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28 September 2012

The Manager
Company Announcements Office
ASX Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

Prospectus

AJ Lucas Group Limited (ABN 12 060 309 104) (**AJL**) advises that it has lodged with the Australian and Securities & Investments Commission today the attached Prospectus dated 28 September 2012.

The Prospectus is in respect of a placement of 22,222,222 placement shares to Kerogen Investments No.1 (HK) Limited and the offer and issue of up to 5,000,000 options to Mr Allan Campbell (up to a maximum of 3,750,000) and other senior executives of AJL.

Yours faithfully

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

Nicholas Swan
Company Secretary

AJ Lucas Group Limited (ABN 12 060 309 104)



Prospectus

This Prospectus has been issued in relation to:

- 1 the offer and issue of 22,222,222 Placement Shares to Kerogen at an issue price of \$1.35 per Placement Share to raise \$30 million;
- 2 the offer and issue of 3,750,000 options to Mr Allan Campbell to subscribe for new Shares at an issue price of \$1.35 per option; and
- 3 the offer and issue of 1,250,000 options to senior management of the Company to subscribe for new Shares at an issue price of \$1.35 per option.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION OR RELEASE INTO THE UNITED STATES OF AMERICA OR TO US PERSONS (OR TO ANY PERSON ACTING FOR THE ACCOUNT OR BENEFIT OF A US PERSON)

This is an important document and should be read in its entirety. If, after reading this Prospectus, you have any questions or do not understand its content or any other matter, you should consult your professional adviser.

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1 IMPORTANT INFORMATION

1.1 Notice

This Prospectus is dated 28 September 2012 (**Prospectus Date**).

A copy of this Prospectus was lodged with ASIC on that date. The expiry date of this Prospectus is the date which is 13 months after the Prospectus Date (**Expiry Date**).

No Placement Shares or Options will be issued on the basis of this Prospectus after the Expiry Date.

Neither ASIC nor ASX takes any responsibility for the content of this Prospectus or the merits of the investment to which it relates.

1.2 Details of the Placement and the Options

This Prospectus is issued by AJ Lucas Group Limited (**Company**) in relation to:

- (a) the offer and issue of 22,222,222 Shares (**Placement Shares**) subscribed for by Kerogen Investments No.1 (HK) Limited (**Kerogen**) under the Kerogen Subscription Agreement at a placement price of \$1.35 per Placement Share (**Placement Price**) (**Placement**);
- (b) the offer and issue of 3,750,000 options to acquire Shares at \$1.35 per Share to Mr Allan Campbell, the Chairman and CEO of the Company, subject to Shareholder approval (**Campbell Options**) and the issue of new Shares on exercise of the Campbell Options; and
- (c) the offer and issue of 1,250,000 options to acquire Shares at \$1.35 per Share to senior management of the Company (**Management Options**) and the issue of new Shares on exercise of the Management Options.

Shareholder approval for each of these transactions was obtained at the EGM.

This Prospectus has been prepared in accordance with section 713 of the Corporations Act.

1.3 Purpose of the Prospectus

This Prospectus has been issued for the following purposes:

- (a) in respect of the Placement, the offer and issue of the Placement Shares to Kerogen under the Kerogen Subscription Agreement;

- (b) in respect of the Options, the offer and issue of the Campbell Options and the Management Options;
- (c) in respect of the Placement Shares, for the purpose of complying with section 708A(11) of the Corporations Act so that Kerogen can sell any of the Placement Shares within the next 12 months without the issue of a further prospectus; and
- (d) in respect of the Options, for the purpose of ensuring that the Option Shares are not subject to section 707(3) of the Corporations Act and are able to be on-sold without future disclosure to investors.

1.4 Placement Options Exercise

Pursuant to the Kerogen Subscription Agreement, Kerogen has agreed to exercise 7,407,407 Kerogen Options (**Placement Options**) at the Placement Options Exercise Price to raise a minimum of \$10 million (**Placement Options Exercise**) before 5 December 2012.

Shareholder approval for the Placement Options Exercise was obtained at the EGM. Further details on the Placement Options Exercise are available in section 5 of the Notice of Meeting.

1.5 Transaction specific prospectus

This Prospectus is a transaction-specific prospectus in accordance with section 713 of the Corporations Act. Section 713 allows the issue of a more concise prospectus for offers of continuously quoted securities (as defined in the Corporations Act).

In preparing this Prospectus, regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and that matters may reasonably be expected to be known to investors and professional advisers whom investors may consult. This Prospectus must be read in the context of, and having regard to, the Company's continuous disclosure and the publicly available information regarding the Company and its business.

In preparing this Prospectus, no account has been taken of the investment objectives, financial situation or particular needs of any particular person or investor. Nothing in this Prospectus should be interpreted or construed as tax or legal advice or as a recommendation to any person or investor to purchase any Shares issued under the Placement or on the exercise of the Options.

1.6 Risks

An investment in the Company has risks that investors should consider before making a decision to invest. In considering the prospects of the Company, investors should consider the risk factors that could affect the Company's financial

performance. Investors should consider these factors in the light of their personal circumstances (including financial and taxation issues). The key risk factors that should be considered by potential investors are outlined in **Section 4** of this Prospectus.

Investors should seek professional advice from their stockbroker, accountant or other professional adviser before deciding to invest.

1.7 Distribution of this Prospectus

This Prospectus does not constitute an offer or invitation in any place which it is unlawful, or to any person to whom it not be lawful, to make such an offer or invitation. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

1.8 Disclaimer of representations

No person is authorised to give any information or make any representation in connection with the Placement Shares, the Options or the Option Shares which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company or the Directors.

1.9 Prospectus availability

This Prospectus is available in electronic form at <http://www.lucas.com.au>.

Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. A hard copy of this Prospectus is available free of charge to any person in Australia by request in writing to the Company Secretary.

1.10 Forward-looking statements

Neither the Company nor any other person warrants or guarantees the future performance of any of the Placement Shares, the Options or the Option Shares or any return on any investment made pursuant to investing in them. Any forward looking statements in this Prospectus are based on the Company's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and the Directors that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Prospectus.

1.11 Defined Terms and abbreviations

Throughout this Prospectus, for ease of reading, various words and phrases have been defined rather than used in full on each occasion and are set out in the **Schedule 1 (Glossary of Terms)** to this Prospectus.

All financial amounts shown in this Prospectus are expressed in Australian dollars, unless otherwise stated.

1.12 Governing Law

This Prospectus is governed by the laws of New South Wales, Australia.

2 SUMMARY OF THE PLACEMENT, OPTIONS AND KEY DATES

PLACEMENT AND OPTIONS KEY DATES*

EGM	5 September 2012
Notice lodged with ASIC and ASX of the results of the EGM	5 September 2012
Lodgement of Prospectus with ASIC and ASX	28 September 2012
Prospectus uploaded to ASX platform	28 September 2012
Issue the Campbell Options	28 September 2012
Placement Options Exercise	28 September 2012
Lodge Appendix 3B with ASX regarding the Placement Shares, the Option Shares and the Campbell Options	28 September 2012
Allotment Date for Placement Shares and Option Shares	28 September 2012
Despatch holding statements for Placement Shares	2 October 2012
Quotation Date of the Placement Shares	2 October 2012
Issue of the Management Options	Before 30 November 2012

PLACEMENT

Placement Price	\$1.35 per Share
Maximum number of new Shares issued under the Placement	22,222,222
Amount to be raised under the Placement	\$30,000,000
Number of Shares on issue prior to the Placement	103,027,291
Maximum number of Shares on issue after the Placement	125,249,513

CAMPBELL OPTIONS

Campbell Options Exercise Price	\$1.35 per Campbell Option 3,750,000
Maximum number of new Option Shares to be issued under the Campbell Options	\$5,062,500
Amount to be raised on exercise of the Campbell Options	
Vesting Date	31 December 2013
Expiry Date	7 December 2015

MANAGEMENT OPTIONS

Management Options Exercise Price	\$1.35 per Management Option 1,250,000
Maximum number of new Option Shares to be issued under the Management Options	
Amount to be raised on exercise of the Management Options	\$1,687,500
Vesting Date	31 December 2013
Expiry Date	7 December 2015

ENQUIRIES

*These dates are subject to change and are indicative only. The Company reserves the right to amend this indicative timetable. In particular, the Company reserves the right, subject to the Corporations Act and the ASX Listing Rules, to change any of these dates without prior notice. The Company will announce all changes through the ASX. All references in this Prospectus are to Sydney time, unless otherwise stated. The commencement of quotation of the Placement Shares is subject to confirmation from ASX.

3 INVESTMENT OVERVIEW

3.1 The Company

What does the Company do?	<ul style="list-style-type: none">• The Company is structured into the following two operational business segments:<ul style="list-style-type: none">○ Lucas Drilling; and○ Lucas Engineering & Construction.• The Company also has investments in the energy sector, namely:<ul style="list-style-type: none">○ a 43% shareholding in Cuadrilla;○ a 25% direct interest in each of the Bowland and Weald shale prospects in the UK (PEDL 165 and PEDL 244 respectively); and○ a 10% contractual net profit interest in the Monument Prospect in the USA.• The Company is also negotiating the grant of an oil exploration permit in the Canning Basin in Western Australia.• The key operating focus of the Company is to supply specialist, niche, engineering and infrastructure related services to four core sectors of the Australian economy: namely, energy, water and waste water, resources (specifically coal) and public infrastructure. Underpinning this is the application of specialist engineering techniques to provide targeted skilled services to those core sectors.• In its investments, the Company endeavours to identify and acquire the rights to selected acreage which has the potential to be commercialised through unconventional hydrocarbon extraction, carry out exploration works thereon to prove up reserves and then invite interest from parties more qualified to develop the acreage. It seeks to fund these activities partly by relying on cash flows from its operating activities outlined above. However, in recent times, it has not been able to do so, and the Company has therefore been reliant on equity and debt capital to fund these activities.	Section 10
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3.2 Key details

Key details	<ul style="list-style-type: none"> The offer and issue of 22,222,222 Placement Shares to Kerogen at the Placement Price per Placement Share to raise \$30 million. 	Section 5
	<ul style="list-style-type: none"> The exercise of the Placement Options by Kerogen to raise a minimum of \$10 million on 28 September 2012. 	Section 6
	<ul style="list-style-type: none"> The offer and issue of the Campbell Options to Allan Campbell to subscribe for new Shares at the Exercise Price per Campbell Option. 	Section 6
	<ul style="list-style-type: none"> The offer and issue of the Management Options to senior management of the Company to subscribe for new Shares at the Exercise Price per Management Option. 	Section 6

3.3 Effect of the Placement, exercise of the Placement Options and grant of the Campbell Options and the Management Options

What is the effect on the capital structure of the Company following the Placement and exercise of the Placement Options?		Number	Section 7
	Shares currently on issue	103,027,291	
	Number of Shares to be issued under the Placement	22,222,222	
	Number of Shares to be issued upon exercise of the Placement Options	7,407,407	
	Shares on issue following the Placement and exercise of the Placement Options	132,656,920	
What is the effect on the capital structure of the Company following the issue of the Option Shares?		Number	Section 7
	Existing Rights and Options	343,861	
	Goldman Sachs Funds Options	1,000,000	
	Kerogen Options	11,159,356 ¹	
	Campbell Options	3,750,000	
	Management Options	1,250,000	
	Shares on issue or to be issued following the Placement, exercise of the Placement Options and exercise of the Campbell Options and the Management Options	150,160,137	

¹ This number may be reduced by up to 2,108,376 Kerogen Options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options as described in section 12.6 of the Notice of Meeting and Explanatory Statement.

3.4 Use of funds

<p>How will the Company use the funds raised under the Placement?</p>	<p>The funds raised by the Placement and the Placement Options Exercise will be used by the Company (after setting off an agreed amount owing by the Company under the Advance Facilities) in the following order of priority:</p> <ul style="list-style-type: none"> • to make reserves for, and the payment of, capital calls in relation to Cuadrilla and further loans to or investments in Lucas Energy (UK) to enable it to meet its capital needs for its European shale gas investments, as they fall due; • to meet working capital expenses for Lucas Drilling and Lucas Engineering & Construction; and • for the partial repayment of ATO liabilities, <p>and must not be used for any other purpose, including to repay any amounts owing under the Facility Agreement or to fund or manage any investments other than in respect of Cuadrilla and/or Lucas Energy (UK).</p>	<p>Section 5.2</p>
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3.5 Investments of the Company – highlights

<p>What is the status of the Company's investment in Cuadrilla and its direct investments?</p>	<ul style="list-style-type: none"> • The Company has a 43% direct equity interest in Cuadrilla. The Company also has a 25% direct interest in each of the Bowland basin (PEDL 165) and the Weald basin (PEDL 244) shale prospects in the UK, with Cuadrilla holding the remaining 75% interest in each. • As at the Prospectus Date, the Company has invested a total of \$101.8 million in Cuadrilla and its direct European shale gas investments. • Cuadrilla holds a diversified portfolio of exploration licences in six sedimentary basins in Europe. Cuadrilla also has exploration license applications pending in the Netherlands, Poland and the Czech Republic, as well as an indirect interest in Hungary through a 29.33% interest in a company with a license in the southern Pannonian basin. • The most advanced prospect within the Cuadrilla portfolio is the Bowland basin, where three wells have been completed and drilling at the fourth well is expected to commence shortly. • Progress in proving up the gas reserves at the Bowland basin has been interrupted by the suspension from late May 2011 of the fracturing programme following two minor seismic events in the vicinity of Cuadrilla's Preese Hall well site. 	<p>Sections 10.4 and 10.5</p>
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<p>What is the status of the Company's investment in the Monument Prospect?</p>	<ul style="list-style-type: none"> This investment, which cost \$87.8 million, is fully impaired in the books of the Company on account of there being insufficient historical drilling data to assess the recoverability of the investment. 	<p>Section 10.6</p>
<p>What is the status of the Company's investment in the Canning Basin?</p>	<ul style="list-style-type: none"> The Company is negotiating with the traditional landowners to determine if there are any locations within the permit application area that are of cultural significance and are, therefore, likely to be excluded from the permit area. 	<p>Section 10.7</p>

3.6 Key Risks

<p>What are the key risks associated with the Placement?</p>	<ul style="list-style-type: none"> The Kerogen Subscription Agreement is subject to various termination rights exercisable by the Company or Kerogen. If a termination right is exercised and the Kerogen Subscription Agreement is terminated, the Company would not be able to raise the funds under the Placement and would leave the Company in significant financial difficulty. 	<p>Section 4.2(a)</p>
<p>What are the key risks associated with the Shares?</p>	<ul style="list-style-type: none"> Future trading of Placement Shares, the Options and Option Shares It is not known how the market will react to the issue of the Placement Shares, the Options and the Option Shares and whether the Market Price will rise or fall. 	<p>Section 4.2(b)</p>
	<ul style="list-style-type: none"> Future issue of securities Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to the amounts raised under the Placement and the Placement Options Exercise. Any additional equity financing will dilute shareholdings. Any debt financing, if available, may involve restrictions on financing and operating activities. Any inability to obtain additional finance, if required, would have a material adverse effect on the Company's operations and its financial condition and performance. 	<p>Section 4.2(d)</p>
	<ul style="list-style-type: none"> Market risks The market price of securities can fall, as well as rise, and may be subject to varied and unpredictable influences on the market for equities. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company. 	<p>Section 4.2(b)</p>

