

AJ Lucas Group Limited
(ABN 12 060 309 104)

**Notice of Annual General Meeting and
Explanatory Statement**

**Annual General Meeting of the Company
to be held on
29 November 2013 at 10.00am**

**The Brook Room
Stamford Grand Hotel
110 Herring Road
North Ryde NSW 2113**



AJ LUCAS GROUP LIMITED

(ABN 12 060 309 104)

(Company)

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting (**AGM or Meeting**) of the Company is to be held as set out below.

DETAILS OF MEETING

Date: 29 November 2013

Time: 10:00am

Address: The Brook Room
Stamford Grand Hotel
110 Herring Road
North Ryde NSW 2113

Members unable to attend the AGM are invited to vote by proxy on the resolutions to be considered at the meeting.

An Explanatory Statement and instructions on how to vote (including how to vote by proxy) are set out in this Notice of AGM.

ORDINARY BUSINESS

Financial statements and reports

To receive and consider the consolidated financial statements of the Company and its controlled entities and the reports of the directors and the auditor for the year ended 30 June 2013.

Shareholders can access a copy of the reports from the Company's website: www.lucas.com.au.

Please note that there is no vote on this item.

Resolution 1: Re-election of director

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

"That Martin Green, having retired by rotation in accordance with clause 10.2 of the Company's constitution and, being eligible, having offered himself for re-election, be re-elected a director of the Company."

Resolution 2: Re-election of director

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

"That Mike McDermott, having retired by rotation in accordance with clause 10.2 of the Company's constitution and, being eligible, having offered himself for re-election, be re-elected a director of the Company."

Resolution 3: Re-election of director

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

"That Julian Ball, having been appointed to fill a casual vacancy, retires as required in accordance with clause 10.4 of the Company's constitution and, being eligible, having offered himself for re-election, be re-elected a director of the Company."

Resolution 4: Adoption of the Remuneration Report

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

"That the Remuneration Report, which forms part of the Directors' Report of the Company for the financial year ended 30 June 2013, be adopted."

The vote on **Resolution 4** is advisory only and does not bind the directors or the Company.

If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive AGMs, shareholders will be required to vote at the second of those AGMs on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's directors (other than the Managing Director and Chief Executive Officer) must go up for re-election.

Voting exclusion: As required by the *Corporations Act 2001* (**Corporations Act**), no member of the Company's key management personnel, details of whose remuneration are included in the Remuneration Report (**KMP**), or a closely related party of any KMP, may vote in any capacity (e.g. as a shareholder, proxy or corporate representative) on the proposed resolution, unless:

- the person votes as a proxy appointed by writing that specifies how the person is to vote on the proposed resolution; and
- the vote is not cast on behalf of any such member or closely related party of any such member.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, whether directly or indirectly. Members of KMP include the Company's directors and certain senior executives.

The prohibition in the Corporations Act on members of KMP or a closely related party of any KMP voting does not apply to the Chairman of the Meeting as proxy for a member entitled to vote where the proxy appointment expressly authorises the Chairman of the Meeting to vote in that capacity on Resolution 4 (see page 5 for further information).

If a member of KMP or a closely related party of any KMP (or any person acting on behalf of any such person) purports to cast a vote that will be disregarded by the Company (as indicated above), that person may be liable for an offence for breach of voting restrictions that apply under the Corporations Act.

Resolution 5: Increase in Directors' fees

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

"That, for the purposes of Listing Rule 10.17, clause 10.7 of the Company's constitution and for all other purposes, the maximum yearly aggregate sum payable for fees to non-executive directors of the Company is increased by \$300,000 from \$450,000 to \$750,000."

Voting exclusion: In accordance with Listing Rule 14.11, the Company will disregard any votes cast on Resolution 5 by all directors and their associates. However, the Company will not disregard any votes cast on Resolution 5 by such persons if:

- 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
- 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.

As required by the Corporations Act, the Company will disregard any votes cast in any capacity by the KMP, or a closely related party of any KMP on the proposed resolution. However, the Company will not disregard any votes cast on Resolution 5 by such person if:

- the person is acting as proxy and the proxy form specifies how the proxy is to vote on the Resolution, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this Resolution as described above; or
- the person is the Chairman of the Meeting voting an undirected proxy and their appointment expressly authorises the Chairman to exercise the proxy even though Resolution 5 is connected with the remuneration of the KMP.

The prohibition in the Corporations Act on members of KMP or a closely related party of any KMP voting does not apply to the Chairman of the Meeting as proxy for a member entitled to vote where the proxy appointment expressly authorises the Chairman of the Meeting to vote in that capacity on Resolution 5 (see page 5 for further information).

If a member of KMP or a closely related party of any KMP (or any person acting on behalf of any such person) purports to cast a vote that will be disregarded by the Company (as indicated above), that person may be liable for an offence for breach of voting restrictions that apply under the Corporations Act.

Resolution 6: Approval of the Kerogen Security

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

"That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for

- (i) the Company and each Existing Security Provider having granted the Existing Security;*
- (ii) the Existing Security securing all monies owing to Kerogen Investments No. 1 (HK) Limited (**Kerogen**) and each other Finance Party under a Finance Document from time to time, including without limitation under the New Facility Agreement;*
- (iii) the Company and each Additional Security Provider granting the Additional Security, including to secure all monies owing to Kerogen and each other Finance Party under a Finance Document from time to time, including without limitation under the New Facility Agreement; and*
- (iv) any disposal of assets which may, from time to time, arise by Kerogen or any other Finance Party or Beneficiary under the Security Trust Deed exercising its rights under the securities granted under the Kerogen Security,*

as further described in the Notice of Meeting and Explanatory Statement dated on or about 25 October 2013."

Voting exclusion: In accordance with Listing Rule 10.10 and 14.11, the Company will disregard any votes cast in favour of Resolution 6 by Kerogen and each of its associates. However, the Company need not disregard a vote if:

- 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
- 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 6.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by BDO Corporate Finance (East Coast) Pty Limited (**Independent Expert**) (see **Annexure D** to this Notice of Meeting) for the purposes of the Shareholder approval required under Listing Rule 10.1,

which concludes that the provision of the Kerogen Security is "fair and reasonable" to the non-associated Shareholders in the Company.

SPECIAL BUSINESS

Resolution 7: Approval of financial assistance

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 Additional Security Providers to accede to the New Facility Agreement as guarantors and obligors and to enter into the Additional 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 25 October 2013."

Voting exclusion: The Company will disregard any votes cast in favour of Resolution 7 by Kerogen and each of its associates.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 7.

By Order of the Board



Nicholas J W Swan
Company Secretary

Date: 25 October 2013

NOTES AND VOTING INSTRUCTIONS

ACCOMPANYING DOCUMENTS - IMPORTANT

The following documents accompany this notice:

- (a) Explanatory Statement in relation to the resolutions to be considered (including an Independent Expert's Report in **Annexure D**);
- (b) a proxy form; and
- (c) the 2013 Annual Report (for those Shareholders who have specifically requested it).

The Explanatory Statement forms part of this Notice of Meeting.

The background and reasons behind the 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.

HOW TO VOTE

Members can vote in one of two ways

1. By attending the AGM and voting in person or by attorney or, in the case of corporate members, by corporate representative; or
2. By appointing a proxy to attend the AGM and vote on their behalf by:
 - Using the proxy form enclosed with this Notice of AGM; or
 - Recording their proxy voting instructions on the internet at www.investorvote.com.au. To access this facility, members will need their holder identification number (**HIN**) or security holder reference number (**SRN**) and postcode which are printed on the proxy form enclosed with this Notice of AGM.

Voting in person or by Attorney

Members are asked to arrive at the venue from 09:30am (Sydney time) to allow for registration for the AGM.

To help facilitate registration, please bring the proxy form enclosed with this Notice of AGM. An individual attending the AGM as corporate representative must present satisfactory evidence of his or her appointment to attend on the Company's behalf, unless previously lodged with the Company or the Company's Share Registry (the **Share Registry**). Attorneys should bring with them original or certified copies of the Power of Attorney under which they have been authorised to attend and vote at the AGM, unless previously lodged with the Company or the Share Registry.

Voting by Proxy

- A member entitled to attend and vote is entitled to appoint a proxy or, if the member is entitled to cast two or more votes at the meeting, appoint not more than two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. Each proxy will have the right to vote and to speak at the AGM.
- Where a member appoints two proxies or attorneys to vote at the AGM and the authority of one is not conditional on the other failing to attend or vote, the following rules apply:
 - the appointment is of no effect and the proxy or attorney may not vote unless each proxy or attorney, as the case may be, is appointed to represent a specified proportion of the member's voting rights;

- on a show of hands, neither proxy or attorney may vote; and
- on a poll, each proxy or attorney may only exercise the voting rights the proxy or attorney represents.
- A proxy, attorney or representative may be a member of the Company but does not have to be a member.
- A proxy form appointing a proxy or a document appointing an attorney may direct the manner in which the proxy or attorney is to vote in respect of a particular resolution and, where the form or document so provides, the proxy or attorney is not entitled to vote on the proposed resolution except as directed in the form or document.
- Members who complete and return their proxy form but do not nominate the identity of the proxy will be taken to have appointed the Chairman of the Meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the AGM, the Chairman of the Meeting will act in place of the nominated proxy. In each case, the Chairman of the Meeting will vote in accordance with any voting directions specified by the member in the proxy form or, where the member does not specify any voting instruction in the proxy form for an item of business, in accordance with the voting intentions of the Chairman of the Meeting in respect of undirected proxies set out below.
- If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on each resolution by marking either "For", "Against" or "Abstain" on the proxy form for each of those items of business.

Undirected Proxies

- If a member entitled to vote appoints the Chairman of the Meeting as its proxy and the member does not direct the Chairman of the Meeting how to vote on Resolution 4 or Resolution 5, the member may authorise the Chairman of the meeting in respect of that item to exercise the proxy notwithstanding that resolution is connected directly or indirectly with the remuneration of a member of the Company's KMP. Further details are contained on the proxy form distributed with the Notice of AGM.
- Where the Chairman of the Meeting is appointed as proxy for a member entitled to vote, the Chairman of the meeting will (where authorised) vote all undirected proxies IN FAVOUR of all the proposed resolutions to be considered at the AGM. Accordingly, if you appoint the Chairman of the Meeting as your proxy and wish to vote differently to how the Chairman of the Meeting intends to vote on any of the resolutions, you must mark "For", "Against" or "Abstain" on the proxy form for the relevant item of business.

Lodgement of Proxy Forms

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;
- (b) **By facsimile to:** 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
- (c) **By mail to:** The Company's registered office at Level 3, Hyundai Building, 394 Lane Cove Road, Macquarie Park, NSW 2113;
- (d) **Vote online:** Shareholders can also cast their votes online at 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

- (e) **Custodian voting:** for Intermediary online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions,

so that they are received by **no later than 10.00am (Sydney time) on Wednesday, 27 November 2013.**

Proxy forms or proxy voting instructions received after this time will be invalid.

The proxy form must be signed by the member or the member's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act.

Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the power of attorney or the power itself must be received by the Share Registry at either of the postal addresses listed above or by fax before 10.00am (Sydney time) on Wednesday, 27 November 2013. If faxed, the power of attorney must be certified.

Entitlement to Vote

The Board has determined that, for the purposes of the AGM (including voting at the AGM), members are those persons who are registered holders of fully paid ordinary shares (**Shares**) in the Company (**Shareholders**) at 5.00pm (Sydney time) on Wednesday, 27 November 2013.

EXPLANATORY STATEMENT

This Explanatory Statement forms part of the Notice of Meeting convening the Annual General Meeting (**AGM or Meeting**) of Shareholders to be held on 29 November 2013 and is to assist Shareholders in understanding the background to the resolutions.

Financial Statements and Reports

The Corporations Act requires the Financial Report (which includes the Financial Statements and Directors' Declaration), the Directors' Report and the Auditor's Report to be laid before the AGM.

There is no requirement either in the Corporations Act or in the Company's constitution for members to approve the Financial Report, the Directors' Report or the Auditor's Report.

Members will have a reasonable opportunity at the meeting to ask questions and make comments on these Reports and on the business and operations of the Company. Members will also be given a reasonable opportunity to ask the auditor questions about the Auditor's Report and the conduct of the audit of the Financial Report.

Resolution 1: Re-election of Martin Green as a Director

Mr Green was appointed as director of the Company in 1999 just prior to the Company listing on the Australian Securities Exchange (**ASX**).

Mr Green is a Fellow of the Institute of Chartered Accountants and an official liquidator of the Supreme Court of NSW. He has been in public practice for 38 years, mainly specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels.

