

AJ Lucas Group Limited

13 July 2013



Capital raising

Sale of part of Bowland interest to Centrica

Balance Sheet Recapitalisation Plan

Trading Update, Guidance and Forward Program



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Overview

- **Sale of part of Bowland interest to Centrica**
 - AJL and its 44% owned associate, Cuadrilla, have each agreed to sell 25% of their respective interests in the Bowland shale license (PEDL 165), located in Lancashire, England, to Centrica
 - AJL's direct interest in Bowland reduces from 25% to 18.75%, and Cuadrilla's direct interest reduces from 75% to 56.25%
 - AJL's effective ownership in Bowland reduces from 58% to 43.5%
 - Total transaction payments by Centrica of up to GBP145mm (\$235mm) to acquire a 25% interest in Bowland (see page 6)
- **Balance Sheet Recapitalisation Plan**
 - \$165.0mm Balance Sheet Recapitalisation Plan (including capital raising and AJL share of Bowland sale proceeds of \$16.2mm)
 - Will repay senior ANZ facility in full
 - Pro-forma net debt expected to reduce to approximately \$69.3mm
 - AJL will not need to draw down under the facility agreement with Athena Investments Holdings LLC (**Athena**)
- **Trading update and guidance**
 - AJL is expected to make a Reported EBITDA loss for financial year ending 30 June 2013 of approximately \$(20mm)
 - Guidance for FY2014 Underlying EBITDA of approximately \$26mm to \$29mm (see assumptions slide 19)
- **Forward Program for Cuadrilla**
 - Based on the completion of the sale of part of the Bowland interest to Centrica, active and funded CY2013 and CY2014 capital investment program for Cuadrilla
 - AJL and Cuadrilla free carried on next stage of Bowland development up to GBP60mm
 - Cuadrilla funded to GBP30mm for other exploration and other general and administration expenses, including an oil exploration well at Bolney which is scheduled to spud in Q3 calendar year 2013
 - AJL not expected to be required to contribute additional equity to Cuadrilla or Bowland until after the end of calendar year 2014
- **Board review** - AJL's Board will undertake a review of both the current composition of, and corporate governance issues relating to, the Board, which is likely to lead to the appointment of new directors and a separation of the Executive Chairman and CEO roles



Sale of part of Bowland interest to Centrica



Transaction Details

- Centrica will invest up to GBP145mm (\$235mm) to acquire a 25% interest in the Bowland license as follows:
 - Sale by:
 - AJL of 100% of shares in Lucas Energy (UK) Limited which holds 6.25% direct interest in Bowland license
 - Cuadrilla of 100% of shares in Bowland Resources Limited which holds 18.75% direct interest in Bowland license
 - AJL retains a 43.5% effective interest in Bowland license, 18.75% directly and 24.75% via Cuadrilla
 - At completion, Centrica pays GBP40mm (\$65mm), with payments to Cuadrilla of GBP30mm (\$49mm) and to AJL of GBP10mm (\$16.2mm)
 - Centrica funds the first GBP60mm (\$97mm) of expenditure on Bowland - ie. GBP45mm (\$73mm) free carry for AJL/Cuadrilla residual 75% share
 - Centrica has agreed to make an additional contingent payment to AJL/Cuadrilla of GBP60mm (\$97mm)
 - The contingent payment will become payable depending either on time based milestones or associated with the successful flow-testing of 2 wells

Balance Sheet Recapitalisation Plan



Overview of the Recapitalisation Plan

- Balance Sheet Recapitalisation Plan to raise gross proceeds of approximately \$165.0mm (including AJL share of Bowland sale proceeds of \$16.2mm)
- Size and structure
 - Institutional Placement – 9.26m shares to raise approximately \$11.1mm
 - 1 for 1.25 accelerated non-renounceable Institutional Entitlement Offer – to raise approximately \$105.1mm
 - 1 for 1.25 non-renounceable Retail Entitlement Offer – to raise approximately \$32.5mm
 - Cash from Centrica for the sale of the 6.25% interest in Bowland license – GBP10mm (\$16.2mm)
- \$1.20 fixed Offer Price
 - 15.6% discount to the Theoretical Ex-Rights Price (“TERP”)
 - 25% discount to last closing price on Thursday, 13 June 2013 of \$1.60
- Approximately 124mm new shares will be issued as part of AJL’s Recapitalisation Plan, increasing AJL’s fully diluted shares and options on issue to approximately 284.5mm
- Institutional Placement and Institutional Entitlement Offer
 - Combined will raise approximately \$116.2mm
 - AJL’s largest shareholder - Kerogen – has agreed to subscribe in full for its pro rata entitlement and has entered into an Underwriting Agreement under which it has agreed to underwrite any shortfall arising from the Institutional Entitlement Offer, excluding pre-commitments obtained from other existing institutional shareholders of \$19.8mm, provided the issue does not cause its shareholding to exceed 49.99%
 - Kerogen’s total commitment is for up to \$85.3mm of new shares (see details over page)
 - Other existing institutional shareholders have provided commitments to subscribe for pro rata entitlements of \$19.8mm and also agreed to subscribe in full for the Institutional Placement
 - Shareholders will not receive any proceeds for entitlements not taken up



Overview of the Recapitalisation Plan (cont.)