What are the key risks associated with the Campbell Options?	<ul style="list-style-type: none"> There is no assurance that the Market Price of the Shares will reach the Exercise Price. 	Sections 4.2(b) and 4.2(c)
	<ul style="list-style-type: none"> The Campbell Options will not be quoted on the ASX. Accordingly, there is no liquid market for the Campbell Options. 	Sections 4.2(b) and 4.2(c)
	<ul style="list-style-type: none"> The Campbell Options do not confer a right on the holder to receive any dividends. 	Sections 4.2(b) and 4.2(c)
What are the key risks associated with the Management Options?	<ul style="list-style-type: none"> There is no assurance that the Market Price of the Shares will reach the Exercise Price. 	Sections 4.2(b) and 4.2(c)
	<ul style="list-style-type: none"> The Management Options will not be quoted on the ASX. Accordingly, there is no liquid market for the Management Options. 	Sections 4.2(b) and 4.2(c)
	<ul style="list-style-type: none"> The Management Options do not confer a right on the holders of those options to receive any dividends. 	Sections 4.2(b) and 4.2(c)
What are the key risks associated with the operational businesses of the Company?	<ul style="list-style-type: none"> Key personnel Like other companies, the Company's performance is dependent on the ability of its senior executives and key personnel to manage and grow its business and respond to customers' needs. The loss of the services of any of its senior executives or key personnel, or a loss of the ability to continue to attract and retain qualified and competent employees, could have a material adverse effect on the Company's operations and financial results. 	Section 4.3(o)
	<ul style="list-style-type: none"> Additional Funding Requirements/Financial Risk Depending on the capital requirements of the Company and Lucas Energy (UK), the Company may have to undertake further capital management initiatives or sales of assets. There is no guarantee that capital or debt will be available on favourable terms for future requirements. The inability to obtain additional finance, if required, could have a material adverse effect on the Company's operations and its financial condition and performance. 	Section 4.3(h)

<ul style="list-style-type: none"> • ATO liabilities <p>As at 30 June 2012, the principal amount owed to the ATO was approximately \$32.7 million in current tax payable, approximately \$4.3 million of pay-as-you-go (PAYG) withholding tax and approximately \$16.6 million in accrued general interest charges.</p> <p>On 29 August 2012, the Company entered into a repayment arrangement with the ATO. Under this arrangement, \$10.1 million is payable to the ATO on 28 September 2012. The Company will use \$10.1 million from the funds raised under the Placement to make this payment. The Company will then make additional monthly repayments to the ATO. Further details of this arrangement are set out in Section 11.14.</p> <p>Failure by the Company to comply with the repayment arrangements agreed with the ATO could lead to enforcement or other actions which could have a material adverse effect on the Company's business, prospects or financial condition.</p>	<p>Sections 4.3(i) and 11.14</p>
<ul style="list-style-type: none"> • ANZ senior facilities <p>The Company and ANZ have executed an amendment agreement to the Senior Facility under which:</p> <ul style="list-style-type: none"> • the maturity date for all of the financing facilities extended by the ANZ to the Company has been varied to 30 November 2012; and • the Company is required to satisfy certain conditions subsequent by 31 October 2012, which include providing additional security to ANZ. These conditions subsequent are within the Company's control and the Company anticipates that it will satisfy these conditions by the date they are required to be satisfied. <p>Under the amendment agreement, the Company was required to pay a fee to ANZ of \$250,000.</p> <p>As at the Prospectus Date, the Company is in discussions with other financiers to refinance these facilities. Further details are set out in Section 11.15.</p> <p>Failure by the Company to refinance these facilities could lead to enforcement or other actions which could have a material adverse effect on the Company's business, prospects or financial condition.</p>	

	<ul style="list-style-type: none"> • Terminable material contracts A number of the Company's major drilling contracts are terminable by the customers providing notice to the Company. Under such arrangements, the customers are not required to state a reason for such termination nor are they required to attribute termination to any breach by the Company. The termination of any drilling contracts could have a material adverse effect on the Company's revenue. 	Section 4.3(j)
	<ul style="list-style-type: none"> • Environmental Environmental laws and regulations in Australia and abroad can affect the operations of businesses, including the Company and entities in which it has an interest. These regulations provide penalties or other remedies for any violation of laws and regulations and, in certain circumstances, impose obligations to undertake remedial action. In common with other businesses in the energy, resources and infrastructure sectors, there is a risk that significant damages or penalties might be imposed on the Company or an entity in which it has an interest, including for certain discharges into the environment, effects on employees, sub-contractors or customers or as clean up costs. 	Section 4.3(k)
	<ul style="list-style-type: none"> • Seasonal weather conditions Natural disasters (such as fire, earthquakes, floods or cyclones) and adverse weather conditions may have a materially adverse impact on the Company, particularly its drilling business, and hinder the Company's ability to perform as required under its contracts. This may lead to a reduction in revenue. 	Section 4.3(l)
	<ul style="list-style-type: none"> • Litigation and legal risks The Company is exposed to a variety of litigation and other legal risks from various sources. The Ivy litigation discussed in Section 11 is a specific litigation risk. The formal dispute resolution process in relation to the GAWB Curtis Island Infrastructure project agreed by the contracting parties to determine the value of the final account for the project discussed in Section 11 is a specific dispute with a project owner with the potential for a material adverse impact on the financial performance of the Company. To the extent that such risks are not covered by insurance, an adverse outcome in litigation, the cost of responding to potential or actual litigation or the disruptive effect of disputes, may have a material adverse impact on the financial performance of the Company. 	Sections 4.3(s) and 11

	<ul style="list-style-type: none"> • Counterparty (client) payment risk In the ordinary course of business, the Company extends credit terms and relies on its clients for payments. Should a client enter financial distress or become insolvent, the Company may not be paid for work completed and, should a project cease mid-construction, the Company may find itself with an unexpected under-employed workforce to manage. 	Section 4.3(c)
	<ul style="list-style-type: none"> • Project based sales revenue A component of the Company's business relates to project based work for clients. Thus, a proportion of the Company's revenue and earnings is sourced from specific projects which may not be repeated. These may not be repeated or offer any recurring revenue following the end of the project's finite life. The Company's operating and financial performance is partly dependent on its ability to win work and secure sufficient projects within contemplated timeframes. Failure to do so may have a significant impact on financial performance and any forecast earnings. 	Section 4.3(d)
	<ul style="list-style-type: none"> • Project delays Delays to the commencement or completion of work on projects have occurred from time to time and may occur in the future due to a variety of reasons, many of which are outside the control of the Company. Delays may lead to cost increases, some or all of which may not be recoverable by the Company and may also result in an obligation by the Company to pay compensation for late completion, often in the form of liquidated damages. Delays in the execution of projects may result in projects not achieving their forecast level of completion and profitability. 	Section 4.3(e)
	<ul style="list-style-type: none"> • Cost variation In some contracts, the Company assumes the risk that sub-contractors do not perform to their contracts. Failure by the Company to properly assess and manage project risks may result in cost overruns which cause the project to be less profitable than expected or loss making. If any of the above were to occur, there may be an adverse impact on the Company's future financial performance and financial position. 	Section 4.3(f)
	<ul style="list-style-type: none"> • Unapproved contract variation In the ordinary course of business, the Company submits variation claims in relation to ongoing or completed projects in support of work that is out of scope from the original contract. To the extent that the Company recovers less than expected on the variations, its financial performance may be materially adversely impacted. 	Section 4.3(g)

<p>What are the key risks associated with investments of the Company?</p>	<ul style="list-style-type: none"> <p>Regulatory risk</p> <p>There may be considerable resistance from sections of the public and /or legislators to exploration and development activities, particularly drilling and fracking, arising in connection with, for example, environmental sensitivities and concerns about pollution, concerns about the potential effects of fracking on aquifers and concerns about the impact of large scale drilling operations on landscapes. This resistance may result either in the suspension of fracking activities or increased regulation being imposed on the fracking activities.</p> 	<p>Section 4.4(a)</p>
	<ul style="list-style-type: none"> <p>Lucas Cuadrilla’s inability to meet funding obligations</p> <p>Under the Cuadrilla Shareholders Agreement, Lucas Cuadrilla may be called upon to make further capital contributions to Cuadrilla. If Lucas Cuadrilla is not able to meet its equity fund obligations in Cuadrilla, it is likely that Lucas Cuadrilla’s ownership in Cuadrilla would be diluted.</p> 	<p>Section 4.4(c)</p>
	<ul style="list-style-type: none"> <p>Lucas Energy (UK)’s inability to meet its funding obligations under the Bowland basin and Weald basin joint ventures</p> <p>Under the joint operating agreements between Lucas Energy (UK) and subsidiaries of Cuadrilla which govern the joint ventures for PEDL 165 and PEDL 244, provisions are included which have the effect that, if Lucas Energy (UK) defaults in respect of its payment obligations to meet a cash call or invoice, it may potentially be required to forfeit its interest in the relevant licence to the non-defaulting party.</p> 	<p>Section 4.4(b)</p>
	<ul style="list-style-type: none"> <p>Inability to recover hydrocarbons</p> <p>Cuadrilla’s ability to successfully develop its concessions for hydrocarbons depends on a number of factors including, but not limited to, the presence of significant in place hydrocarbons in Cuadrilla’s concession areas and the ability of Cuadrilla to recover such resources in a commercially viable manner. If there is either a lack of resource or the resource’s extraction cannot be achieved in a commercially viable manner, the Company, through its investment in Lucas Cuadrilla and its direct holdings in PEDL 165 and PEDL 244, may not receive any future value from its investments.</p> 	<p>Section 4.4(e)</p>
	<ul style="list-style-type: none"> <p>Complexities associated with drilling of exploration wells</p> <p>Exploration wells generally take longer to drill than production wells, which often results in greater costs. In addition, exploration wells may encounter a range of unexpected complexities. Accordingly, these complexities could have an adverse impact on the value of the Company’s investments in Cuadrilla, the European shale gas prospects and Monument Prospect.</p> 	<p>Section 4.4(f)</p>

	<ul style="list-style-type: none"> Cuadrilla Change of Control Lucas Cuadrilla’s right to continue to hold the Cuadrilla Shares is subject to no Change of Control occurring in respect of Lucas Cuadrilla where a New Controller is not a Qualifying Transferee. If there is a Change of Control where a New Controller is not a Qualifying Transferee, then there is a substantial risk that Lucas Cuadrilla may be forced to sell its shares in Cuadrilla to Riverstone as the other party to the Cuadrilla Shareholders’ Agreement. If this were to occur, the Company, through its investment in Lucas Cuadrilla, would not receive any future value from its investment in Cuadrilla. 	Section 4.4(g)
	<ul style="list-style-type: none"> Monument Prospect If TEKXON is unable to obtain additional funding, it may not be able to take the required actions to execute its development and exit strategies for the Monument Prospect, either in part or at all. If TEKXON is unable to recover hydrocarbons from its interest areas at all due to geological factors or technical infeasibility, or if it is able to recover hydrocarbons only at a cost which makes production commercially unviable, this would have a material adverse effect on the value of the Company’s contractual interest in 10% of a net profit interest earned by Thomas Knowlton. As the Company is reliant on the management of TEKXON as operator of the oil and gas leasehold interests, any financial or managerial failure by TEKXON may have a material impact on the value of the Company’s contractual interest in 10% of a net profit interest earned by Thomas Knowlton. 	Section 4.4(h)

3.7 Substantial Shareholders

Who are the substantial Shareholders as at the Prospectus Date?	Substantial holding	Number	%	Section 7.12	
	Kerogen	33,885,303	32.89%		
	Andial/Allan Campbell	17,718,120	17.20%		
	Coupland Cardiff Asset Management LLP	7,236,435	7.02%		
	Remaining Shareholders	44,187,433	42.89%		
	TOTAL	103,027,291	100.00%		

3.8 Directors

Who are the current Directors?	<ul style="list-style-type: none"> • Allan Campbell – Executive Chairman and CEO • Phillip Arnall – Independent Non-Executive Director • Genelle Coghlan – Independent Non-Executive Director • Martin Green – Independent Non-Executive Director • Mike McDermott – Non-Independent Non-Executive Director 	Section 11.3
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3.9 Disclosure of interests of Directors

How many Shares and Existing Options and Rights do the Directors currently hold?	Director	Shares	Existing Rights and Options	Section 11.4
	Allan Campbell / Andial ²	17,718,120	203,861	
	Martin Green	350,000	0	
	Mike McDermott	0	0	
	Phillip Arnall	0	0	
	Genelle Coghlan	0	0	
How many Shares and Options will the Directors hold following the Placement, Placement Options Exercise and grant of the Campbell Options?	Director	Shares	Existing Rights and Options	Section 11.4
	Allan Campbell/ Andial	17,718,120	3,953,861	
	Martin Green	350,000	0	
	Mike McDermott	0	0	
	Phillip Arnall	0	0	
	Genelle Coghlan	0	0	

² Andial Holdings Pty Limited is an entity controlled by Mr Allan Campbell.

3.10 Material Agreements with Directors and Related Parties

<p>Are there any material agreements with Directors and Related Parties?</p>	<ul style="list-style-type: none"> • The Company entered into the Kerogen Subscription Agreement with Kerogen, a substantial holder of Shares in the Company. Further details of the Kerogen Subscription Agreement can be found in Section 5.1 of this Prospectus and Annexure B of the Notice of Meeting and Explanatory Statement. • The Company entered into the Inveraray Subscription Agreement with Inveraray, an Associate of Allan Campbell. Further details of the Inveraray Subscription Agreement can be found in Section 5.1 of this Prospectus and Annexure C of the Notice of Meeting and Explanatory Statement. Inveraray has since notified the Company that it will not be exercising its rights to subscribe for any of the Placement Shares. • The Company has entered into various loan agreements with Kerogen. Further details of these agreements can be found in section 12.8 of the Notice of Meeting and Explanatory Statement and Annexure B of this Prospectus. • Since the date of Notice of Meeting and Explanatory Statement, the Company has entered into the following facility agreements with Kerogen: <ul style="list-style-type: none"> ○ a US\$1m loan agreement dated 15 August 2012 on substantially the same terms as the other Advance Facilities; and ○ a US\$4m loan agreement dated 5 September 2012 on substantially the same terms as the other Advance Facilities. 	<p>Section 5.1</p> <p>Section 5.1</p> <p>Section 11.6</p> <p>Annexure B</p>
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4 RISKS

4.1 Introduction

As with all businesses, there are a number of factors that are specific to the Company and of a general nature that may have a material impact on the Company's future operating and financial performance. This **Section 4** describes certain specific areas that are believed to be risks associated with the Company and with an investment in the Placement Shares, the Options or the Option Shares.

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

Risks have been outlined in three categories:

- specific risks relating to investing in the Placement Shares, the Options or the Option Shares;
- general risks relating to the operating businesses of the Company and the markets in which they operate; and
- general risks relating to the investments of the Company.

4.2 Specific risks relating to investing in the Placement Shares, the Options and the Option Shares

(a) Kerogen Subscription Agreement

All conditions precedent under the Kerogen Subscription Agreement have been satisfied or waived.

However:

- (i) Kerogen or the Company may terminate the Kerogen Subscription Agreement by giving notice to the other party on the occurrence of certain termination events as set out in Part 1 of Annexure A of the Kerogen Subscription Agreement; and
- (ii) Kerogen may terminate the Kerogen Subscription Agreement by giving notice to the Company on the occurrence of certain termination events as set out in Part 2 of Annexure A of the Kerogen Subscription Agreement.

