



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

13 February 2013

ASX ANNOUNCEMENT/MEDIA RELEASE

Placement and Trading Update

- **Private placement of up to 10.65 million shares at \$1.55 per share, raising \$16.5 million before costs**
- **Company is negotiating new structured senior finance facilities of up to \$75 million**
- **Advanced discussions underway with leading energy companies for a potential farm-in into the Bowland Basin**
- **Difficult trading conditions year to date, but signs of improvement evident with significant amount of work being tendered**

1. RECAPITALISATION

AJ Lucas Group Limited (ASX : AJL) is pleased to announce that it has commenced a process to recapitalise its balance sheet by way of a placement and to refinance and restructure its senior debt facilities. This follows the rescheduling of the mezzanine finance facility and other short term loans provided by Kerogen, as announced to the market on 21 December 2012.

2. PLACEMENT

The Company has engaged Gleneagle Securities (Aust) Limited to place up to 10,650,000 ordinary fully paid shares at \$1.55 per share to raise up to \$16.5 million before costs. The shares, once issued, will rank equally with existing ordinary shares and will be equivalent to 8.0% of the Company's current issued share capital. The placement is expected to settle on Friday, 15 February 2013.

The funds raised will be used for working capital and to meet capital calls in relation to the Company's investments in Cuadrilla Resources Limited (**Cuadrilla**) and directly in the Bowland Basin.

3. RESTRUCTURING OF FINANCING FACILITIES

The other element of the recapitalisation is a refinancing of the Company's existing senior lending facilities and the provision of additional resources for future development of the Bowland prospect and investment in Cuadrilla.

The Company has received and is considering proposals relating to a structured finance facility of up to \$75 million. It is intended that any new facility will:

- Refinance the senior lending facility and extend its maturity date by up to three years;



- Provide the Company with sufficient capital to meet anticipated capital requirements of Cuadrilla and the Bowland development over the next 24 months; and
- Provide additional liquidity to meet the Company's financing needs, thereby assisting in developing the Group's engineering and drilling businesses, particularly in the oil and gas and resources sectors.

It is anticipated that this refinancing will complete by the end of April 2013.

Given the status of these financing negotiations, we have asked the Company's Senior Financer to extend the maturity date of its existing facilities to 30 June 2013.

4. CUADRILLA / BOWLAND

Potential Farm-in to Bowland Prospect

In its announcement on 14 January 2013, the Company referred to discussions being held with a number of parties regarding the future of the Bowland prospect. Those discussions have advanced considerably, but not yet concluded. The discussions, with the assistance of the US investment bank, Jefferies, are being held with a number of leading energy companies.

A range of structures and financing proposals with these parties are being considered. This includes a proposed farm-in into the Bowland shale prospect in Lancashire in the UK, which is held as to 75% by Cuadrilla and 25% by the Company. A successful conclusion to the negotiations may occur in the not too distant future however, no assurances can be given that a deal will be concluded.

Cuadrilla Operations Update

Operations are due to recommence shortly. Planning, environmental and other relevant submissions have been and are being prepared for submission to and approval by the various regulatory authorities. Subject to planning and regulatory approval, drilling operations at the Anna's Road well and hydraulic fracturing of the Beconsall well are scheduled to commence in the near future.

Information from this work programme, together with the 3D seismic programme undertaken in 2012, will provide valuable additional scientific data in quantifying the commercial prospectivity of this asset, which has been estimated as having 200TCF of gas in place.

5. EARNINGS GUIDANCE

Performance year to Date

Since the last earnings guidance released to the market, the Company has continued to experience difficult trading conditions year to date. Reduced exploration activity in the coal sector, as a result of lower commodity prices and increased costs, has impacted on demand for the Group's drilling services and margins.



Difficult contract terms within CSG Production drilling have major cash flow and earnings implications when rigs are placed on stand-by. Profitability within the construction sector remains weak, with competition intense and terms and conditions unfavourable to contractors; a fact which is being exacerbated by lack of qualified personnel and competition for experienced people between clients and contractors. General civil engineering and building in the eastern states remains difficult.

In response to these tough circumstances, the Company has continued to aggressively restructure the business. Overheads have been further cut and the Drilling and Engineering & Construction divisions have once again been integrated to share common resources and leverage the Group's engineering skills and detailed knowledge of the work.

These measures will reduce both divisional and corporate overhead (estimated annualised reduction of some \$18 million p.a.) and allow the Company to focus on its core strengths of pipelines and related infrastructure, gathering systems, HDD and drilling.

An independent valuation of the Group's plant and equipment was recently completed. This showed a fair market value of \$116 million and, accordingly, an additional impairment charge of \$13.6 million has been made.

The half year results are now expected to show an underlying EBITDA loss of \$3.7 million and a loss before tax of \$40.1 million. Further details will be provided when the half year results are released on 28 February 2013.

Outlook - Positive

Despite the poor performance year to date, there are encouraging signs of an improvement in the Company's business activities and outlook.

A pick-up in coal prices and a requirement to produce contracted volumes of coal as well as the cost cutting undertaken by clients in 2012, has resulted in increased interest for exploration drilling and directional drilling within the coal sector. Having regard to the Company's safety, environmental and management systems, its skilled workforce and its engineering capability, management is confident that the drilling division will return to the previous EBITDA margins, provided that external factors, such as weather, do not adversely interfere.

Interest in the Company's traditional activities of cross-country pipelines, HDD and gathering systems remains strong. The oil and gas sector, in particular, continues to enjoy a great deal of activity and also, the resources sector, with a number of key projects still proceeding.

The Company has a clear strategy and, as part of its restructuring exercise, has recently filled a number of key senior positions to bolster Lucas' offering to the market place. The Company expects that the benefit of this strategy will become increasingly evident over the next 6-9 months.



Commenting on the placement, refinance and the expected trading result, AJ Lucas CEO Allan Campbell said:

“We are very pleased to have the financial support of our new investors and providers of capital. It is pleasing that they recognise the strength of our operating businesses and our E&P assets. The substantially reduced cost base and leveraging of the synergies between our Drilling and Engineering & Construction divisions is expected to result in significantly higher margins going forward.”

“The interest shown in the Bowland Prospect is also very encouraging and demonstrates increasing acknowledgement of the substantial resource that we have identified. We believe that this asset is worth multiples of the investment thus far. A new partner can be expected to assist substantially in the further development and commercialisation of the Bowland shale gas prospect.”

For further information please contact:

Nicholas Swan
Company Secretary
+61 2 9490 4127

About AJ Lucas Group Limited

Lucas is a leading provider of specialist infrastructure, construction and drilling services to the energy, water and waste water, resources and public infrastructure sectors. In particular, it is the largest supplier of drilling and gas management services to Australia’s coal industry. Other divisions provide construction and civil engineering services together with facilities management.

AJ Lucas is also a proven developer of unconventional hydrocarbon properties. Current investments include a 44% shareholding in Cuadrilla Resources, an exploration and production company focused on unconventional hydrocarbons, and a 25% direct interest in the Bowland and Weald shale basin prospects in respectively North West and South East England. Past projects successfully developed and exited include the Company’s investments in Gloucester Basin, Sydney Gas and ATP651 in Queensland’s Surat Basin.