He is currently a principal at BRI Ferrier (NSW) Pty Ltd, Chartered Accountants, a former honorary director/treasurer of the National Trust of Australia (NSW) and has served at various times in many public roles and capacities.

Mr Green also serves as Chairman of the Company's Audit and Risk, and Remuneration Committees.

Under the Company's constitution, at the AGM, one third of the directors (excluding the Managing Director), or the nearest whole number thereto, must retire from office. In accordance with this requirement, Mr Green now retires from the Board and offers himself for re-election.

The directors unanimously recommend that Shareholders vote in favour of the re-election of Martin Green as a director.

Resolution 2: Re-election of Mike McDermott as a Director

Mr McDermott was appointed as director in 2010.

Mr McDermott has worked in the drilling industry since 1963. In 1970, he established McDermott Drilling, growing this to become New South Wales' largest drilling company prior to its acquisition by Lucas in 2006.

He is a director of the Australian Drilling Industry Association (ADIA), serves on the Australian Drilling Industry Training Committee (ADITC) and was the director representing the drilling industry on the Resources and Infrastructure Industry Skills Council (RIISC). He also serves as a member of the Company's Remuneration Committee.

Under the Company's constitution, at the annual general meeting, one third of the directors (excluding the Managing Director), or the nearest whole number thereto, must retire from office. In accordance with this requirement, Mr McDermott now retires from the Board and offers himself for re-election.

The directors unanimously recommend that Shareholders vote in favour of the re-election of Mike McDermott as a director.

Resolution 3: Re-election of Julian Ball as a Director

Mr Ball was appointed as director of the Company on 2 August 2013. In accordance with clause 10.4 of the Company's constitution, Mr Ball now retires from the Board and offers himself for re-election.

Mr Ball is a Managing Director of Kerogen Capital (Asia) Limited, a director of Kerogen and has more than 25 years experience in private equity and investment banking.

Prior to joining Kerogen, Mr Ball was a senior member of J.P. Morgan Private Capital Asia, a principal investments team, responsible for managing the fund's operations and leading and monitoring investments and, before that, was a Managing Director at Ritchie Capital Management (Asia). Mr Ball has also worked as an investment banker at J.P. Morgan in Hong Kong, where he advised on M&A and capital raisings primarily in the energy and natural resources sector, and headed the Financial Restructuring Advisory practice. He was also previously a Managing Consultant at Ernst & Young's corporate finance practice, based in Hong Kong and London.

Mr Ball is a Fellow of the Institute of Chartered Accountants of England and Wales where he holds a Diploma in Corporate Finance and a Fellow of the Hong Kong Institute of Certified Public Accountants.

Under the Company's constitution, a director appointed to fill a casual vacancy holds office only until the next general meeting. In accordance with this requirement, Mr Ball retires from the Board and offers himself for re-election.

The directors unanimously recommend that Shareholders vote in favour of the re-election of Julian Ball as a director.

Resolution 4: Adoption of the Remuneration Report

The Directors' Report for the year ended 30 June 2013 contains a Remuneration Report which sets out the policy for the remuneration of the directors and specified executives of the Company and its consolidated group. The Remuneration Report is set out on pages 27 to 33 of the Company's 2013 Annual Report.

In accordance with section 250R(2) of the Corporations Act, a resolution that the Remuneration Report be adopted must be put to vote at the Company's AGM. The vote on Resolution 4 is advisory only and does not bind the directors or the Company.

Members attending the meeting will be given a reasonable opportunity to ask questions about, and make comments on, the Remuneration Report.

The 2013 Annual Report is available on the Company's website: www.lucas.com.au.

The directors unanimously recommend that Shareholders vote in favour of the resolution.

Resolution 5: Increase in Directors' fees

The Company currently is authorised to pay a maximum total of \$450,000 to non-executive directors of the Company as directors' fees.

Up until now, this limit has been adequate given the number of directors on the Board.

However, with the appointment by Kerogen of Julian Ball as a new non-executive director and the right of Kerogen to appoint a further non-executive director, the Company believes that the \$450,000 cap per annum is inadequate and, accordingly, seeks shareholder approval for the purposes of each of Listing Rule 10.17, clause 10.7 of the Company's constitution and for all other purposes, to increase the cap by \$300,000 to \$750,000 per annum.

The remuneration cap does not include remuneration paid to Mr Allan Campbell (the Company's Chairman and Chief Executive Officer), as he is an executive director.

The remuneration of each director is detailed in the Company's Remuneration Report.

Resolution 6: Approval of Kerogen Security

Background – Existing Facility Agreement

The Company and Kerogen are parties to a Mezzanine Facility Agreement dated 21 December 2011 (as amended from time to time) (**Existing Facility Agreement**) under which Kerogen has advanced to the Company a total in aggregate of approximately US\$99.16 million and AU\$18.25 million, some of which has since been repaid out of the proceeds of a placement and pro-rata accelerated non-renounceable entitlement offer in July 2013 that raised approximately A\$149m for the Company, including AU\$82.9 million in subscription monies from Kerogen in its capacity as a shareholder and underwriter of the placement (**Entitlement Offer**). As at the date of this Explanatory Statement, the principal balance payable (not including amount of accrued interest) by the Company to Kerogen under the Existing Facility Agreement is approximately US\$47.61 million. The accrued interest as at the date of the AGM is approximately US\$2.74 million.

The Company and Kerogen have also previously entered into a facility agreement dated 13 June 2013 to refinance the amounts outstanding under the Existing Facility Agreement (**Unutilised Facility Agreement**). However no draw downs have occurred under the Unutilised Facility Agreement and it is intended that the facility provided under the Unutilised Facility Agreement will be cancelled and replaced by the New Facility Agreement (as defined below) which will be used to refinance the Existing Facility Agreement instead of the Unutilised Facility Agreement.

Background – Existing Security

The Existing Facility Agreement and the Unutilised Facility Agreement are secured by the following security arrangements (**Existing Security**):

- (a) a Security Trust Deed dated 26 September 2012 entered into by Kerogen (as security trustee (**Security Trustee**)), the Company and each of the entities set out in Table A of **Annexure A** (each an **Existing Security Provider**) under which the rights of the Beneficiaries (as defined under the Security Trust Deed which, at this time, only includes Kerogen) under the Existing Security are held by the Security Trustee for the benefit of those Beneficiaries; and
- (b) all asset security interests granted by the Company and each other Existing Security Provider to Kerogen (as security trustee) that secure all amounts owing under the Existing Facility Agreement, the New Facility Agreement (as defined below) and all other amounts due from time to time to Kerogen and each other Finance Party (as defined in the Security Trust Deed) under a Finance Document (as defined in the Security Trust Deed) (see security agreements set out in Table A of **Annexure A**).

New Facility Agreement

On or about 16 October 2013, the Company entered into a new facility agreement with Kerogen to refinance the amounts outstanding under the Existing Facility Agreement (as amended from time to time, **New Facility Agreement**). If utilised, the New Facility Agreement will replace the Unutilised Facility Agreement which will be terminated. Under the New Facility Agreement, once a number of conditions precedent have been satisfied, Kerogen will provide the Company with loans which will be used to fully refinance the amounts of principal and interest outstanding under the Existing Facility Agreement. Immediately after the refinancing, the Existing Facility Agreement will be cancelled and the Obligors and the Finance Parties will have no ongoing obligations to one another under that agreement.

Terms of the Existing Security

The key provisions of the Existing Security are summarised in **Annexure B**.

At any time after an 'Event of Default' has occurred under the Existing Facility Agreement or the New Facility Agreement, Kerogen is able to exercise a number of powers under the Existing Security. Specifically, the Existing Security provides Kerogen, upon exercising its enforcement rights, with the ability (amongst other things) to appoint a receiver to the assets of the Company and the relevant Security Provider (**Secured Property**) who may then sell those assets and apply the proceeds of sale in full or partial satisfaction of amounts owed to Kerogen and the other Finance Parties by the Company and any other Security Provider under the Existing Facility Agreement and/or the New Facility Agreement.

As noted in the "*Background – Existing Facility Agreement*" section above, the Existing Security secures all amounts owing under the Existing Facility Agreement and the New Facility Agreement and all other amounts due from time to time to Kerogen and each other Finance Party under the Existing Facility Agreement, the New Facility Agreement and any other Finance Document (as defined in the Security Trust Deed). Specifically:

- (i) any further amounts advanced by Kerogen or any other Finance Party, including under the New Facility Agreement, will be secured under the Existing Security; and
- (ii) if Kerogen or another Finance Party were to assign any of its debt under either the Existing Facility Agreement or the New Facility Agreement to any person, that person would become a 'Finance Party' under the Security Trust Deed and that person obtains the benefit of the Existing Security.

The ability of Kerogen to exercise these powers under the Existing Security is subject to the terms of the ASX waiver with respect to enforcing the security, as set out in the announcements made to ASX on 2 August 2012, 4 January 2013 and 2 April 2013. However, if Shareholder approval under Resolution 6 is obtained (details of which are discussed in the "*Basis on which Shareholder approval is being sought*" section below), then the terms of the ASX waivers by which the Existing Security may be enforced will cease to apply.

Details of the New Facility Agreement and the Additional Security

The New Facility Agreement has the following features:

- the New Facility Agreement consists of two tranches, with maturity dates of 31 January 2017 and 28 February 2017 respectively (or the date those tranches are terminated or cancelled in accordance with the New Facility Agreement, if earlier than those dates);
- part of the interest is payable in cash and part of the interest is capitalised every 6 months (**PIK Interest**) at the rates set out below;
- draw down under the New Facility Agreement will not result in any inflow of funds to the Company (that is, it is a restructure of existing indebtedness already owed by the Company to Kerogen under the Existing Facility Agreement); and
- all amounts owing to Kerogen and the other Finance Parties from time to time under the New Facility Agreement are to be secured by the following security arrangements (together, **Kerogen Security**):
 - the Existing Security; and
 - all asset security interests to be granted by the Company and each of the entities set out in Table B of **Annexure A** (each an **Additional Security Provider**) to the Security Trustee that secure all amounts owing under the New Facility Agreement and all other amounts due from time to time to Kerogen and each other Finance Party (as defined in the Security Trust Deed) (**Additional Security**).

The key provisions of the Additional Security are summarised in **Annexure C**. The Additional Security will be provided on similar terms to, and is enforceable in similar circumstances to, the Existing Security, as broadly described under the heading "*Terms of the Existing Security*" above, however the terms of the ASX waivers in relation to enforcing the Existing Security will not apply to the Additional Security.

The key terms of the New Facility Agreement are set out below:

Feature	
Facility	Loan facility comprising two tranches.
Lender	Kerogen.
Total Commitment	First Tranche Loan: US\$30 million. Second Tranche Loan: the aggregate of the amounts outstanding, and all accrued but unpaid interest, under the Existing Facility Agreement at the Closing Date less US\$30 million.
Closing Date	Date on which draw down of the tranches occurs in accordance with the New Facility Agreement.
First Tranche Loan Maturity Date	31 January 2017 (or the date the New Facility is terminated or cancelled in accordance with the New Facility Agreement, if earlier than that date).
Second Tranche Loan Maturity Date	28 February 2017 (or the date the New Facility is terminated or cancelled in accordance with the New Facility Agreement, if earlier than that date).
Interest Rate on First Tranche Loan	Cash interest: - for the period from the Closing Date to 31 January 2015, of 10% per annum; and - for the period from 1 February 2015 to 31 January 2017, of 15% per annum, payable every 3 months on 31 January, 30 April, 31 July and 31 October, in arrears. PIK Interest, for the period from the Closing Date to 31 January 2015, of 5% capitalised every 6 months on 31 January and 31 July, in arrears (that is, PIK Interest is, to the extent not paid when due in cash, to be capitalised into the principal outstanding for the First Tranche Loan at the end of every 6 month period from the Closing Date). Failure to pay PIK Interest in cash on the relevant interest payment dates does not constitute an Event of Default, but any amount of capitalised PIK Interest will need to be repaid on maturity of the loan.
Interest Rate on Second Tranche Loan	Cash interest: - for the period from the Closing Date to 28 February 2015, of 10% per annum; - for the period from 1 March 2015 to 28 February 2016, of 12.5% per annum; and - for the period from 1 March 2016 to 28 February 2017, of 15% per annum, payable every 3 months on 28 February, 31 May, 31 August and 30 November, in arrears. PIK Interest: - for the period from the Closing Date to 28 February 2015, of 5% per annum; and - for the period from 1 March 2015 to 28 February 2016, of 2.5% per annum, capitalised every 6 months on 28 February and 31 August, in arrears (that