If the Kerogen Subscription Agreement is terminated, the Company will not raise the full amount of funds under the Placement. If this were to occur, in the absence of the Company arranging additional funding arrangements, the Company would not be able to use the funds raised in the manner and in the amounts set out in **Section 6.2** which would place the Company in serious financial difficulty.

(b) Market Conditions

Placement Shares

The Market Price can fall, as well as rise, and may be subject to varied and unpredictable influences on the market for equities. Neither the Company nor the Directors warrant the future performance of the Shares, the Company or any return on an investment in the Company.

Options

As set out in **Section 9.2**, the offer and issue of the Options confers a right on the holder to exercise the Options by paying the Company the Exercise Price for each option and for the holder to then be issued with one Share for each Option exercised. The Exercise Price may be more or less than the Market Price from time to time. Accordingly, there is no assurance that the Exercise Price will be less than the Share price at any time during the Exercise Period.

Option Shares

The Option Shares will rank equally with existing Shares. Accordingly, the ongoing value of the Option Shares will depend upon the Market Price after the exercise of the Options.

(c) Liquidity

Options

The Campbell Options and the Management Options will not be quoted on the ASX. Accordingly, there is no assurance that there will be any liquid market for the Options.

Shares

There can be no guarantee that an active market in the Shares on ASX will exist at all times. There may be relatively few or many potential buyers or sellers of the Shares on the ASX at any given time. This may increase the volatility of the Market Price. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in

Shareholders receiving a Market Price that is less or more than the Placement Price under the Placement.

(d) Future issue of securities of the Company

Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to the amounts raised under the Placement and the Placement Options Exercise. Any additional equity financing will dilute shareholdings, and any debt financing, if available, may involve restrictions on financing and operating activities. Any inability to obtain additional finance, if required, could have a material adverse effect on the Company's operations and its financial condition and performance.

4.3 General risks relating to the operating businesses of the Company and the markets in which they operate

(a) Commercial, financial and operational risks

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

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

- the Company's businesses enjoy a number of contracts with long-term customers and business relationships. If any of these key customers reduce production or terminate the relationship, or if potential contracts are not awarded, this may have an adverse effect on the financial performance and/or financial position of the Company;
- certain public infrastructure alliance contracts contain provisions permitting the project sponsor to change, curtail or cancel the project;
- for certain major projects, the Company may need to participate in joint ventures which can bring counterparty risks or may limit the Company's access to opportunities if suitable joint venture partners are not available;

- contracts in the sectors in which the Company operates often contain penalty clauses and contractual disputes can potentially have a material adverse effect on the Company; and
- some projects depend on contractual rights to access sites owned or controlled by others and contractual disputes and other incidents affecting such access can cause disruption to the Company's operations.

(b) Technical and other operational risks

A range of factors may affect the current and future operations of the Company, including, but not limited to, exploration, appraisal and production, including:

- geological conditions;
- unanticipated operating and technical difficulties encountered in seismic survey, drilling and production activities;
- mechanical failure of operating plant and equipment;
- prevention of access by reason of an inability to obtain consents and approvals; and
- the Company not owning the land on which it operates.

(c) Counterparty (client) payment risk

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

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

(d) Project based sales revenue

The Company has a material component of its business which relates to project based work for clients. Thus, a significant proportion of the Company's revenue and earnings is sourced from specific projects.

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

(e) Project delays

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

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

(f) Cost variation

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

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

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

(g) Unapproved contract variation

In the ordinary course of business, the Company submits variation claims in relation to ongoing or completed projects in support of work that is out of scope from the original contract. These variation claims involve negotiation

with contractual counterparties. The forecast assumes certain portions of variation claims submitted will be received.

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

(h) Additional Funding Requirements and Financing Risk

Even if the Placement and the Placement Options Exercise are completed, depending on the Company's and Lucas Energy (UK)'s capital requirements in relation to the Bowland shale prospect and Cuadrilla, the Company may have to undertake further capital management initiatives or the possible sale of assets.

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

The Company's ability to service current debt will depend on its future performance, which will be affected by many factors, some of which may prove to be beyond the Company's control and that of the Directors. Any inability of the Company to service its existing debt would have a material adverse effect on the Company.

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

(i) ATO liabilities

As at 30 June 2012, the principal amount outstanding to the ATO was approximately \$32.7 million in current tax payable, approximately \$4.3 million of PAYG withholding tax and approximately \$16.6 million in accrued general interest charges.

On 29 August 2012, the Company entered into a repayment arrangement with the ATO. Under this arrangement, \$10.1 million is payable to the ATO on 28 September 2012. The Company will use \$10.1 million from the funds raised under the Placement to make this payment. The Company will then make additional monthly repayments to the ATO. Further details of this arrangement are set out in **Section 11.14**.

Failure by the Company to comply with the payment arrangements agreed with the ATO could lead to enforcement or other actions which could have

a material adverse effect on the Company's business, prospects or financial condition.

(j) ANZ senior facilities

The Company and ANZ have executed an amendment agreement to the Senior Facility under which:

- the maturity date for all of the financing facilities extended by the ANZ to the Company has been varied to 30 November 2012; and
- the Company is required to satisfy certain conditions subsequent by 31 October 2012, which include providing additional security to ANZ. These conditions subsequent are within the Company's control and the Company anticipates that it will satisfy these conditions by the date they are required to be satisfied.

Under the amendment agreement, the Company was required to pay a fee to ANZ of \$250,000.

As at the Prospectus Date, the Company is in discussions with other financiers to refinance these facilities. Further details are set out in **Section 11.15**.

Failure by the Company to refinance these facilities could lead to enforcement or other actions which could have a material adverse effect on the Company's business, prospects or financial condition.

(k) Material Contracts

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

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

A number of the Company's major drilling contracts are also nearing the end of their term. The Company is currently negotiating the extension of such drilling contracts. As at the Prospectus Date, this process remains ongoing.

If the Company is unable to extend the terms of these major drilling contracts, and is unable to replace the contracts with new contracts, this may have a material adverse effect on the Company's revenue.

(l) Environmental

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

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

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

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

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

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

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

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

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

(m) Natural disasters and seasonal weather conditions

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

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

(n) Availability of skilled employees, equipment and resources

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

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

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

(o) Reliance on suppliers and sub-contractors

Like other companies, the Company relies on various suppliers and sub-contractors for the provision of the services that it provides to its customers. These suppliers and sub-contractors, from time to time, provide the Company with new business opportunities to which the Company would typically not be exposed. Due to the Company's balance sheet strains, some suppliers and sub-contractors invoices may not be paid on time by the Company. If the Company is not able to pay third party invoices on time, there is a risk that the Company may not be introduced and/or recommended for future jobs by these parties.

(p) Reliance on Key Personnel

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

(q) Increased or new competition

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

(r) Reputation and goodwill

There is significant goodwill vested in the "Lucas" trademark which may be adversely affected in a number of circumstances, including major breaches

of workplace safety, litigation or accidents. Where such circumstances become known in its markets, there is a risk that the Company's goodwill may be damaged, including goodwill arising from the Company's reputation as a reliable and safe service provider. In addition, as with any listed company, the Company's share price may be affected by market sentiment.

(s) Labour disputes

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

(t) Litigation and legal risks

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

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

The Ivy litigation discussed in **Section 11.15** is a specific litigation risk. In the event of an adverse determination by the Court, Lucas Stuart Pty Limited (ACN 067 550 403) (**Lucas Stuart**), a wholly owned subsidiary of the Company, may be liable for damages. As the case involves a number of claims and counter-claims, the amount of any damages that either party may be liable to pay in damages is not currently quantifiable

(u) Occupational Health and Safety

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

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

4.4 General risks relating to the investments of the Company

(a) Regulatory risk

As stated in **Section 10**, the Company has an interest in a number of assets that are located in different jurisdictions. Accordingly, such assets are subject to risks particular to its location, such as changes in laws, practices and policies in the relevant jurisdiction, including laws that deal with overseas investors.

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

The Netherlands

On 25 October 2011, a Court in Den Bosch, the Netherlands, ruled that the Boxtel town council should not have issued Cuadrilla temporary exemption to the zoning plan for exploratory shale gas drilling in the region and that the council should make a new decision taking the Court's ruling into account. This implies that a different procedure to the temporary exemption should apply. Cuadrilla, which is partnering Energie Beheer Netherlands, the oil and gas exploration and production company owned by the Dutch Government, had planned to commence drilling at this site in early 2012. Following the new procedure, which Cuadrilla is now following, the appropriate environmental assessment is being prepared. Cuadrilla is now awaiting the results of the independent study by the ministry and drilling is now not expected to commence before 2013.

The United Kingdom

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

To enable it to determine whether its drilling operations had any linkage to the tremors, in July 2011, Cuadrilla commissioned a panel of recognised independent geo-mechanical experts to report on the possibility of a relationship between the fracturing operations and the tremors. These experts provided Cuadrilla with a report of their investigations together with their conclusions and recommendations (**Geo-Mechanical Study**). A

summary of the Geo-Mechanical Study's conclusions includes the following:

- (i) it is highly probable that the hydraulic fracturing of Cuadrilla's Preese Hall 1 well triggered a number of minor seismic events;
- (ii) none of the events recorded, including one in April 2011 of 2.3 and one in May 2011 of 1.5 on the Richter scale, had any structural impact on the surface above;
- (iii) the combination of geological factors which caused the seismic events was extremely rare and would be unlikely to occur together again at future well sites; and
- (iv) if these factors were to combine again in the future, local geology limits seismic events to around magnitude 3 on the Richter scale as a "worst-case scenario".

The final Geo-Mechanical Study was submitted to the United Kingdom's Department of Energy and Climate Change (**DECC**) in early November 2011.

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

As announced to the ASX on 29 June 2012, pending further direction from DECC regarding their decision for the resumption of fracking, Cuadrilla has commenced implementing the recommendations from the DECC Report in the pursuit of best practice. However, there are uncertainties over whether the fracking will recommence.

On 10 May 2012, the Company released to the ASX the presentation it made to a shale gas conference organised by the investment bank, JP Morgan. This set out some of the parameters and conclusions relating to the development of the Bowland shale and its prospectivity compared to certain similar shales in the United States.

On 29 June 2012, the Company, in an ASX release, referred to a report entitled "Shale gas extraction in the UK: a review of hydraulic fracturing" published by The Royal Society and The Royal Academy of Engineering and referred readers to the Company's web-site if they wished to obtain a copy of that report. The report examines concerns and makes recommendations in relation to shale gas extraction in the UK.

- (b) Lucas Energy (UK) Limited's inability to meet exploration licence funding obligations

In addition to the Company's investment in Cuadrilla, the Company, through a United Kingdom subsidiary Lucas Energy (UK) Limited (**Lucas Energy (UK)**), owns a 25% interest in two of English exploration licences, PEDL 165 in the Bowland basin and PEDL 244 in the Weald basin. Cuadrilla (through its wholly owned subsidiaries) owns the remaining 75% in, and is the operator of, each of these licences.

As the operator, Cuadrilla is entitled, under the joint operating agreements between Lucas Energy (UK) and each of Bowland Resources Limited and Bolney Resources Limited, each a wholly owned subsidiary of Cuadrilla, to determine the budget for exploration of these areas. Neither the Company or Lucas Energy (UK) has any control over the expenditure of Cuadrilla. If Lucas Energy (UK) (via the Company) fails to make its required contributions to project expenditures in a timely manner, it is exposed to the risk that it may lose its direct interest in these licences by way of the forfeiture provisions under the joint operating agreements that govern the joint ventures.

- (c) Lucas Cuadrilla's inability to meet funding obligations

Under the Cuadrilla Shareholders Agreement, Lucas Cuadrilla may be called upon to make further capital contributions to Cuadrilla. If Lucas Cuadrilla is not able to meet its equity funding obligations in Cuadrilla, it is likely that Lucas Cuadrilla's ownership in Cuadrilla will be diluted.

- (d) Lack of funding for Cuadrilla

Cuadrilla is, for the most part, reliant on its shareholders for funding.

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

- (e) Inability to recover unconventional hydrocarbons

As set out in **Section 10**, the Company, through its equity interest in Cuadrilla, has international operations and investments in the unconventional energy sector. In addition, the Company owns, through Lucas Energy (UK), a 25% interest in PEDL 165 and PEDL 244 and Cuadrilla (through its wholly owned subsidiaries) holds the remaining 75% interest in, and is the operator of, each of these licences.

Cuadrilla's ability to develop successfully its concessions for unconventional hydrocarbons depends not only upon the presence of

significant in place hydrocarbon resources in Cuadrilla's concession areas, but also on the ability of Cuadrilla to recover those resources in a commercially viable manner. There can be no guarantee that Cuadrilla will be able to recover any hydrocarbons in its concession areas or that it will be able to do so at a cost that makes production commercially feasible.

There has, as yet, been no commercial production of unconventional hydrocarbons in any of the countries in which Cuadrilla operates, whether by Cuadrilla or any other party (other than on a small scale in the area covered by Cuadrilla's Hungarian licence), and the data provided by the initial seismic appraisals, test drilling of vertical wells (which has not been carried out so as to generate a continuous flow of gas over an extended period of time) and other exploration activities that have been undertaken to date are insufficient, in both quantity and quality, to evaluate the likelihood of commercial recovery of unconventional hydrocarbons in these regions. Further drilling and production testing of horizontal wells will be necessary before Cuadrilla is able to make an estimate of recoverable volumes in any of its concessions and it is possible that such further drilling and production testing may not yield positive results.

There is a risk that unconventional hydrocarbons extraction and recovery may not be feasible at all in Cuadrilla's concessions with existing technology due to technical complications arising from factors such as rock properties, reservoir pressure, fracture complexity and conductivity and other factors specific to the shale plays within Cuadrilla's concession areas.

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

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

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

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

(f) Complexities associated with drilling of exploration wells

Exploration wells generally take longer to drill than production wells because of the need to take cores and perform measurements, together with the 'trip time' associated with withdrawing and re-inserting drilling pipe over the length of the well.

In addition, there can also be unexpected complexities. For example, each of the Preese Hall 1 and Grange Hill 1 wells took longer and were more expensive to drill than expected as a consequence of slower than anticipated penetration rates due to thicker and harder (and therefore, more brittle) shale sequences than expected the shale extending deeper than expected (requiring additional cores and tripping time), unexpected geological conditions and the need for Cuadrilla to become familiar with these geological conditions and to adapt its equipment accordingly. Complexities such as these can have an adverse impact on the value of the Company's investments in Cuadrilla, the Bowland basin and the Weald basin and Monument Prospect.

(g) Cuadrilla Change of Control Event

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

Under this agreement, Lucas Cuadrilla's right to continue to hold the Cuadrilla Shares is subject to no Change of Control occurring in respect of Lucas Cuadrilla where the New Controller is not a Qualifying Transferee.

If there is a Change of Control where the New Controller is not a Qualifying Transferee, then there is a substantial risk that Lucas Cuadrilla may be forced to sell its shares in Cuadrilla to Riverstone.

If this were to occur, Lucas, through its investment in Lucas Cuadrilla, would only receive the market value of its shares at the date of sale and not receive any potential future uplift in value from an ongoing investment in Cuadrilla.

