



AJ Lucas Group Limited  
ABN 12 060 309 104  
394 Lane Cove Road  
Macquarie Park NSW 2113  
Locked Bag 2113  
North Ryde BC NSW 1670  
**T** (02) 9490 4000  
**F** (02) 9490 4200  
[www.lucas.com.au](http://www.lucas.com.au)

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## **ASX ANNOUNCEMENT/MEDIA RELEASE**

### **AJ Lucas Announces Major Recapitalisation of the Company**

The Board of AJ Lucas (ASX: AJL, the "Company") is pleased to announce that it has agreed to enter into a number of financial arrangements ("the Recapitalisation Plan") which, if relevant approvals are given, will result in a significant recapitalisation of the Company. The Recapitalisation Plan is being progressed in conjunction with other restructuring initiatives, including the sale of some or all of the Company's drilling business.

The Recapitalisation Plan proposals would substantially advance the Company's objectives to strengthen its balance sheet and improve Group liquidity. Importantly, they would also allow the Company to maintain its European shale gas exploration investment held principally through its 41% shareholding in Cuadrilla Resources Holdings Limited ("Cuadrilla").

Under the terms of the proposed Recapitalisation Plan, and subject to Senior Financier approval, the Company has agreed that:

- subject to FIRB approval, Kentix Limited, a Hong Kong wholly owned subsidiary of Kerogen Investments No. 1 Limited ("Kerogen") will subscribe to a Placement ("the Placement") of ordinary shares to raise a total of \$13,388,827;
- subject to FIRB and shareholder approval, as necessary, Kerogen will provide a mezzanine loan facility ("Mezzanine Facility") of \$66.5 million and be granted options to acquire shares; and
- subject to FIRB approval, the Company will conduct an underwritten non-renounceable rights issue ("Rights Issue") to raise a minimum of \$30 million up to a maximum of \$35 million.

The aggregate funds to be raised from the Recapitalisation Plan amount to approximately \$110 million. Subject to shareholder and existing financier approvals, as necessary, these funds will be applied to meet the Company's US\$10.1 million equity subscription commitments to its investment in Cuadrilla and to redeem the existing Redeemable Convertible Preference Shares ("RCPS"), with the balance used for working capital.



**Commenting on the Recapitalisation Plan, Martin Green, Lead Independent director of AJL, said:**

“The recapitalisation will allow the company to meet its immediate payment obligations, reduces debt servicing costs and provides the Company with the necessary resources to maintain our investment portfolio.

“Over several months, the Board has given exhaustive consideration to a range of recapitalisation and balance sheet restructuring possibilities. We have now identified a strategy that will introduce strength to the AJ Lucas balance sheet, minimise dilution for shareholders and allow AJ Lucas to maintain its shareholding in Cuadrilla.

“The Board is particularly pleased to welcome Kerogen to the share register. Kerogen is a specialist oil and gas investor who understands our business. The Board and the management team look forward to working closely with the Kerogen team in delivering on the potential of AJ Lucas.”

**Kerogen’s Executive Chairman, Mr. Ivor Orchard, commented:**

“The Kerogen proposal offers a comprehensive balance sheet solution for AJ Lucas and its shareholders. It will provide the company with financial flexibility and does so in a way that minimises dilution to existing shareholders. Our proposal will allow AJ Lucas to remain a sustainable business with a solid platform for future growth. We hope shareholders will accept the proposed financing structure.”

**Placement**

Kerogen and the Company have executed a Subscription Agreement whereby Kerogen has agreed to subscribe to a placement for 9,917,650 ordinary shares, being 15% of the Company’s issued ordinary shares, at \$1.35 per share to raise a total of \$13,388,827. Funding will take place by 28 September 2011 with issue of the Placement shares being subject to FIRB approval.

If FIRB approval for the Placement is not obtained by Kerogen within 3 months of the date of the funding, that advanced funding will be treated as a loan by Kerogen and the Company then has a further month in which to repay the loan in cash.

If the loan still remains outstanding after this time, its repayment will be satisfied by the transfer of a direct or indirect interest in 10% of the Bowland Licence. The Bowland Licence is United Kingdom Onshore Production Licence number PEDL:165. Lucas Energy (UK) Limited holds a 25% direct interest in the licence and the remaining 75% interest is held by Cuadrilla, in which the Company has a 41% shareholding.

The Company will use the proceeds from the Placement (or the loan, as applicable) predominantly to meet its equity capital commitments for its Cuadrilla investment, for which payment is required by 30 September 2011.



Under the Subscription Agreement, Kerogen will have a right to seek appointment of a director to the Board. However, Kerogen has indicated that currently it has no intention of exercising that right.

### **Mezzanine Loan Facility**

Kerogen has also signed a term sheet to provide the Company with a mezzanine loan facility of \$66.5 million ("Mezzanine Facility").

