>59,600</b> | <b>67,050</b> |

Source: PKFCA analysis

#### 6.3.4 Cross check

We have undertaken a cross check of our valuation of BCI with reference to an indicative non binding offer for Drilling Services and BCI with an implied combined multiple of 4.4 times FY2012 forecast EBITDA (refer to Section 6.2.4). The implied multiple in relation to the indicative non binding offer is at the high end of our range of forecast EBITDA multiple.

We note that the non binding offer was indicative and pre any detailed financial due diligence enquiries. Hence the indicative non binding offer could be significantly different to any final offer for the business which might have been subsequently made. We note that the above indicative non binding offer did not proceed to a formal offer, making any comparison to our valuation conclusion less relevant.

### 6.4 Capitalised Corporate Overheads

#### 6.4.1 Corporate overheads

Lucas incurs ongoing corporate costs which have not been included in the value of business units or divisions and investments discussed above. These costs are associated with maintaining the head office premises including rent, the executive management teams and corporate administration. Therefore, an allowance has been made to account for these costs which would be incurred on the basis that the business would continue operating as a going concern, in accordance with the basis of valuation adopted.

Based on discussions with management, we have estimated ongoing corporate costs necessary to manage the Lucas business. The estimate of corporate overheads was based on the FY2012 forecast corporate overheads, after adjusting for non recurring one-off matters as discussed in Section 3.5.3.

We have estimated the future ongoing corporate overhead costs to be approximately \$5.5 million per annum based on current corporate overhead requirements, discussions with Lucas management and our understanding that such overheads would normally be required for the Lucas Group to operate as a listed company.

#### 6.4.2 Capitalisation multiple

We have capitalised the corporate overheads of Lucas using a capitalisation of earnings methodology and a multiple range of between 4.3 times and 4.8 times. This capitalisation multiple is based on the weighted average EBITDA multiples of Drilling Services and BCI.

#### 6.4.3 Capitalised corporate overheads valuation summary

Our assessed value of the corporate overheads is set out below:

**Table 17: Corporate Overheads - Valuation Summary**

| (\$000s unless otherwise indicated)    | Ref.  | Low Value       | High Value      |
|----------------------------------------|-------|-----------------|-----------------|
| Corporate overheads                    | 6.4.1 | (5,500)         | (5,500)         |
| Capitalisation multiple (times)        | 6.4.2 | 4.8             | 4.3             |
| <b>Capitalised corporate overheads</b> |       | <b>(26,400)</b> | <b>(23,650)</b> |

Source: PKFCA analysis

## 6.5 Net Debt

We have calculated net debt as at 31 May 2012 (latest available management accounts) to be as follows:

**Table 18: Net Debt**

| (\$000s unless otherwise indicated) | Ref          | Low and High Values |
|-------------------------------------|--------------|---------------------|
| Interest bearing liabilities        | 3.6, Table 9 | (128,481)           |
| Tax liabilities                     | 3.6          | (32,692)            |
| Overdraft                           | 3.6          | (4,011)             |
| Marais-Lucas JV's debt              |              | (260)               |
| <b>Net debt</b>                     |              | <b>(165,444)</b>    |

**Sources:** Lucas management; PKFCA analysis

**Note:** The above may include rounding differences.

### *Interest bearing liabilities*

As at 31 May 2012, interest bearing liabilities (bank debt, PAYG withholding and finance leases) totalled \$128.5 million. We understand that these interest bearing liabilities reflect interest rates, terms and conditions which are comparable to those obtainable in current debt markets and therefore no adjustment to their book value is required to determine their fair value.

### *Tax liabilities*

As at 31 May 2012, Lucas owed the ATO \$32.7 million in relation to taxation for prior years. Lucas is currently in discussions with the ATO in relation to repayment terms.

### *Overdraft*

As at 31 May 2012, Lucas had a bank overdraft of \$4.0 million.

### *Marais-Lucas JV's debt*

As at 31 May 2012, the Marais-Lucas JV had external interest bearing liabilities of \$519,000. We have included 50% of this external debt in our net debt calculation, consistent with Lucas' 50% interest in the Marais-Lucas JV.

The Marais-Lucas JV also has non interest bearing inter company borrowings from its JV partners as at the Assessment Date. We have not included these borrowings in our net debt calculation as the Marais-Lucas JV was established to explore opportunities in Australia and New Zealand and Lucas management has represented that the JV partners are not contemplating terminating this JV.

We note that the earnings of the Marais-Lucas JV have been captured in our valuation of BCI.

## 6.6 Capital Expenditure Requirements

Lucas management advised that it is unlikely that significant capital expenditure (other than capital calls for the Investments and Exploration Expenditure) will be required in the short to medium term as Lucas has already invested approximately \$25.2 million in plant and equipment in the 18 months between 1 July 2010 and 31 December 2011. Lucas management indicated that in the short term, Lucas' plant and equipment requirements will be focused primarily on maintenance expenditure, rather than capacity growth.

Based on the above, we have not allowed for additional capital expenditure requirements in our valuation.

## 6.7 Transaction Costs

For the purposes of the valuation, we have considered the costs associated with the Proposed Transactions. Lucas management has advised that the estimated transaction costs to be incurred by Lucas will be approximately \$300,000. The full amount has not yet been incurred as at Assessment Date and has therefore been included as a cost.

## 6.8 Surplus Assets

Surplus assets are assets which form part of a business entity or company but do not contribute to the earnings or cash flow generation capacity of that business or company. These are assets which, if sold, would not impact on the revenue or profit generating capacity of the active business undertaking.

Assets and liabilities which do not form part of the core business activity must be valued separately. Such assets are considered to be 'surplus' to the main business undertaking, but nevertheless represent values which should be reflected in the overall value of the company as they could be sold separately and the cash added to the value of the business units or divisions.

### *Asset classified as held for sale*

Lucas has developed a strata title commercial office building at 257 Clarence Street, Sydney. Lucas had ownership of levels 5, 7, 8, 10 and 11 as at 30 April 2012. This commercial office building is currently held for sale and is considered as a surplus asset to Lucas.

CBRE completed a valuation of this building on a per floor basis as at 3 August 2011. CBRE has provided PKFCA with consent to refer to but not rely on their valuation report.

In May 2012, Lucas exchanged contracts on level 10 at a sale price that is broadly comparable to the 'as is' value ascribed by the CBRE report. Accordingly, we note that the value as at the Assessment Date may be broadly comparable to the valuation as at 3 August 2011 adopted in the CBRE report.

The CBRE report indicated that levels 5, 7, 8 and 11 have an 'as is' value of \$5.85 million.

We note that CBRE can be considered as a reputable, established organisation, independent from Lucas that did not have any interest in the properties based on the pecuniary interest disclosures in the property valuation report:

- The valuation basis adopted was "market value" as defined by the International Valuations Standards Committee and endorsed by the Australian Property Institute:  
*"Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing where the parties had acted knowledgeably, prudently and without compulsion."*
- The following approaches, which can be considered as normal market practice were adopted:
  - The direct comparison approach on the basis of a rate per square metre of strata area was adopted as a primary approach.
  - The capitalisation approach was adopted as a secondary approach. The capitalisation approach considers an investment approach whereby the estimated total income is adjusted to reflect anticipated operating costs and potential future income from existing vacancies to produce a net income on a fully leased basis. The adopted fully leased net income was capitalised at an appropriate capitalisation rate.

Our review included a general assessment of the methodologies and key underlying assumptions adopted by CBRE.

Based on the above, nothing came to our attention that would suggest that the independent valuation was not a reasonable assessment of the market value of the investment property.