Feature	
	is, PIK Interest is, to the extent not paid when due in cash, to be capitalised into the principal outstanding for the First Tranche Loan at the end of every 6 month period from the Closing Date). Failure to pay PIK Interest in cash on the relevant interest payment dates does not constitute an Event of Default, but any amount of capitalised PIK Interest will need to be repaid on maturity of the loan.
Default Interest Rate	For so long as an Event of Default is subsisting (including, for example, failure to pay on the due date an amount payable under the New Facility Agreement) interest accrues at a rate which is 2% above the applicable interest rate to the loan, compounded at the end of each 3 month period but remaining immediately due and payable.
Fees	Commitment fee of US\$2 million payable as follows: • US\$1 million on the Closing Date; • US\$500,000 on the first anniversary of the Closing Date; and • US\$500,000 on the second anniversary of the Closing Date. For any period in which the Lender is not a Kerogen Related Entity: • an Agent's fee agreed between the Company and the Agent; and • a Security Trustee's fee agreed between the Company and the Security Trustee.
Costs and Expenses	The Company will bear all costs and expenses incurred by Kerogen (and any other Finance Party) in connection with the negotiation and execution of the New Facility Agreement and the other Finance Documents (including the Additional Security).
Mandatory Prepayments / Repayments	Any cash proceeds received by the Company or a subsidiary under any of the following will be applied to prepay or repay, firstly, any fees payable under the New Facility Agreement, secondly, unpaid principal and interest under the Second Tranche Loan and, finally, unpaid principal and interest under the First Tranche Loan: (a) if the aggregate amount of the net proceeds of a disposal of a Material Australian Asset (being the Drilling Division and any assets held or operated by that division) is more than \$15,000,000 in any calendar year, an amount at least equal to 50% of those net proceeds in excess of \$15,000,000; (b) an amount equal to 50% of the net proceeds of each relevant disposal of a Material International Asset other than the Bowland Indirect Interest (being Cuadrilla Shares, Bowland Direct Interest, Bolney Interest, Lucas UK Entities and East Texas Net Profit Interest); and (c) if the relevant disposal is in respect of the Bowland Indirect Interest and the Cuadrilla Board resolves to and does distribute to the Company an amount, on receipt of such distribution an amount equal to 100% of the monies received.

Conditions precedent to draw down of loans under the New Facility Agreement

The loans under the New Facility Agreement cannot be drawn down until certain conditions precedent have been met. In particular, one of the conditions precedent is that the resolutions referred to in Resolution 6 and Resolution 7 have been passed by the requisite majority of the Company's shareholders and the Additional Security has been granted to the Security Trustee.

Basis on which Shareholder approval is being sought

The Company has not previously sought Shareholder approval in respect of the grant of the Existing Security or the Additional Security to Kerogen.

Instead, the Company obtained waivers from the ASX to permit the Company and its subsidiaries to grant Existing Security over their assets in favour of Kerogen to secure the repayment of the Existing Facility Agreement. These waivers were obtained on 1 August 2012, 4 January 2013 and 28 March 2013.

The Company is required to obtain Shareholder approval under Listing Rule 10.1 in order to permit the Company and the other Additional Security Providers to grant the Additional Security and in order to ensure that all amounts owing under the New Facility Agreement, and all other amounts owing to Kerogen or another Finance Party from time to time under the Finance Documents (as defined in the Security Trust Deed) (in each case including principal amounts and amounts of capitalised interest) will be secured by the Existing Security and the Additional Security.

If Shareholder approval under Resolution 6 is obtained, the terms of the ASX waivers obtained on 1 August 2012, 4 January 2013 and 28 March 2013 will no longer restrict Kerogen's ability to enforce the Existing Security. The Additional Security is not subject to the terms of any ASX waivers.

Application of Listing Rule 10.1

Listing Rule 10.1 provides that approval of holders of an entity's ordinary securities is required where an entity proposes to dispose of, or agrees to dispose of, a substantial asset to a second entity that is either a substantial shareholder or an associate of a substantial shareholder of that entity. For these purposes:

- (a) a person is a substantial holder if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to an entity's voting securities; and
- (b) an asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of the company as set out in the latest accounts of the company given to ASX under the Listing Rules.

At the date of this Explanatory Statement, Kerogen has a relevant interest in 49.58% of the fully paid ordinary shares in the issued capital of the Company (**Shares**) and holds 11,159,356 options to subscribe for Shares.

The Company's audited financial report for the period ended 30 June 2013 (as lodged with ASX on 27 September 2013) shows that its equity interests were approximately \$131.6 million. The value of the assets the subject of the Kerogen Security would exceed 5% of the Company's equity interests as shown in its last consolidated financial statements.

For the purposes of Listing Rule 10.1, the "disposal" of an asset includes the grant of a security over those assets. Accordingly, Shareholder approval for the purposes of Listing Rule 10.1 is required before the Kerogen Security can become effective in relation to the New Facility Agreement and Kerogen can exercise its enforcement rights under the terms of that security.

Listing Rule Requirements – Independent Expert Determination

Under Listing Rule 10.10, the Notice of Meeting is required to contain a report on the transaction from an independent expert stating whether the transaction is "fair and reasonable" to holders of the Shares whose votes are not to be disregarded.

The Independent Expert's Report in relation to the approval of the Kerogen Security is set out in **Annexure D** of this Explanatory Statement.

The Independent Expert has concluded that the provision of the Kerogen Security is "fair and reasonable" to Shareholders who are not associated with Kerogen.

Shareholders are advised to consider the Independent Expert's Report carefully before deciding how to vote on Resolution 6.

A voting exclusion statement in respect of Resolution 6 is set out in both the Notice of Meeting and below.

Reasons to VOTE IN FAVOUR of Resolution 6

The Board considers that the approval of the Kerogen Security is in the best interests of the Company and recommends that you **VOTE IN FAVOUR** of Resolution 6 to approve the approval of the Kerogen Security.

The Board considers that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 6. They are:

- (a) **there may be default under the Existing Facility Agreement if it is not approved:** if Resolution 6 is not approved, a condition precedent to the drawdown of funds under the New Facility Agreement will not be satisfied and the Company will not have the funds to repay the Existing Facility Agreement. If repayment of the Existing Facility Agreement is not made before 22 January 2014, it will constitute an 'Event of Default' under the Existing Facility Agreement. As a consequence, Kerogen may exercise its rights against the Company, including under the Existing Security; and
- (b) **no other arrangements:** at this time, the Company has no other arrangements in place to obtain funding from an alternative source to repay the Existing Facility Agreement by the maturity date and there is uncertainty as to whether, and if so on what terms, it could do so.

Reasons to VOTE AGAINST Resolution 6

The Board consider there are no disadvantages associated with the approval of the Kerogen Security.

In particular, the Board are of the view that the Additional Security is required as a condition precedent under the New Facility Agreement, supports the funding requirements of the Company and the Group and supplements security issued to Kerogen under the Existing Facility Agreement and, without it, Shareholders are at risk that Kerogen may enforce the Existing Security to recover amounts owed to it under the Existing Facility Agreement, in which case the value of their Shares will be materially eroded.

Shareholders should note that the Additional Security is provided on terms similar to the Existing Security held by Kerogen in relation to the Existing Facility Agreement. The Board believes that the terms of the New Facility Agreement, the Existing Security and the Additional Security are on terms which are reasonable in the circumstances and have been negotiated on an arm's length basis.

A possible disadvantage of the giving of the Additional Security is that it 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 Additional Security and the Board has agreed to those arrangements because they believe them to be in the Company's best interests.

Board Recommendation

Taking into account the reasons to vote in favour of and against Resolution 6 set out above, the Board has formed a view that the approval of the Kerogen Security for the purposes of Listing Rule 10.1 is in the best interests of the Company.

Therefore, the Board unanimously recommends that Shareholders **VOTE IN FAVOUR** of Resolution 6.

Voting requirement and voting exclusions

To be passed, Resolution 6 must be passed by more than 50% of votes cast by Shareholders entitled to vote on the resolution. No votes will be cast on Resolution 6 by Kerogen and its associates.

Voting Exclusion Statement

In accordance with Listing Rule 10.10 and Listing Rule 14.11, the Company will disregard any votes cast on Resolution 6 by Kerogen and its associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Resolution 7: Approval of financial assistance

As mentioned in the Explanatory Statement for Resolution 6, the drawdown of funds under the New Facility Agreement is subject to a number of conditions, including the passing of Resolution 6 and Resolution 7 and the Company and certain of the Company's subsidiaries also agreeing to grant the Additional Security to secure all the amounts due under the New Facility Agreement.

However, before the Company can provide the Additional Security, Shareholder approval is required under the provisions of Chapter 2J of the Corporations Act authorising the Company to provide "financial assistance" by granting security over its assets.

Resolution 7 seeks Shareholder approval for the provision of this "financial assistance" in accordance with the requirements of Chapter 2J of the Corporations Act.

Section 260B(4) of the Corporations Act requires that a notice of a meeting to approve financial assistance must be accompanied by a statement setting out all the information known to the relevant company that is material to the decision on how to vote on the resolution (other than information previously disclosed by the relevant company to its members). This section of the Notice of Meeting and Explanatory Statement is provided to Shareholders for the purpose of section 260B(4) of the Corporations Act and all other purposes.

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.

The financial assistance under the Additional Security

By executing, or acceding to, the Additional Security and granting security over all of its assets, the Company may be regarded as giving financial assistance to Kerogen to acquire securities in the Company.

Under the Entitlement Offer (as discussed under the heading “*Background – Existing Facility Agreement*” in the explanation to Resolution 6, above), Kerogen acquired approximately 69 million Shares in the Company. A portion of the proceeds of the Entitlement Offer were applied to repay amounts owed to Kerogen, so part of the effect of the Entitlement Offer was that equity proceeds were used by the Company to repay some of the debt owed by the Company to Kerogen.

The Company was required to obtain Kerogen’s consent to the Entitlement Offer because, contrary to the terms of the Existing Facility Agreement, all funds raised under the Entitlement Offer, after repaying the Company’s senior indebtedness, were not used to repay debts owed to Kerogen. One of the terms of Kerogen’s consent was that Kerogen’s remaining debt position would be restructured and that resolutions would be put to shareholders of the Company seeking approval of the Additional Security.

Therefore, it may be considered that the New Facility Agreement and the granting of the Additional Security has in part facilitated the acquisition of Shares by Kerogen under the Entitlement Offer and that therefore there may be sufficient nexus between the acquisition of Shares by Kerogen under the Entitlement Offer and the New Facility Agreement and the giving of the Additional Security as a condition precedent under it to amount to the provision of financial assistance under section 260A of the Corporations Act.

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 the Notice of Meeting and this Explanatory Statement and all elements of those transactions that may constitute financial assistance by the Company for the purposes of section 260A of the Corporations Act, including (without limitation) that the Company provide the Additional Security.

Reasons to VOTE IN FAVOUR of Resolution 7

The Board considers that the provision of the Additional Security is in the best interests of the Company and recommends that you **VOTE IN FAVOUR** of Resolution 7 to approve the provision of the Additional Security.

The Board considers that there are several reasons why Shareholders should **VOTE IN FAVOUR** of Resolution 7. They are:

- (a) **there may be default under the Existing Facility Agreements if it is not approved:** if Resolution 7 is not approved, a condition precedent to the drawdown of funds under the New Facility Agreement will not be satisfied and the Company will not have the funds to repay the Existing Facility Agreement. If payment of the Existing Facility Agreement is not made before 22 January 2014, it will constitute an ‘Event of Default’ under the Existing Facility Agreement. As a consequence, Kerogen may exercise its rights against the Company, including under the Existing Security; and
- (b) **no other arrangements:** at this time, the Company has no other arrangements in place to obtain funding from an alternative source to repay the Existing Facility Agreement by the maturity date and there is uncertainty as to whether, and, if so, on what terms, it could do so.

Reasons to VOTE AGAINST Resolution 7

The Board considers that there are NO disadvantages associated with the provision of the Additional Security and that Shareholders should take this into consideration when deciding how to vote on Resolution 7.

In particular, the Board are of the view that the Additional Security is contractually required under the Unutilised Facility Agreement, supports the funding requirements of the Company and the Group and supplements security issued to Kerogen under the Existing Facility Agreement and, without it, Shareholders are at risk that Kerogen may enforce the Existing Security to recover amounts owed to it under the Existing Facility Agreement, in which case the value of their Shares will be materially eroded.

Shareholders should note that the Additional Security is provided on terms similar to the Existing Security held by Kerogen in relation to the Existing Facility Agreement.

A possible disadvantage of the giving of the Additional Security is that it 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 Additional Security and the Board has agreed to those arrangements because they believe them to be in the Company's best interests.

Board recommendation

Taking into account the reasons to vote in favour of and against Resolution 7 set out above, the Board has formed a view that the giving of financial assistance and entering into the Additional Security is in the best interests of the Company.