(h) Monument Prospect

Additional Funding

The Company understands that TEKXON is currently attempting to raise further funding to develop its oil and gas leasehold interests in Monument Prospect, located in Trinity County, Texas.

If TEKXON is unable to obtain additional funding, it may not be able to take the required actions to execute its development and exit strategies either in part or at all.

Inability to recover hydrocarbons

TEKXON's ability to successfully develop its interests depends not only upon obtaining the necessary funding for development, and the presence of significant hydrocarbon resources in its leasehold interest areas, but also on the ability of TEKXON to recover the resources in a commercially viable manner.

There can be no guarantee that TEKXON will be able to recover any hydrocarbons in its interest areas or that it will be able to do so at a cost that makes production commercially feasible.

If TEKXON is unable to recover hydrocarbons from its interest areas at all due to geological factors or technical infeasibility, or if it is able to recover hydrocarbons only at a cost which makes production commercially unviable, this may have a material adverse effect on the Company's contractual interest in 10% of a net profit interest earned by Thomas Knowlton.

Reliance on operator management

The Company is reliant on the management of TEKXON as operator of the oil and gas leasehold interests. Any financial or managerial failure by TEKXON will have a material adverse effect on the value of the Company contractual interest in 10% of a net profit interest earned by Thomas Knowlton.

(i) Canning Basin

Lucas Energy Pty Limited (ACN 092 684 010) (**Lucas Energy**) was the preferred tenderer for a petroleum permit over part of the acreage released by the Government of Western Australia for petroleum exploration and in early 2008 Lucas Energy was offered petroleum exploration permit 17/07-8EP covering 8,010 square kilometers of the Canning Basin.

The Company sold its shareholding in Lucas Energy to AGL Energy Limited under a share sale agreement dated 16 December 2008 and Lucas Energy was subsequently renamed AGL Upstream Investments Pty Limited (**AGL Upstream**). Under the provisions of the share sale agreement, AGL Upstream holds the permit application on trust for the benefit of the Company and is obliged, as soon as possible following the grant of the permit, to transfer the permit to the Company or its nominee.

The Company considers the acreage covered by the permit application prospective for shale gas, shale oil and tight gas. The permit application is subject to the *Native Title Act 1993* (Cth). The Company is currently negotiating with the three native groups (Martu, Kulyakartu and Ngurrara) whose native title claims overlap the permit application area.

There is a risk that a native title agreement may not be reached with indigenous groups whose native title claims overlap the permit application area. If this were to be the case, the only option open to Lucas Energy would be to seek a determination under the *Native Title Act 1993* (Cth) that the permit could be granted. One of the native title groups (the Martu) were recently successful in opposing such an application, so it cannot be ruled out that they might again succeed if Lucas Energy were to make an application. Alternatively, the existence of significant Aboriginal cultural heritage sites which cannot be disturbed may preclude or limit access to areas of prospectivity within the proposed permit area.

If the permit is granted, and in the event that Lucas Energy is able to find shale gas, shale oil and tight gas, there is no guarantee that Lucas Energy will be able to recover any such resource or that it will be able to do so at a cost that makes production commercially feasible.

A further risk, if the permit is granted, is that the ground could be lost if Lucas Energy fails to comply with the expenditure commitments and agreed work program within the required time frame.

(j) Risks relating to the unconventional hydrocarbon sector

The Company has domestic and international operations in the unconventional hydrocarbon sectors. Any variance in the level of activity in any or all of these sectors may have an adverse effect on operating results and the factors influencing that variance may be beyond the control of the Company.

These factors vary, but can include, amongst other things:

- the legal and regulatory regimes governing the production of shale energy are subject to change;

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

(k) Technical and other operational risks

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

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

4.5 Risk Mitigation

The Company has established systems of risk management and internal control. These systems are designed to assist in managing the operational risks associated with its business.

(a) Risk Management Systems and Procedures

The Company has in place risk management systems, procedures and internal control mechanisms. These systems include recognised operating business system applications such as Oracle EBusiness Suite (an Enterprise Resource Planning (**ERP**) system for job cost control, financials, human resources, payroll, enterprise asset management, procurement, warehouse and inventory and business intelligence), project management (Microsoft projects or Primavera) and Lucas document management system which is a control system for referencing compliance requirements and check points of the company policies and procedures. In addition, the organisational structure, including various oversight committees, is designed to actively manage the risk profile of the Company.

The Company's chief executive officer, chief financial officer and group commercial manager are charged with ensuring that these systems, procedures and controls are being used, are functioning properly and are

workable, and that they are appropriate to the nature of the business and changes to the business over time.

(b) Quality Management System

The Company Quality Management System forms part of the Lucas Management System described above. The Company has been granted unconditional certification for its Quality Management System to AS/NZS ISO 9001:2008 from the certification authority Bureau Veritas Australia Pty Limited, since 25 October 2001.

(c) Occupational Health & Safety

The Company has established an occupational health and safety system which is mandatorily applied throughout the Company. It is based on standards published by Standards Australia, namely AS/NZS 4801:2001 Safety Management Systems, and International Open Standard OHSAS 18001:2007 Occupational Health & Safety.

The Company is also accredited under the Australian Government's Building and Construction occupational health and safety accreditation scheme as well as the New South Wales Government's occupational health and safety management system.

Projects and operations are regularly audited for compliance with these systems.

(d) Environmental Management

The Company has established an environmental management system which is mandatorily applied throughout the Company. It is based on standards published by Standards Australia namely AS/NZS 14001:2007 Environmental Management Systems, as well as being accredited under the New South Wales Government's Environment Management System DSTA11 – 00022E.

Projects and operations are regularly audited for compliance with these systems.

The summary of risks in this Section 4 is not exhaustive and investors should consult their financial adviser or other professional adviser before making any investment decision.

5 DETAILS OF THE PLACEMENT

5.1 Details of the Placement

The Company has entered into the Kerogen Subscription Agreement under which (subject to Shareholder approval at the EGM) Kerogen agreed to:

- (a) subscribe for 22,222,222 Placement Shares at the Placement Price to raise \$30 million, subject to the placement being scaled back by a maximum of \$10 million; and
- (b) to exercise 7,407,407 Kerogen Options to raise a minimum of \$10 million.

Shareholder approval for the Placement and Placement Options Exercise was obtained at the EGM on 5 September 2012. The other conditions precedent in the Kerogen Subscription Agreement have been satisfied or waived. The Placement Shares are expected to be issued on 28 September 2012.

Further details on the Placement Options Exercise can be found in Section 5 of the Notice of Meeting and Explanatory Statement. The Placement Options Exercise is to occur on 28 September 2012.

As set out in the Notice of Meeting, the Company also entered into a subscription agreement with Inveraray Capital Pty Limited (**Inveraray**) under which Inveraray had the right itself or together with third party investors (who were limited to subscribing for up to 3,703,704 Shares in total) to subscribe for up to 7,407,407 Shares of the Placement at the Placement Price to raise up to \$10 million (**Inveraray Subscription Agreement**). Inveraray has since notified the Company that it will not be exercising its rights under the Inveraray Subscription Agreement to subscribe for any Shares under the Placement and that it has not nominated any third party investor to take up any Shares under the Placement.

A summary of key terms of the Kerogen Subscription Agreement and the Inveraray Subscription Agreement is set out in Annexures B and C of the Notice of Meeting and Explanatory Statement. The Notice of Meeting and Explanatory Statement is available from ASX on its website – www.asx.com.au. Copies of the Notice of Meeting and Explanatory Statement may also be obtained on request and free of charge, from the Company Secretary.

Section 707(3) of the Corporations Act requires that a prospectus is issued in order for a person to whom securities were issued without disclosure under Part 6D of the Corporations Act to on-sell those securities within 12 months of the date of their issue.

Section 708A(11) of the Corporations Act provides an exemption from this general requirement where:

- (a) the relevant securities are in a class of securities of the company that are already quoted on the ASX;
- (b) a prospectus is lodged with ASIC either:
 - (i) on or after the day on which the relevant securities were issued; or
 - (ii) before the day on which the relevant securities were issued and offers of securities that have been made under the prospectus are still open for acceptance on the day on which the relevant securities were issued; and
- (c) the prospectus is for an offer of securities issued by the company that are in the same class of securities as the relevant securities.

One of the purposes of this Prospectus is, therefore, to comply with section 708A(11) of the Corporations Act so that Kerogen, as the placee under the Placement, can sell its Placement Shares at any time after their issue.

The Directors consider that Kerogen should be able to sell its Placement Shares within 12 months should it wish to do so.

5.2 Use of funds

The Company will use the proceeds of the Placement and the Placement Options Exercise, after setting off against an agreed amount owing by the Company to Kerogen under the Advance Facilities, in the following order of priority:

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

5.3 Effect of the Placement on the capital structure of the Company

Please see **Section 7** which sets out the impact of the issue of the Placement Shares under the Placement on the capital structure of the Company.

5.4 Effect of the Placement on the financial position of the Company

Please see **Section 8** which sets out the impact on the issue of the Placement Shares under the Placement on the financial position of the Company.

6 DETAILS OF THE OPTIONS

6.1 Background to the offer and issue of the Options

The background to the offer and issue of the Options is set out in sections 9.1 and 10.1 of the Notice of Meeting. The Notice of Meeting and Explanatory Statement is available from ASX on its website – www.asx.com.au. Copies of the Notice of Meeting and Explanatory Statement may also be obtained on request and free of charge, from the Company Secretary.

6.2 Rights and liabilities attaching the Options

The rights and liabilities attaching to the Options are outlined in Annexure D of the Notice of Meeting and Explanatory Statement and are summarised in **Section 9.2**.

6.3 Issue of the Options

The Campbell Options are expected to be issued on 28 September 2012, but, in any case, before the Placement Shares are issued. The Management Options are expected to be issued before 30 November 2012.

One of the purposes of this Prospectus is to ensure that the Shares issued on exercise of the Campbell Options and the Management Options are able to be on-sold without future disclosure to investors under ASIC Class Order [CO 04/671].

6.4 Effect of issue of the Options on the capital structure of the Company

Please see **Section 7** which sets out the impact of the offer and the issue of the Options and the issue of Option Shares on the capital structure of the Company.

6.5 Consequences if Shareholder approval of the issue of the Options is obtained

Shareholder approval for the issue of the Options was obtained at the EGM on 5 September 2012. Accordingly:

- (a) the Company will offer and issue the Campbell Options;
- (b) the Company will be able to offer and issue the Management Options;
- (c) the issue (and exercise) of the Options will not absorb any of the Company's capacity to issue shares within the 15% limit in Listing Rule 7.1;
- (d) the Company's placement capacity to issue further Shares under ASX Listing Rule 7.1 will increase each time that Option Shares are issued on exercise of the Options; and

- (e) the Company will be able to issue Option Shares from time to time without the need to issue a further prospectus or cleansing notice.

6.6 Risks of an investment in the Options or underlying Shares

The key risks associated with any investment in the Options and the underlying Shares are outlined in **Section 4**.

6.7 No ASX listing of the Options

The Options will not be quoted on the ASX.

Option Shares issued on exercise of the Options are proposed to be quoted on the ASX. The Company will apply to the ASX in accordance with the requirements of ASX Listing Rules at the relevant time, for official quotation of the Option Shares issued from time to time upon exercise of the Options.

7 EFFECT OF THE PLACEMENT, THE PLACEMENT OPTIONS EXERCISE AND THE OPTIONS ON THE CAPITAL STRUCTURE OF THE COMPANY

7.1 Overview

The share capital of the Company as at the Prospectus Date and after the Placement and the exercise of the Placement Options is set out in Table 7.1.1 below:

Table 7.1.1

Share capital	Number
Shares on issue as at the Prospectus Date	103,027,291
Number of shares to be issued under the Placement	22,222,222
Number of Shares on issue after the Placement (but before the Placement Options Exercise)	125,249,513³
Number of Shares to be issued upon exercise of the Placement Options	7,407,407
Total number of Shares on issue or to be issued following the Placement and exercise of the Placement Options	132,656,920

As at the Prospectus Date and after the issue of the Campbell Options and the Management Options and exercise of the Placement Options, the Company has the Existing Rights and options on issue as set out in Table 7.1.2 below:

Table 7.1.2

Existing Rights and options	Number
Existing Rights on issue	
Allan Campbell (unquoted exercise price \$2.11 expiring 23 November 2012)	110,000
(unquoted exercise price \$0.00 expiring 23 November 2012)	93,861
Andrew Lukas (unquoted exercise price \$2.11 expiring 23 November	70,000

³ This total number of Shares assumes that the Placement Options Exercise has not occurred. See **Section 2** for key dates.

Existing Rights and options	Number
2012)	
Ian Stuart Robertson (unquoted exercise price \$2.11 expiring 23 November 2012)	70,000
Total Existing Rights on issue	343,861
Options on issue	
Goldman Sachs Fund Options (unquoted exercise price \$2.13 expiring 22 December 2016)	1,000,000
Kerogen Options (unquoted exercise price lower of \$1.70 and 120% of the 5 Day VWAP subject to a floor of \$1.35 per Share expiring 22 December 2015)	11,159,356 ⁴
Campbell Options (unquoted exercise price \$1.35 expiring 7 December 2015)	3,750,000
Management Options (unquoted exercise price \$1.35 expiring 7 December 2015)	1,250,000
Total number of Existing Rights and options on issue as at the Prospectus Date	17,503,217

The capital structure of the Company as at the Prospectus Date and assuming completion of the Placement and the exercise of each of the Placement Options, the Existing Rights and options, the Goldman Sachs Fund Options, Kerogen Options, the Campbell Options and the Management Options is as set out in Table 7.1.3 below:

Table 7.1.3

Share capital	Number
Total number of Shares on issue following the Placement and exercise of the Placement Options	132,656,920
Total number of Existing Rights and options on issue	17,503,217
Total number of Shares on issue or to be issued	150,160,137

⁴ The total number of Existing Rights and options assumes that the Placement Options Exercise has occurred.

Further details of the Company's capital structure taking into account before and after the issue and exercise of the options on issue as well as the details of substantial shareholders and voting power is set out below in this **Section 7**.

7.2 Structure before the Placement, the Placement Options Exercise and the issue of the Options

As at the Prospectus Date, the Company's capital structure before the Placement and the issue of the Options is set out in Table 7.2.1 below.

Table 7.2.1

Securities	Number
Shares	103,027,291
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000
Kerogen Options	18,566,763 ⁵

The percentage of issued Shares held by substantial holders prior to 30 June 2012 (i.e. before the Placement and the issue of the Options) is set out in Table 7.2.2.

Table 7.2.2

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

The Existing Rights as at the date of the Notice of Meeting are as set out in Table 7.2.3.

Table 7.2.3

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

⁵ Assuming Kerogen has re-purchased all of the Gleneagle Options

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

7.3 Structure following the Placement (but before the Placement Options Exercise and the issue of the Options)

The Company's capital structure following the Placement but before the Placement Options Exercise and issue of the Options is as set out in Table 7.3.1 below.

Table 7.3.1

Securities	Number
Shares	125,249,513
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000
Kerogen Options	18,566,763 ⁶

The holdings by Shareholders following the Placement but before the Placement Options Exercise and issue of the Options and assuming none of the Existing Rights, the Kerogen Options or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.3.2 below.