We calculate the value of this asset at the Assessment Date to be as follows:

**Table 19: Asset Classified as Held for Sale**

|                         | \$000        | Notes                                                                                                                                                                                                                                                                 |
|-------------------------|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Levels 5,7,8 and 11     | 5,850        | Consistent with the CBRE report.                                                                                                                                                                                                                                      |
| Level 10                | 1,525        | Based on the sale price as advised by Lucas management.<br>Level 10 was sold in May 2012 with settlement occurring in September 2012. As the cash proceeds were not received prior to the Assessment Date, we have included the value of level 10 as a surplus asset. |
| Estimated selling costs | (172)        | Lucas management advised that selling costs are approximately 2% of sale price plus \$5,000 legal cost per floor.                                                                                                                                                     |
| <b>Total</b>            | <b>7,203</b> |                                                                                                                                                                                                                                                                       |

**Sources:** CBRE report; Lucas management; PKFCA analysis

#### Other

We have given consideration to the following assets and have valued them at \$nil due to the reasons set out below:

- *Contractual right to 10% net profit interest in Monument Prospects* - this investment, which cost \$87.8 million, was fully impaired at 30 June 2009 due to insufficient drilling data to assess the recoverability of the investment. Lucas management advised that Lucas does not have control over the timing and extent of drilling activities as these are performed under the direction of the site's operator. Given the lack of control, it is unknown if or when further exploration activities will be undertaken and when any value may be realised from this investment.
- *Beneficial interest in Canning Basin* - the cost of this investment (approximately \$86,000) was fully impaired in June 2010. The grant of this permit is subject to the Native Title Act 1993. Lucas is currently in negotiations with the traditional land owners in relation to access and future exploration.
- *Amex Spie Capag Lucas* - this is a dormant JV with no contribution to operating results in FY2011. Lucas management has advised that this JV is expected to remain dormant with no activity forecast in the short term.
- *Eastern Pipeline JV* - this JV incurred a loss of \$13,000 in FY2011. Similar to the above, Lucas management has advised that this JV is expected to remain dormant with no activity forecast in the short term.

## 6.9 Investments and Exploration Expenditure

### 6.9.1 Historical cost

As discussed in Section 5 above, we have elected to value the Investments and Exploration Expenditure using historical cost as our primary methodology. Historical cost does not reflect any element of the future potential earnings of an asset or business. In this instance, due to the non-availability of information, we have been unable to determine a value of the Investments and Exploration Expenditure using forecast earnings.

There is a risk that, due to the uncertainty in relation to the current position or future position of the UK Government regarding fracking, that the Investments and Exploration Expenditure could be worth \$nil. This could be the case if the UK Government disallows any fracking to occur in the UK in the future.

Whilst fracking is currently allowed in the UK, we have been advised by Management that no shale gas explorers are currently undertaking fracking for exploration purposes prior to the release of the final DECC findings. If DECC releases its final findings following its six week consultation process and supports the UK Government's current position to allow fracking, the value of the Investments and Exploration Expenditure could be very significant in the future. This may be recognised by the market in its pricing of the Shares.

In addition, as noted in the Notice of Meeting, from time to time approaches are made to Cuadrilla or Cuadrilla shareholders regarding a possible involvement in the Bowland shale prospect. Having regard to the considerable financial, management, political, regulatory and technical complexities involved in and required for the development of this resource, Cuadrilla has appointed advisors and consultants to assist in the formulation of a conceptual development plan, to advise on the options available to Cuadrilla and to hold discussions with interested parties. To date, this has progressed to the stage of management presentations and the establishment of a virtual data room. However, it must be emphasised that this exercise may or may not produce an outcome which will alter Lucas' budgeted commitments in relation to the next stage of development of the Bowland shale prospect or any other assessments of value. The Notice of Meeting also states that there are uncertainties over whether the fracking will recommence and whether appropriate proposals will come forward from third parties which can be accepted by Cuadrilla. Therefore, this exercise may or may not have an impact on the value of the Investments and Exploration Expenditure.

Due to all of the above commentary readers are urged to consider the potential for significantly higher or lower values for the Investments and Exploration Expenditure than are provided in this IER.

Lucas management confirmed that Lucas performed impairment tests on the Investments and Exploration Expenditure as at 30 June 2011 in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources* and AASB 136 *Impairment of Assets*. At the time of the impairment tests, there were no indicators of impairment, therefore the historical cost of the Investments and Exploration Expenditure was not impaired.

Lucas management also advised that the increase in historical cost of the Investments and Exploration Expenditure between 1 July 2011 and 31 May 2012 is anticipated to be value accretive and result from additional cash injections into the Investments and Exploration Expenditure which are partially offset by foreign exchange gains and losses and Lucas' share of net profit or losses from the Investments and Exploration Expenditure.

In addition, Lucas management has also represented that as at 31 May 2012 there were no indicators of impairment in relation to the Investments and Exploration Expenditure.

On the above basis, we have adopted the Investments and Exploration Expenditure historical cost as at 31 May 2012 (latest available management accounts) as their fair value.

Details of the Investments and Exploration Expenditure historical cost is as follows:

**Table 20: Investments and Exploration Expenditure – Historical Cost**

| \$000s                                                              | Cuadrilla     | Bowland and Bolney | Total         | Notes                                                                 |
|---------------------------------------------------------------------|---------------|--------------------|---------------|-----------------------------------------------------------------------|
| Historical cost as at 30 June 2011                                  | 52,268        | 7,946              | 60,214        | Consistent with Lucas' annual report (audited financial statements)   |
| Net additional investments between 1 July 2011 and 31 December 2011 | 12,587        | 5,022              | 17,610        |                                                                       |
| Historical cost as at 31 December 2011                              | 64,855        | 12,968             | 77,823        | Consistent with Lucas' interim report (reviewed financial statements) |
| Net additional investments between 1 January 2012 and 31 May 2012   | 9,040         | 1,397              | 10,437        |                                                                       |
| <b>Historical cost as at 31 May 2012</b>                            | <b>73,895</b> | <b>14,365</b>      | <b>88,260</b> | <b>Low and high values</b>                                            |

**Sources:** Lucas management; Lucas' annual report; Lucas' interim report; FY2012 model

## 6.9.2 Cross check - residual value

To undertake the residual value cross check we have calculated a market controlling interest share price by applying a premium for control of 25% to 30% to the historical share price of Lucas. This is discussed further in Section 6.11. The results of our calculation are provided in the table below. We note that this controlling values does not represent our assessment of the fair value of a Share as calculated in this section.

Due to the difficulty in valuing the Investments and Exploration Expenditure using a geological value and/or an income approach, we considered a cross check to assess the reasonableness of the value attributed to these assets by calculating the residual value that could be attributable to the Investments and Exploration Expenditure. Our calculation is summarised below:

**Table 21: Investments and Exploration Expenditure - Residual Value**

|                                                                                                            | Ref   | Low Value      | High Value     |
|------------------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| Share price (control basis) (\$/Share)                                                                     | 6.11  | 1.27           | 1.33           |
| Number of ordinary Shares                                                                                  | 6.10  | 103,027,291    | 103,027,291    |
| Implied equity value (control basis) (\$000s)                                                              |       | 130,710        | 137,268        |
| Less: equity value (control basis) excluding the Investments and Exploration Expenditure (\$000s) (Note 1) | 6.1   | 26,791         | 5,641          |
| <b>Residual value of the Investments and Exploration Expenditure (\$000s)</b>                              |       | <b>157,502</b> | <b>142,910</b> |
| <i>Compared to:</i>                                                                                        |       |                |                |
| <b>Assessed value of the Investments and Exploration Expenditure (\$000s)</b>                              | 6.9.1 | <b>88,260</b>  | <b>88,260</b>  |

**Source:** PKFCA analysis

**Notes:**

- 1: For the purposes of this cross check, we have assumed that the Investments and Exploration Expenditure are ungeared and all the debt funding relates to BCI and Drilling Services.
- 2: The above may include rounding differences.