Therefore, the Board unanimously recommends that Shareholders **VOTE IN FAVOUR** of Resolution 7.

Voting requirement and voting exclusions

To be passed, Resolution 7 must be passed by a special resolution of at least 75% of votes cast by Shareholders entitled to vote on the resolution. No votes may be cast in favour of Resolution 7 by Kerogen and each of their associates.

Notice to ASIC

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

ANNEXURE A

Table A

Existing Security

Name of Existing Security Provider	Security Document
AJ Lucas Group Limited	General security agreement Corporate Guarantee and Indemnity
AJ Lucas Joint Ventures Pty. Limited	General security agreement Corporate Guarantee and Indemnity
AJ Lucas Operations Pty Limited	General security agreement Corporate Guarantee and Indemnity
AJ Lucas Plant & Equipment Pty. Limited	General security agreement Corporate Guarantee and Indemnity
AJ Lucas Testing Pty Limited	General security agreement Corporate Guarantee and Indemnity
Australian Water Engineering Pty Ltd	General security agreement Corporate Guarantee and Indemnity
Lucas Drilling Pty Limited	General security agreement Corporate Guarantee and Indemnity
Lucas Engineering & Construction Pty Limited	General security agreement Corporate Guarantee and Indemnity
Lucas Operations (WA) Pty Limited	General security agreement Corporate Guarantee and Indemnity
Lucas Shared Services Pty Limited	General security agreement Corporate Guarantee and Indemnity
Mitchell Drilling Corporation Pty Ltd	General security agreement Corporate Guarantee and Indemnity

Table B**Additional Security**

Name of Additional Security Provider	Security Document
AJ Lucas Group Limited	Specific security agreement (share mortgage) over all the shares held by AJ Lucas Group Limited in each Group member, including without limitation: • AJ Lucas Operations Pty Limited • Lucas Engineering & Construction Pty Limited • Lucas Operations (WA) Pty Limited (formerly known as Smart Electrical & Power Services Pty Limited) • Lucas Drilling Pty Limited (formerly known as AJ Lucas Coal Technologies Pty Limited) • AJ Lucas Joint Ventures Pty Limited • 257 Clarence Street Development Co Pty Ltd • Lucas Shared Services Pty Limited (formerly known as AJ Lucas Pipelines Pty Limited) • AJ Lucas Plant & Equipment Pty Limited • Jaceco Drilling Pty Limited • Geosearch Drilling Service Pty Limited • Lucas Contract Drilling Pty Limited • AJ Lucas Drilling Pty Limited • Lucas Stuart Pty Limited • AJ Lucas Testing Pty Limited • Lucas Power Holdings Pty Limited • Lucas Cuadrilla Pty Limited • Lucas Energy (Holdings) Pty Ltd Share mortgage over all shares held in: • Lucas SARL (New Caledonia) • Lucas Holdings (Bowland) Limited • Lucas Holdings (Bolney) Limited
Lucas Drilling Pty Limited (formerly known as AJ Lucas Coal Technologies Pty Limited)	Specific security agreement (share mortgage) over all the shares held in Mitchell Drilling Corporation Pty Limited
AJ Lucas Operations Pty Limited	Specific security agreement (share mortgage) over all shares held in Australian Water Engineering Pty Ltd Real Property Mortgage over 1/861782 and 44/883843
Lucas Stuart Pty Limited	General security agreement Specific security agreement (share mortgage) over all shares held in: • Lucas Stuart Projects Pty Limited • Ketrin Pty Limited • Stuart Painting Services Pty Limited

Name of Additional Security Provider	Security Document
AJ Lucas Joint Ventures Pty Limited	Share mortgage over all shares held in AJ Lucas (Hong Kong) Limited
Ketrim Pty Limited	General security agreement
Stuart Painting Services Pty Limited	General security agreement
Lucas Stuart Projects Pty Ltd	General security agreement
Lucas Shared Services Pty Limited (formerly known as AJ Lucas Pipelines Pty Limited)	General security agreement
AJ Lucas Drilling Pty Limited	General security agreement Share mortgage over all shares held in AJ Lucas (Hong Kong) Limited
Geosearch Drilling Service Pty Ltd	General security agreement
Jaceco Drilling Pty Limited	General security agreement
McDermott Drilling Pty Limited	General security agreement
Lucas Contract Drilling Pty Limited	General security agreement Specific security agreement (share mortgage) over all shares held in McDermott Drilling Pty Ltd
AJ Lucas (Hong Kong) Limited	Fixed and floating charge
Australian Water Engineering Pty Ltd	General security agreement
257 Clarence Street Development Co Pty Ltd	General security agreement
Lucas Cuadrilla Pty Limited	General security agreement (excluding over any shares in CRHL to the extent that Lucas Cuadrilla Pty Limited is contractually restricted as at the date of this Agreement from granting a Security Interest over such shares)
Lucas Holdings (Bowland) Limited	Fixed and floating charge over all its assets which incorporates a share mortgage over all shares held in: • Lucas Bowland (UK) Limited • Lucas Bowland (No. 2) Limited
Lucas Bowland (UK) Limited	Fixed and floating charge
Lucas Bowland (No. 2) Limited	Fixed and floating charge
Lucas Holdings (Bolney) Limited	Fixed and floating charge over all its assets which incorporates a share mortgage over all shares held in Lucas Bolney Limited
Lucas Bolney Limited	Fixed and floating charge
Lucas Energy (Holdings) Pty Ltd	General security agreement Specific security agreement (share mortgage) over all

Name of Additional Security Provider	Security Document
	shares held in: • Lucas (Arawn) Pty Limited • Lucas Energy (WA) Pty Limited
Lucas (Arawn) Pty Limited	General security agreement
Lucas Energy (WA) Pty Limited	General security agreement
Lucas Power Holdings Pty Limited	General security agreement
Lucas SARL (New Caledonia)	Fixed and floating charge
The Company and Additional Security Providers	Corporate Guarantee and Indemnity provided under the New Facility Agreement (by way of accession to that document as an 'Additional Guarantor') Security Trust Deed (by way of accession to the Security Trust Deed as a 'Security Provider' in accordance with that document)

ANNEXURE B

Key terms of Existing Security

Feature	
Grantor	The Company and each subsidiary referred to in Table A of Annexure A.
Security Trustee	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 (Security Trust Deed).
Grant of Security	Each Grantor grants security over substantially all of its assets (in the case of general security agreements and fixed and floating charges) or the shares in its relevant subsidiaries (in the case of specific security agreements or share mortgages) (Secured Property).
Secured Money	All present and future debts and monetary liabilities of each of the Obligors (as defined in the Security Trust Deed) 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 each Existing Security Document) (including the New Facility Agreement) and irrespective of the nature of those debts or liabilities.
Restricted Dealing	The terms of the relevant security document will restrict the Grantor's ability to grant security in the relevant Secured Property or to dispose of the Secured Property, subject to certain limited exceptions.
Enforcing Security	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.
Enforcement	After the Security has become enforceable, the Security Trustee has absolute discretion in its enforcement.
Receiver	The Security Trustee may appoint a Receiver of all or any part of the Secured Property if the Security has become enforceable.
Proceeds	Clause 6.2 of the Security Trust Deed sets out the application of proceeds of the enforcement of the Security.
Priority	To the extent permitted by law, the Security takes priority over all other Security Interests and PPSA Security Interests over the Secured Property of the Grantor.
Discharge	Secured Property will not be released unless: (a) no Secured Money is or will be reasonably foreseeable to be owing; and (b) each Obligor has fully performed its obligations under each Finance Document.

ANNEXURE C

Key terms of Additional Security

Feature	
Grantor	The Company and each subsidiary listed in Table B of Annexure A.
Security Trustee	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 (Security Trust Deed).
Grant of Security	Each Grantor grants security over substantially all of its assets (in the case of general security agreements and fixed and floating charges) or the shares in its relevant subsidiaries (in the case of specific security agreements or share mortgages) (Secured Property).
Secured Money	All present and future debts and monetary liabilities of each of the Obligors (as defined in the Security Trust Deed) 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 each Existing Security Document) (including the New Facility Agreements) and irrespective of the nature of those debts or liabilities.
Restricted Dealing	The terms of the relevant security document will restrict the Grantor's ability to grant security in the relevant Secured Property or to dispose of the Secured Property, subject to certain limited exceptions.
Enforcing Security	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.
Enforcement	After the Security has become enforceable, the Security Trustee has absolute discretion in its enforcement.
Receiver	The Security Trustee may appoint a Receiver of all or any part of the Secured Property if the Security has become enforceable.
Proceeds	Clause 6.2 of the Security Trust Deed sets out the application of proceeds of the enforcement of the Security.
Priority	To the extent permitted by law, the Security takes priority over all other Security Interests and PPSA Security Interests over the Secured Property of the Grantor.
Discharge	Secured Property will not be released unless: (a) no Secured Money is or will be reasonably foreseeable to be owing; and (b) each Obligor has fully performed its obligations under each Finance Document.
Governing Law	Additional Security governed by a law other than the law of a State or Territory of Australia will be given on substantially the same terms as described above but with any necessary changes to take into account local law requirements or market practice.

ANNEXURE D
Independent Expert's Report

INDEPENDENT EXPERT'S REPORT
For grant of asset security
AJ Lucas Group Limited

3 October 2013

FINANCIAL SERVICES GUIDE

This Financial Services Guide is issued in relation to an independent expert's report (Report or IER) prepared by BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (BDO) at the request of the directors (Directors) of AJ Lucas Group Limited (AJL or the Company). The Directors of the Company have appointed BDO to prepare the Report in order to satisfy the requirements of ASX Listing Rule 10.1 (LR 10.1) with regard to the granting of security to Kerogen Investments No.1 (HK) Limited (Kerogen) by AJL as part of the proposed restructure of loan facilities provided by Kerogen (Proposed Restructure). The Report is intended to accompany the notice of meeting and accompanying explanatory statement (Documents) that are to be provided by the Company.

Financial Services Guide

BDO holds an Australian Financial Services Licence (License No: 247420) (Licence). As a result of our Report being provided to you BDO are required to issue to you, as a retail client, a Financial Services Guide (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 BDO is licensed to provide

The Licence authorises BDO 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, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

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

Our Report 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 Report (as a retail client) because of your connection with the matters on which our Report has been issued.

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

General financial product advice

Our Report 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 position 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 Restructure described in the Documents may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDO may receive

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

BDO will receive a fee based on the time spent in the preparation of this Report in the amount of approximately \$50,000 (plus GST and disbursements). BDO will not receive any fee contingent upon the outcome of the Proposed Restructure, 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 Restructure.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of BDO 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 Report was provided.

Referrals

BDO 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 BDO is licensed to provide.

Associations and relationships

BDO is the licensed corporate advisory arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. The directors of BDO may also be partners in BDO East Coast Partnership, Chartered Accountants and Business Advisers.

BDO East Coast Partnership, Chartered Accountants and Business Advisers are comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients.

BDO's contact details are as set out on our letterhead.

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, BDO Corporate Finance (East Coast) Pty Ltd, 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. BDO 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

The Directors
AJ Lucas Group Limited
Level 3, 394 Lane Cove Road
MACQUARIE PARK NSW 2113

3 October 2013

Dear Directors

INDEPENDENT EXPERT'S REPORT FOR GRANT OF ASSET SECURITY

Introduction

The directors (Directors) of AJ Lucas Group Limited (AJL or the Company) have appointed BDO Corporate Finance (East Coast) Pty Ltd (BDO, we, us or our) to prepare an independent expert's report (Report or IER) in order to satisfy the requirements of ASX Listing Rule 10.1 (LR 10.1) with regard to the granting of security to Kerogen Investments No.1 (HK) Limited (Kerogen) by AJL as part of the proposed restructure of loan facilities provided by Kerogen (Proposed Restructure).

AJL is listed on the Australian Securities Exchange (ASX) and provides engineering and construction services to the energy, water and waste water, resources and the public infrastructure sectors in Australia.

The Proposed Restructure

As at the date of this Report, AJL had approximately \$US47.61 million in loan facilities outstanding to Kerogen. The Proposed Restructure involves refinancing and restructuring of the Kerogen loan facilities.

Terms of the Proposed Restructure are set out in Section 1 of this Report. In addition, full details of the Proposed Restructure are set out in the explanatory statement (Explanatory Statement) accompanying the notice of meeting (Notice of Meeting) (collectively referred to as Documents) to be sent to Shareholders in relation to a general meeting to be convened (Meeting).

Purpose

The Directors have engaged us to prepare an IER to satisfy the requirements of LR 10.1, with regard to the granting of security over AJL assets to Kerogen (Kerogen Security) as part of the new loan agreement.