- Participation by AJL's largest shareholder - Kerogen - of up to \$85.3mm
 - Kerogen has confirmed its intention to take up its full pro-rata entitlement in the Entitlement Offer of circa \$61mm
 - Kerogen has also entered into an Underwriting Agreement with AJL under which it has agreed to underwrite any shortfall arising from the Institutional Entitlement Offer, excluding pre-commitments obtained from other existing institutional shareholders
 - This Underwriting Agreement is for up to a maximum of 20.3mm shares or \$24.3mm
 - Eligible institutional shareholders can also apply for any shortfall arising from the Institutional Entitlement Offer which would cause Kerogen's holding to exceed 49.99%
 - Settlement of the Kerogen subscription will occur across both the Institutional Offer and Retail Offer so it does not cause Kerogen's shareholding to exceed 49.99%
 - Kerogen will not be paid any fees for either its commitment or entering into its Underwriting Agreement
- Kerogen has the right to nominate, while it holds more than 30% of the issued capital of AJL, 2 directors to the AJL Board
- Kerogen currently holds a 44.3% shareholding in AJL. As a result of the Entitlement Offer, this shareholding could increase to a maximum of 49.99%, but this level may be reduced by:
 - The number of entitlements taken up by shareholders under the Institutional Entitlement Offer who have not pre-committed, if any
 - The ability of other institutional shareholders and institutional investors to apply for shares under any shortfall arising under the Institutional Entitlement Offer
- AJL has also agreed with Kerogen that it will not raise capital in the next 12 months unless via way of pro-rata offer to all shareholders
- Kerogen's underwriting uses a substantial part of Kerogen's current capacity to "creep" to 50.88% of AJL



Overview of the Recapitalisation Plan (cont.)

- Retail Entitlement Offer
 - Proceeds raised under the Retail Entitlement Offer – approximately \$32.5mm
 - Retail shareholders have the ability to apply for shares in excess of their entitlement
 - A select number of institutional investors (excluding Kerogen) have agreed to subscribe in full for any shortfall arising under the Retail Entitlement Offer and will receive a 1.5% commitment fee
 - Priority allocation of any shortfall arising from the Retail Entitlement Offer will be given to Belbay Investments Pty Ltd (“Belbay”) of up to approximately 18.6 million shares
 - Belbay currently owns approximately 2% of Lucas and has agreed to subscribe for its pro rata entitlement under the Institutional Entitlement Offer and also to subscribe for Institutional Placement shares
 - The maximum pro-forma shareholding Belbay could hold in Lucas is 10.1%, subject to take up in the Retail Entitlement Offer by AJL’s retail shareholders
 - Shareholders will not receive any proceeds for entitlements not taken up
- All shares issued under the Institutional Placement and Entitlement Offer will rank pari passu with existing shares



Kerogen Underwriting Agreement

AJL has entered into an underwriting agreement with Kerogen in relation to the institutional component of the Entitlement Offer (other than in respect of shares that institutional shareholders have pre-committed to take up as part of their entitlements) ('Underwriting Agreement').

Commission, fees and expenses

Kerogen will not be paid any fees for either its commitment or entering into the Underwriting Agreement.

Representations and warranties

In the Underwriting Agreement AJL provides the following representations and warranties to Kerogen:

- (i) the new shares will rank equally in all respects with other ordinary shares of AJL, including for future dividends payable;
- (ii) the new shares will be issued free from all encumbrances, other than as provided for in AJL's constitution;
- (iii) the offer materials (including this announcement) do not contain any information that is misleading or deceptive or likely to mislead or deceive, including by way of omission;
- (iv) AJL is entitled to conduct the Entitlement Offer without a requirement for a prospectus in accordance with 708AA (as amended by ASIC Class Order 08/35), respectively;
- (v) AJL is able to provide, and there is nothing preventing it from providing a cleansing statement as required by section 708AA(7) of the Corporations Act in respect of the new shares;
- (vi) AJL has, or will have, obtained all waivers of the ASX Listing Rules necessary or appropriate to conduct the Placement and Entitlement Offer and issue the new shares (including a waiver under Listing Rule 10.11 to permit the issue of new shares to Kerogen as an underwriter of the Institutional Entitlement Offer).

Indemnity

Subject to certain exclusions relating to, among other things, fraud, gross negligence, or wilful misconduct of an indemnified party, AJL agrees to keep Kerogen and certain associated parties indemnified from losses suffered in connection with the Entitlement Offer.

Termination events

Kerogen may terminate the Underwriting Agreement at any time where any term of the consent deed that it has entered into with AJL (which permits AJL to proceed with the Placement and Entitlement Offer) is breached by AJL or where a condition of that consent is not satisfied, is not capable of being satisfied or ceases to be satisfied.



Forecast Net Debt Position and Use of Proceeds

- AJL will use the proceeds of the Institutional Placement and Entitlement Offer to substantially reduce debt, support working capital requirements and pay for transaction fees associated with the Recapitalisation Plan
 - As part of debt retirement, the following will be repaid from proceeds of the Offer:
 - All of the ANZ facilities of approximately \$31.0mm
 - A minimum of approximately \$75.3mm of Kerogen's existing facility
- On completion of the Recapitalisation Plan and receipt of the proceeds from Centrica for the sale of the 6.25% interest in Bowland, AJL's forecast net debt position is expected to be approximately \$69.3m, reflecting full repayment of the ANZ facility and a substantial reduction of the Kerogen mezzanine facility
 - Net cash balance will be a minimum of \$9.0mm
- The final net cash balance and the amount of Kerogen facilities that will be repaid is subject to Kerogen's Underwriting Agreement and the take up from existing Institutional Investors under the Institutional Entitlement Offer
 - The final net cash balances and debt repayment will also be subject to final AUD:USD and AUD:GBP foreign rates on repayment