Based on the above the residual value calculated for the Investments and Exploration Expenditure ranges from \$142.9 million to \$157.5 million. We note that this range is higher than the assessed value of the Investments and Exploration Expenditure of \$88.3 million.

As discussed previously there is the opportunity for significant value accretion from the Investments and Exploration Expenditure if fracking is resumed and development and production can be undertaken for any of the Investments and Exploration Expenditure. Although we are unable to substantiate a value in excess of the historical cost for these prospects, the market has placed some additional value on these assets. In addition, the sale of a portion of the Investments and Exploration Expenditure would provide value to existing Shareholders and would place a market value on the Investments and Exploration Expenditure that could be used to assess an appropriate value and hence Share price. Until this time, we cannot substantiate, but recognise that there is a value in excess of its historical cost placed by the market on these assets.

On the basis of the above discussion, whilst we recognise that our value may not reflect the value of the Investments and Exploration Expenditure placed by the market, it is the only substantiable value we can provide for the purposes of this IER.

Refer to Section 6.1 for a summary of the valuation calculations.

## 6.10 Number of Shares

For the purposes of our valuation, the total number of issued Shares, on an undiluted basis, before the Proposed Transactions is 103,027,291.

**Table 22: Number of Shares**

|                                 | Ref        | Assumed Exercised | No of Securities   |
|---------------------------------|------------|-------------------|--------------------|
| <b>Existing ordinary Shares</b> | <b>3.7</b> |                   | <b>103,027,291</b> |
| <b>Options and rights</b>       |            |                   |                    |
| Gleneagle                       | 3.7        | No                | -                  |
| Goldman Sachs                   | 3.7        | No                | -                  |
| AC - Tranche 1                  | 3.7        | No                | -                  |
| AC - Tranche 2                  | 3.7        | No                | -                  |
| ISR                             | 3.7        | No                | -                  |
| Andrew Lukas                    | 3.7        | No                | -                  |
| <b>Number of Shares</b>         |            |                   | <b>103,027,291</b> |

**Sources:** Lucas management; PKFCA analysis

**Note:** A portion of the Kerogen options will be exercised as part of the Placement Options Exercise. As such, these have not been included in the above.

We have assumed that the options and rights set out above are unlikely to be exercised in the short term for the following reasons:

- *Significantly 'out-of-the-money'* - this includes Goldman Sachs options with an exercise price of \$2.13 per option and expiry date of 27 December 2016 and AC's Tranche 2 rights, ISR's rights and Andrew Lukas' rights with an exercise price of \$2.11 per option and an expiry date of 23 November 2012.
- *Not on more favourable terms compared to the Proposed Transactions* - we note that the exercise price of the Gleneagle options range between \$1.35 and \$1.70 per option depending on share price performance. Given the option terms are not on more favourable terms compared to the Proposed Transactions, we have assumed that these option holders would likely acquire Shares on market in the first instance, before exercising their options.

Refer to Section 6.1 for a summary of the value per Share calculations.

## 6.11 Lucas Valuation Cross Check

To provide additional evidence of the fair value of the Shares, we have assessed the reasonableness of the valuation results of the primary valuation method by using a valuation cross check, being the share trading price of Lucas Shares, as set out below:

**Table 23: Lucas - Share Trading Method**

|                                                     |                 | Ref | Low Value   | High Value  |
|-----------------------------------------------------|-----------------|-----|-------------|-------------|
| Low value: 1-month VWAP to Assessment Date          | \$/Share        | 3.8 | 1.01        | 1.02        |
| High value: 15-day VWAP to Assessment Date          |                 |     |             |             |
| Add: premium for control                            |                 |     | 25%         | 30%         |
| <b>Share trading price (control basis) (Note 1)</b> | <b>\$/Share</b> |     | <b>1.27</b> | <b>1.33</b> |

**Sources:** Bloomberg; PKFCA analysis

**Notes:**

**1:** Not our assessed controlling fair value per Share.

**2:** The above may include rounding differences.

### VWAP

Based on our review of the Shares (refer to Section 3.8), we note that Lucas has moderate liquidity and VWAP prices are observed to be on a downward trend. As such, a shorter term 15 day and 1 month VWAP was preferred over the 3 month VWAP. The VWAP represents share prices on a minority interest basis.

### Premium for control

Consistent with our assessment in Sections 6.2.2 and 6.3.2, we have applied a premium for control of between 25% and 30% to determine the share price on a control basis.

### Conclusion

The above analysis of the Share trading prices, after allowing for a control premium indicates a range of between \$1.27 per Share and \$1.33 per Share. The Consideration of \$1.35 per Share is higher than this range.

We note that the range of Share trading prices after allowing for a control premium is higher than our assessed controlling valuation range of \$0.60 per Share to \$0.80 per Share, as set out in Section 6.1 using our primary valuation methodology. In this regard, we note the following factors:

- The Share trading price may include a premium in anticipation that the Investments and Exploration Expenditure will be successful in the future and will have a value that is greater than its historical cost.
- The Lucas shares have moderate liquidity and may not represent the fair market value.

On this basis, our assessed valuation range of \$0.60 per Share to \$0.80 per Share does not appear unreasonable.

## 7 EVALUATION OF THE PROPOSED TRANSACTIONS

### 7.1 Fairness Assessment

We have compared the Consideration to our assessed fair value per Share on a control basis as at the Assessment Date. Our fairness assessment as at the Assessment Date is set out below:

**Table 24: Fairness Assessment**

| (\$/Share)                           | Ref    | Low Value | High Value |
|--------------------------------------|--------|-----------|------------|
| Consideration (\$ per Share)         | A      | 1.35      | 1.35       |
| Fair value of a Share (\$ per Share) | 6.1, B | 0.60      | 0.80       |

**Source:** PKFCA analysis

Based on the above which assumes that the Investments and Exploration Expenditure historical cost represents fair value, the Consideration is higher than the assessed fair value, on a control basis per Share. Therefore, in our opinion:

- The Kerogen Placement is fair the Non-Associated Shareholders.
- The Placement Options Exercise is fair to the Non-Associated Shareholders.
- The Inveraray Placement is fair to the Non-Associated Shareholders.
- The grant of the Campbell Options is fair the Non-Associated Shareholders.

### 7.2 Commercial and Qualitative Factors

RG 111 provides that an offer to acquire securities is considered to be "reasonable", if it is "fair". On this basis, as we have concluded that the Proposed Transactions are "fair", the Proposed Transactions are also considered to be "reasonable".

In assessing the Proposed Transactions, we have considered other commercial and qualitative factors relating to the Proposed Transactions. These factors are summarised below. We note that individual Non-Associated Shareholders may interpret these factors differently depending on their individual circumstances.

#### ***Potential value change in Investments and Exploration Expenditure***

As provided in Section 5 previously, we have valued the Investments and Exploration Expenditure using their historical cost. There is a high probability that the value of the Investments and Exploration Expenditure could be significantly less than or greater than our assessed value.

If the value of the Investments and Exploration Expenditure was less than our assessed value this would reduce our assessed value of Shares which would not change our opinion that the Proposed Transactions are 'fair'.

If the value of the Investments and Exploration Expenditure was greater than our assessed value this may have the impact of increasing the assessed value of a Share to be greater than \$1.35 which would, inter alia, result in a conclusion that the Proposed Transactions were 'not fair'. Even if we concluded that the Proposed Transactions were 'not fair' we would still conclude that they would be 'reasonable' as discussed below, particularly that if the Proposed Transactions did not proceed, Lucas may not have the ability to meet its debts as and when they fall due.