We note that we have only been engaged to opine on the granting of the Kerogen Security as part of the Proposed Restructure and not the Proposed Restructure as a whole (including term, fees and interest rates). We must opine on whether the provision of Security to Kerogen is considered fair and reasonable to the Non-associated Shareholders of AJL.

All amounts in this Report are stated in Australian dollars (\$) unless otherwise stated.

Summary of opinion

In our opinion, the granting of the Kerogen Security is fair and reasonable to the Non-associated Shareholders.

Fairness assessment

We have assessed whether the granting of the Kerogen Security is fair to the Non-associated Shareholders by comparing the likely cost and benefit of providing the Kerogen Security versus the likely cost and benefit of not providing the Kerogen Security.

We have assessed that the granting of the Kerogen Security is fair based on the following:

- The financial cost of providing the Kerogen Security is \$nil.
- We have estimated that providing the Kerogen Security has resulted in a reduced cost of funding, which equates to a value of between \$0.94 million to \$1.89 million.

Reasonableness assessment

In accordance with RG 111 Content of expert reports (RG 111) an offer is reasonable if it is fair. An offer might also be reasonable if, despite being “not fair”, the expert believes that there are sufficient reasons for Non-associated Shareholders to accept the offer in the absence of a superior offer.

As we have assessed the granting of the Kerogen Security under the Proposed Restructure to be fair, this will also be deemed to be reasonable under RG111.

Further we note the following other considerations:

- **Reduced risk of default** - if the existing Kerogen loan facilities are not restructured before 22 January 2014, AJL may default under them.
- **Condition of obtaining new funding** - failure to approve the Proposed Restructure may result in AJL not being able to obtain the necessary funds to repay the loan prior to its maturity on 22 January 2014.
- **No superior alternative** - the Directors of AJL have advised that there are no other arrangements in place to obtain funding from an alternative source. Whilst the Kerogen Security may limit AJL’s ability to obtain further funding in future, the probability of obtaining an alternative source of funding before 22 January 2014 appears to be limited. If the Proposed Restructure is not approved, the existing Kerogen loan will mature on 22 January 2014. If payment is not made by this date, an event of default would occur.
- **No change** - AJL has previously granted security to Kerogen under the terms of the existing Kerogen facilities. Providing the Kerogen Security under the terms of the Proposed Restructure is not a significant change in the nature of Kerogen’s lending to AJL.
- **Directors’ recommendation** - the directors of AJL have unanimously recommended that Non-associated Shareholders approve the Proposed Restructure (including the grant of the Kerogen Security).

Shareholders’ individual circumstances

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. Accordingly, we have not considered the effect of the granting of the Kerogen Security on the particular circumstances of individual Shareholders. Some individual Shareholders may place a different emphasis on various aspects of the granting of the Kerogen Security from that adopted in this Report. Accordingly, individual Shareholders may reach different conclusions as to whether or not the granting of the Kerogen Security is fair and reasonable in their individual circumstances. As the decision of an individual Shareholder in relation to the granting of the Kerogen Security may be influenced by their particular circumstances (including their taxation position), Shareholders are advised to seek their own independent advice.

Approval or rejection of the granting of the Kerogen Security is a matter for individual Shareholders based on their expectations as to the expected value and future prospects and market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders should carefully consider the Documents. Shareholders who are in doubt as to the action they should take in relation to the granting of the Kerogen Security should consult their professional adviser.

Glossary

Capitalised terms used in this Report have the meanings set out in the glossary.



Sources of information

Appendix 1 identifies the information referred to, and relied upon by us during the course of preparing this Report and forming our opinion.

Financial Services Guide

A Financial Services Guide is attached at the start of this Report.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD

A handwritten signature in black ink, appearing to read 'DT' followed by a stylized flourish.

Dan Taylor
Director

A handwritten signature in black ink, appearing to read 'DMcCourt' followed by a long, horizontal flourish.

David McCourt
Director

TABLE OF CONTENTS

1.	THE PROPOSED RESTRUCTURE	1
2.	SCOPE AND LIMITATIONS	3
2.1.	ASX Listing Rule 10.1	3
2.2.	Scope	3
2.3.	Basis of assessment	3
2.4.	Limitations	5
2.5.	Assumptions	5
3.	PROFILE OF AJL	6
3.1.	Overview	6
3.2.	Historical financial information	7
3.3.	Interest Bearing Loans and Borrowings	9
3.4.	Capital structure and ownership	10
3.5.	Share price analysis	11
4.	FAIRNESS ASSESSMENT	12
4.1.	Overview	12
4.2.	Cost	12
4.3.	Benefits	12
4.4.	Fairness conclusion	18
5.	REASONABLENESS ASSESSMENT	18
5.1.	Overview	18
5.2.	Conclusion	19
6.	QUALIFICATIONS AND DECLARATIONS	19
6.1.	Qualifications	19
6.2.	Independence	19
6.3.	Disclaimer	20
	APPENDIX 1: SOURCES OF INFORMATION	21
	APPENDIX 2: GLOSSARY	22

1. THE PROPOSED RESTRUCTURE

AJL currently has approximately \$US47.61 million in loan facilities outstanding to Kerogen as at the date of this Report. The Proposed Restructure involves restructuring the Kerogen loan facilities.

Key terms of the Proposed Restructure include:

Table 1: Proposed Restructure

Area	Details
Lender	Kerogen Investments No.1 (HK) Limited ("Kerogen" or "Lender")
Borrower	AJ Lucas Group Limited
Current Principal	\$US47.61 million.
Restructured Loan - Tranche 1 & Tranche 2	The restructured loan owing to Kerogen shall comprise two tranches as follows: • Tranche 1: \$US30.0 million • Tranche 2: Approximately \$US20.4 million (being the aggregate, on the Closing Date, of all amounts outstanding under the existing loan, less Tranche 1)
Restructuring fees	US\$2 million (US\$1 million payable on closing, US\$0.50 million payable on each of the two anniversaries of closing).
Tranche 1 Maturity Date	31 January 2017
Tranche 2 Maturity Date	28 February 2017
Interest	Interest shall accrue on a daily basis from the Closing Date. Cash interest is payable at the end of each 3 month period following the Closing Date. PIK interest shall be capitalised at the end of each 6 month term following the Closing Date. Interest capitalised will be added to the Principal amounts.
Cash Interest	Cash interest shall accrue at the following rates: • Tranche 1: – for the period from and including the Closing Date to and including 31 January 2015, at a rate of 10% per annum; and – for the period from and including 1 February 2015 to and including the Tranche 1 Maturity Date, at a rate of 15% per annum. • Tranche 2: – for the period from and including the Closing Date to and including 28 February 2015, at a rate of 10% per annum; – for the period from and including 1 March 2015 to and including 28 February 2016, at a rate of 12.5% per annum; and – for the period from and including 1 March 2016 to and including the Tranche 2 Maturity Date, at a rate of 15% per annum.

Table 1: Proposed Restructure

Area	Details
PIK Interest	PIK Interest shall accrue at the following rates: • Tranche 1: – 5% per annum for the period from and including the Closing Date to and including 31 January 2015. • Tranche 2: – 5% per annum for the period from and including the Closing Date to and including 28 February 2015, and – 2.5% per annum for the period from and including 1 March 2015 to and including 28 February 2016.
Consent Matters	In addition to the consents required under the terms of the existing facilities provided by Kerogen, the following matters shall require the consent of the Lender: (a) additional indebtedness ranking senior or pari passu to the loans or advances of the Lender; (b) appointment by AJL of financial advisers or arrangers in respect of: a. sale of any material asset(s); b. new debt or equity finance; and c. provision of corporate finance advice.
Mandatory Prepayment	AJL must procure that, unless Kerogen agrees otherwise: (a) if the aggregate amount of the net proceeds (gross cash proceeds received by a member of the Group as consideration for a relevant disposal of a Material Australian or International Asset) from a sale of a Material Australian Asset is more than \$15,000,000 in any calendar year, an amount at least equal to 50% of the net proceeds in excess of \$15,000,000 for that period is applied towards prepaying the loan amount; (b) an amount equal to 50% of the net proceeds of each relevant disposal of a Material International Asset (other than a disposal of the Bowland Prospect interest) is applied towards prepaying the loan amount; (c) if the relevant disposal is in respect of the Bowland Prospect interest and the Cuadrilla Board resolves to and does distribute to the Company an amount, on receipt of such distribution AJL must apply an amount equal to 100% of the monies received towards prepaying the loan amount.
Conditions Precedent	Conditions precedent include but shall not be limited to: (a) Shareholder approval (b) Separation of CEO and Chairman roles
Restructuring Expenses	AJL shall pay all legal or third party costs incurred by Kerogen in respect of the Proposed Restructure.
Transfer	Kerogen shall have the right to transfer or assign its interest in the restructured loan to any person without the consent of AJL.
Security	The Company and each of its material subsidiaries is required to grant security over all of its assets.

Source: Draft Kerogen Facility Agreement dated 24 September 2013



2. SCOPE AND LIMITATIONS

The Directors have engaged us to prepare a Report in relation to the granting of the Kerogen Security to satisfy the requirements of LR 10.1 as discussed below.

2.1. ASX Listing Rule 10.1

LR 10.1 requires the approval of an entity's security holders where it has proposed to acquire a substantial asset from, or dispose of a substantial asset to:

- a related party or an associate of a related party;
- a subsidiary or an associate of a subsidiary; or
- a substantial security holder or an associate of a substantial shareholder. A substantial security holder is defined by the ASX Listing Rules as a security holder with a relevant interest at any time in the six months prior to the proposed transaction in at least 5% of the total votes attached to the voting securities.

An asset is substantial if its value, or the value of the consideration for it, is greater than 5% of the total equity interests of the entity as at the date of the last accounts given to the ASX.

We understand that:

- Kerogen is a related party of AJL. As at 27 September 2013, Kerogen held 49.58% of AJL shares;
- the assets AJL proposes to provide Kerogen as security are greater than 5% of the total equity interests of AJL as at the date of the last accounts given to the ASX and are therefore considered a substantial asset for the purposes of LR 10.1; and
- the grant of a charge over assets as security constitutes a disposal of those assets for the purposes of LR 10.1.

Accordingly, Non-associated Shareholder approval is required and the Notice of Meeting is required to contain a report on the assets AJL proposes to provide to Kerogen as security under the Proposed Restructure from an independent expert stating whether the provision of the Kerogen Security is fair and reasonable to the Non-associated Shareholders.

2.2. Scope

The procedures we have undertaken have been limited to those procedures that we believe were required in order to form our opinion. Our procedures in the preparation of the Report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor do they constitute a review in accordance with Auditing Standards applicable to review engagements.

2.3. Basis of assessment

The ASX Listing Rules do not define the expression 'fair and reasonable'. However, guidance is provided by ASIC's Regulatory Guides which establish certain guidelines in respect of independent expert reports required under the ASX Listing Rules.

2.3.1. Regulatory Guide 111

We have prepared this IER taking into account the guidance provided by ASIC's regulatory guides.

RG 111 establishes two distinct criteria for an expert analysing a sale or purchase of a substantial asset:

- is it '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.

Fair

For related party transactions of a non controlling nature, RG 111.57 indicates that a transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. 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

In our opinion, the provision of the Kerogen Security under the Proposed Restructure will be fair to the Non-associated Shareholders if the assessed cost of providing the Kerogen Security is less than or equal to the benefits gained by the Non-associated Shareholders. Based on the above, we have undertaken the following:

- Assessed the cost of providing the Kerogen Security.
- Assessed the likely benefits gained in providing the Kerogen Security.

Reasonable

RG 111.60 indicates that 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 members to vote for the proposal.

RG 111.62 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer, including:

- The financial situation and solvency of the entity, including the factors set out in RG 111.26, if the consideration for the financial benefit is cash.
- Opportunity costs.
- The alternative options available to the entity and the likelihood of those options occurring.
- The entity's bargaining position.
- Whether there is selective treatment of any security holder, particularly the related party.
- Any special value of the transaction to the purchaser, such as particular technology or the potential to write off outstanding loans from the target.
- The liquidity of the market in the entity's securities.

We have taken the following matters into account in regard to the issue of the Kerogen Security:

- The likelihood of an improved or alternative offer or alternative transactions.
- The conditions of the Proposed Restructure.
- The risk of not approving the Proposed Restructure.
- Any known intentions of the Shareholders, the Lenders and the recommendation of the Directors.
- Other advantages and disadvantages for Shareholders of accepting or rejecting the Proposed Restructure.



2.4. Limitations

General

We have consented to the inclusion of the Report in the Documents to be issued by AJL. Apart from the Report, we are not responsible for the contents of the Documents, any other document or announcement associated with the issue of the Kerogen Security or the Proposed Restructure. We acknowledge that our Report may be lodged with the ASX.