Relationship to recently announced debt facilities

- On 31 May 2013, AJL announced that it had entered into 2 new debt facilities:
 - Facility Agreement with Athena for US\$70mm (tranche 1 US\$55mm, tranche 2, US\$15mm)
 - Facility Agreement with Kerogen that is a restructure of three existing facilities with Kerogen and capitalisation of accrued interest
- Each facility requires AJL to issue warrants to Athena (up to 7% on fully diluted basis) and Kerogen (up to 2.75% on a fully diluted basis) if the Athena facility is drawn down
- No draw down under the Athena facility can occur unless shareholder approval is obtained for the facilities and conditions precedent are satisfied
 - EGM to obtain shareholder approval scheduled for mid to late July 2013
- Assuming successful completion of the Recapitalisation Plan, these facilities will not be needed and shareholder approval of the facilities at an EGM will not be sought
- As a consequence:
 - the Athena facility will not be drawn down
 - when Athena terminates the Athena facility (no later than 31 October 2014), a commitment fee will remain payable to Athena under the Athena facility to be funded out of the proceeds from the Offer
 - the new Kerogen facility will not come into effect
 - as neither facility will have been approved by shareholders, no new warrants will be issued to either Athena or Kerogen
- AJL intends in due course to refinance the residual Kerogen facility with a more cost effective debt facility
 - Kerogen facilities of up a maximum of \$56mm with a maturity to January 2014 will remain outstanding post the Recapitalisation Plan
 - Kerogen has agreed to extend its outstanding facilities on amended terms to September 2014, subject to either ASX Waiver or AJL shareholder approval



Benefits of the Recapitalisation Plan

- Strengthens balance sheet
 - Recapitalisation will reduce AJL's pro-forma net debt position
 - Net debt expected to be reduced to \$69.3mm
 - No requirement to draw down under Athena facility
 - Interest expense significantly reduced
 - Improved overall cash and working capital position
- Provides financial flexibility
 - Current outstanding short term facilities paid in full
 - Provides ability for AJL to seek more favourable terms on remaining debt facilities
- Provides operational flexibility
 - AJL not expected to be required to contribute additional equity to Cuadrilla or Bowland until after the end of calendar year 2014
 - Enables AJL to pursue current and future growth opportunities
 - Will increase AJL's attractiveness to customers, enhancing AJL's ability to win future work in Engineering and Construction (**E&C**) activities
 - Improved balance sheet is expected to lead to an increased capability for AJL to provide bonds in support of project awards in the E&C and Drilling Divisions



Pro forma substantial shareholders

- The issue of new shares under the Institutional Placement and Entitlement Offer will have the following effect on AJL's major shareholders:

Shareholders	Current shareholding (mm)	Share %	Maximum pro-forma shareholding (mm)	Share %
Kerogen Investments No.1 (HK) Limited	63.5mm	44.3%	133.7mm	49.99%
Andial Holdings Pty Limited	17.5mm	12.2%	17.5mm	6.5%
Coupland Cardiff Asset Management LLP	14.8mm	10.3%	26.6mm	9.9%
Belbay Investments Pty Ltd	2.7mm	2.1%	27.0mm	10.1%

1. Maximums are as at completion of the Retail Offer. Final figures may be lower than this.
2. Settlement of the Kerogen subscription will occur across both the Institutional Offer and Retail Offer so it does not cause Kerogen's shareholding to exceed 49.99%. Kerogen also holds 11.2mm unlisted options and currently has the capacity to creep to 50.88%
3. Andial has indicated it will not be subscribing for its entitlement under the Entitlement Offer. Andial has a relevant interest in 4.0mm shares held by Amalgamated Dairies and its associates which are included in the above figures for Andial. Amalgamated Dairies will be accelerated as part of the Institutional Offer
4. Final shareholding figures for Kerogen, Coupland and Belbay will be subject to the amount of entitlements taken up by shareholders under the Entitlement Offer and the ability of eligible shareholders and other investors to apply for shortfall shares



Indicative Timetable

Event	Date
Trading halt	Friday 14 June
Institutional Entitlement Offer and Placement	After market Thursday 13 June to Friday 14 June
Shares recommence trading on ASX on an ex entitlement basis	Monday, 17 June
Record date for eligibility in the Entitlement Offer (7.00 pm)	Wednesday, 19 June
Retail Entitlement Offer opens	Monday, 24 June
Retail Offer Booklet dispatched to Eligible Retail Shareholders	Monday, 24 June
Normal trading of New Shares issued under Institutional Entitlement Offer and Placement expected to commence on ASX	Thursday, 27 June
Retail Entitlement Offer closes	Wednesday, 3 July
Normal trading of New Shares issued under Retail Entitlement Offer and partial underwriting	Wednesday, 17 July

1. This timetable is indicative only and subject to change at discretion of AJL

2. Settlement of the Kerogen subscription will occur across both the Institutional Offer and Retail Offer so it does not cause Kerogen's shareholding at any time to exceed 49.99%

Trading Update, Guidance and
Forward Program



2013 Trading Update

- **Drilling**
 - Trading environment remains challenging, reflecting soft market conditions for major coal mining companies and impact on mining services sector
 - In response, business has been restructured to reduce cost base
- **E&C**
 - Exiting general contracting activities and refocusing on pipelines and related infrastructure, gathering systems, HDD and micro trenching / trenchless technology
 - Trading environment in engineering contracting based activities has been less impacted than general contracting activity, due to the long term nature of the underlying infrastructure projects, including government-led investment in water infrastructure and ongoing investment in pipelines and field infrastructure by the Queensland LNG project developers
- **Consolidated position**
 - FY2013 Reported EBITDA loss is projected to approximately \$20mm
 - FY2013 Underlying EBITDA is projected to be approximately \$1.5mm



2014 Guidance

- **Drilling**
 - Trading environment expected to remain challenging due to downturn in the coal industry and impact on mining services sector
 - Capital expenditure to be minimised and margins maintained by further reducing operating costs
- **E&C**
 - Focus on pipelines and related infrastructure, gathering systems, HDD and micro trenching / trenchless technology , with peripheral activities exited
 - EBITDA projections assume new contracts with revenue to AJL of approximately \$75mm will be won, including 3 of which are currently being exclusively negotiated and are expected to be awarded June 2013
- **Consolidated position**
 - FY2014 Reported EBITDA is projected to be \$20mm to \$23mm
 - FY2014 Underlying EBITDA is projected to be \$26mm to \$29mm
 - It is assumed that legal and refinancing costs return to normal levels together with costs associated with redundancies, and that poorly performing legacy contracts complete in FY14. Corporate overheads are expected to be further reduced post refinancing
- **Board review**
 - The AJL Board will undertake a review of both the Board's current composition and corporate governance
 - It is expected that new directors will be appointed and that the roles of Chairman and CEO will be separated as an outcome of this review