Table 7.3.2

Substantial holder	Number	% voting power
Kerogen	56,107,525	44.80%
Andial/Allan Campbell	17,718,120	14.15%
Coupland Cardiff Asset Management LLP	7,236,435	5.78%
Remaining Shareholders	44,187,433	35.27%

⁶ Assuming Kerogen has re-purchased all of the Gleneagle Options

7.4 Structure following the Placement and the Placement Options Exercise (but before issue of the Options)

The Company's capital structure following the Placement and the Placement Options Exercise but before the issue of the Options is as set out in Table 7.4.1 below.

Table 7.4.1

Securities	Number
Shares	132,656,920
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000
Kerogen Options	11,159,356 ⁷

The holdings by Shareholders following the Placement and the Placement Options Exercise, but before the issue of the Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.4.2 below.

Table 7.4.2

Substantial holder	Number	% voting power
Kerogen	63,514,932	47.88%
Andial/Allan Campbell	17,718,120	13.36%
Coupland Cardiff Asset Management LLP	7,236,435	5.46%
Remaining Shareholders	44,187,433	33.30

7.5 Structure following the Placement, the Placement Options Exercise and issue but not exercise of the Options

The Company's capital structure following the Placement, the Placement Options Exercise and the issue (but not exercise) of the Options will be as set out in Table 7.5.1 below.

⁷ This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options.

Table 7.5.1

Securities	Number
Shares	132,656,920
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000
Kerogen Options	11,159,356 ⁸
Campbell Options	3,750,000
Management Options	1,250,000

The holdings by Shareholders following the Placement and the Placement Options Exercise and issue but not exercise of the Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.5.2 below.

Table 7.5.2

Substantial holder	Number	% voting power
Kerogen	63,514,932	47.88%
Andial/ Allan Campbell	17,718,120	13.36%
Coupland Cardiff Asset Management LLP	7,236,435	5.46%
Remaining Shareholders	44,187,433	33.30%

7.6 Structure following exercise of the Campbell Options only

The Company's capital structure following the Placement, the Placement Options Exercise, the exercise of all of the Campbell Options, but before the exercise of the Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.6.1 below.

Table 7.6.1

Securities	Number
Shares	136,406,920
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000

⁸ This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options.

Securities	Number
Kerogen Options	11,159,356 ⁹
Campbell Options	0
Management Options	1,250,000

The holdings by Shareholders following the Placement, the Placement Options Exercise, the exercise of all of the Campbell Options, but before the exercise of the Management Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.6.2 below.

Table 7.6.2

Substantial holder	Number	% voting power
Kerogen	63,514,932	46.56%
Andial/Allan Campbell	21,468,120	15.74%
Coupland Cardiff Asset Management LLP	7,236,435	5.31%
Remaining Shareholders	44,187,433	32.39%

7.7 Structure following exercise of the Management Options only

The Company's capital structure following the Placement, the Placement Options Exercise, the exercise of all of the Management Options, but before the exercise of the Campbell Options, assuming none of the Existing Rights or the remaining Kerogen Options (after the Placement Options Exercise) and the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.7.1 below.

Table 7.7.1

Securities	Number
Shares	133,906,920
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000
Kerogen Options	11,159,356 ¹⁰
Campbell Options	3,750,000
Management Options	0

⁹ This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options.

¹⁰ This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options.

The holdings by Shareholders following the Placement, the Placement Options Exercise and the exercise of all the Management Options but before the exercise of the Campbell Options, assuming none of the Existing Rights, the remaining Kerogen Options (after the Placement Options Exercise) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.7.2 below.

Table 7.7.2

Substantial holder	Number**	% voting power
Kerogen	63,514,932	47.43%
Andial/ Allan Campbell	17,718,120	13.23%
Coupland Cardiff Asset Management LLP	7,236,435	5.40%
Remaining Shareholders	45,437,433	33.94%

7.8 Structure following exercise of the Options

The Company's capital structure following the Placement, the Placement Options Exercise and the exercise of all of the Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.8.1 below.

Table 7.8.1

Securities	Number
Shares	137,656,920
Existing Rights	343,861
Goldman Sachs Fund Options	1,000,000
Kerogen Options	11,159,356 ¹¹
Campbell Options	0
Management Options	0

The holdings by Shareholders following the Placement, the Placement Options Exercise and the exercise of all of the Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are also not the Placement Options) or the Goldman Sachs Fund Options are exercised, will be as set out in Table 7.8.2 below.

¹¹ This number may be reduced by up to 2,108,736 options (to 9,050,620 Kerogen Options) should Kerogen unilaterally give up its right to repurchase these options.

Table 7.8.2

Substantial holder	Number	% voting power
Kerogen	63,514,932	46.14%
Andial/Allan Campbell	21,468,120	15.59%
Coupland Cardiff Asset Management LLP	7,236,435	5.26%
Remaining Shareholders	45,437,433	33.01%

8 EFFECT OF THE OFFER ON THE FINANCIAL POSITION OF THE COMPANY

8.1 Introduction and basis of preparation

To illustrate the effect of the Placement and the Placement Options Exercise, this **Section 8** sets out the unaudited pro forma consolidated historical statement of financial position for the Group as at 30 June 2012 (the **Pro Forma Historical Statement of Financial Position**).

The Pro Forma Historical Statement of Financial Position has been prepared based on the unaudited Consolidated Statement of Financial Position at 30 June 2012, as shown in the Preliminary Financial Report for the year ended 30 June 2012 (the **Appendix 4E**), adjusted for certain pro forma transactions in relation to the Placement, the Placement Options Exercise, the granting of the Campbell Options and the Management Options and the agreed repayment plan for the ATO liabilities, as if they had occurred at 30 June 2012.

The Pro Forma Historical Statement of Financial Position has been prepared in accordance with the recognition and measurement principles of the Australian Accounting Standards, although it is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The Pro Forma Historical Statement of Financial Position is provided for illustrative purposes only and is not represented as being indicative of the Company's view of the future financial position of the Group. The Appendix 4E is available at www.lucas.com.au. The accounting policies used in the preparation of the Group's financial statements included in the Appendix 4E are consistent with those adopted and disclosed in the Company's 2011 Annual Report for the Group.

As detailed in Note 1i) of the Appendix 4E, the uncertainties in relation to going concern are intended to be mitigated by the Placement and the Placement Options Exercise and the agreed repayment plan for the ATO liabilities. The Pro Forma Historical Statement of Financial Position shows that, on a pro forma basis after taking into account the impacts of these various events, the Group's net current asset position is substantially strengthened with a \$75.2 million improvement in net current assets.

The Directors also continue to have regard to the following matters in assessing the uncertainties in relation to going concern:

- (a) their views in respect of the reasonableness of the profit and cash flow forecasts of the Group, having regard to the order backlog, the status of tenders pending and cost reduction program; and

- (b) their views in respect of the value of the Group's investment in Cuadrilla and the direct equity interest in the Bowland basin shale prospect in England.

All amounts disclosed in the table are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest thousand dollars.

8.2 Pro Forma Historical Statement of Financial Position

The Pro Forma Historical Statement of Financial Position is set out in Table 8.2.1 below.

Table 8.2.1 *Pro Forma Consolidated Historical Statement of Financial Position as at 30 June 2012*

	Per Appendix 4E at 30 June 2012 \$'000	Advance Facilities and Interest \$'000	Pro-Forma Balance Sheet before Placement \$'000	Placement and Placement Options Exercise \$'000	Repayment of Advance Facility and Interest \$'000	ATO Repayment \$'000	Transaction Costs \$'000	Tax debt and related interest reclassification \$'000	Grant of Campbell Options and Management Options \$'000	Pro-Forma Balance Sheet \$'000
Current assets										
Cash and cash equivalents	4,343	6,088	10,431	40,000	(10,743)	(10,100)	(180)	-	-	29,408
Trade and other receivables	57,051	-	57,051	-	-	-	-	-	-	57,051
Inventories	55,918	-	55,918	-	-	-	-	-	-	55,918
Assets classified as held for sale	5,503	-	5,503	-	-	-	-	-	-	5,503
Other assets	862	-	862	-	-	-	-	-	-	862
Total current assets	123,677	6,088	129,765	40,000	(10,743)	(10,100)	(180)	-	-	148,742
Non-current assets										
Property, plant and equipment	133,638	-	133,638	-	-	-	-	-	-	133,638
Exploration assets	16,073	-	16,073	-	-	-	-	-	-	16,073
Intangible development assets	580	-	580	-	-	-	-	-	-	580
Other intangible assets	67,001	-	67,001	-	-	-	-	-	-	67,001
Deferred tax assets	782	-	782	-	-	-	-	-	-	782
Investments in equity accounted investees	73,603	8,638	82,241	-	-	-	-	-	-	82,241
Total non-current assets	291,677	8,638	300,315	-	-	-	-	-	-	300,315
Total assets	415,354	14,726	430,080	40,000	(10,743)	(10,100)	(180)	-	-	449,057
Current liabilities										
Trade and other payables	120,348	647	120,995	-	(743)	-	-	(20,893)	-	99,359
Interest-bearing loans and borrowings	91,171	14,876	106,047	-	(10,000)	-	-	-	-	96,047
Current tax liabilities	32,692	-	32,692	-	-	(10,100)	-	(21,232)	-	1,360
Derivative liabilities	2,665	-	2,665	(2,665)	-	-	-	-	-	-
Employee benefits	7,849	-	7,849	-	-	-	-	-	-	7,849
Total current liabilities	254,725	15,523	270,248	(2,665)	(10,743)	(10,100)	-	(42,125)	-	204,615
Non-current liabilities										
Trade and other payables	-	-	-	-	-	-	-	16,564	-	16,564
Interest-bearing loans and borrowings	41,881	-	41,881	-	-	-	-	4,329	-	46,210
Derivative liabilities	4,015	-	4,015	-	-	-	-	-	-	4,015
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	-	-	21,232	-	21,232
Employee benefits	1,239	-	1,239	-	-	-	-	-	-	1,239
Total non-current liabilities	47,135	-	47,135	-	-	-	-	42,125	-	89,260
Total liabilities	301,860	15,523	317,383	(2,665)	(10,743)	(10,100)	-	-	-	293,875
Net assets	113,494	(797)	112,697	42,665	-	-	(180)	-	-	155,182
Equity										
Share capital	138,506	-	138,506	42,665	-	-	-	-	-	181,171
Reserves	467	-	467	-	-	-	-	-	757	1,224
Retained earnings	(25,479)	(797)	(26,276)	-	-	-	(180)	-	(757)	(27,213)
Total equity	113,494	(797)	112,697	42,665	-	-	(180)	-	-	155,182

A description of the pro forma transactions that have been applied to the unaudited consolidated statement of financial position at 30 June 2012 to derive the Pro Forma Historical Statement of Financial Position is provided in **Section 8.3** below.

8.3 Pro forma adjustments

The pro forma adjustments incorporate the impact of the following:

(a) **Advance Facilities, interest and fees**

Short term loans provided by Kerogen between July 2012 and September 2012 and associated interest and fees totalling \$15.523 to supplement working capital plus to meet Cuadrilla capital calls and Bowland basin expenditure commitments prior to completion of the Placement.

The terms of certain of the Advance Facilities will be varied so that the repayment date for the Advance Facilities dated 11 May 2012, 15 August 2012 and 5 September 2012 will be extended to 31 December 2012.

See **Annexure B** for a summary of the key commercial terms of the Advance Facilities (other than those entered into on 6 July 2012 and 26 July 2012) including the applicable interest rates payable.

(b) **Placement and Placement Options Exercise**

The Placement at the Placement Price to raise \$30 million, together with the exercise of the Placement Options at the Placement Options Exercise Price to raise a further \$10 million.

(c) **Repayment of Advance Facilities and interest**

The principal loan amounts owing under the Advance Facilities entered into between Kerogen and the Company on 6 July 2012 and 26 July 2012, and the interest accrued on the 11 May 2012 Advance Facility for the period to 15 September 2012 and the interest accrued on the 6 July 2012 and 26 July 2012 Advance Facilities for the period to 28 September 2012, will be fully repaid from the funds raised under the Placement.

The amounts owing under the 11 May 2012, 15 August 2012 and 5 September 2012 Advance Facilities are due for repayment on or before 31 December 2012.

(d) **ATO repayment**

The Company will pay \$10.1 million to the ATO out of the proceeds of the Placement.

(e) **Transaction costs**

Costs of the Placement and Placement Options Exercise.

(f) **Tax debt and related interest reclassification**

As at 30 June 2012, the principal amount outstanding to the ATO was approximately \$32.7 million in current tax payable, approximately \$4.3 million PAYG withholding tax and approximately \$16.6 million in accrued general interest charges. Subsequent to 30 June 2012, the Company has agreed repayment terms of this amount including \$10 million to be funded out of the Placement and the balance in varying monthly instalments over five years. The pro forma Statement of Financial Position reflects reclassification of the amount owing in accordance with the agreed repayment schedule.

(g) **Grant of Campbell Options and Management Options**

The amount shown represents the indicative value of the Campbell Options and Management Options as at 4 September 2012 calculated using a Black-Scholes pricing model taking into account a number of assumptions including the Share price at valuation date, Exercise Price, vesting conditions, expected Share price volatility and their expiry date.

9 RIGHTS AND LIABILITIES ATTACHING TO THE SHARES AND OPTIONS

9.1 Placement Shares and Option Shares

The Placement Shares and the Option Shares will be in the same class, will have the same rights and liabilities and will rank pari passu with the Shares quoted on the ASX.

The rights and liabilities attaching to the Placement Shares and to the Option Shares are set out in the Constitution (and are regulated by the Corporations Act, the general law, the ASX Listing Rules and the ASX Settlement Operating Rules).

The Constitution may be viewed on the Company's website (www.lucas.com.au). The Company will provide a copy of the Constitution, free of charge, to any person who asks for a copy.

The following is a summary of the principal rights and liabilities attaching to the Shares. This summary does not purport to be exhaustive. A reference to "shareholder" below refers to a holder of any Shares.

Securities	The Directors have control over the issue of Shares and options over such Shares, but in doing so, must act in accordance with the Corporations Act, the ASX Listing Rules and the Constitution.
Voting Rights	Subject to the Constitution, every Shareholder present in person or by proxy, attorney or, in the case of a corporation, a duly appointed representative, has one vote on a show of hands and one vote for each fully paid share on a poll. Shareholders may appoint a proxy to attend and vote at a general meeting on their behalf. Except in the case of any resolution which as a matter of law requires a special majority, a resolution is taken to be carried if a majority of the votes cast on the resolution are in favour of it. At a general meeting, a resolution must be decided on a show of hands unless a poll is demanded in accordance with the Corporations Act. Should there be an equality of votes on a proposed resolution, the chairperson of the meeting, in addition to his or her deliberate vote, has a casting vote.
General meetings and notices	The Directors may convene a general meeting whenever they think fit. The Directors must convene an annual general meeting in accordance with the Corporations Act. Notice of the general meetings must be given to every shareholder as required under the Corporations Act.
Dividend entitlement	Subject to the Corporations Act, the Directors may pay any interim and final dividends as, in their judgement, the financial position of the Company justifies, and may fix the amount, time

	<p>and method of payment of such dividends. Subject to any rights or restrictions attached to any Shares, all dividends in respect of Shares must be paid to Shareholders in proportion to the number of Shares held by the Shareholder.</p> <p>The Directors may retain any dividend payable to a shareholder in respect of a Share on which the Company has a lien. The Company may apply such dividend in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.</p>
Variation of rights	<p>The Company may vary the rights attaching to a class of shares if a special resolution is passed at a general meeting of the holders of that class of shares allowing the variation to be made, or with the written consent of the holders of at least 75% of the issued shares of that class.</p>
Transfer of Ordinary Shares	<p>A transfer of Shares must be made in accordance with the Corporations Act, the Constitution, the ASX Listing Rules and the ASX Settlement Operating Rules. A Shareholder may transfer all or any of their Shares by a proper ASX transfer or an instrument in writing in any usual form or in any other form that the Directors approve. The Directors must not in any way prevent, delay or interfere with the generation of a proper ASX transfer or the registration of a paper-based transfer in registrable form. The Directors may decline to register a transfer or may request ASX to apply a holding lock where the ASX Listing Rules permit them to do so.</p>

No brokerage or stamp duty is payable on the issue of the Placement Shares or the Shares on exercise of the Options.