The Report 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 Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

Current market conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any opinion becoming quickly out dated and in need of revision. We reserve the right to revise any opinion, in the light of material information existing at the valuation date that subsequently becomes known to us.

Reliance on information

This Report is based upon financial and other information provided by AJL. 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.

Our procedures in the preparation of the Report involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly we do not express an audit or review opinion.

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 or valuations in respect of the Proposed Restructure. We understand that the 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 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 the issue of the Kerogen Security 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 AJL in previous accounting periods.

2.5. Assumptions

In forming our opinion, we have made certain assumptions including:

- Matters such as compliance with laws and regulations and contracts in place are in good standing, and will remain so. There are no material legal proceedings, other than as publicly disclosed.
- Information in relation to the issue of the Kerogen Security and Proposed Restructure that is distributed to shareholders, or any information issued by a statutory body is complete, accurate and fairly presented in all material respects.
- Any publicly available information relied on by us is accurate, up to date and not misleading.



- If the issue of the Kerogen Security is implemented, it will be implemented in accordance with the publicly stated terms.
- The legal mechanisms to implement the issue of the Kerogen Security are valid and effective.
- We are not aware of any undue changes to the terms and conditions of the issue of the Kerogen Security as at the date of issue of this Report.

3. PROFILE OF AJL

3.1. Overview

AJL is a diversified drilling services, engineering and construction/infrastructure services group. AJL services the water and waste water, energy, resources and public infrastructure and the coal and coal seam gas sectors in Australia. AJL is also an explorer and developer of unconventional hydrocarbon properties.

AJL has two main businesses, Drilling Services and Engineering and Construction (E+C):

Drilling services

AJL's Drilling Services business has a strong presence in the coal seam gas industries for degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services and provides a full suite of drilling services including the following:

- Exploration drilling
- Production drilling
- Directional drilling
- Well services
- Engineering and steering services

Engineering and Construction

E+C provides construction and civil engineering services to the energy, water and waste water, and the public utilities sectors together with associated services. The services provided by E+C are as follows:

- Pipelines and horizontal directional drilling - installation of long distance water, gas and slurry pipelines leveraging off its expertise in horizontal directional drilling.
- Water and waste water - supply and construction of 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.
- Building and civil infrastructure - design and construction services for commercial and industrial projects and desalination plants with expertise in specialist construction techniques for challenging sites.

Other Assets and Investments

AJL also has other assets and investments. These include:

- Cuadrilla - an exploration company focused on conventional and unconventional sources of gas and oil in Europe. Cuadrilla holds exploration permits in the United Kingdom (56.25% in an exploration project in the Bowland Prospect and 75% in an exploration project in the Weald Basin/Bolney Prospect), the Netherlands and Poland, covering in excess of 1 million net acres. AJL through its wholly owned subsidiary Lucas Cuadrilla Pty Limited has a 45% equity interest in Cuadrilla.
- Bowland Prospect - AJL has a direct interest in 18.75% of an exploration project in the Bowland Prospect in the UK.

- Bolney Prospect - AJL has a direct interest in 25% of an exploration project in the Weald Basin/Bolney Prospect in the UK.
- Monument Prospect - AJL has an indirect contractual interest in 10% of a net profit interest earned by Thomas Knowlton from net production proceeds and net sales proceeds generated in respect of oil and gas leasehold interests in lands within the Monument Prospect located in Trinity County, Texas.
- Canning Basin - AJL has a beneficial interest in petroleum exploration permit 17/07-8EP covering 8,010km² of the Canning Basin. The Company considers the acreage prospective for shale gas, shale oil and tight gas.

3.2. Historical financial information

Financial performance

The statements of financial performance for AJL for the years ended 30 June 2011 (FY2011), 30 June 2012 (FY2012) and 30 June 2013 (FY2013) are set out below:

Table 2: Consolidated Statements of Financial Performance

\$'000	FY2011 Audited	FY2012 Audited	FY2013 Audited
Revenue from continuing operations	433,373	504,276	294,791
Other revenue	23,686	-	-
Total revenue	457,059	504,276	294,791
Impairment charges	(4,220)	(49,182)	(45,725)
Other expenses	(423,434)	(523,441)	(311,953)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	29,405	(68,347)	(62,887)
Depreciation and amortisation	(28,078)	(24,793)	(22,852)
Net finance costs	(22,749)	(23,439)	(38,699)
Taxation	9,895	6,342	(2,558)
Net profit/(loss) after tax (NPAT/Net loss after tax)	(11,527)	(110,237)	(126,996)
Other comprehensive (loss)/ income for the period	(5,946)	498	7,834
Total comprehensive (loss)/ income for the year	(17,473)	(109,739)	(119,162)
<i>Revenue growth from continuing operations %</i>	<i>n/a</i>	<i>10.3%</i>	<i>(41.5%)</i>
<i>EBITDA growth %</i>	<i>n/a</i>	<i>(332.4%)</i>	<i>8.0%</i>
<i>EBITDA margin %</i>	<i>6.4%</i>	<i>(13.6%)</i>	<i>(21.3%)</i>

Source AJL Annual Reports and ASX lodgements

We note the following with respect to AJL's financial performance:

- Revenue - is largely driven by Drilling Services and E+C. Other revenue in FY2011 related to disposal of business interests.
- Impairment expenses - are in relation to intangible assets, interest in assets and joint ventures. FY2012 impairment charges include \$45.0 million for impairment of intangible assets. The impairment charges in FY13 mainly related to intangible assets and plant and equipment.
- Other expense - other than head office overhead costs, AJL has other corporate overheads in relation to its interests in joint ventures. FY2013 costs mainly consist of material costs, employment and sub-contractor costs and plant and other construction costs.
- EBITDA and Net Profit - we note AJL has a negative EBITDA in FY2012 and FY2013, and has been making net losses for the last three years.

Financial position

The statements of financial position of AJL as at 30 June 2012 and 30 June 2013 are set out below:

Table 3: Consolidated Statements of Financial Position

\$'000	As at 30 June 2012 Audited	As at 30 June 2013 Audited
Current assets		
Cash and cash equivalents	4,343	9,675
Trade and other receivables	57,051	39,430
Inventories	55,918	29,410
Assets classified as held for sale	5,503	1,357
Other assets	862	1,978
Total current assets	123,677	81,850
Non current assets		
Property, plant and equipment	133,638	109,972
Exploration assets	16,073	6,320
Other intangible assets	67,581	39,472
Investment in equity accounted investees	73,603	95,762
Deferred tax assets	782	-
Total non current assets	291,677	251,526
Total assets	415,354	333,376
Current liabilities		
Trade and other payables	120,348	61,743
Interest-bearing loans and borrowings	91,171	88,921
Current tax liabilities	32,692	9,020
Employee benefits	7,849	5,527
Derivative liabilities	2,665	4,916
Total current liabilities	254,725	170,127
Non current liabilities		
Interest-bearing loans and borrowings	41,881	5,948
Derivative liability	4,015	-
Deferred tax liabilities	-	24,655
Employee Benefits	1,239	1,006
Total non current liabilities	47,135	31,609
Total liabilities	301,860	201,736
Net assets	113,494	131,640
Equity		
Issued capital	138,506	275,637
Reserves	467	8,478
Retained earnings	(25,479)	(152,475)
Total equity	113,494	131,640

Source: AJL Annual Reports; Management

We note the following with respect to AJL's financial position:

- Trade and other receivables - the receivables balance has decreased from 30 June 2012 to 30 June 2013 largely due to a decrease in engineering and construction activity. Management advises that engineering and construction activity was strong in the period leading up to June 2012. Management further advises that receivables collections have improved, further reducing this balance.
- Inventories - this balance consists mainly of work in progress that has yet to be billed with approximately \$5 million year on year of stock on hand. The reduction in work in progress is a result of the decreased construction activity as discussed above.
- Property, plant and equipment - the reduction in this asset is a result of an impairment charge of \$13.6 million recognised in FY13 and depreciation.
- Exploration assets - this balance relates to AJL's direct interests in the Bowland and Bolney basin shale prospects.
- Investment in equity accounted investees - this balance relates to AJL's 45% equity interest in Cuadrilla and 50% interest in the Marais-Lucas JV.
- Trade and other payables - this balance has reduced due to the reduction in construction and engineering work and to a lesser extent a reduction in drilling activity.
- Interest-bearing loans and borrowings - the movement in this balance reflects a portion of the existing Kerogen loan moving from non-current to current in the period from 30 June 2012 to 30 June 2013.
- Deferred income tax - movements in the deferred tax balance are a result of AJL entering into a tax payment plan with the ATO. The tax payment plan runs until June 2017 and included the payment of \$10 million to the ATO in September 2012.
- Subsequent to 30 June 2013, AJL issued 55,855,534 ordinary shares through an equity entitlement offer, raising \$63.7 million after costs. This capital was used by AJL to partially repay US\$32.0 million of the existing Kerogen loan, reducing the amount owing to Kerogen to US\$47.61 million. AJL also repaid a further \$US5.4 million in borrowings and reduced trade payables by approximately \$20.3 million with the raised capital from the entitlement offer. This reduction in major liabilities and increase in equity substantially strengthened AJL's financial position.

3.3. Interest Bearing Loans and Borrowings

Total interest bearing loans and borrowings as per the financial position as at 30 June 2013 above were \$94.88 million. These liabilities are set out in the table below:

Table 4: Interest Bearing Loans and Borrowings

	(\$ million)
Finance Facilities provided by Kerogen	82.78
Non current PAYG liability to the Australian Tax Office	5.80
Current borrowings - secured	4.43
Current lease liability	1.41
Non current lease liability	0.15
Other borrowings - unsecured	0.31

We note that post 30 June 2013, AJL has repaid US\$32.0 million (AU\$35.0 million) to Kerogen, reducing the outstanding principal to Kerogen to US\$47.61 million (AU\$50.7 million). Under the Proposed Restructure, the Kerogen facility will be approximately US\$50.4 million (including expected accrued interest of US\$2.74 million), between two facility tranches that will mature in 2017.

3.4. Capital structure and ownership

As at 27 September 2013, AJL had the following securities on issue:

Table 5: AJL Securities on issue

	No. of Securities on Issue	Details
Ordinary shares on issue	267,383,816	
Unlisted options	1,000,000	Perpetual Nominees Options - exercise price of \$1.97/share expiring on 22 December 2016
Unlisted options	11,159,356	Kerogen Options - exercise price of lower of 120% of 5 day VWAP or \$1.54, expiring on 22 December 2015
Unlisted options	3,750,000	Campbell Options - exercise price of \$1.19/share expiring on 7 December 2015
Unlisted options	1,250,000	Management Options - exercise price of \$1.19/share expiring on 7 December 2015

Source: Management, ASX

The top 10 shareholders and total issued ordinary shares of AJL as at 31 August 2013 are summarised in the table below:

Table 6: Top 10 Shareholders before Proposed Restructure

Shareholder	Number of Ordinary Shares held	Percentage of Total Ordinary Shares held
Kerogen Investments No.1 (HK) Limited	132,558,851	49.58%
Belbay Investments Pty Ltd	26,700,000	9.99%
Coupland Cardiff Asset Management LLP	21,017,044	7.86%
Andial Holdings Pty Limited	11,990,000	4.48%
HSBC Custody Nominees (Australia) Limited - A/C 2	8,623,110	3.22%
National Nominees Limited	8,483,982	3.17%
HSBC Custody Nominees (Australia) Limited	4,478,352	1.67%
Toolebuc Investments Pty Limited	4,423,140	1.65%
Citicorp Nominees Pty Limited	3,447,161	1.29%
HSBC Custody Nominees (Australia) Limited - gsco ECA	3,195,640	1.20%
Top 10 Shareholders	224,917,280	84.12%
Other Shareholders	42,466,536	15.88%
Total	267,383,816	100.00%

Source: Management

We note that post 30 June 2013, AJL issued 55,855,543 ordinary shares through an entitlement offer, substantially increasing its shares on issue.