Current Forward Program for Cuadrilla

- Post completion of the sale of part of the Bowland interest to Centrica:
 - Cuadrilla and AJL will benefit from a GBP45mm free carry at Bowland
 - As a shareholder Cuadrilla, AJL will have the benefit of Cuadrilla's GBP30mm cash to fund additional non-Bowland exploration and development
 - Separately, AJL will have to fund its own direct 25% share of activities on its share of acreage in the Bolney project
- Bowland capital works program:
 - CY2013: flow test 2 horizontal wells (Grange Hill, Beconsall); drill 1-2 stratigraphic wells; planning for 8 well sites
 - CY2014: drill and frack at least 2 wells (sited from 3D seismic)
- Bolney capital works program:
 - CY2013: drill Balcombe-2 well (oil target) – spud shortly and flow test by September. Objective is to determine if oil within Micrite formation will flow without hydraulic stimulation
- Netherlands capital works program:
 - CY2014: Drill first well (oil, gas and tight gas target), subject to permission to restart unconventional exploration
- Poland capital works program:
 - CY2013: shoot and analyse 2D and 3D seismic data
 - CY2014: drill first well
- All capital works programs are subject to regulatory, environmental and other necessary approvals including final Cuadrilla board approval

Key Risks and Other



Key Risks

Introduction

As with all businesses, there are a number of factors that are specific to AJL and of a general nature that may have a material impact on AJL's future operating and financial performance. This **Section** describes certain specific areas that are believed to be risks associated with AJL and with an investment in the new shares being offered under the Institutional Placement and Entitlement Offer (**Offer Shares**).

Each of the risks described below could, if they eventuate, have a material impact on AJL's operating and financial performance and on the market price of AJL's shares. These risk factors are not exhaustive. Whilst some of the risks identified can be mitigated by the use of safeguards and appropriate systems and actions, many of these risks are outside the control of AJL, the Directors and the senior executives of AJL.

Risks have been outlined in three categories:

- specific risks relating to investing in the Offer Shares;
- general risks relating to the operating businesses of AJL and the markets in which they operate; and
- general risks relating to the investments of AJL.



Key Risks

1. Specific risks relating to investing in the Offer Shares

1.1 Market Conditions

The market price of shares can fall, as well as rise, and may be subject to varied and unpredictable influences. Neither AJL nor the Directors warrant the future performance of the Offer Shares, AJL or any return on an investment in AJL.

1.2 Liquidity

There can be no guarantee that an active market in the Shares on ASX will exist at all times. There may be relatively few or many potential buyers or sellers of the Shares on the ASX at any given time. This may increase the volatility of the market price. It may also affect the market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for Shares that is less or more than the Offer Price for Offer Shares. Liquidity in AJL shares has typically been low and there can be no assurance that liquidity will improve.

1.3 Future issue of securities of AJL

While AJL anticipates that the Recapitalisation Plan will substantially reduce its debt and meet its funding needs to sustain its investment in Cuadrilla and for the Bowland and Bolney Projects until after CY2014, this will depend upon the full Recapitalisation Plan being completed and AJL's ability to generate income from its operations. Accordingly, it is possible that AJL may require further financing in addition to the amounts raised under the Offer and other elements of the Recapitalisation Plan. Any additional equity financing may dilute shareholdings, and any debt financing, if available, may involve restrictions on financing and operating activities. Any inability to obtain additional finance, if required, could have a material adverse effect on AJL's operations and its financial condition and performance. (See also Slide 19 - Forward Program for Cuadrilla)

A condition of Kerogen's consent is that any equity raising at AJL over the next 12 months must be way of pro-rata offer.



Key Risks

1. Specific risks relating to investing in the Offer Shares

1.4 ANZ senior facilities

The failure by AJL to complete the Offer and repay the Senior Facilities could lead to enforcement or other actions which could have a material adverse effect on AJL's business, prospects or financial condition. The existing default under the Senior Facilities has also resulted in a default in the current Kerogen mezzanine facilities.

ANZ is able to call its Senior Facilities at any time, and Kerogen is able to call its mezzanine facilities at any time, although each has not yet done so. For the alternative Athena Facility announced to the market on 31 May 2013, ANZ agreed to extend the maturity date of the Senior Facilities to 26 July 2013 conditional on payment of an extension fee, shareholder approval of the resolutions relating to the Athena Facility (including a restructuring of the Kerogen facilities) and AJL taking certain steps to progress that proposal. As a result of the Recapitalisation Plan, that proposal is unlikely to proceed to shareholder approval. However, it is intended that, the Senior Facilities will be repaid in full from the proceeds of the Offer.

1.5 Not drawing down under Athena Facility

If the Athena facility is not drawn down, the obligation to pay the commitment fee may be accelerated and there is a risk that, should the Offer not complete or if cornerstone commitments default, the alternative finance is unlikely to continue to be available. Note that the Offer is not fully underwritten and, while cornerstone commitments have been made to cover (together with the partial underwriting) any anticipated shortfall, there is no settlement support for the cornerstone commitments. Any default would reduce funds available for future funding and to pay down debt.

1.6 ATO liabilities

As at 31 May 2013, the amount owing to the ATO was approximately \$25.7 million in current tax payable and approximately \$14.0 million in accrued general interest charges. AJL has entered into a payment arrangement with the ATO to repay this amount in agreed instalments over 4 years.