Therefore, whatever value we place on the Investments and Exploration Expenditure, regardless of whether we would assess the value to be either 'fair' or 'not fair' our opinion in all cases would be that the Proposed Transactions are 'reasonable' to Non-Associated Shareholders.

In addition, in the event that the Share price increased to be above the Consideration of \$1.35 per Share the Non-Associated Shareholders would share in this increase in value.

***If the Proposed Transactions are not approved, Lucas may not have the ability to meet its debts as and when they fall due***

Lucas is currently in discussions with the ATO in relation to tax repayments, has bridging loans with Kerogen (Advance Facilities) and is liable for ongoing capital calls from the Investments and Exploration Expenditure. If the Proposed Transactions are not approved, Lucas will not raise \$40.0 million from the Proposed Transactions and may need to seek funding from either equity raising, loan funding or realise its assets at amounts that may differ from those stated in the balance sheet.

***Further capital initiatives may be required***

If the Proposed Transactions are approved and implemented, Lucas will continue to have a working capital deficiency and further capital management initiatives or the possible sale of assets may be required.

***Absence of a superior alternative***

The Directors have assessed a number of options to obtain additional capital to address Lucas' liquidity issues and restore Shareholder value, including undertaking an Entitlement Offer which was not fully subscribed. The Directors have indicated that due to the state of Lucas' current balance sheet further bank funding may not be possible and if it were, it would likely be undertaken at a higher cost to current bank funding and is therefore not a preferred option.

The Directors have also considered asset sales. However, the Directors have indicated that in current market conditions, it may be difficult to attract bids of an acceptable value.

The Independent Directors have indicated that the Proposed Transactions are considered to be a superior means of addressing Lucas' liquidity issues and restoring Shareholder value than any of the other alternatives.

***Financial strength***

The Proposed Transactions will enable Lucas to recapitalise and potentially benefit from the following:

- Lower cost of capital.
- Improved flexibility of dividend payments (if any).
- Strengthen the balance sheet as Lucas intends to apply funds raised from the Proposed Transactions against amounts owed to the ATO and Kerogen's Advance Facilities.
- Improved working capital. An improvement in working capital may enable Lucas to take advantage of business opportunities.

***Opportunity to refocus on the business***

Approval of the Proposed Transactions will reduce short term funding issues and allow the Directors and management of Lucas to prioritise their focus on the operating business. This will enable Lucas management to pursue new business opportunities with the potential to increase Shareholder value.

### ***Certainty of fund raising***

Kerogen has committed to investing \$40.0 million by way of the Proposed Transactions, subject to the scale back to Inveraray and Third Party Investors if applicable. In the current economic climate this provides Lucas with certainty that the funds sought will be received.

### ***Benefits may not eventuate***

At this stage, the Independent Directors intend to maximise the potential financial benefits (including financial strength) as a result of the Proposed Transactions as set out in this IER. However, we note that unforeseeable circumstances may arise, as a result of which, the potential financial benefits may not eventuate.

### ***Minimise transaction costs***

If the Proposed Transactions are not approved, Lucas may be required to seek other funding alternatives in the short term to retire debt, strengthen the balance sheet and improve liquidity. Implementation of alternative funding strategies will incur additional transaction costs. By approving the Proposed Transactions, these additional transaction costs may not be required to be incurred.

### ***Support of the Independent Directors***

The Independent Directors have provided their support for the Proposed Transactions and have indicated that they unanimously recommend that Shareholders vote in favour of the Proposed Transactions.

### ***Continue to participate in the strong mining and energy outlook***

As discussed in Section 4, the Mining Services Industry is expected to improve over the next five years as world growth firms and demand for resources improves. Approval of the Proposed Transactions will enable Lucas to be better positioned to take advantage of the growth opportunities. Shareholders can participate and benefit from Lucas' growth opportunities.

### ***Increased influence by Kerogen and Inveraray, Andial and their associates***

After completion of the Kerogen Placement and Placement Options Exercise, Kerogen will have voting power in the range of 42.30% to 47.88% (dependent on the split of Shares acquired between the Proposed Transactions) in Lucas, an increase from its current voting power of 32.89%.

Similarly, if the Inveraray Placement occurs, prior to new Shares being issued as a result of the Placement Options Exercise, Inveraray, Andial and their associates may change their current shareholding of 17.20% to between 14.15% and 20.06% (dependent on the split of Shares acquired between the Proposed Transactions) in Lucas.

As a result, Kerogen and Inveraray, Andial and their associates may have an increased influence over the strategic direction of Lucas.

### ***Dilution of existing Shareholders' interest***

If the Proposed Transactions are approved, the Proposed Transactions will result in the issuance of 29,629,629 new Shares and a dilution of the voting power currently held by the Non-Associated Shareholders.

***Potential reduction in Share liquidity***

As Kerogen and Inveraray, Andial and their associates increase their shareholdings in Lucas through the Proposed Transactions, a closely held shareholder register may adversely impact the liquidity of Lucas' Shares.

***One off transaction costs***

The Proposed Transactions will incur approximately \$0.3 million in transaction costs, including advisers' fees. This cash outflow is a sunk cost for Lucas.

### **7.3 Overall Opinion**

In our opinion:

- **The Kerogen Placement is fair and reasonable to the Non-Associated Shareholders.**
- **The Placement Options Exercise is fair and reasonable to the Non-Associated Shareholders.**
- **The Inveraray Placement is fair and reasonable to the Non-Associated Shareholders.**
- **The grant of the Campbell Options is fair and reasonable to the Non-Associated Shareholders.**

## **8 QUALIFICATIONS AND DECLARATIONS**

### **8.1 Qualifications**

PKFCA is the licensed corporate advisory arm of PKF East Coast Practice, Chartered Accountants and Business Advisers. PKFCA provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert reports.

Mr Bruce Gordon BCom, FCA, is a Director of PKFCA. Mr Gordon has over 30 years experience in a number of specialist corporate advisory activities including valuations for various purposes, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, preparation of information memoranda and other corporate investigations.

Mr Dan Taylor BCom, FCA, is a Director of PKFCA. Mr Taylor has over 16 years of corporate finance experience. He has had experience in the areas of preparation of independent expert's reports, business valuations, valuation of intangible assets, employee options, purchase price allocations and due diligence reviews.

Based on their experience, Messrs Gordon and Taylor are considered to have the appropriate expertise and professional qualifications to provide the advice offered.

### **8.2 Independence**

We are unaware of any matter or circumstance that would preclude us from preparing this IER on the grounds of independence under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

We were not involved in advising on, negotiating, setting, or otherwise acting in any capacity for Lucas in relation to the Proposed Transactions, other than the preparation of this IER. Further, we have not held and, at the date of this IER, does not hold any shareholding in, or other relationship with Lucas that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transactions.

We consider ourselves to be independent in terms of RG 112, issued by ASIC. Neither PKFCA, nor its owner practice, PKF East Coast Partnership, has acted in any capacity for Lucas with regards to any matter in the past.

We will receive a fee based on the time spent in the preparation of this IER in the amount of approximately \$155,000, (plus GST and disbursements). We will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, do not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion in relation to the Proposed Transactions.

Three drafts of this IER were provided to the Independent Directors of Lucas for review of factual accuracy. Certain changes were made to the IER as a result of the circulation of the draft IERs. However, no changes were made to the methodology, conclusions or recommendations made to the Non-Associated Shareholders.