3.5. Share price analysis

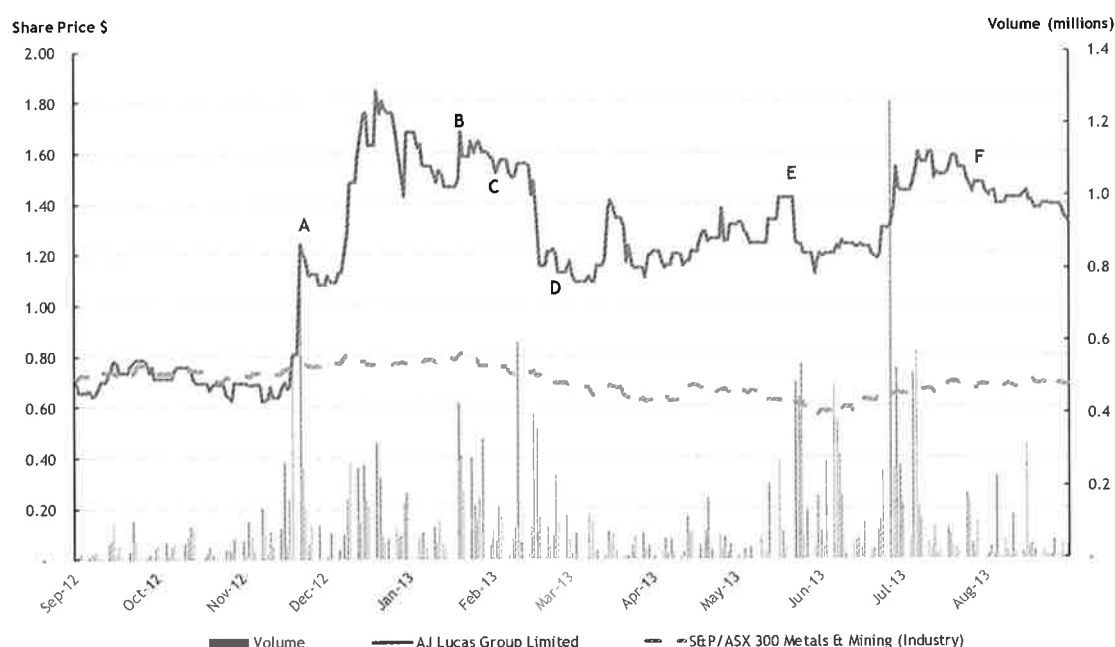
The trading activity and the ASX market price for AJL in the period leading up to or around the date of this Report is set out in the table below. The data summarises trades over the year to 25 September 2013:

Table 7: Volume Weighted Average Share Price of Daily Trades

	High (\$)	Low (\$)	VWAP (\$)	Total Volume Traded (Millions)	Annualised Turnover (%)	Average Bid/Ask Spread (%)
As at 25 September 2013	1.35	1.32	1.34	0.45	42.2%	0.81%
1 month to 25 September 2013	1.46	1.32	1.17	1.91	8.6%	2.39%
3 months to 25 September 2013	1.61	1.11	1.15	4.12	6.6%	2.24%
6 months to 25 September 2013	1.70	1.10	1.01	13.04	13.3%	3.09%
12 months to 25 September 2013	2.13	0.67	0.75	28.53	17.1%	4.79%

Sources: Capital IQ; BDO analysis

Legend: VWAP denotes volume weighted average share price.



Source: Capital IQ

Factors which may have had an impact on trading in AJL Shares are detailed below:

Table 8: AJL ASX Announcements

Note	Date	Announcement Details
A	21 Dec 2012	Announcement of variation of Kerogen loan facilities.
B	13 Feb 2013	Announcement of private placement of up to 10.65 million shares, new structure senior finance facilities
C	28 Feb 2013	Release of Half Yearly Report and Accounts
D	22 Mar 2013	Announcement of agreement with Kerogen to restructure various loan facilities.
E	13 Jun 2013	Announcement of institutional placement and entitlement offer (Completion announced 17 June 2013)
F	30 Aug 2013	Release of Preliminary FY2013 Final Report

Source: ASX

We note the following with respect to the share trading of AJL over the trading period:



- The average trading price on 25 September was \$1.34 per share.
- The shares traded between \$0.67 per share and \$2.13 per share in the year prior to 25 September 2013.
- There is low trading volume over the period, as the total traded volume of shares over the 12 months to 25 September 2013 was approximately 17.1% of the total weighted average number of shares on issue over the period.
- Over the year analysed, there were 245 days of trading activity out of a total of 254 trading days.

4. FAIRNESS ASSESSMENT

4.1. Overview

In determining if the issue of the Kerogen Security is fair to the Non-associated Shareholders of AJL we have had regard to:

- The cost of providing the Kerogen Security.
- The likely benefits gained by providing the Kerogen Security.

4.2. Cost

We have assessed that the cost to AJL of providing the Kerogen Security is \$nil. This is assessed due to the following factors:

- There is no cash outflow in providing the Kerogen Security.
- Assets will only be granted to Kerogen in the event of AJL's default on the loan.
- In the event of default, Kerogen will only have a claim over assets up to the outstanding balance of the loan at the time of default.
- By providing security to Kerogen, the Non-associated Shareholders of AJL will be no worse off as both a secured and an unsecured Kerogen loan would rank above equity in the event of a winding up of the Company.

4.3. Benefits

Secured debt is backed by a form of collateral, typically the assets of a business. Providing security typically enhances the creditworthiness of a particular loan. The benefit to the borrower from providing the security can be measured by reference to the decrease in the cost of the borrowing as a result of providing the security.

We have estimated the potential decrease to the cost of AJL's loan from Kerogen based on the following:

- The nature and quantum of the Kerogen Security that is being provided under the Proposed Restructure
- AJL's company (or 'issuer') credit rating
- The likely difference between AJL's 'issuer' credit rating and the credit rating that would be assigned to the Kerogen loan (i.e. 'issue' rating) as a result of providing the Kerogen Security
- The credit spread attributable to the difference between AJL's 'issuer' and 'issue' credit ratings.



Kerogen Security

Under the terms of the Proposed Restructure, the Kerogen Security will comprise all of the assets of AJL and its subsidiaries including a general security agreement over AJL and specific security agreement (share mortgage) over all the shares held by AJL in each group member, including without limitation:

- AJ Lucas Operations Pty Limited
- Lucas Engineering & Construction Pty Limited
- Lucas Operations (WA) Pty Limited (formerly known as Smart Electrical & Power Services Pty Limited)
- Lucas Drilling Pty Limited (formerly known as AJ Lucas Coal Technologies Pty Limited)
- AJ Lucas Joint Ventures Pty Limited
- 257 Clarence Street Development Co Pty Ltd
- Lucas Shared Services Pty Limited (formerly known as AJ Lucas Pipelines Pty Limited)
- AJ Lucas Plant & Equipment Pty Limited
- Jaceco Drilling Pty Limited
- Geosearch Drilling Service Pty Limited
- Lucas Contract Drilling Pty Limited
- AJ Lucas Drilling Pty Limited
- Lucas Stuart Pty Limited
- AJ Lucas Testing Pty Limited
- Lucas Power Holdings Pty Limited
- Lucas Cuadrilla Pty Limited
- Lucas Energy (Holdings) Pty Ltd
- Share mortgage over all shares held in:
 - Lucas SARL (New Caledonia)
 - Lucas Holdings (Bowland) Limited
 - Lucas Holdings (Bolney) Limited

The value of the Kerogen Security is effectively the value of AJL's assets. AJL's enterprise value (based on recent trading prices and the balance of interest bearing debt) can be used as a proxy for the value of AJL's assets.

Under the terms of the Proposed Restructure, the balance of the Kerogen loan on the Closing Date will be approximately US\$50.4 million comprised of the following:

- Existing balance of \$US47.61 million
- Estimated accrued interest up to the Closing Date of \$US2.74 million.

Based on the above, we set out below the estimated loan-to-value (LVR) of the proposed Kerogen loan.

Table 9: Estimated LVR of Kerogen Loan (post-Proposed Restructure)

	Notes	\$ million
Equity (AU\$)	1	355.62
Debt (see below) (AU\$)	2	53.87
AJL Enterprise Value (AU\$)		409.49
Opening Balance of Kerogen Loan (US\$)	2	47.61
Accrued Interest (US\$)	2	2.74
Balance of Kerogen Loan (US\$)		50.35
Balance of Kerogen Loan (AUD converted at an exchange rate of 0.935 as at 25 September 2013)		53.87
Estimated LVR	3	13.16%

Source: Terms of Proposed Restructure; BDO Analysis

Notes:

1. Equity calculated based on the Market capitalisation of AJL as at 25 September 2013.
2. Debt consists of the balance of the Kerogen loan and expected accrued interest up to the expected AGM date of 29 November 2013.
3. Loan to Value Ratio calculated by dividing the full Kerogen loan amount by AJL's enterprise value.

AJL company credit rating

Credit ratings are forward-looking opinions about credit risk. Standard & Poor's (S&P) credit ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time, these are known as issuer credit ratings.

Credit ratings can also speak to the credit quality of an individual debt issue, such as a corporate note, a municipal bond or a mortgage-backed security, and the relative likelihood that the issue may default, these are known as issue credit ratings.

The general meaning of S&P's credit rating opinions is summarised below:

Table 10: S&P Credit Ratings

Credit Rating	Description
AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade by market participants.
BB+	Considered highest speculative grade by market participants.
BB	Less vulnerable in the near term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable.
C	Currently highly vulnerable obligations and other defined circumstances.
D	Payment default on financial commitments.

Source: www.standardandpoors.com

Based on the above descriptions, in our opinion AJL's issuer or company credit rating is likely to be sub investment grade due to AJL making a loss for the last four years.

Credit rating enhancement associated with Kerogen Security

To estimate the potential credit enhancement from providing the Kerogen Security to AJL, we have had regard to the following:

- The estimated LVR of the Kerogen loan (13.16% as shown above). The indicative value of the Kerogen Security appears to be significantly higher than the estimated balance of the Kerogen loan (as indicated by the relatively low LVR). All else being equal, the lower the LVR, the greater the credit enhancement from the Kerogen Security.

- The credit enhancement associated with secured debt obtained from publicly available information (discussed below).

Table 11: Senior Secured Debt Issue Credit Ratings v Issuer Credit Ratings

Senior Secured Issue Rating	Average Notch Upgrade	Median Notch Upgrade	Observations
AAA	2.5	3.0	4
AA+	3.3	3.0	12
AA	0.0	0.0	0
AA-	1.3	1.0	28
A+	1.5	1.0	20
A	1.6	2.0	278
A-	2.0	2.0	149
BBB+	1.2	2.0	25
BBB	-0.3	0.0	9
BBB-	0.4	0.0	34
BB+	1.0	0.0	21
BB	0.8	2.0	17
BB-	-0.2	0.0	22
B+	0.5	0.0	51
B	0.0	0.0	65
B-	-0.6	0.0	50
CCC+	-1.7	-1.0	13
CCC	-1.4	-2.0	16
CCC-	-1.6	-2.0	7
CC	-1.7	-2.0	7
C	0.0	0.0	0
Total			828

Source: Capital IQ (as at 25 September 2013)

The vast majority of global debt issuances over the past five years have been senior unsecured issuances (in terms of capital raised and number of offerings). The data above is based on 723 secured debt issuances from 242 different issuers that were outstanding as at 25 September 2013. The majority of these transactions were undertaken by US companies in the US market, with only limited data being available on debt issuances in the Australian market. Further, the nature and quantum of the security provided by each issuer is not publicly available and may vary significantly.

Based on the analysis above, and having regard to the Kerogen Security, we note that:

- 303 out of 828 (37%) of secured debt issuances were attributed a sub-investment grade credit rating by S&P (i.e. below BBB). We consider these observations to be the most relevant benchmarks for AJL.
- The average credit enhancement (notch upgrade) on sub-investment grade issuances (being the issuance of a higher rating for the secured debt issue than the 'issuer' credit rating) is less than one credit rating notch, and there was no credit rating enhancement observed on a number of transactions.
- The credit enhancement achieved by sub-investment grade issuers that provide security is relatively lower than investment grade issuers.
- In our view, the Kerogen Security is likely to have provided a credit rating enhancement of between one to two credit rating notches.

Credit spread attributable to credit enhancement

To estimate the credit spread attributable to one or two credit rating notches (being the estimated credit enhancement attributable to the Kerogen Security), we have had regard to yields on US and Australian corporate bonds.

The charts below show 1-year US and Australian corporate bond spreads (relative to 1-year US and Australian government bond yields). We note that yield curves are not available for each S&P credit rating notch.