Under the payment arrangement, if AJL raises capital, it may be required to pay part of the proceeds to the ATO against the total liability.

While AJL considers that risk in relation to the ATO liabilities will be significantly reduced by the Recapitalisation Plan, a failure by AJL to comply with the payment arrangements agreed with the ATO could lead to enforcement or other actions which could have a material adverse effect on AJL's business, prospects or financial condition.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates

2.1 Commercial, financial and operational risks

As a business operating in the engineering, energy, mining and infrastructure sectors, AJL faces general commercial risks, including the loss of major customers, competition and other causes of business interruption, each of which may have a material adverse effect on AJL. The development of new technologies which compete with AJL may also have a material adverse effect on AJL.

As an engineering contracting and drilling services business, AJL is subject to, and seeks to manage, a number of contractual risks which include the following:

- AJL's businesses enjoy a number of contracts with long-term customers and business relationships. If any of these key customers reduce exploration or production or terminate the relationship, or if potential contracts are not awarded, this may have an adverse effect on the financial performance and/or financial position of AJL;
- certain public infrastructure alliance contracts contain provisions permitting the project sponsor to change, curtail or cancel the project;
- for certain major projects, AJL may need to participate in joint ventures which can bring counterparty risks or may limit AJL's access to opportunities if suitable joint venture partners are not available;
- contracts in the sectors in which AJL operates often contain penalty clauses and contractual disputes can potentially have a material adverse effect on AJL; and
- some projects depend on contractual rights to access sites owned or controlled by others and contractual disputes and other incidents affecting such access can cause disruption to AJL's operations.

2.2 Resources sector risks

The resources sector as a whole in Australia is facing difficult times for a number of reasons, including a softening of commodity and LNG prices on the back of lower demand from key markets such as China for iron ore and coal (in particular), general market sentiment for precious commodities such as gold because of concern about the strength of economies such as the United States and in the European Union, political uncertainty at the Federal level, business uncertainty because of taxes such as the Mineral Rent Resources Tax and the Carbon Tax and political and legislative uncertainty at State levels because of responses of government to environmental and other concerns around drilling and fracking. Industry participants such as producers, explorers and governments are responding to the difficulties by reducing or delaying levels of construction, exploration and production activity which potentially has a material adverse effect on the levels of work that contractors such as AJL are able to win and has and may again lead to existing contracts being reduced in scope or cancelled. In turn, if this significantly impacts cash produced by the business, this may increase AJL's need to source external funding to meet Cuadrilla commitments.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.3 Counterparty (client) payment risk

In the ordinary course of business, AJL extends credit terms and relies on its clients for payments. Should a client enter financial distress or become insolvent, AJL may not be paid for work completed. Should a project cease mid-construction, AJL may find itself with an unexpected under-employed workforce to manage. Preliminary works on some projects are commenced prior to formal contracts being signed.

AJL maintains provisions for bad and doubtful debts which are regularly reviewed. If these provisions are inadequate, or a bad debt arises during a period for which no provision has yet been made, there may be an adverse impact on AJL's financial performance and position.

2.4 Project based sales revenue

A significant proportion of AJL's revenue and earnings is sourced from specific projects. These may not be repeated or offer recurring revenue following the end of the project's finite life. The number of projects awarded to AJL may also vary in number and value from year to year. AJL's operating and financial performance is partly dependent on its ability to win work and secure sufficient projects within contemplated timeframes. Failure to do so may have a significant impact on financial performance and any forecast earnings.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.5 Project delays

Delays to the commencement or completion of work on projects have occurred from time to time and may occur in the future due to a variety of reasons, including general market down-turns, reductions in commodity prices, commercial factors/client delays, changes in the scope of work, legal issues, supply of labour, scarcity of quality materials and equipment, lower than expected productivity levels, accidents, natural disasters, inclement weather conditions, land contamination, regulatory intervention, delays in necessary approvals, difficult site access and industrial relations issues.

Delays may lead to cost increases, some or all of which may not be recoverable by AJL, and may also result in an obligation by AJL to pay compensation for late completion, often in the form of liquidated damages. Delays in the execution of projects may result in projects not achieving their forecast level of profitability.

2.6 Cost variation

AJL regularly enters into contracts for construction and services projects following a competitive tendering process. Certain contracts entered into by AJL may be contracted on a fixed price basis with limited entitlements to price adjustments. Failure by AJL to properly assess and manage project risks may result in cost overruns which could cause the project to be less profitable than expected or loss making.

If any of the above were to occur, there may be an adverse impact on AJL's future financial performance and financial position.

Further, in some contracts, AJL assumes the risk that sub-contractors do not perform to their contracts. Although replacement sub-contractors can generally be appointed quickly, there is no assurance that their price will be the same as or lower than the original sub-contractor.

2.7 Unapproved contract variation

In the ordinary course of business, AJL submits variation claims in relation to ongoing or completed projects in support of work that is out of scope from the original contract. These variation claims involve negotiation with contractual counterparties. The forecast assumes certain portions of variation claims submitted will be received.

To the extent that AJL recovers less than expected on the variations, its financial performance may be materially adversely impacted.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.8 Additional Funding Requirements and Financing Risk

Even if the Recapitalisation Plan (including the Offer) is completed, depending on AJL's capital requirements in relation to Cuadrilla and the Bowland shale prospect, AJL may have to undertake further capital management initiatives. It is not expected that any such capital management initiative would be required before CY2015, but this cannot be assured.

AJL sources capital from cash generated from its operations and, where necessary, from debt markets (including finance leases) and equity markets. There is no guarantee that debt or equity will be available on favourable terms for future requirements. An inability to obtain the necessary funding for the business or a material increase in the cost of funding through an increase in interest rates or changes in pricing of equity, may have a material adverse impact on AJL.