9.2 Options

The following is a summary of the principal rights and liabilities attaching to the Options. This summary does not purport to be exhaustive.

Entitlement	<p>Each Option gives the holder the right to subscribe for one Share. To obtain the right given by each Option, the holder must exercise the Option in accordance with the terms and conditions of the Option.</p>
Vesting date	<p>The vesting date for the Options can occur no earlier than 31 December 2013 and will only occur if the Market Price for the Shares closes at in excess of \$2.50 for at least 10 days in any 20 day trading period that occurs at least 12 months after the issue of the Options (Grant Date).</p>

Expiry date	The Options will expire at 5.00 pm on 7 December 2015 (Expiry Date). Any Option not exercised before the Expiry Date will automatically lapse at midnight on the Expiry Date.
Option exercise price	The amount payable upon exercise of each Option will be \$1.35 (Exercise Price). An Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised. In the event that the Company makes a pro rata issue of securities, the Exercise Price of the Options will be adjusted in accordance with the formula set out in Listing Rule 6.22.2.
Exercise	<p>The Options held by the holder may be exercised in whole or in part and, if exercised in part, multiples of 1,000 must be exercised on each occasion.</p> <p>The holder may exercise the Options by lodging with the Company before the Expiry Date:</p> <ul style="list-style-type: none"> • a written notice of exercise of the Options specifying the number of the Options being exercised; and • a cheque or electronic funds transfer for the Exercise Price for the number of the Options being exercised (Exercise Notice). <p>An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.</p>
Allotment	Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of the Options specified in the Exercise Notice.
Ranking	All Shares allotted upon the exercise of the Options will rank pari passu in all respects with other Shares.
Quotation	The Company will not apply for quotation of the Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of the Options on ASX within 10 Business Days after the date of allotment of those Shares.
Transfer of Options	The Options cannot be transferred for a period of 12 months from the Grant Date. Subject to the Corporations Act, the Constitution and the Listing Rules, the Options will be freely transferable from the day that is 12 months after the Grant Date.

Reconstruction	<p>If, at any time, the issued capital of the Company is reconstructed, all rights of the holders of the Options are to be changed in a manner that is not inconsistent with the Corporations Act and Listing Rules at the time of reconstruction.</p> <p>If, at any time, the issued capital of the Company is reconstructed, all rights of the holders of the Options are to be changed in a manner that is not inconsistent with the Corporations Act and Listing Rules at the time of reconstruction.</p> <p>In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company prior to the Expiry Date, all rights of the holder are to be changed in a manner consistent with the Listing Rules.</p>
Rights	<p>There are no participating rights or entitlements inherent in the Options and the holder will not be entitled to participate in new issues of capital or any share buy back of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that, for the purposes of determining entitlements to any such issue or share buy back, the record date will be at least 7 Business Days after the issue or share buy back is announced. This will give the holder the opportunity to exercise the Options prior to the date for determining entitlements to participate in any such issue or share buy back.</p>
Bonus issue	<p>The holders of the Options have no right to participate in a Bonus Issue without first exercising the Options. However, if there is a bonus issue to Shareholders (Bonus Issue), the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder would have received if the Option had been exercised before the record date for the Bonus Issue (Bonus Shares).</p>

10 COMPANY INFORMATION

10.1 General overview

The Company is a diversified drilling services and engineering and construction services group. The Company offers services to the water and waste water, energy and public infrastructure sectors in Australia and is a leading Australian drilling services provider to the coal, coal seam gas (**CSG**) and mine site coal mine methane (**CMM**) drainage sectors. The Company currently employs more than 716 staff in 11 offices around Australia.

The Company also has investments in the energy sector comprising a 43% shareholding in Cuadrilla, a 25% direct interest in each of the Bowland and Weald shale prospects in the United Kingdom as well as interests in Texas, United States of America and the Canning Basin, Western Australia.

The operating activities of the Company are structured as two distinct businesses with the client base of each comprising predominantly major corporations and state and local governments across Australia.

- **Lucas Drilling**– the Company provides a comprehensive suite of services to the coal, CSG and mine site gas drainage sectors, including exploration and development drilling, coal seam gas production drilling, in-seam directional drilling for the degasification of coal mines, well services and engineering services for well design. Lucas Drilling is fully integrated with a strong technical focus and ability to undertake a project from engineering and planning, through to field exploration, field development, gas production and well workovers.
- **Lucas Engineering & Construction** – The division formerly known as Building, Construction & Infrastructure is now known as Lucas Engineering & Construction. Lucas Engineering & Construction provides niche engineering and construction services for infrastructure in the energy, water and waste water, public utilities and telecommunications sectors. With projects located across Australia, Lucas Engineering & Construction is a diversified engineering company that self performs or manages its own construction via a range of delivery methods including internal resources, alliances and joint ventures. Current customers include Water Corporation via the Southern SeaWater Alliance, APA Group and Arrow Energy.

10.2 Lucas Drilling

Lucas Drilling is a market leader in drilling services to the coal and CSG sectors in Australia. It operates a total of 70 multi-purpose drill rigs. Headquartered in Brisbane, Queensland the business has a strong presence in all the major coal and CSG producing basins of Australia's east coast, including the Bowen, Surat and

Galilee basins in Queensland and the Hunter Valley, Gunnedah and Illawarra coal regions in New South Wales.

Lucas Drilling has strategically located its regional facilities in Moranbah, Roma, Middlemount, Quirindi and Muswellbrook, close to its major customers. In addition, the business utilises a wide network of local suppliers and ground support for maintenance, procurement and logistics.

Lucas Drilling offers its clients a turnkey service, from conceptual well design, engineering and detailed cost estimates utilising its in-house engineering and steering services, through to various drilling methodologies required for the development of a gas field or a coal mine. Lucas Drilling is focused on long term relationships, a culture of continuous improvement and safe work practices, equipment compliance and success in design, engineering, innovation and program delivery.

The business offers a unique suite of specialised services across five competency-based divisions. These are as follows:

(a) Exploration and development drilling

(i) Coal

Lucas Drilling is a market leader in exploration and development drilling servicing the coal market. As at 26 September 2012, the coal exploration fleet comprised 46 coal exploration rigs, of which 29 are contracted (with 15 in Queensland and 14 in New South Wales). Lucas is actively pursuing further opportunities for the non-committed rigs. The rigs are deployed for drilling vertical boreholes to provide geological information for resource assessments. Clients include major coal companies such as Xstrata, Anglo Coal and BHP Billiton. The Company has rationalised its rig count to minimise downtime and improve productivity across the division.

(ii) CSG

CSG exploration and development drilling is one of the first steps towards commercialising the gas contained within coal. CSG exploration rigs drill open holes and either core to a target depth or take core samples. Lucas Drilling currently has capacity to supply 4 compliant CSG exploration drill rigs. This fleet has the flexibility to switch between CSG and coal exploration depending on market demand. CSG exploration drill rigs are however, required to have well control capabilities and meet strict compliance and regulatory requirements relative to coal

exploration drill rigs. The contracted CSG rigs are able to operate on a continuous 24/7 roster to meet market requirements.

(b) Production Drilling

Production drilling employs 7 rigs, principally directed to CSG production drilling, and CMM drainage ahead of underground mining. The fleet comprises 4x100-tonne rigs and 3x 60-tonne rigs. As at 3 September 2012, 5 of the 7 rigs are contracted. The division is currently contracted with Santos, Origin, Armour Energy, Peabody and Anglo Coal for CSG production and mine site CMM drainage.

The business' production rig spreads are capable of handling various drill pipe sizes and well control systems. The versatility of the equipment allows the business to adapt specific hole completion techniques to meet the client's particular requirements, which the Company believes is a point of differentiation in this market. The fleet flexibility allows it to provide a wide range of oilfield services including CMM drainage and conventional workover completions.

(c) Directional drilling

Directional drilling provides services to underground coal mines to drain CMM to the surface; typically completed years in advance of the mining program. As at 3 September 2012, the business operates 3 directional drilling rigs all of which are fully contracted together with 6 vertical rigs to support the lateral program. Lucas ordered 2 additional lateral rigs in 2012.

Rigs in the exploration drilling fleet can be adapted for conventional directional drilling, as required by market demand. Directional drilling requires drilling to be steered accurately within nominated sections of the coal seam, to intersect with a vertical well. This requires highly specialised technical skills. Directional drilling has proven to be efficient, cost effective and safer than traditional underground drainage techniques and consequently demand for this service has grown substantially in recent years.

The Company announced in December 2011 that it had entered into a \$240 million contract with Xstrata to provide a full turn-key project management service. Currently contracted with Anglo Coal, Xstrata and Arrow, Lucas Drilling has established itself as one of the most technically advanced surface to in-seam (**SIS**) providers in Australia.

(d) Well services

Well Services consists of 4 work over rigs to install and commission down hole pumps and manage surface infrastructure, including monitoring systems, gas gathering lines and flares to connect to the gas gathering

network and provides basic maintenance of the well, water levels and gas flows.

(e) Engineering services

The business' in-house engineering capability provides innovative and practical drilling solutions for both civil horizontal directional drilling projects and SIS. Services include:

- (i) well design to optimise well performance in the target formation;
- (ii) drilling engineering to analyse drilling reach, improve efficiencies and mitigate risk resulting from torque drag and hydraulic analysis; and
- (iii) professional steering expertise in a range of steering techniques to execute the well design.

Growth of revenue and profitability in engineering services has previously been limited by capital constraints. Lucas has recently added 5 new steering tools thereby doubling its capacity. This positions the Company to provide technical project management services for all aspects of directional drilling CMM projects. Lucas offers a cost-efficient and reliable service which combines oil field expertise and advanced engineering techniques, which Lucas intends to continue to develop.

Lucas Drilling operates in a highly regulated environment, requiring compliance with a broad set of standards and regulations driven by federal and state legislation, as well as specific standards set by individual customers. The business has in place a comprehensive safety management system designed to ensure that stringent environmental and safety practices are applied across all activities and operations. As a result, the business has built a track record of safety, efficiency and technical leadership and is at the forefront of the increasingly stringent operating standards within the coal and CSG industries. Significant improvements in safety performance have been achieved in the past 12 months. Using industry-standard measures, Lucas Drilling 12 month rolling Total Recordable Injury Frequency Rate reduced from 16.2 in July 2011 to 14.7 in June 2012.

10.3 Lucas Engineering & Construction

Lucas Engineering & Construction provides niche engineering and construction services for infrastructure in the energy, water and waste water, public utilities and telecommunications sectors. With projects located across Australia, Lucas Engineering & Construction is a diversified engineering business that self performs or manages its own construction via a range of delivery methods including internal resources, alliances and joint ventures. Current major customers include Water Corporation via the Southern SeaWater Alliance, APA Group and Arrow Energy.

The sectors serviced by Lucas Engineering & Construction are as follows:

(a) Energy

In the energy sector, Lucas Engineering & Construction specialises in providing high pressure cross country pipelines and associated facilities; gas gathering systems and related facilities such as pump stations, compressor stations, valves, metering and associated network piping; horizontal directional drilling of river crossings and obstacles for pipelines and power cables; repairs of pipelines affected by stress corrosion cracking; and, for tank farms: piping, pumps, tank bases and structures.

These services are often constructed in remote locations throughout Australia with difficult access such that substantial planning is required. The Company is required to be largely self-sufficient for long periods of time with relatively little access to outside resources. Further, innovative delivery methods (such as horizontal directional drilling) are often required to minimise the impact on the environment.

Contracts previously completed include the landfall for the delivery of gas from the Gorgon field to Barrow Island, the Bonaparte pipeline in the Northern Territory and the SEAGas pipeline from Port Campbell in Victoria to Adelaide.

(b) Water and Waste water

The Company has a growing presence in developing infrastructure for Australia's water and waste water industry. Lucas Engineering & Construction provides specialist turnkey services in the engineering and construction of waste water treatment plants (based mainly on membrane bioreactors and other membrane processes) as well as desalination plants utilising the latest technologies. Lucas Engineering & Construction is currently exploring opportunities for the reuse of treated water through irrigation and manufacturing industries.

Additionally, Lucas Engineering & Construction provides niche services in the engineering and construction of water and waste water pipelines often using innovative specialist technologies such as pressure sewers and horizontal directional drilling. Lucas Engineering & Construction has provided these solutions in the past through by-passing under urban areas of Chatswood and Wollongong and National Parks in the Blue Mountains by using these technologies. Other projects previously completed or being undertaken by Lucas in the water industry include the Western Corridor Recycled Water Project in the suburbs of Brisbane and the desalination plant for Water Corporation in Western Australia.

(c) Telecommunications Sector

The Company provides unique services in micro-trenching technology through our joint venture with Groupe Marais SA. Using this technology, broadband is currently being rolled out in New Zealand considerably more cheaply than in Australia.

Lucas Engineering & Construction has also deployed its niche directional drilling expertise for placing telecommunications cables under significant obstacles such as Sydney's Middle Harbour, under Port Hacking, landfalls at beaches such as Collaroy Beach and Floriet Beach, and under environmentally sensitive terrain such as Sugarloaf Mountain.

Although the Company has enjoyed a long history in the commercial and industrial building sector of the economy, the company's competitive advantages in this sector have been overrun by the flat economy. Lucas Engineering & Construction is developing a new approach to this sector particularly associated with innovative solutions and energy efficiency.

10.4 Energy Investments

The Company has a 43% shareholding in Cuadrilla a company established to explore for unconventional hydrocarbons in Europe. The Company also owns a direct 25% interest in two English exploration licences, PEDL 165 in the Bowland basin and PEDL 244 in the Weald basin. Cuadrilla (through its wholly owned subsidiaries) holds the remaining 75% interest in, and is also the operator of, these licences. Lucas Energy (UK) has entered into joint operating agreements with Cuadrilla which obliges it to contribute 25% of the direct exploration expenses attributable to these licences. A description of exploration activity to date is included in the description of Cuadrilla in **Section 11.6**.

The Company also has a contractual interest in 10% of a net profit interest in the Monument Prospect in Texas and has a beneficial interest in an application for a petroleum exploration permit in the Canning Basin, onshore Western Australia.

10.5 Cuadrilla

(a) Overview

See section 13 of the Entitlement Offer Prospectus which sets out an overview of Cuadrilla, its operations, strategy and management.