The Mezzanine Facility will have a 2 year term and carries an interest rate of 8.0% for the first 12 months after drawdown.

Subject to FIRB and shareholder approval, as part of the Mezzanine Facility, the Company will also grant options for Kerogen to subscribe for additional new shares. The number of options will be a fixed number determined prior to issue. Assuming a \$30 million raise at \$1.35 per share under the Rights Issue, the number of options would be 10,917,504 (representing approximately 10% of the fully diluted issued share capital calculated immediately following the Rights Issue) ("Kerogen Options").

If the Company undertakes early repayment of the Mezzanine Facility, in part or in full, before 30 June 2012, the number of Kerogen Options will be subject to cancellation on a sliding scale proportionate to the amount of prepayment. If the Company pays back \$30 million or more of the Mezzanine Facility before 30 June 2012, the number of Kerogen Options will reduce to a minimum of approximately 6,271,758 (representing approximately 6% of the fully diluted issued share capital calculated immediately following the Rights Issue). If the Rights issue is upsized, the number of Kerogen Options and these cancellation figures would be adjusted.

Each Kerogen Option is exercisable into one ordinary share, at a strike price of the lower of 120% of the five day volume weighted average price of the Company's shares immediately preceding the date of exercise and \$1.70, but subject to a floor of \$1.35. The Kerogen Options have a 4 year term and can be exercised at any time during that term after the earlier of completion of the Rights Issue and 3 months from the date of drawdown under the Mezzanine Facility.

The majority of the Mezzanine Facility will be used to redeem the RCPS, subject to receipt of an early redemption notice and shareholders approving the selective buy-back of the RCPS. The balance will be used to pay the accrued dividends on the RCPS, with the residual retained for working capital. Subject to shareholder and Senior Financier approval, the Company also proposes to offer a package of fees and options over shares in the Company (the "RCPS Options") to the relevant funds that hold the RCPS to facilitate the orderly redemption of the RCPS.

The Mezzanine Facility term sheet is subject to a number of conditions, including those noted above and full documentation.



Under the Corporations Act 2001 and the terms of issue of the RCPS, the RCPS can only be redeemed under a selective share buy-back. The Company cannot conduct the buy-back unless shareholders of the Company approve it. Accordingly, the Company intends to convene an Extraordinary General Meeting (“EGM”) to approve the buy-back.

### **Rights Issue**

To further strengthen its balance sheet, the Company intends to conduct a Rights Issue to raise at least \$30 million and up to a maximum of \$35 million.

The Rights Issue will be non-renounceable, but will include an over-allotment provision for shareholders wishing to take up additional shares.

It is proposed that the Rights Issue will be fully underwritten, with an underwriter proposed to be appointed shortly, and then sub-underwritten in whole or in part by Kerogen. It is also anticipated that the underwriter will offer Andial Holdings Pty Limited (an entity associated with the Chairman of the Company, Allan Campbell) (“Andial”) and other significant shareholders the opportunity to sub-underwrite part of the Rights Issue. It is proposed that any participation by Andial as a sub-underwriter be subject to shareholder approval, although not strictly required for Corporations Act or Listing Rule purposes.

It is intended that the Rights Issue will be launched following the EGM called to approve the buy-back of the RCPS and other matters as described below.

### **Approvals Process**

Kerogen’s participation in the Placement, the grant of the Kerogen Options under the Mezzanine Facility and Kerogen’s participation as a sub-underwriter of the Rights Issue are subject to FIRB approval.

Elements within the Recapitalisation Plan that require shareholder approval include:

- approval of the selective buy-back of the RCPS and the issue of the RCPS Options; and
- approval of the issue of the Kerogen Options.

In addition, it is voluntarily proposed to seek shareholder approval of the proposed participation of Andial as a sub-underwriter of the Rights Issue.

The terms of the Kerogen Options and the RCPS Options are subject to ASX review.

### **Timeline**

It is proposed that the EGM be held around the end of October, with redemption of the RCPS and the issue of the Kerogen Options and RCPS Options to occur promptly after approval at the EGM. The Rights Issue is proposed to complete in mid-November. This timing is indicative and subject to ASX approval.



### **Continuing Share Suspension**

It is proposed that the Company's shares will remain suspended from trading until shareholder approval is received for the terms of the Recapitalisation Plan and the RCPS buy-back outlined in this announcement.

### **Other Balance Sheet Restructuring Initiatives**

The Recapitalisation Plan and agreements with Kerogen are another vital part of the Company's restructuring that commenced earlier this year with the sale of the Underground In-Seam business. The Company continues to investigate the sale of some or all of its remaining drilling business activities. Further announcements regarding the progress of these sales will be made in due course.