### **8.3 Disclaimer**

This IER has been prepared at the request of the Independent Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Independent Directors and Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Independent Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Independent Directors, and Shareholders in relation to this IER. The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by the Independent Directors, executives and management of Lucas.

## APPENDIX 1 GLOSSARY

**Table 25: Glossary**

| Term                                  | Definition                                                                                                                                                      |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Act                                   | Corporations Act 2001 ( <i>Cth</i> )                                                                                                                            |
| AC                                    | Mr Allan Campbell                                                                                                                                               |
| Advance Facilities                    | Additional Facility Agreements with Kerogen under which Kerogen advanced additional loans to Lucas                                                              |
| Amec Spie JV                          | Amec Spie Capag Lucas (JV)                                                                                                                                      |
| Andial                                | Andial Holdings Pty Limited (an entity controlled by Mr Allan Campbell who is the Chairman and CEO of Lucas)                                                    |
| ASIC                                  | Australian Securities and Investments Commission                                                                                                                |
| Assessment Date                       | 24 July 2012                                                                                                                                                    |
| Asset Services                        | Lucas' asset services business unit                                                                                                                             |
| ASX                                   | Australian Securities Exchange                                                                                                                                  |
| ATO                                   | Australian Taxation Office                                                                                                                                      |
| Ausdrill                              | Ausdrill Ltd                                                                                                                                                    |
| BCI                                   | Lucas' building, construction and infrastructure business unit                                                                                                  |
| bcm                                   | billion cubic metres                                                                                                                                            |
| Boart Longyear                        | Boart Longyear Ltd                                                                                                                                              |
| Brierty                               | Brierty Ltd                                                                                                                                                     |
| Campbell Options                      | The issue of 3,750,000 options to Mr Allan Campbell, the Chairman and CEO (or his nominee) of Lucas                                                             |
| Cardno                                | Cardno Ltd                                                                                                                                                      |
| CBM                                   | Coal bed methane                                                                                                                                                |
| CBRE                                  | CBRE Valuations Pty Ltd                                                                                                                                         |
| CFME                                  | Capitalisation of future maintainable earnings                                                                                                                  |
| Clough                                | Clough Ltd                                                                                                                                                      |
| Company                               | AJ Lucas Group Limited                                                                                                                                          |
| Consideration                         | \$1.35 per Share                                                                                                                                                |
| CSG                                   | Coal seam gas                                                                                                                                                   |
| Cuadrilla                             | Cuadrilla Resources Holdings Limited                                                                                                                            |
| Dart                                  | Dart Energy Limited                                                                                                                                             |
| DCF                                   | Discounted cash flow                                                                                                                                            |
| DECC                                  | British Department of Energy and Climate Change                                                                                                                 |
| Directors                             | Directors of Lucas                                                                                                                                              |
| Downer                                | Downer EDI Ltd                                                                                                                                                  |
| Drill Torque                          | Drill Torque Ltd                                                                                                                                                |
| Drilling Services                     | Lucas' drilling services business unit                                                                                                                          |
| Eastern Pipeline JV                   | Eastern Pipeline Alliance (JV)                                                                                                                                  |
| EBITDA                                | Earnings before interest, tax, depreciation and amortisation                                                                                                    |
| EGM                                   | Extraordinary general meeting                                                                                                                                   |
| Engineering and Construction Industry | Engineering and construction industry                                                                                                                           |
| Entitlement Offer                     | In February 2012, Lucas completed a 1 for 2 non-renounceable pro rata rights issue for new ordinary Shares at an offer price of \$1.35 per new fully paid Share |
| Explanatory Statement                 | Explanatory statement to be issued in relation to the Proposed Transactions                                                                                     |
| FME                                   | Future maintainable earnings                                                                                                                                    |
| Forge                                 | Forge Group                                                                                                                                                     |
| FOS                                   | Financial Ombudsman Service Limited                                                                                                                             |
| Fracking                              | Hydraulic fracturing process                                                                                                                                    |

| Term                                    | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| FSG                                     | Financial Services Guide                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| FY20XX                                  | Financial year ended 30 June 20XX                                                                                                                                                                                                                                                                                                                                                                                                                          |
| GDP                                     | Gross domestic product                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Grant Date                              | As defined in Section 2 above.                                                                                                                                                                                                                                                                                                                                                                                                                             |
| IER                                     | This Independent Expert's Report                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Independent Directors                   | Independent directors of Lucas                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Inveraray                               | Inveraray Capital Pty Limited (an entity controlled by Mr Allan Campbell who is the Chairman and CEO of Lucas)                                                                                                                                                                                                                                                                                                                                             |
| Inveraray Placement                     | The right for Inveraray to subscribe for up to 7,407,407 of the Shares offered in the Kerogen Placement to raise up to \$10.0 million                                                                                                                                                                                                                                                                                                                      |
| Inveraray Subscription Agreement        | Subscription agreement between Lucas and Inveraray in relation to the Inveraray Placement                                                                                                                                                                                                                                                                                                                                                                  |
| Investments and Exploration Expenditure | <p>We have valued the following items recorded in the balance sheet as:</p> <ul style="list-style-type: none"> <li>• Cuadrilla - investment in associate.</li> <li>• Bowland and Bolney Basins - exploration assets,</li> </ul> <p>together and throughout this IER. The various interest held in these projects, whether they be JVs, associates or any other form of investment are defined in this IER as "Investments and Exploration Expenditure"</p> |
| ISR                                     | Ian Stuart-Robertson                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| JV                                      | Joint ventures                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Kerogen                                 | Kerogen Investments No 1 (HK) Limited                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Kerogen Placement                       | Proposed private placement with Kerogen to subscribe for 22,222,222 Shares at an issue price of \$1.35 per Share to raise \$30.0 million, subject to the placement being scaled back by a maximum of \$10.0 million                                                                                                                                                                                                                                        |
| Kerogen Subscription Agreement          | Subscription agreement between Lucas and Kerogen in relation to the Kerogen Placement                                                                                                                                                                                                                                                                                                                                                                      |
| Licence                                 | PKFCA holds an Australian Financial Services Licence (Licence No: 247420)                                                                                                                                                                                                                                                                                                                                                                                  |
| LR 7.1                                  | ASX Listing Rule 7.1                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| LR 10.11                                | ASX Listing Rule 10.11                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Lucas                                   | AJ Lucas Group Limited                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Lucas Group                             | Lucas and all its controlled entities                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Maca                                    | Maca Ltd                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Macmahon                                | Macmahon Holdings Ltd                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Marais-Lucas JV                         | Marais-Lucas Technologies Pty Ltd (JV)                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Mining Services Industry                | Mining services industry                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Mitchell Drilling                       | Mitchell Drilling Corporation Pty Ltd                                                                                                                                                                                                                                                                                                                                                                                                                      |
| MRRT                                    | Mineral Resource Rent Tax                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Non-Associated Shareholders             | Shareholders of Lucas that are not associated with the Proposed Transactions                                                                                                                                                                                                                                                                                                                                                                               |
| Notice of Meeting                       | Notice of Extraordinary General Meeting to be issued in relation to the Proposed Transactions                                                                                                                                                                                                                                                                                                                                                              |
| n/a                                     | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| NPAT                                    | Net profit after tax                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| NPBT                                    | Net profit before tax                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| NPV                                     | Net present value                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| NRW                                     | NRW Holdings Ltd                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| PEM                                     | Prospectivity exploration multiplier                                                                                                                                                                                                                                                                                                                                                                                                                       |
| PKFCA, us or we                         | PKF Corporate Advisory (East Coast) Pty Limited                                                                                                                                                                                                                                                                                                                                                                                                            |
| Placement Options                       | 7,407,407 options in relation to the Placement Options Exercise                                                                                                                                                                                                                                                                                                                                                                                            |
| Placement Options Exercise              | Kerogen will exercise the Placement Options at the Placement Options Exercise Price to raise \$10.0 million                                                                                                                                                                                                                                                                                                                                                |
| Placement Options Exercise Price        | An exercise price which is the lower of \$1.70 per option and 120% of the 5 day VWAP, subject to a floor of \$1.35 per option                                                                                                                                                                                                                                                                                                                              |