While the Offer and other elements of the Recapitalisation Plan are expected to substantially reduce AJL's debt, the Company's ability to service that reduced debt following the Offer will continue to depend on its future performance, which may be affected by many factors, some of which may be beyond AJL's control and that of the Directors. Any inability of AJL to service its debt may have a material adverse effect on AJL.

The inability to obtain additional finance from capital markets, if required, could have a material adverse effect on AJL's operations and its financial condition or performance.

2.9 Material Contracts

A number of AJL's drilling contracts contain a right for the customer to terminate the contract at their convenience by providing notice to AJL. Under such arrangements, the customers are not required to state a reason for such termination nor are they required to attribute termination to any breach by AJL.

The termination of any drilling contracts could have a material adverse effect on AJL's revenue. AJL is seeking to incorporate and, in some cases, has incorporated, break fees into its drilling contracts in the event that such contracts are terminated for convenience.

AJL is tendering for various new contracts and extensions to existing contracts. If AJL is unsuccessful in its tender activity or is unable to extend the terms of its existing contracts, this may have a material adverse effect on AJL's revenue.

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.10 Environmental

Environmental laws and regulations in Australia and abroad can affect the operations of businesses, including AJL and entities in which it has an interest. These regulations provide penalties or other remedies for any violation of laws and regulations and, in certain circumstances, impose obligations to undertake remedial action.

In common with other businesses in the energy, resources and infrastructure sectors, there is a risk that significant damages or penalties might be imposed on AJL or an entity in which it has an interest, including for certain discharges into the environment, effects on employees, sub-contractors or customers or as clean up costs.

There may be considerable resistance from significant sections of the public to AJL's exploration and development activities, particularly drilling and fracking undertaken by AJL, entities in which AJL has an interest (including Cuadrilla) and other companies, arising in connection with, for example:

- environmental sensitivities and concerns about pollution;
- concerns about the potential effects of fracking on aquifers; and
- concerns about the impact of drilling operations on landscapes.

The imposition of new environmental initiatives and regulations could include restrictions on AJL's ability, or the ability of an entity in which AJL has an interest (including Cuadrilla), to conduct certain operations such as fracking or the disposal of waste (including, but not limited to, produced water, drilling fluids and other wastes associated with the exploration, development or production of natural gas). Furthermore, new environmental regulations and permit requirements governing the withdrawal, storage and use of surface water or groundwater necessary for fracking of wells may also increase operating costs and delays, interruptions or termination of operations, the extent of which cannot be predicted.

Failure to comply with these laws and regulations may result in the imposition of administrative, civil or criminal penalties, the imposition of investigatory or remedial obligations and/or the issuance of injunctions limiting or preventing some or all of AJL's operations, as well as reputational damage.

There is also an inherent risk of incurring significant environmental costs and liabilities in the performance of AJL's operations, or the operations of an entity in which AJL has an interest, due to its handling of hydrocarbons, hazardous materials used in the drilling and completions processes (including chemicals used in the hydraulic fracturing process) and waste materials, as well as in connection with air emissions and waste water discharges related to the operations.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.11 Environmental (cont.)

Private entities, including the owners of properties upon which AJL's wells (or the operations of an entity in which AJL has an interest) are drilled and facilities where AJL's hydrocarbons or waste materials are taken for reclamation or disposal, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. In addition, the risk of accidental spills or releases of gas or hazardous materials could expose AJL to significant liabilities.

Any significant increase in the costs of compliance with, or the liabilities and costs associated with any failure to comply with, environmental and operational safety laws and regulations could have a material adverse effect on AJL's business, prospects, financial condition or results of operations.

2.12 Natural disasters and seasonal weather conditions

Some of the areas in which AJL has operations, particularly its drilling operations in Queensland, may be adversely affected by seasonal weather conditions. AJL is seeking to incorporate, and in some cases has incorporated, 'take or pay' provisions and/or wet weather standby payments to mitigate risks associated with wet weather events, thereby reducing the impact on its revenue stream.

The impact (directly or indirectly) of events beyond AJL's control may adversely impact AJL's operational and financial performance.

2.13 Availability of skilled employees, equipment and resources

AJL operates in sectors which are technically demanding and utilise a range of specialised equipment. To operate effectively, the business needs to continue to source and commission new equipment as well as recruit, train and retain skilled employees to operate the specialised equipment. The availability or supply of skilled personnel and the necessary equipment can be relevant to AJL's future financial performance and growth.

The drilling industry in which AJL's drilling division operates is capital intensive. The operating and financial performance of that division is partly reliant on adequate capital investment.

AJL's capital expenditure requirements may impact the cash flow available to service financing obligations and pay dividends. Incurred capital expenditure may or may not deliver the expected operational benefits and may have a material adverse effect on AJL.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.14 Reliance on Key Personnel

Like other companies, AJL's performance is dependent on the ability of its senior executives and key personnel to manage and grow its business and respond to customers needs. The loss of the services of its senior executives or key personnel, or a loss of the ability to attract and retain qualified and competent employees, could have a material adverse effect on AJL's operations and financial results. Continuity and retention of staff is important for customer retention and ongoing customer negotiations. A change of staff or resourcing issues could affect ongoing relationships with various parties connected to AJL.

2.15 Increased or new competition

In common with many other companies, AJL faces competition in its businesses. To the extent that there are new entrants or changes in strategy by competitors, AJL may lose market share with consequent adverse effects upon its operating and financial performance. In addition, consolidation within the industries in which AJL operates is possible, which may adversely affect AJL's competitive position.

2.16 Reputation

The reputation of AJL may be adversely affected in a number of circumstances, including major breaches of workplace safety, litigation or accidents. Where such circumstances occur and become known in its markets, there is a risk that AJL's reputation as a reliable and safe provider may be damaged. In addition, as with any listed company, AJL's share price may be affected by market sentiment.