Proceeds from the sale of the drilling business or other operating activities will be used to pay the amounts owing to the Australian Taxation Office and other borrowings. Following this, the Company's borrowings will be significantly reduced and will leave the Company with substantial liquidity to develop and grow its residual operating and investment activities.

The operator of the Monument Prospect located in East Texas, in which the Company holds a 10% contractual net profit interest and whose value the Company has fully impaired, has advised that drilling will commence shortly on this acreage. The Company is re-examining the accounting treatment for this investment in light of this development which may result in the impairment charge being reversed in part or in full thereby further strengthening the Company balance sheet.

### **Operational Outlook**

Mr Campbell, Executive Chairman and Chief Executive of AJ Lucas said: "There is no doubt that the company is in the right place at the right time. All of the operating businesses are now performing satisfactorily. With a stronger balance sheet, additional opportunities will open up further improving the outlook for the company."

For further information please contact:

#### **AJ Lucas**

Investor Enquiries:

Nicholas Swan  
Company Secretary  
+61 2 9490 4127

Media Enquiries:

David Symons  
Cato Counsel  
+61 410 559 184

#### **Kerogen:**

Justin Clark  
FD  
+ 61 2 8298 6100



#### **About AJ Lucas Group Limited**

Lucas is a leading provider of specialist infrastructure and mining services and is the largest supplier of drilling services to Australia's coal and coal seam gas industries. It is also one of Australia's largest builders of long distance gas pipelines. Other divisions provide gas management services to the coal and coal seam gas industry, construction, civil and property services.

AJ Lucas is also a proven developer of unconventional hydrocarbon properties. Past projects successfully developed and exited include the Company's investments in Gloucester Basin, Sydney Gas and ATP651 in Queensland's Surat Basin.

#### **About Cuadrilla Resources**

Cuadrilla Resources Holdings Limited ("Cuadrilla") is an exploration and production company focused on European unconventional resources, particularly shale gas. The company has one of the largest acreage portfolios on Europe with exploration permits in excess of one million net acres across six sedimentary basins in the UK, the Netherlands and Poland. Cuadrilla also has an option to acquire a 29.33% interest in a company exploring the Pannonian Basin in Hungary. Lucas holds a 41% shareholding in Cuadrilla, equal to that owned by Riverstone Holdings, an energy and power private equity firm. An employee trust holds the balance of Cuadrilla's issued equity.

The most advanced prospect is at the Bowland Basin in England's north-west. 2 wells have been completed with drilling commenced at a third well. Fraccing has been suspended pending a review by geo-mechanical consultants on the Basin.

For further information regarding Cuadrilla, please refer to [www.cuadrillaresources.com](http://www.cuadrillaresources.com).

#### **About Kerogen Capital**

Kerogen Capital (Asia) Limited ("Kerogen Capital") is an independent private equity fund adviser based in Hong Kong. It manages the Kerogen Energy Fund, L.P, which specialises in providing growth and development capital to small and medium-sized companies in the energy and energy-related sectors. Kerogen Capital is led by Ivor Orchard, former Head of the Energy & Natural Resources Group in Asia Pacific for JP Morgan and Jason Cheng, also formerly of JP Morgan.

The strength of its executive team is reinforced by the network and operational expertise of a world class Advisory Board, with members including:

- Dr Alan Parsley (former Chairman of Shell Australia)
- Roy Franklin OBE (Chairman of Keller Group, Director of Santos and Director of Statoil)
- Saad Al-Shuwaib (former CEO of Kuwait Petroleum Corporation)
- Philip Jackson (former Chief Executive of JPMorgan Asset Management's \$860m Asian Infrastructure and Related Resources Opportunity Fund)
- Dr. Natasha Tsukanova (Co-founder of Xenon Capital, former head of JPMorgan Russia / CIS Investment Banking)

Kerogen Capital is targeting to raise a fund of US\$1.5 billion by the end of 2011, with US\$875 million having been committed to date. The Fund leverages the proven technical, strategic and financial expertise of its executive team to assist companies in developing and expanding their assets, and maintains active strategic, financial and operating involvement in its portfolio companies.

#### **Founder and Executive Chairman – Ivor Orchard**

Prior to establishing Kerogen Capital, Ivor Orchard was the Head of the Energy & Natural Resources Group in Asia Pacific for JP Morgan from 2002 to 2008, and before that, the Head of Energy & Natural Resources at JP Morgan Australia. Ivor also spent 10 years with the Royal Dutch/Shell Group, where he held a number of senior management positions.

#### **Founder and Managing Partner – Jason Cheng**

Jason Cheng has been the Managing Partner of Kerogen Capital since 2007. He was previously a Managing Director of Jade International Capital Partners which focused on investments and joint venture advisory assignments in China. Prior to moving to Asia, he was with JP Morgan Australia, focused on Energy & Natural Resources.