| Term                   | Definition                                                                                                                          |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Proposed Transactions  | The Kerogen Placement, Placement Options Exercise, Inveraray Placement, Third Party Placements and Campbell Options                 |
| Q1 / Q2 / Q3 / Q4      | Quarter one, quarter two, quarter three and quarter four                                                                            |
| RG                     | Regulatory Guideline, as issued by ASIC                                                                                             |
| RG 74                  | Regulatory Guide 74 <i>Acquisitions approved by members</i>                                                                         |
| RG111                  | Regulatory Guide 111 <i>Content of expert reports</i>                                                                               |
| RG 112                 | Regulatory Guide 112 <i>Independence of experts</i>                                                                                 |
| Section 210            | Section 210 of the Act                                                                                                              |
| Section 611            | Section 611 of the Act                                                                                                              |
| Seymour Whyte          | Seymour Whyte Ltd                                                                                                                   |
| Shale Gas Industry     | Shale gas industry                                                                                                                  |
| Share                  | Lucas share                                                                                                                         |
| Shareholder            | Lucas shareholder                                                                                                                   |
| SSJV                   | Southern SeaWater Alliance (JV)                                                                                                     |
| SSJV 1                 | Southern SeaWater Alliance JV 1                                                                                                     |
| SSJV 2                 | Southern SeaWater Alliance JV 2                                                                                                     |
| Swick                  | Swick Mining Services Ltd                                                                                                           |
| tcf                    | Trillion cubic feet                                                                                                                 |
| tcm                    | Trillion cubic metres                                                                                                               |
| Third Party Investors  | Up to two third party investors who are approved by Kerogen (in its absolute discretion)                                            |
| Third Party Placements | Third Party Investors who subscribe for up to 3,703,704 of the Shares offered in the Kerogen Placement to raise up to \$5.0 million |
| Trading Period 1       | Twelve months until the last actual trade before the suspension of trading on the ASX (being 20 May 2011)                           |
| Trading Period 2       | From the resumption of trading (being 28 December 2011) until the Assessment Date                                                   |
| UGL                    | UGL Limited                                                                                                                         |
| UK                     | United Kingdom                                                                                                                      |
| US                     | United States of America                                                                                                            |
| VWAP                   | Volume weighted average price                                                                                                       |
| Watpac                 | Watpac Ltd                                                                                                                          |
| WIP                    | Work in progress                                                                                                                    |
| Worley                 | Worley Parsons Ltd                                                                                                                  |
| YTD2012                | Year to date financial performance for the period 1 July 2011 to 31 May 2012                                                        |

**Source:** PKFCA

## **APPENDIX 2 SOURCES OF INFORMATION**

In preparing this IER, PKFCA had access to and relied upon the following principal sources of information:

- Final draft Notice of Extraordinary General Meeting and Explanatory Statement.
- Press releases and public announcements in relation to the Proposed Transactions.
- Annual reports, half yearly reports and ASX market releases for Lucas.
- Various discussions with the Directors and management of Lucas.
- ASIC guidance notes and regulatory guides as applicable.
- Information sourced from Bloomberg and Capital IQ.
- Independent property valuations carried out by CBRE (referred to but not relied on).
- Details of shareholder register.
- IBIS World Industry Reports.
- Publicly sourced industry reports.
- Vendor due diligence report on Drilling Services.
- Various legal due diligence reports.
- Funding agreements.
- Option deeds.
- FY2012 forecast model.
- Management accounts.

## APPENDIX 3 VALUATION METHODS

In conducting our assessment of the fair value of Lucas the following commonly used business valuation methods have been considered:

### Discounted Cash Flow Method

The DCF method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- The forecast of future cash flows of the business asset for a number of years (usually five to ten years).
- The discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (**NPV**).

DCF is appropriate where:

- The businesses' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy.
- Earnings or cash flows are expected to fluctuate significantly from year to year.
- The business or asset has a finite life.
- The business is in a 'start up' or in early stages of development.
- The business has irregular capital expenditure requirements.
- The business involves infrastructure projects with major capital expenditure requirements.
- The business is currently making losses but is expected to recover.

### Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

### Net Realisable Value of Assets

Asset based valuations involve the determination of the fair value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- Separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets.
- Ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- *Orderly realisation*: this method estimates fair value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair value.
- *Liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair value.

- *Going concern*: the net assets on a going concern basis estimates the value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

### **Share Market Trading History**

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- The shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares.
- The market for the company's shares is active and liquid.

### **Constant Growth Dividend Discount Model**

The dividend discount model works best for:

- Firms with stable growth rates.
- Firms which pay out dividends that are high and approximate free cash flow to equity.
- Firms with stable leverage.
- Firms where there are significant or unusual limitations to the rights of shareholders.

## APPENDIX 4 DRILLING SERVICES AND BCI - COMPARABLE COMPANIES DESCRIPTION

The following table sets out the descriptions of the listed comparable companies we have considered in arriving at a suitable capitalisation multiple for Drilling Services and BCI:

**Table 26: Listed Comparable Companies**

| Company                                               | Main Activities                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Drilling Services and BCI Comparable Companies</b> |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Macmahon Holdings Ltd                                 | Macmahon Holdings Limited is a civil engineering and contract mining company. The company offers contract engineering services for areas including roadwork, mining, ports, dams, railways, airports and bridges. The company also provides mining services which include drilling and blasting, crushing, support services and mine refurbishment. Macmahon also provides equipment reconditioning. |
| Downer EDI Ltd                                        | Downer EDI Limited provides engineering and infrastructure management services to the public and private rail, road, power, telecommunications, mining and resources sectors in Australia, New Zealand, Asia and the Pacific. Downer provides rolling stock services, drilling services for the exploration industry, mine planning and management services and highway maintenance.                 |
| <b>Drilling Services Comparable Companies</b>         |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Ausdrill Ltd                                          | Ausdrill Limited provides specialist drilling services. The company operates drill, blast, and exploration rigs and its services include contract drilling and blasting, exploration drilling, ground support, contract open pit mining and earthmoving, mining equipment supplies, and logistics management. The group also provides trenching, cable and pipeline rollout services.                |
| Boart Longyear Ltd                                    | Boart Longyear Ltd provides contract drilling services to the mining, environmental and infrastructure, and energy industries, and manufactures drilling, coring, grinding tools and equipment and wear components.                                                                                                                                                                                  |
| Drill Torque Ltd                                      | Drill Torque Ltd. provides contract drilling services for the coal and coal seam gas sectors. The company currently operates drill rigs in Queensland, the Northern Territory, South Australia and Papua New Guinea.                                                                                                                                                                                 |
| MACA Ltd                                              | MACA Limited offer contract mining, civil earthworks, crushing and screening and material haulage solutions. The company specialises in providing mining services to predominantly mid-size mining projects for open pit mining including loading and hauling, drilling and blasting, crushing and screening and civil works.                                                                        |
| Swick Mining Services Ltd                             | Swick Mining Services Ltd. is a mineral drilling service provider. The company provides underground diamond and long-hole drilling services and surface RC and air-vac drilling services.                                                                                                                                                                                                            |
| <b>BCI Comparable Companies</b>                       |                                                                                                                                                                                                                                                                                                                                                                                                      |
| Brierty Ltd                                           | Brierty Ltd is a construction company. The company offers mining and mine site infrastructure, road construction and maintenance, civil infrastructure including bulk and structural earthworks, rail formation, airport runways, concrete, and pavement works. Brierty Contractors also provides sewer and water reticulation, retaining walls, brick paving and landscaping.                       |
| Cardno Ltd                                            | Cardno Limited provides consulting engineering services for the construction, infrastructure and natural environments industries in Australia and South East Asia. The group provides services in all aspects of engineering including civil, structural, environmental and management consulting.                                                                                                   |
| Clough Ltd                                            | Clough Limited is an integrated engineering and construction company which offers contract services in Australia and internationally, including Asia, the South Pacific and the Middle East. The company also provides specialist onshore and offshore construction fleets for drilling rigs and petroleum construction projects.                                                                    |
| Forge Group Ltd                                       | Forge Group Ltd. offers engineering and construction services. The company offers engineering and construction services to the resource and mining industries, steel fabrication services, marine maintenance services for the Royal Australian Navy, commercial building construction, concrete construction, off-site formwork, and prefabrication services, and cabinet making.                   |