Key Risks

2. General risks relating to the operating businesses of AJL and the markets in which it operates (cont.)

2.17 Labour disputes

If any material disputes were to arise between AJL and its employees or sub-contractors, there would be potential for disruption to the operations of AJL. Any disruption may increase labour costs and availability and adversely impact revenue and profitability.

2.18 Litigation and legal risks

Litigation risks to AJL include, but are not limited to, claims from various parties, including employees, suppliers, customers and other contractual counterparties, government and special interest groups, as well as claims in relation to environmental matters, accidents and other commercial matters.

To the extent that such risks are not fully covered by insurance, then any of an adverse outcome in litigation, the cost of responding to potential, threatened or actual litigation or the disruptive effect of disputes may have a material adverse impact on the financial performance of AJL.

2.19 Occupational Health and Safety

AJL's operations are subject to a wide variety of stringent and complex law, regulations and permit requirements, many of which relate to the protection of human health, safety and the environment. The laws and regulations exist at the local, state, national and supranational levels.

AJL manages risks associated with the occupational health and safety of its employees, sub-contractors and others. It is possible for incidents resulting in injuries to occur which may result in expenses which are not covered by insurance or which are in excess of the amount insured or provided for, with a resultant impact on AJL's earnings.



Key Risks

2. General risks relating to the investments of AJL

2.20 Regulatory risk

AJL has an interest in a number of assets that are located in different jurisdictions. Accordingly, such assets are subject to risks particular to its location, such as changes in laws, practices and policies in the relevant jurisdiction, including laws that deal with overseas investors.

In particular, there may be considerable resistance from the public or legislators or both in a region to certain exploration and development activities, particularly drilling and fracking, arising in connection with, for example, environmental sensitivities and concerns about pollution, concerns about the potential effects of fracking on aquifers or earth tremors and concerns about the impact of large scale drilling operations on landscapes, which may result in the suspension of activities, increasing regulations imposed on the activities, delays or cost increases.

The Netherlands

On 25 October 2011, a Court in Den Bosch, the Netherlands, ruled that the Boxtel town council should not have issued to Cuadrilla a temporary exemption to the zoning plan for exploratory shale gas drilling in the region and that the council should make a new decision taking the Court's ruling into account. This implies that a different procedure to the temporary exemption should apply. Cuadrilla, which is partnering Energie Beheer Netherlands, the oil and gas exploration and production company owned by the Dutch Government, had planned to commence drilling at this site in early 2012. Following the new procedure, which Cuadrilla is now following, the appropriate environmental assessment is being prepared. Cuadrilla is now awaiting the results of the independent study by the Ministry.



Key Risks

2. General risks relating to the investments of AJL (cont.)

2.21 Inability to meet exploration licence funding obligations

In addition to AJL's investment in Cuadrilla, AJL owns an 18.75% direct interest in English exploration licences PEDL 165 in the Bowland basin and a 25% direct interest in PEDL 244 in the Weald basin. Cuadrilla (through its wholly owned subsidiaries) owns the remaining 75% direct interest in PEDL 244 and 56.25% direct interest in PEDL 165 with Centrica owning the residual 25% direct interest in PEDL 165.

As the operator of the PEDL 165 and PEDL 244 licences, Cuadrilla is entitled, under the joint operating agreements between the owners of the licences, to determine the budget for exploration of these areas. AJL has no control over the expenditure of Cuadrilla as operator. If AJL fails to make its required contributions to project expenditures in a timely manner, it is exposed to the risk that it may lose its direct interest in these licences by way of the forfeiture provisions under the joint operating agreements that govern the joint ventures.

2.22 Lucas Cuadrilla's inability to meet funding obligations

Under the Cuadrilla Shareholders Agreement, Lucas Cuadrilla may be called upon to make further capital contributions to Cuadrilla. While AJL believes that the Offer and other elements of the Recapitalisation Plan will permit it to meet any capital contributions for CY2014, if Lucas Cuadrilla is not able to meet its equity funding obligations in Cuadrilla during or after that time, it is likely that Lucas Cuadrilla's ownership in Cuadrilla would be diluted.

2.23 Cuadrilla funding

In the event that Cuadrilla is unable to raise funding, as required, from its shareholders or other sources, it may not be able to take the required actions to execute its development and exit strategies, either in part or at all. This may then affect the value of AJL's shareholding in Cuadrilla.



Key Risks

2. General risks relating to the investments of AJL (cont.)

2.24 Inability to recover unconventional hydrocarbons

Cuadrilla's ability to develop its concessions for unconventional hydrocarbons depends not only upon the presence of significant in-place hydrocarbon resources in Cuadrilla's concession areas, but also on the ability of Cuadrilla to recover those resources in a commercially viable manner. There can be no guarantee that Cuadrilla will be able to recover any hydrocarbons in its concession areas or that it will be able to do so at a cost that makes production commercially feasible.

There has been, as yet, no commercial production of unconventional hydrocarbons in any of the countries in which Cuadrilla operates, whether by Cuadrilla or by any other party (other than on a small scale in the area covered by Cuadrilla's Hungarian licence). The data provided by the initial seismic appraisals, test drilling of vertical wells (which has not been carried out so as to generate a continuous flow of gas over an extended period of time) and other exploration activities that have been undertaken to date are insufficient, in both quantity and quality, to evaluate the likelihood of commercial recovery of unconventional hydrocarbons in these regions. Further drilling and production testing of horizontal wells will be necessary before Cuadrilla is able to make an estimate of recoverable volumes in any of its concessions and it is possible that such further drilling and production testing may not yield positive results. There is a risk that unconventional hydrocarbons extraction and recovery may not be feasible at all in Cuadrilla's concessions with existing technology due to technical complications arising from factors such as rock properties, reservoir pressure, fracture complexity and conductivity and other factors specific to the shale plays within Cuadrilla's concession areas.