(b) Ownership and funding

The Company, through its wholly owned subsidiary Lucas Cuadrilla, has a 43% equity interest in Cuadrilla, approximately equal with investor funds managed by Riverstone. The remaining equity is held by management,

former employees and consultants. In addition, an employee benefit trust holds shares on behalf of employees which may realise value upon an exit by investors or a capital return to shareholders subject to certain investment return thresholds being met. If all of these investment return thresholds are met, the maximum ownership dilution to all other shareholders is 12%.

The Company has invested an aggregate of \$101.8 million in Cuadrilla and its direct exploration interests since Cuadrilla began operations in 2007.

In addition to well-related costs, these expenses include licence acquisition, well permitting, drilling approvals, seismic surveys and other expenses associated with Cuadrilla's exploration programme in these permit areas. The Company's share of future exploration expenditure on its direct interest and equity calls by Cuadrilla will depend on the outcome and timing of the UK's Government's decision on future fracking activity. Pending this determination, Cuadrilla plans to drill one further hole in the Bowland basin.

(c) Exploration Licences

Other than in Hungary, all of Cuadrilla's exploration licences and applications are held through wholly-owned subsidiaries incorporated in the countries where the licences are held. Cuadrilla is the operator of all its licence areas, other than in Hungary.

Cuadrilla continues to assess prospective new exploration areas and is also in discussions with parties to acquire or farm-in to certain exploration permits in order to increase its current exploration portfolio in areas which it considers prospective. In addition to applications for new licence awards, Cuadrilla's land acquisition strategy seeks to take advantage of the fact that it operates its own exploration equipment, by using it to work an area in exchange for obtaining an ownership interest.

Cuadrilla's current exploration portfolio is set out in Table 10.5 below. In addition Cuadrilla has exploration applications pending in the Netherlands, Poland and the Czech Republic, which, if all were to be awarded, would add approximately 800,000 gross acres to its exploration licence portfolio.

Table 10.5

Cuadrilla Exploration Licences						
Licence/Prospect	Country	Basin	Award Date	Gross Acres	Net Acres	Partner (%WI)
PEDL 165	UK	Bowland	2008	293,190	219,893	Lucas Energy (UK) 25%

Cuadrilla Exploration Licences						
Licence/Prospect	Country	Basin	Award Date	Gross Acres	Net Acres	Partner (%WI)
PEDL 244	UK	Weald	2008	67,000	50,250	Lucas Energy (UK) 25%
PEDL 247	UK	Weald	2011	135,265	135,265	
Noord Brabant	Netherlands	Roer	2009	476,666	286,000	EBN 40%
Noordoostpolder	Netherlands	several	2009	202,379	121,427	EBN 40%
Lukow	Poland	Lublin	2009	156,640	156,640	
Miedzyrzec	Poland	Lublin	2009	290,101	290,101	
Ba-1X	Hungary	Pannonian	2011	32,591	6,950	DHH 53%, RAG 25%
Total				1,653,832	1,266,526	

(d) Bowland basin

In August 2010, the first vertical exploration well, Preese Hall 1, was spudded in the Bowland basin, near Blackpool in Lancashire. To the Company's knowledge, Preese Hall 1 is the first shale gas exploration well drilled in the United Kingdom and one of the earliest in Europe.

Preese Hall 1 was drilled to a total depth of 9,100 feet, approximately 1,000 feet deeper than originally planned, and drilling was completed in December, 2010. Grange Hill 1, the second vertical exploration well, was spudded in January, 2011 and reached a total depth of 10,775 feet in July, 2011, approximately 1,500 feet deeper than planned.

The third exploration well in the Bowland basin, Beconsall 1, was spudded in August 2011 and reached a total depth of 10,300 feet in December 2011.

Cuadrilla has announced that it will submit a planning application for permission to drill a horizontal exploration well at Anna's Road. In Preese Hall 1, the shales are over 3,000 feet thick. In Grange Hill 1 and Beconsall 1, the shales are thicker. Core studies, analysis of sample cuttings, mud log data, drilling information and geophysical analyses of the three wells have identified a series of prospective pay zones throughout the shale zones drilled.

The Preese Hall fracking programme was planned for 12 fracking stages in order to test the prospective pay zones. The five fracking stages completed in 2011 in Preese Hall 1 showed that the shales will respond to fracturing and that gas will flow to the surface. However, after each of the third and fifth fracs, there were minor seismic tremors in the Blackpool

area, and fracturing operations were suspended in May 2011 pending completion of a Geo-Mechanical Study. This study was provided to DECC in November 2011 (see further details below).

As a consequence of the suspension of the fracking programme, Cuadrilla is not yet able to provide a full report of the gas productivity of the wells drilled to date.

(e) Preliminary Gas in Place Estimate

As announced to the ASX on 22 September 2011, Cuadrilla has released an internal estimate of gas in place (**GIP**) for the Bowland basin of approximately 200 trillion cubic feet (tcf).

Cuadrilla derived this preliminary estimate through geophysical and geological analyses, seismic data and engineering studies. This estimate of GIP is an expression of judgement by Cuadrilla based on knowledge, experience and industry practise. It may therefore be imprecise and cannot be relied upon as being a forecast of any recoverable reserves or contingent or prospective reserves that Cuadrilla may subsequently establish.

(f) Geo-mechanical Study

On 1 November 2011, Cuadrilla provided the Geo-Mechanical Study into the Bowland basin seismic events to DECC and BGS. The Geo-Mechanical Study was prepared by four independent academic experts commissioned by Cuadrilla. A summary and synopsis of the study was released to the public and posted on Cuadrilla's website at www.cuadrillaresources.com. Copies of the study have been made available for peer review.

As set out **Section 4.4(a)**, as announced to the ASX on 17 April 2012, DECC published its own independent expert report (**DECC Report**) which recommended measures to be taken to mitigate the risks of seismic tremors from fracking and invited the public to comment for a six weeks period, which ended on 25 May 2012.

Notwithstanding the expiry of this public consultation period, DECC has not issued a final determination of DECC's required procedures for the resumption of fracking by Cuadrilla. Accordingly, Cuadrilla has continued to suspend all fracking activity.

As announced to the ASX on 29 June 2012, Cuadrilla has commenced implementing recommendations from the DECC Report so that, if fracking is allowed to resume, it will be able to do so as soon as practicable. However, there are uncertainties over whether the fracking will recommence.

In addition, on 10 May 2012, the Company released to the ASX the presentation it made to a shale gas conference organised by the investment bank, JP Morgan. This set out some of the parameters and conclusions relating to the development of the Bowland shale and its prospectivity compared to certain similar shales in the United States.

On 29 June 2012, the Company, in an ASX release, referred to a report entitled "Shale gas extraction in the UK: a review of hydraulic fracturing" published by The Royal Society and The Royal Academy of Engineering and referred readers to the Company's web-site if they wished to obtain a copy of the report. This report examines concerns and makes recommendations in relation to shale gas extraction in the UK.

(g) Third party approaches

As set out in section 3.12 of the Notice of Meeting and Explanatory Statement, from time to time approaches are made to Cuadrilla or Cuadrilla shareholders regarding a possible involvement in the Bowland shale prospect. Having regard to the considerable financial, management, political, regulatory and technical complexities involved in and required for the development of this resource, Cuadrilla has appointed advisors and consultants to assist in the formulation of a conceptual development plan, to advise on the options available to Cuadrilla and to hold discussions with potentially interested parties. To date, this has progressed to the stage of management presentations and the establishment of a virtual data room. However, it must be emphasised that this exercise may or may not produce an outcome which will alter the Company's budgeted commitments in relation to the next stage of development of the Bowland shale prospect or any other assessments of value.

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

(h) Proposed Exploration Programme

Cuadrilla has announced that it will submit a planning application for permission to drill a fourth exploration well in the Bowland basin at Anna's Road as a horizontal well. Subject to approval being obtained this well is expected to spud in the final quarter of 2012.

Further drilling activity in the Bowland basin will depend on the outcome of the UK Government's review of the Geo-mechanical Study. Cuadrilla has recently completed 100 square kilometre 3D seismic programme of part of the Bowland basin. The results of the field data acquisition are currently being analysed.

10.6 Monument Prospect

Under the terms of the Amended and Restated Participation Agreement between Allan Campbell and Thomas E. Knowlton dated 24 August 2009 and a Deed of Acknowledgement between Allan Campbell and the Company dated 30 September 2009, the Company has a 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 an area of mutual interest, the Monument Prospect located in Trinity County, Texas (**Net Profit Interest**). The Net Profit Interest does not constitute a property interest of the Company. As at the Prospectus Date, this investment is fully impaired on account of there being insufficient historical drilling data to assess the recoverability of the investment.

The area of mutual interest relates covers an area approximately 27 miles long and 7 miles wide which contains approximately 120,000 gross acres. There are approximately 62,560 leased net acres within the area of mutual interest.

The Company has been informed by Thomas Knowlton that he has transferred the acreage in the area of mutual interest to an affiliate of Thomas Knowlton, TEKXON, for non-cash consideration on an arm's length basis. In the event that the non-cash consideration is monetised, 10% of that will form part of the Net Profit Interest of the Company. However, the Company has not been provided with information of the nature or value of the non-cash interest paid by TEKXON to Thomas Knowlton or when it is likely to be monetised.

The Company understands that TEKXON is in the process of raising final funding to conduct a drilling program in the area of mutual interest.

10.7 Canning Basin

The Company has the beneficial interest in an application to be granted a petroleum permit over part of the acreage released by the Government of Western Australia for petroleum exploration. In early 2008, the Company was offered a petroleum exploration permit 17/07-8EP covering 8,010 square kilometers of the Canning Basin. The Company considers the acreage prospective for shale gas, shale oil and tight gas. The grant of this permit is subject to the *Native Title Act 1993* (Cth). The Company is currently negotiating with the three native groups (Martu, Kulyakartu and Ngurrara) whose native title claims overlap the permit area.

The Company's negotiations to date have been directed towards the possibility of a site visit between the Company and the traditional landowners to determine whether there are any locations within the permit application area that are of cultural significance, and are therefore likely to be excluded from the permit area, or alternatively made the subject of a "no mining" condition.

11 ADDITIONAL INFORMATION

11.1 Continuous disclosure obligation

The Company is a “disclosing entity” for the purposes of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. Broadly, these obligations require:

- (a) the preparation of both yearly and half yearly financial statements, a report on the operations of the Company during the relevant accounting period, together with an audit or review report thereon by the Company’s auditor; and
- (b) immediate notification to ASX of any information concerning the Company which it becomes aware of and which a reasonable person would expect to have a material effect on the price or the value of the Company securities, subject to certain limited exceptions.

The ASX maintains records of company announcements for all companies listed on the ASX. The Company’s announcements may be viewed on the ASX website (www.asx.com.au). Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC. The Company will provide a copy of these documents, free of charge, to any person who requests a copy of these documents.

11.2 Information that has been excluded from continuous disclosure

This Prospectus has been prepared in accordance with section 713 of the Corporations Act. In preparing this Prospectus, regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and that matters may reasonably be expected to be known to investors and professional advisers whom investors may consult. It must be read in the context of, and having regard to, the Company’s continuous disclosure and publicly available information regarding the Company and its business.

11.3 Directors

- (a) Allan Campbell – Executive Chairman and CEO

After qualifying as a lawyer, Mr Campbell worked as an investment banker for many years before acquiring the Company in 1995 and listing it on the ASX in 1999. Subsequently, he has been responsible for the Company’s strategic direction including acquisition of its substantial investment portfolio in unconventional hydrocarbons.

(b) Phillip Arnall – Independent Non-Executive Director

Mr Arnall has had a distinguished thirty year career in the mining and steel industries including senior executive responsibility at Smorgon Steel Group, Tubemakers and ANI Limited. Mr Arnall is currently a non-executive director of Bradken Limited and Macquarie Generation. Directorships of other listed companies over the past three years: Capral Limited (Chairman, 2002-2010 and Ludowici Limited 2006-2012). Mr Arnall is a member of the Company's Audit and Risk Committee.

(c) Genelle Coghlan – Independent Non-Executive Director

Ms Coghlan has many years of business and finance experience domestically and internationally. After qualifying as a lawyer, Ms Coghlan established a successful tourism business overseas. Following the sale of this venture, Ms Coghlan became the managing director of a company making technical textiles with applications in the mining, water and construction industries. Ms Coghlan is currently president of Composites Australia Inc and on the Board of the Technical Textiles and Non Wovens Association. Ms Coghlan is also a member of the Company's Audit and Risk Committee.

(d) Martin Green – Independent Non-Executive Director

Mr Green is a Fellow of the Institute of Chartered Accountants and an official liquidator of the Supreme Court of NSW. Mr Green has been in public practice for 40 years, mainly specialising in business recovery and insolvency. Mr Green 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 Committee.

(e) Mike McDermott – Non-Independent Non-Executive Director

Mr McDermott has worked in the drilling industry since 1963. In 1970 he established McDermott Drilling in Sydney, growing it into one of New South Wales' largest drilling company over the next 36 years when it was acquired by the Company. 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).

11.4 Directors' interests

Except as disclosed in this Prospectus, no Director and no firm in which a Director has an interest:

- (a) has any interest, nor has had any interest in the last two years prior to the date of this Prospectus in the formation or promotion of the Company, in the Placement, the Placement Options Exercise, the Options or property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Placement, the Placement Options Exercise, the Options; or
- (b) has been paid or given or will be paid or given any amount or benefit to induce him or her to become, or to qualify as, a Director, or otherwise for services rendered by him or her in connection with the formation or promotion of the Company or the Placement, the Placement Options Exercise, the Options.

Andial is a company controlled by Allan Campbell, a Director and, accordingly, Andial is a related party of the Company.

The relevant interest of each Director and their Director-related entities in the Shares and options over Shares issued by the Company as the Prospectus Date are set out in Table 11.4.1 below.

Table 11.4.1

Director / Director-related Entity	Shares	Existing Options
Allan Campbell	228,120	203,861
Andial	11,990,000	0
Shares held by other entities but which Andial has a relevant interest in (and, therefore, voting power)	5,500,000	0
Martin Green	350,000	0
Phillip Arnall	0	0
Genelle Coghlan	0	0
Mike McDermott	0	0

The maximum relevant interest of each Director and their Director-related entities in the Shares and options over the Shares issued by the Company following the issue of the Placement Shares and the Options, assuming none of the Existing Rights, the remaining Kerogen Options (which are not the Placement Options), the Goldman Sachs Funds Options or the Options have been exercised, are set out in Table 11.4.2 below.

Table 11.4.2

Director / Director-related Entity	Minimum Number of Shares	Maximum Number of Shares	Options and Rights
Allan Campbell/Andial	17,718,120	17,718,120	3,953,861
Martin Green	350,000	350,000	0

11.5 Directors' remuneration

The Directors are entitled to remuneration for their services as Directors out of the funds of the Company, in a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors and, in default of agreement, in equal shares.

As remuneration for services as a Director, the non-executive Directors are paid an amount, determined by the Board within the aggregate amount approved by Shareholders.

Details of the remuneration provided to the Directors for the year ending 30 June 2012 are set out below in Table 11.5.1 below.