| Company               | Main Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Leighton Holdings Ltd | Leighton Holdings Limited offers a variety of project development and contracting services to public and private sector clients in the Asia-Pacific region. Leighton provides design management, civil engineering construction, building, mining, process engineering, telecommunications, waste management and infrastructure operation and maintenance and property development and management.                                                                                                                                                               |
| NRW Holdings Ltd      | NRW Holdings Limited provides civil contracting services including rail formation, bulk earthworks, mine development, road and tunnel construction and a range of contract mining services.                                                                                                                                                                                                                                                                                                                                                                      |
| Seymour Whyte Ltd     | Seymour Whyte Limited is an infrastructure development company. The company provides construction solutions with a focus on road and bridge projects. Seymour Whyte Ltd also provides heavy industrial concrete works, aquatic facilities, community infrastructure, and major traffic management schemes.                                                                                                                                                                                                                                                       |
| UGL Ltd               | UGL Limited is a diversified engineering, construction and maintenance company. The company's operations include railway manufacturing, maintenance and engineering along with providing design, construction, operating and maintenance services in the mining, commercial property, water services, defence and petrochemicals industries.                                                                                                                                                                                                                     |
| VDM Group Ltd         | VDM Group Limited is a multi-disciplined civil and structural engineering and project management company. The company's construction division services include civil and mechanical construction, mining, resources, and infrastructure construction, commercial and industrial construction, Hyparspace steel roof and wall structural system and structural fabrication services. Its contracting division services comprise civil contracting and bulk earthworks. The company's consulting division provides a range of consulting and engineering services. |
| Watpac Ltd            | Watpac Limited is an Australia wide company focusing on construction, civil infrastructure, civil landscaping, mining, property development, specialty services construction and refurbishments. The company's clients include local, State and Federal Government agencies, private developers, retailers, commercial & industrial entities, mining companies, sports and community organisations.                                                                                                                                                              |
| Worley Parsons Ltd    | Worley Parsons Limited provides professional services through alliance and integrated service contracts to the energy, resource and complex process industries. The company provides its services to industrial sectors such as oil and gas refining, petrochemicals and chemicals, minerals and metals, power and water and industrial and infrastructure.                                                                                                                                                                                                      |

**Sources:** Bloomberg; relevant company websites

## APPENDIX 5 DRILLING SERVICES AND BCI - COMPARABLE COMPANY TRADING MULTIPLES

Outlined below are trading multiples of listed comparable companies which we have considered in arriving at a suitable capitalisation multiple for Drilling Services and BCI:

**Table 27: Share Market Trading Multiples as at Assessment Date**

|                                        |          | EBITDA Multiple (times) |                        |                 |               |               |
|----------------------------------------|----------|-------------------------|------------------------|-----------------|---------------|---------------|
| Comparable Companies                   | Currency | Year End                | Enterprise Value (\$m) | Historical 2011 | Forecast 2012 | Forecast 2013 |
| Drilling Services Comparable Companies |          |                         |                        |                 |               |               |
| Macmahon Holdings Ltd                  | AUD      | 30-Jun-11               | 404                    | 4.4             | 2.5           | 2.1           |
| Downer EDI Ltd                         | AUD      | 30-Jun-11               | 1,710                  | 3.7             | 3.0           | 2.8           |
| Ausdrill Ltd                           | AUD      | 30-Jun-11               | 1,088                  | 5.6             | 3.8           | 3.3           |
| Boart Longyear Ltd                     | AUD      | 31-Dec-11               | 1,402                  | 3.9             | 3.1           | 2.9           |
| Drill Torque Ltd                       | AUD      | 30-Jun-11               | 6                      | 4.0             | n/a           | n/a           |
| MACA Ltd                               | AUD      | 30-Jun-11               | 309                    | 5.5             | 3.9           | 3.2           |
| Swick Mining Services Ltd              | AUD      | 30-Jun-11               | 65                     | 2.8             | 2.3           | 1.9           |
| Average                                |          |                         |                        | 4.3             | 3.1           | 2.7           |
| Median                                 |          |                         |                        | 4.0             | 3.1           | 2.8           |
| Min                                    |          |                         |                        | 2.8             | 2.3           | 1.9           |
| Max                                    |          |                         |                        | 5.6             | 3.9           | 3.3           |
| BCI Comparable Companies               |          |                         |                        |                 |               |               |
| Macmahon Holdings Ltd                  | AUD      | 30-Jun-11               | 404                    | 4.4             | 2.5           | 2.1           |
| Downer EDI Ltd                         | AUD      | 30-Jun-11               | 1,710                  | 3.7             | 3.0           | 2.8           |
| Brierty Ltd                            | AUD      | 30-Jun-11               | 61                     | 6.0             | n/a           | n/a           |
| Cardno Ltd                             | AUD      | 30-Jun-11               | 1,134                  | 11.7            | 9.1           | 7.5           |
| Clough Ltd                             | AUD      | 30-Jun-11               | 464                    | (27.7)          | 7.6           | 6.0           |
| Forge Group Ltd                        | AUD      | 30-Jun-11               | 301                    | 5.0             | 3.8           | 3.1           |
| Leighton Holdings Ltd                  | AUD      | 30-Jun-11               | 5,878                  | 5.9             | 3.2           | 2.7           |
| NRW Holdings Ltd                       | AUD      | 30-Jun-11               | 859                    | 9.6             | 4.5           | 3.8           |
| Seymour Whyte Ltd                      | AUD      | 30-Jun-11               | 43                     | 2.4             | 3.1           | 3.1           |
| UGL Ltd                                | AUD      | 30-Jun-11               | 2,258                  | 7.6             | 7.2           | 6.3           |
| VDM Group Ltd                          | AUD      | 30-Jun-11               | 80                     | (9.3)           | (6.5)         | 5.3           |
| Watpac Ltd                             | AUD      | 30-Jun-11               | 200                    | 5.1             | 4.2           | 3.5           |
| Worley Parsons Ltd                     | AUD      | 30-Jun-11               | 6,523                  | 12.3            | 9.9           | 8.4           |
| Average (excluding outliers)           |          |                         |                        | 6.4             | 5.3           | 4.6           |
| Median (excluding outliers)            |          |                         |                        | 5.5             | 4.3           | 3.8           |
| Min (excluding outliers)               |          |                         |                        | 2.4             | 3.0           | 2.8           |
| Max (excluding outliers)               |          |                         |                        | 11.7            | 9.1           | 7.5           |

**Sources:** Lucas management; Bloomberg; PKFCA analysis

**Notes:**

- The enterprise values were calculated by summing the total of the net borrowings at the company's most recent reporting date and the market capitalisation as at Assessment Date.
- Leighton Holdings Ltd has been excluded due to recent financial and operating difficulties the company is reported to be having. These may have impacted on the significant decline in EBITDA multiple between 2011 and 2012.
- The above may include rounding differences.