Figure 1: US Corporate Credit Spreads

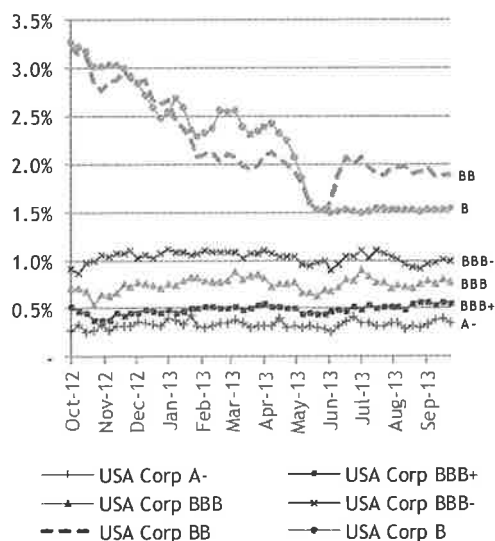
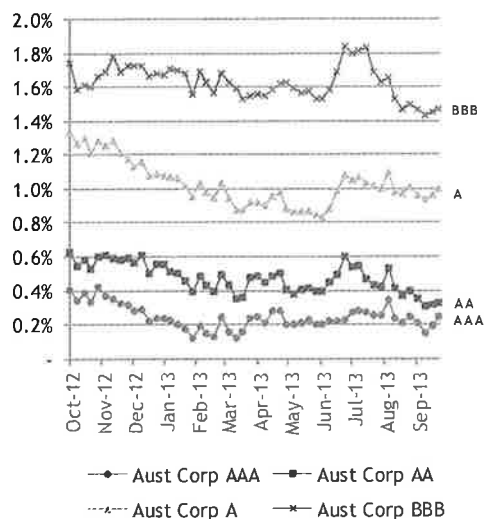


Figure 2: Australian Corporate Credit Spreads



Source: Bloomberg

Source: Bloomberg

In relation to US corporate credit spreads as at 25 September 2013, we note that:

- The apparent convergence of the BB and B yields is erroneous. This relates to the lack of sufficient data on sub-investment grade bonds. Bloomberg has not provided yields on BB+, BB-, B+ and B- rated US Corporate bonds since April 2012. However, we note that the average spread between BB and B rated US Corporate bonds (being three credit rating notched) in the four year period to April 2012 was approximately 1.16%.
- Spot credit spreads as at 25 September 2013 were 0.26% (A), 0.31% (A-), 0.46% (BBB+), 0.66% (BBB), 0.95% (BBB-), 1.58% (BB) and 1.60% (B).
- Three month trailing averages were 0.23% (A), 0.34% (A-), 0.51% (BBB+), 0.78% (BBB), 1.06% (BBB-), 2.03% (BB) and 2.31% (B).

In relation to Australian corporate credit spreads as at 25 September 2013, we note that:

- Due to limited volumes, Bloomberg only provides yields for AAA, AA, A and BBB rated Australian Corporate bonds. The difference between each of these is equal to three credit rating notches.
- Spot credit spreads were 0.23% (AAA), 0.42% (AA), 0.88% (A) and 1.59% (BBB).
- Three month trailing averages were 0.23% (AAA), 0.48% (AA), 0.98% (A) and 1.65% (BBB).

Based on the above, we estimate that the credit spread attributable to one or two credit rating notches for AJL would be approximately 0.5% to 1.0%.

The table below sets out our calculation of the possible financial benefit gained by AJL by granting the security:

Table 12: Financial benefit

A\$ million	Notes	Low	High
Balance of Kerogen loan	1	53.87	53.87
Credit spread saving	2	0.5%	1.0%
Time period (years)	3	3.5	3.5
Financial benefits	4	0.94	1.89

Source: BDO Analysis

Notes:

1. The balance of the Kerogen loan reflects the opening balance, plus accrued interest
2. Based on a credit rating enhancement of one or two credit rating notches and US and Australian Corporate bonds spreads.
3. Tranche 1 of the Kerogen loan will mature on 31 January 2017, while Tranche 2 will mature on 28 February 2017. We have adopted a time period of 3.5 years for purposes of our fairness assessment.
4. The financial benefit is calculated as the balance of the Kerogen loan, multiplied by the credit spread saving and the time period.

4.4. Fairness conclusion

As we have assessed the benefits of providing the Kerogen Security (between \$0.94 million and \$1.89 million) are greater than the cost (\$nil), we have concluded that the provision of the Kerogen Security is fair to the Non-associated Shareholders.

Table 13: Fairness

A\$ million	Low	High
Financial costs	-	-
Financial benefits	0.94	1.89

Source: BDO Analysis

5. REASONABLENESS ASSESSMENT

5.1. Overview

Reasonable

RG 111.60 indicates that 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 members to vote for the proposal.

As we have concluded that the issue of the Kerogen Security is fair, we have also concluded that it is reasonable. We have however considered other matters that may be relevant to Non-associated Shareholders when considering the issue of the Kerogen Security. These issues are discussed below:

- **Reduced risk of default** - if the existing Kerogen loan facilities are not restructured before 22 January 2014, AJL may default under them.
- **Condition of obtaining new funding** - failure to approve the Proposed Restructure may result in AJL not being able to obtain the necessary funds to repay the loan prior to its maturity on 22 January 2014.
- **No superior alternative** - the Directors of AJL have advised that there are no other arrangements in place to obtain funding from an alternative source. Whilst the Kerogen Security may limit AJL's ability to obtain further funding in future, the probability of obtaining an alternative source of funding before 22 January 2014 appears to be limited. If the Proposed Restructure is not approved the existing Kerogen loan will mature on 22 January 2014. If payment is not made by this date, an event of default would occur.



- **No change** - AJL has previously granted security to Kerogen under the terms of the existing Kerogen facilities. Providing the Kerogen Security under the terms of the Proposed Restructure is not a significant change in the nature of Kerogen's lending to AJL.

Support of the Independent Directors

The Independent Directors have provided their support for the Proposed Restructure and have indicated that they unanimously recommend that Shareholders vote in favour of the issue of the Kerogen Security.

5.2. Conclusion

Based on the above, we conclude that the issue of the Kerogen Security under the Proposed Restructure is fair and reasonable to the Non-associated Shareholders.

6. QUALIFICATIONS AND DECLARATIONS

6.1. Qualifications

BDO has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions. BDO holds an Australian Financial Services Licence, issued by ASIC, for giving expert reports pursuant to the Listing Rules of the ASX and the Act.

Dan Taylor has a B.Com from Adelaide University, is a fellow of the Institute of Chartered Accountants in Australia and a fellow of the Financial Services Institute of Australia. Dan is a director of BDO and is also a partner of BDO East Coast Partnership. Dan is the director responsible for this Report. Dan has over 18 years experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, preparation of independent expert's reports, preparation of information memoranda and other corporate investigations. Based on his experience, Dan is considered to have the appropriate expertise and professional qualifications to provide the advice offered.

David McCourt, BBus, CA, is a director of BDO. David is also a partner of BDO East Coast Partnership. David is the director responsible for the review of this IER. David has over 14 years experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and independent expert reports. Accordingly, David is considered to have the appropriate experience and professional qualifications to provide the advice offered.

6.2. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this Report on the grounds of independence either 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 AJL in relation to the Proposed Restructure, other than the preparation of this Report. Further, we have not held and, at the date of this Report, do not hold any shareholding in, or other relationship with AJL that could be regarded as capable of affecting our ability to provide an unbiased opinion in relation to the Proposed Restructure. We consider ourselves to be independent in terms of RG 112 Independence of experts (RG 112), issued by ASIC.

We will receive a fee based on the time spent in the preparation of this Report in the amount of approximately \$50,000 (plus GST and disbursements). We will not receive any fee contingent upon the outcome of the Proposed Restructure, and accordingly, we 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 Restructure.

One draft of this Report was previously provided to the Directors for review of factual accuracy. Certain changes were made to the Report as a result of the circulation of the draft Reports. However, no changes were made to the methodology, conclusions or recommendations made to the Non-associated Shareholders.



6.3. Disclaimer

This Report has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this Report. This Report has been prepared for the sole benefit of the Directors and Non-associated Shareholders. Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the Directors and Non-associated Shareholders without our written consent. We accept no responsibility to any person other than the Directors, and Non-associated Shareholders in relation to this Report. The statements and opinions contained in this Report are given in good faith and are based upon our consideration and assessment of information provided by the Directors, executives and management of AJL.



APPENDIX 1: SOURCES OF INFORMATION

In preparing this Report, we have had access to and relied upon the following principal sources of information:

- Kerogen Term Sheet
- Draft Facility Agreement (dated 24 September 2013)
- AJL final draft Notice of Meeting and Explanatory Statement
- AJL Annual Reports for 2011 and 2012 and Audited Financial Report for 2013
- AJL Statement of Financial Position as at 30 June 2013
- AJL ASX announcements
- AJL internal management documents
- Discussions with AJL management
- Industry data from publicly available resources
- Information and research sourced from Bloomberg and Capital IQ
- Information generally available and provided by major Australian economic forecasting bodies



APPENDIX 2: GLOSSARY

Act	Corporations Act 2001 (Cth)	Non-associated Shareholders	Shareholders other than those directly involved in the Proposed Restructure or associated with such persons
AJL	AJ Lucas Group Limited	Notice of Meeting	Notice of Meeting that is to be provided by the Directors in relation to the Proposed Restructure
ASIC	Australian Securities and Investments Commission	NPAT	Net profit after taxation
ASX	Australian Securities Exchange	Proposed Restructure	The proposed restructuring of AJL's current debt held with Kerogen as described in the Documents.
ATO	Australian Tax Office	Report or IER	This independent expert's report
BDO, we, us or our	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170)	RG 111	ASIC Regulatory Guide 111 <i>Content of expert reports</i>
Cuadrilla	Cuadrilla Resources Holdings Limited	RG 112	ASIC Regulatory Guide 112 <i>Independence of experts</i>
Closing Date	Date of the Proposed Restructure	Shareholders	Shareholders of AJL
Directors	Directors of AJL	S&P	Standard & Poor's
Documents	Notice of Meeting and accompanying Explanatory Statement	VWAP	Volume weighted average share price
EBITDA	Earnings before interest, depreciation and taxation		
E+C	Engineering and Construction		
Explanatory Statement	Explanatory Memorandum that is to be provided by the Directors in relation to the Proposed Restructure		
FOS	Financial Ombudsman Service Limited		
FSG	Financial Services Guide		
FY20XX	Financial year ended/ing 30 June 20XX		
Group	AJL and its subsidiaries		
Kerogen	Kerogen Investments No.1 (HK) Limited		
Kerogen Security	General security interests over the assets of AJL provided to Kerogen as part of the Proposed Restructure		
LVR	Loan to value ratio		
LR 10.1	ASX Listing Rule 10.1		
Management	AJL management		
Material Australian Asset	AJL's drilling division and any associated assets		
Material International Asset	AJL's interests in Cuadrilla, Bowland and Bolney Prospects, Lucas UK Entities and the East Texas NPI		
Meeting	Annual General Meeting to be convened		



AJ Lucas Group Limited

ABN 12 060 309 104

Lodge your vote:



Online:

www.investorvote.com.au



By Mail:

Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 556 161
(outside Australia) +61 3 9415 4000

Proxy Form



Vote and view the annual report online

Go to www.investorvote.com.au or scan the QR Code with your mobile device.
Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number:

SRN/HIN:

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Sydney time) Wednesday 27 November 2013

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark  to indicate your directions

STEP 1

Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of AJ Lucas Group Limited hereby appoint

☐

the Chairman
of the Meeting **OR**



PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of AJ Lucas Group Limited to be held in The Brook Room, Stamford Grand Hotel, 110 Herring Road, North Ryde NSW 2113 on Friday, 29 November 2013 at 10:00am (Sydney time) and at any adjournment or postponement of that Meeting.

Important for Items 4 & 5 - If the Chairman of the Meeting is your proxy or is appointed as your proxy by default.

By marking this box, you are expressly authorising the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on Items 4 & 5 as set out in the Notice of Meeting. If you do not mark this box, and you have not otherwise directed your proxy how to vote on Items 4 & 5 the Chairman of the Meeting will not cast your votes on Items 4 & 5 and your votes will not be counted in computing the required majority if a poll is called on these items.

If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Items 4 & 5 by marking the appropriate box in step 2 below.

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

☐

I/We expressly authorise the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on Items 4 & 5 (except where I/we have indicated a different voting intention below) and acknowledge that the Chairman of the Meeting may exercise my/our proxy even though Items 4 & 5 are connected directly or indirectly with the remuneration of a member of key management personnel (which includes the Chairman) and with respect to Items 4 & 5, even if the Chairman of the Meeting has an interest in the outcome of Items 4 & 5, and that votes cast by the Chairman, other than as proxy holder, would be disregarded because of that interest.

STEP 2

Items of Business



PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

	For	Against	Abstain
1 Re-election of Martin Green as a Director	☐	☐	☐
2 Re-election of Mike McDermott as a Director	☐	☐	☐
3 Re-election of Julian Ball as a Director	☐	☐	☐
4 Adoption of the Remuneration Report	☐	☐	☐
5 Increase in Directors' fees	☐	☐	☐
6 Approval of the Kerogen Security	☐	☐	☐

SPECIAL BUSINESS

7 Approval of financial assistance	☐	☐	☐
------------------------------------	--------------------------	--------------------------	--------------------------

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

SIGN

Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact
Name

Contact
Daytime
Telephone

Date / /

A J L

1 7 4 3 5 7 A

Computershare 