Further, even if recovery of such hydrocarbons is technically feasible in Cuadrilla's concessions, there is a risk that it may not be commercially viable due to the costs of the technology, drilling, equipment and other resources needed to extract the hydrocarbons from the reservoirs, all of which will depend to a significant extent on the specific conditions of each particular reservoir.

Commercial extraction of hydrocarbons will also depend on installation of infrastructure which will require Cuadrilla to obtain additional regulatory approvals, which may include environmental permits.

The commercial viability of any particular unconventional reservoir will be largely a function of the prevailing prices for oil and natural gas compared to the costs of extracting hydrocarbons from that reservoir and a higher cost base for a particular reservoir, whether due to its particular geophysical qualities or otherwise (including installation of gathering pipelines and related investments necessary to install any required supply infrastructure) that could make profitable extraction from such reservoir impossible.

If Cuadrilla is unable to recover hydrocarbons from its concessions at all, due to geological factors or technical infeasibility, or if it is able to recover hydrocarbons only at a cost which makes production commercially unviable, this may have a material adverse effect on the value of AJL's investment in Cuadrilla and the value of AJL's direct interests in the Bowland basin and the Weald basin.



Key Risks

2. General risks relating to the investments of AJL (cont.)

2.25 Cuadrilla Change of Control Event

The holding by Lucas Cuadrilla of shares in Cuadrilla is subject to the terms of the Cuadrilla Shareholder Agreement.

If there is a Change of Control and the new controller is not a qualifying transferee, then there is a risk that Lucas Cuadrilla may be forced to sell its shares in Cuadrilla to Riverstone. Kerogen currently has capacity to creep to 50.88%. Kerogen's underwriting of the Institutional Entitlement Offer will not cause its holding to exceed 49.99% of AJL. Kerogen holds 11,159,356 options in AJL.

2.26 Risks relating to the unconventional hydrocarbon sector

AJL has domestic and international operations in the unconventional hydrocarbon sector. Any variance in the level of activity in these sectors may have an adverse effect on results and the factors influencing that variance may be beyond the control of AJL.

These factors vary, but can include:

- the legal and regulatory regimes governing the production of shale energy are subject to change;
- energy exploration, especially in relation to unconventional resources such as shale gas, is speculative, capital intensive and can result in complete loss of capital; and
- a substantial or extended decline in gas prices may adversely affect AJL's business prospects, financial condition and results of operations.

2.27 Technical and other risks

A range of factors may affect the investments of AJL, including, but not limited to, exploration, appraisal and production:

- geological conditions;
- unanticipated operating and technical difficulties encountered in seismic survey, drilling and production activities;
- mechanical failure of operating plant and equipment;
- prevention of access by reason of community unrest, outbreak of hostilities, inability to obtain consents and approvals; and
- AJL does not own the land on which it operates.

3. Risk Mitigation

AJL has established systems of risk management and internal control. These systems are designed to assist in managing the operational risks associated with its business. These have previously been disclosed in AJL's Prospectus date 28 September 2012.



Foreign Jurisdictions

This document does not constitute an offer of Shares of AJL in any jurisdiction in which it would be unlawful. Offer Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Securities Act 1978 (New Zealand).

The Offer Shares in the Entitlement Offer are not being offered to the public in New Zealand other than to existing shareholders of AJL with registered addresses in New Zealand to whom the offer is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

Other than in the Entitlement Offer, Offer Shares may be offered and sold in New Zealand only to:

- persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
- persons who are each required to (i) pay a minimum subscription price of at least NZ\$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ\$500,000 for securities of AJL ("**initial securities**") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**"), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "**SFO**"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong other than (i) to "**professional investors**" (as defined in the SFO) or (ii) in other circumstances that do not result in this document being a "**prospectus**" (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.



Foreign Jurisdictions

Hong Kong (cont.)

No advertisement, invitation or document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Offer Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Offer Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

UK

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("**FSMA**")) has been published or is intended to be published in respect of the Offer Shares. This document is issued on a confidential basis to "**qualified investors**" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and these securities may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

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In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("**FPO**"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "**relevant persons**"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.



Foreign Jurisdictions

No US offer

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Glossary

Term	Meaning
\$	Australian dollars unless otherwise stated (converted at GBP1:AUD1.6189 as at 6 June 2013, where applicable)
AJL	AJ Lucas Group Limited
Bolney	An oil and gas project operated by Cuadrilla and located in the Weald Basin, West Sussex, England on the Bolney License
Bolney License	United Kingdom Onshore Petroleum Exploration and Development Licence PEDL 244 dated 1 September 2008 issued under the Petroleum Act 1998
Bowland	A gas project operated by Cuadrilla and located in the Bowland Basin, Lancashire, England on the Bowland License
Bowland License	United Kingdom Onshore Petroleum Exploration and Development Licence PEDL 165 dated 1 September 2008 issued under the Petroleum Act 1998
Centrica	Centrica plc
Cuadrilla	Cuadrilla Resources Limited
E&C	Engineering and Construction
Fracking	The procedure of creating fractures in rocks and rock formations by injecting fluid into cracks to force them further open
HDD	Horizontal Directional Drilling
Kerogen	Kerogen Investments No.1 (HK) Limited
Lucas Cuadrilla	Lucas Cuadrilla Pty Limited
Monument Prospect	Lands located in Trinity County, Texas, in which AJL has an indirect contractual interest in respect of oil and gas leaseholds
Reported EDITDA	Reported earnings before interest, tax, depreciation and amortization
Underlying EBITDA	Reported EBITDA adjusted for non-trading activities including: redundancies, refinancing costs, legacy project losses, equity accounted costs and share of Lucas Energy (UK) Limited overheads
TERP	Theoretical Ex-Rights Price (TERP) is the theoretical price at which AJL shares should trade immediately after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only: the actual price at which AJL's shares will trade immediately after the ex-date will depend on many factors and may not be equal to TERP