**Legend** n/a denotes not applicable and highlighted in grey are outliers excluded from our analysis.

## APPENDIX 6 DRILLING SERVICES AND BCI - COMPARABLE TRANSACTION MULTIPLES

Set out below are the transactions involving companies comparable to Drilling Services and BCI.

**Table 28: Comparable Transactions**

| Target                                           | Acquirer                   | Announced Date | Transaction Value (\$million) | % Acquired | % Owned Post Deal | Historical Multiple |              |                 | Acquisition Premium |                     |
|--------------------------------------------------|----------------------------|----------------|-------------------------------|------------|-------------------|---------------------|--------------|-----------------|---------------------|---------------------|
|                                                  |                            |                |                               |            |                   | EBITDA (times)      | EBIT (times) | Revenue (times) | vs 1-week VWAP (%)  | vs 1-month VWAP (%) |
| <b>Drilling Services</b>                         |                            |                |                               |            |                   |                     |              |                 |                     |                     |
| Western Construction Co                          | Downer                     | 28/08/2009     | 34.2                          | 100.0%     | 100.0%            | n/a                 | n/a          | 0.6             | n/a                 | n/a                 |
| Brandrill Limited                                | Ausdrill                   | 17/08/2009     | 103.7                         | 100.0%     | 100.0%            | 5.1                 | 17.3         | 0.7             | 48.7%               | 144.0%              |
| Corke Instrument Engineering (Australia) Pty Ltd | Downer                     | 1/04/2009      | 9.5                           | 100.0%     | 100.0%            | n/a                 | n/a          | 0.2             | n/a                 | n/a                 |
| Mitchell Drilling                                | Lucas                      | 23/07/2008     | 150.0                         | 100.0%     | 100.0%            | 7.1                 | n/a          | 1.6             | n/a                 | n/a                 |
| <b>Average (excl outliers)</b>                   |                            |                |                               |            |                   | <b>6.1</b>          | <b>17.3</b>  | <b>0.8</b>      | <b>48.7%</b>        | <b>144.0%</b>       |
| <b>BCI</b>                                       |                            |                |                               |            |                   |                     |              |                 |                     |                     |
| EM Assist, Incorporated                          | Cardno Limited             | 3/07/2012      | 14.3                          | 100.0%     | 100.0%            | n/a                 | n/a          | 1.0             | n/a                 | n/a                 |
| ATC Group Services Inc                           | Cardno Limited             | 6/02/2012      | 106.0                         | 100.0%     | 100.0%            | 6.6                 | n/a          | 0.6             | n/a                 | n/a                 |
| DTZ Holdings plc                                 | UGL Limited                | 5/12/2011      | 292.7 <sup>2</sup>            | 100.0%     | 100.0%            | 13.2                | 34.9         | 0.4             | n/a                 | n/a                 |
| Worley Parsons RSA Pty Ltd                       | Worley                     | 26/10/2010     | 49.4 <sup>3</sup>             | 70.0%      | 70.0%             | n/a                 | n/a          | 1.0             | n/a                 | n/a                 |
| Forge Group Limited                              | Clough Operations Pty Ltd. | 7/04/2010      | 30.2                          | 18.3%      | 31.3%             | 3.1                 | 3.4          | 0.6             | (28.3%)             | (13.2%)             |
| Cardno TBE                                       | Cardno Limited             | 15/09/2008     | 40.4                          | 100.0%     | 100.0%            | n/a                 | n/a          | 0.6             | n/a                 | n/a                 |
| <b>Average (excl outliers)</b>                   |                            |                |                               |            |                   | <b>7.6</b>          | <b>19.2</b>  | <b>0.6</b>      | <b>n/a</b>          | <b>n/a</b>          |

**Sources:** Capital IQ; Bloomberg; PKFCA analysis

**Notes:**

- Highlighted in grey are outliers excluded from our analysis.
- The transaction between UGL Limited and DTZ Holdings plc on 5 December 2011 was for GBP191.88 million, a exchange rate of 1.5253 has been used (based on Oanda's rate).
- The transaction between Worley Parsons Ltd and Worley Parsons RSA Pty Ltd on 26 October 2010 was for \$ZAR340.0 million, an exchange rate of 0.1454 has been used (based on Oanda's rate).

We note the following with respect to the above:

- On 28 August 2009 Downer EDI Limited signed a conditional agreement to acquire 100% of Western Construction Co for \$33.8 million in cash. The acquisition was completed on 10 September 2009. Western Construction Co provides mechanical, electrical and maintenance services for the mining, oil, gas and construction industries in Australia and internationally.
- On 17 August 2009 Ausdrill signed an agreement to acquire 100% of Brandrill Ltd for \$45.2 million in stock. Eligible Brandrill shareholders received one Ausdrill share for every 14.5 Brandrill Ltd shares held at record date for the merger. The acquisition completed on 4 December 2009. The offer price represented a 48.7% premium to the share price 1 week prior to the announcement. Brandrill Ltd is a mining services company providing drilling and blasting services to the open cut mining and civil construction industry in Australia.
- On 1 April 2009 Downer signed a conditional agreement to acquire 100% of Corke Instrument Engineering (Australia) Pty Ltd for \$9.5 million. The transaction was completed on 1 May 2009. Corke Instrument Engineering (Australia) Pty Ltd operates as instrument and electrical contractors offering industrial instrumentation services to oil and gas, petrochemical, metal refining, pulp and paper, and public infrastructure industries.
- On 23 July 2008 Lucas signed an unconditional agreement to acquire 100% of Mitchell Drilling Contractors Pty Ltd from the Mitchell family for \$150 million, consisting of \$120 million in cash, \$15 million in equity placement to the vendor and \$15 million in cash to be paid in 12 months. The acquisition was completed on 28 August 2008. Mitchell Drilling Contractors Pty Ltd provides drilling and ancillary services to the natural resources industry.
- On 3 July 2012 Cardo Limited acquired EM Assist Incorporated from Marion Equity Partners for \$14.3 million in cash, stock and contingent payments. EM Assist provides environmental program management, technical support and training solutions for government agencies in the US. On 6 February 2012 Cardo Limited agreed to acquire ATC Group Services Inc from Falcon Investment Advisors LLC, Cerberus Capital Management L.P and other shareholders for an amount of \$101 million cash at settlement and \$5 million 18 months after. The transaction was completed 2 March 2012. ATC Group Services Inc provides environmental management, geotechnical engineering, construction materials testing and special inspection, roofing and waterproofing and industrial hygiene and occupational health training in the United States.
- On 5 December 2011 UGL Limited acquired DTZ Holdings plc from Standard Life Investments Limited and other shareholders for GBP77.5 million in cash. DTZ Holdings plc provides property advisory and consultancy services to investors, developers, corporate and public sector occupiers, and financial intermediaries.
- On 26 October 2010 Worley Parsons Limited entered into a non binding agreement to acquire a 70% stake in Kwezi V3 Engineers Pty Ltd for ZAR340 million. The acquisition was completed 17 January 2011 and Kwezi V3 Engineers Pty Ltd changed its name to Worley Parsons RSA Pty Ltd. The company provides engineering and development services in South Africa and internationally offering services in the areas of civil and development, electrical, environment and waste management, mechanical, structural, transport, and water and waste water treatment.