Table 11.5.1

Director	Salary/Fees	Value of Options	Total
Allan Campbell	\$646,276	Nil	\$696,276 (inclusive of \$50,000 superannuation)
Martin Green	\$80,028	Nil	\$80,028
Phillip Arnall	\$79,980	Nil	\$79,980
Genelle Coghlan	\$80,000	Nil	\$80,000
Mike McDermott	\$80,000	Nil	\$80,000

Currently, each non-Executive Director is paid \$75,000 per annum plus \$5,000 per annum for each sub-committee of the Board to which they are appointed. The remuneration of the executive Director is fixed by the Board and may be by way of salary, discretionary cash bonus, periodically by way of the award of options and rights as an incentive, participation in profits or by all or any of those modes. Certain Directors may, from time to time, be offered participation in the incentive based remuneration, management rights plans and deferred share plan, details of which are set out in the 2011 Annual Report.

The Directors are entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Company has agreed to indemnify all Directors and officers of the Company against all liabilities, including expenses to another person or entity (other than the Company or a related body corporate) that may arise from their position as Directors or officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company has also paid or agreed to pay premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ending 30 November 2012.

11.6 Material agreements with related parties

- (a) The Company entered into the Kerogen Subscription Agreement with Kerogen, a substantial holder of Shares in the Company. Further details of the Kerogen Subscription Agreement can be found in **Section 5.1** of this Prospectus and Annexure B of the Notice of Meeting and Explanatory Statement.
- (b) The Company entered into the Inveraray Subscription Agreement with Inveraray, an Associate of Allan Campbell. Further details of the Inveraray Subscription Agreement can be found in **Section 5.1** of this Prospectus and Annexure C of the Notice of Meeting and Explanatory Statement.
- (c) The Company has entered into various loan agreements with Kerogen. Further details of these agreements can be in section 12.8 of the Notice of Meeting and Explanatory Statement and **Annexure B** of this Prospectus.
- (d) Since the date of Notice of Meeting and Explanatory Statement, the Company has entered into the following facility agreements with Kerogen:
 - (i) a US\$1m loan agreement dated 15 August 2012 on substantially the same terms as the other Advance Facilities; and
 - (ii) a US\$4m loan agreement dated 5 September 2012 on substantially the same terms as the other Advanced Facilities.

11.7 Effect of the Placement on shareholding of Kerogen

At the Prospectus Date, Kerogen had a relevant interest in 32.89% of the Shares and voting power of 32.89% in the Company. In addition, Kerogen has interests in Kerogen Options to subscribe for new Shares in the Company.

Kerogen's interests in the Company are set out below¹²:

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

After completion of the Placement and the Placement Options Exercise, Kerogen will have a relevant interest in 47.88% of the Shares and voting power of 47.88% in the Company.

11.8 Interests of other persons

Except as disclosed in this Prospectus, no expert, promoter or other person named in this Prospectus as performing a function in a professional, advisory or other capacity in relation to the Placement, the Placement Options Exercise or the Options:

- (a) has any interest, nor has had any interest in the last two years prior to the date of this Prospectus, in the formation or promotion of the Company, the

¹² All of the numbers in the table have been calculated on the assumption that that no other options or rights in the Company are exercised.

¹³ A summary of the material terms and conditions of the options is contained at Annexure D of the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 which is available on the ASX website (www.asx.com.au)

¹⁴ Kerogen sold 3,872,360 Kerogen Options to the Placement Agent to remain within its 40% FIRB Approval limit at the time of the Entitlement Offer. Subject to obtaining further FIRB approval to acquire such options (which it now has obtained), Kerogen will have a right to acquire those options back from the Placement Agent within two years.

Placement, the Placement Options Exercise, the Options or property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Placement, the Placement Options Exercise or the Options; or

- (b) has been paid or given or will be paid or given any amount or benefit in connection with the formation or promotion of the Company or the Placement, the Placement Options Exercise or the Options.

11.9 Past performance

Kerogen and any holder of an Option should note that the past Share price performance of the Company provides no guidance as to future Share price performance.

11.10 Governing law

This Prospectus and the Placement, the Placement Options Exercise and the Options are governed by the laws applicable in New South Wales, Australia.

11.11 Disclaimer of representations

No person is authorised to give any information, or to make any representation, in connection with the Shares issued under the Placement, the Placement Options Exercise or the Options that is not contained in this Prospectus.

Any information or representation that is not in this Prospectus may not be taken as having been authorised by the Company, or its related bodies corporate, in connection with the Placement, the Placement Options Exercise or the Options. Except as required by law, and only to the extent so required, none of the Company, or any other person, warrants or guarantees the future performance of the Company or any return on any investment made in connection with the Prospectus.

11.12 ASX quotation

The Company will apply for admission of the Placement Shares to quotation on the ASX within 7 days after the Prospectus Date.

If the Placement Shares are not admitted to quotation within 3 months after the date of this Prospectus (or any longer period permitted by ASIC), any issue of the Placement Shares is void and the Company will repay, as soon as practicable, without interest all application money received under this Prospectus.

11.13 ASX announcements

Since 16 December 2011, the Company has issued material ASX announcements as listed in the table below.

Date	Announcement
19/09/2012	Banking Facilities Update
11/09/2012	Revised timetable for issue of placement shares
05/09/2012	Results of EGM
03/09/2012	EGM Notice of Meeting Update
31/08/2012	Appendix 4E
07/08/2012	Proxy Form for EGM
07/08/2012	Notice of EGM and Explanatory Memorandum
02/08/2012	AJ Lucas Announces Listing Rules Waiver
01/08/2012	AJ Lucas Announces Equity Raising
29/06/2012	Operations Update and Earnings Guidance
22/06/2012	Becoming a substantial holder
15/06/2012	Ceasing to be a substantial holder
08/06/2012	Agreement to Terminate Contract
31/05/2012	Response to Media Articles
14/05/2012	Recapitalisation Update
10/05/2012	Investor Presentation – European Shale Assets Update
23/04/2012	Change of Director's Interest Notice
23/04/2012	Appendix 3B – Exercise of Rights
17/04/2012	DECC Report on Preese Hall Shale Gas Fracturing Review
13/04/2012	Becoming a substantial holder
29/03/2012	Operations Update and Earnings Guidance
01/03/2012	Change in substantial holding
01/03/2012	Ceasing to be a substantial holder
01/03/2012	Change in substantial holding
29/02/2012	Half Yearly Report and Accounts
29/02/2012	Change of Director's Interest Notice – Martin Green
28/02/2012	Entitlement Offer Underwriting Allocation Update
28/02/2012	Top 20 Shareholders
28/02/2012	Appendix 3B regarding Entitlement offer
28/02/2012	Entitlement Offer Underwriting Allocation
27/02/2012	Entitlement Offer Underwriting Status
21/02/2012	Completion of Entitlement Offer
17/02/2012	Trading Halt
10/02/2012	Appendix 3B – exercise of rights
18/01/2012	Extension of Closing Date for Entitlement Offer
11/01/2012	Despatch of Entitlement Offer Prospectus and Acceptance Form
10/01/2012	Change of Director's Interest Notice
29/12/2011	Non-renounceable Entitlement Offer Letter to Shareholders
28/12/2011	Investor Presentation
23/12/2011	Reinstatement of Official Quotation
23/12/2011	Appendix 3B – Issue of Fund and Kerogen Options

Date	Announcement
23/12/2011	Final Share buy-back notice – Appendix 3F
23/12/2011	Announcement of buy-back – Appendix 3C
22/12/2011	Appendix 3B regarding 1 for 2 Rights Issue
22/12/2011	Shareholders Approve Recapitalisation Proposal
22/12/2011	Results of Extraordinary General Meeting
22/12/2011	EGM Presentation
22/12/2011	EGM Chairman’s Address
22/12/2011	Extension of ANZ Bank Facilities

11.14 Repayment agreement with ATO

As at 30 June 2012, the principal amount outstanding to the ATO was approximately \$32.7 million in current tax payable, approximately \$4.3 million of PAYG withholding tax and approximately \$16.6 million in accrued general interest charges.

On 29 August 2012, the Company entered into a repayment arrangement with the ATO. Under the arrangement, \$10.1 million is payable to the ATO on 28 September 2012. The balance is repayable in varying monthly instalments over 5 years.

The table below sets out the annual payment schedule for the arrangement.

Payment Schedule	
FY2013	\$11.46m
FY2014	\$4.02m
FY2015	\$5.52m
FY2016	\$8.247m
FY2017	\$8.253m

The general interest charges are subject to a current remission request. If this request is unsuccessful, payments of \$700,000 per month will be made commencing 1 July 2017.

Failure by the Company to comply with the repayment arrangements agreed with the ATO could lead to enforcement or other actions which could have a material adverse effect on the Company’s business, prospects or financial condition.

The Company is in ongoing discussions with ANZ in relation to the grant by the Company of third ranking security to the ATO.

11.15 ANZ senior facilities

At the Prospectus Date, the Company has the following financing facilities with the ANZ under the Senior Facility:

Facilities	Facility Limit
Multi-Option Facility	
Lease Finance (Progressive Draw) Facility	\$21,600,000
Hire Purchase (Progressive Draw) Facility	
Interchangeable Facility (2)	
Indemnity Guarantee Facility – Performance Guarantee (2)	
Indemnity Guarantee Facility – Financial Guarantees	\$3,150,000
Group Overdraft Facility	\$8,500,000
Fully Drawn Advance Facility	\$2,150,000
Credit Card Facility	\$250,000
ANZ Online Facility – Direct & Global Payments	\$7,235,000
Total Facility Limits	\$42,885,000

The Company and ANZ have executed an amendment agreement to the Senior Facility under which:

- (a) the maturity date for all of the financing facilities extended by the ANZ to the Company has been varied to 30 November 2012; and
- (b) the Company is required to satisfy certain conditions subsequent by 31 October 2012, which include providing additional security to ANZ. These conditions subsequent are within the Company's control and the Company anticipates that it will satisfy these conditions by the date they are required to be satisfied.

Under the amendment agreement, the Company was required to pay a fee to ANZ of \$250,000.

As at the Prospectus Date, the Company is in discussions with other financiers to refinance these facilities.

11.16 Discussions with Kerogen

The Company is in ongoing discussions with Kerogen in relation to the timetable for repayment of the Mezzanine Facility. Details of the maturity dates for the Advance Facilities entered into on 11 May 2012, 15 August 2012 and 5 September 2012 are set out at **Annexure B**. The principal loan amounts owing under the Advance Facilities entered into between Kerogen and the Company on 6 July 2012 and 26 July 2012, and the interest accrued on the 11 May 2012 Advance Facility for the period to 15 September 2012 and the interest accrued on the 6 July 2012 and 26 July 2012 Advance Facilities for the period to 28 September 2012, will be fully repaid from the funds raised under the Placement.

11.17 Ivy Litigation

Lucas Stuart is in dispute with Hemmes Hermitage Pty Limited (**Hemmes**) regarding various matters associated with the construction of The Ivy at 320-330 George Street, Sydney NSW. The matter is currently being litigated in the Supreme Court of New South Wales.

Lucas Stuart has made a number of claims against Hemmes which, in turn, has counterclaimed against Lucas Stuart.

As at the Prospectus Date, the Company is unable to quantify any damages that it may receive if the Court finds in its favour, or be required to pay Hemmes in the event of the Court finding in favour of Hemmes.

11.18 GAWB Curtis Island Infrastructure Project Early Termination Agreement

AJ Lucas Operations (as prime contractor) and the project owner, the Gladstone Area Water Board (**GAWB**) and Gladstone Regional Council agreed by deed to terminate early the works contract for the construction of pipeline infrastructure works on the coast at Gladstone and on Curtis Island, about 2 kilometres off the coast from the Gladstone works. At the time of termination, the parties were in dispute concerning the payments due for the measure of progress achieved.

The deed includes a formal expedited process to resolve the dispute between the parties and to settle a final account for the project as at the date of agreed termination. The first step of the resolution process, a mediation conference was held on 27, 28 and 29 August 2012. The mediation settled four relatively minor matters in dispute and agreed an alternative accounting verification process for two

other matters. As at the Prospectus Date, the remaining matters in dispute have been referred to a three member expert panel. The parties are required to prepare formal statements of the position in relation to the matters in dispute over the next two months. The matters remaining in dispute are complex. The timetable for determination by the expert panel currently proposes a determination this year but has not been confirmed by the panel.

As at the Prospectus Date, the Company is unable to quantify the value of the final account and the amount that may be payable either by the client to the contractor or by the contractor to the client.

11.19 Expenses of the issue

All expenses connected with the Placement, the Placement Options Exercise or the Options, including legal fees, printing costs and other miscellaneous expenses, are estimated at approximately \$180,000 (exclusive of GST). These expenses are broken down in Table 11.20.1 below.

Table 11.20.1

Item of Expenditure	Amount (\$)
Legal fees	\$175,000
Other	\$5,000
TOTAL	\$180,000

These expenses will be borne by the Company.

11.20 Consents

- (a) None of the persons named in paragraph (b) below has authorised or caused the issue of this Prospectus or made any statement that is included in this Prospectus, or any statement on which a statement made in this Prospectus is based, except as stated below. Each of the persons named in paragraph (b) below expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus. This applies to the maximum extent permitted by law and does not apply to any matter to the extent to which consent is given below.
- (b) The following persons have given and have not, prior to the lodgement of this Prospectus with ASIC, withdrawn their written consent to be named in this Prospectus in the form and context in which they are named:

- (i) Holding Redlich has given its written consent to be named as the Company's solicitors in this Prospectus. Holding Redlich has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC; and
- (ii) Kerogen has given its consent to be named in this Prospectus. Kerogen has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

11.21 Authorisation

This Prospectus is issued by the Company and its issue has been authorised by each of the Directors under section 720 of the Corporations Act.

Date 28 September 2012

A handwritten signature in blue ink, appearing to read "Allan Campbell". The signature is written in a cursive style with a large initial 'A'.

Allan Campbell
Director

12 CORPORATE DIRECTORY

AJ LUCAS GROUP LIMITED

REGISTERED OFFICE

394 Lane Cove Road
Macquarie Park NSW 2113
Australia

DIRECTORS:

Allan Campbell
Phil Arnall
Genelle Coghlan
Martin Green
Michael McDermott

COMPANY SECRETARY:

Nicholas Swan

SHARE REGISTRY

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001

LEGAL ADVISERS

Holding Redlich
Level 65, MLC Centre
19 Martin Place
Sydney NSW 2000

SCHEDULE 1 – GLOSSARY OF TERMS

Term	Meaning
5 Day VWAP	VWAP (as defined in the Kerogen Options Terms) of the Shares in 5 trading day period to be calculated on and include the date (based only on the days which the Shares are actually traded on the ASX) which immediately precedes the date on which the notice to exercise the Kerogen Options is issued
Advance Facilities	<p>The agreements titled “Facility Agreement” between the Company and Kerogen entered on or about:</p> <ul style="list-style-type: none"> (a) 11 May 2012; (b) 6 July 2012; (c) 26 July 2012; (d) 15 August 2012; and (e) 5 September 2012 <p>in each case, as amended from time to time, under which Kerogen agreed to advance the loans of approximately \$26 million to the Company. See Annexure B for a summary of the key commercial terms of the Advance Facilities (other than those entered into on 6 July 2012 and 26 July 2012), including the applicable interest rates.</p>
Andial	Andial Holdings Pty Limited (ACN 087 777 660)
ANZ	Australia and New Zealand Banking Group Limited
ASIC	The Australian Securities and Investments Commission
Associate	Has the meaning given to it in section 9 of the Corporations Act
ASX	ASX Limited (ACN 008 624 691)
ATO	Australian Taxation Office
Board	The board of Directors
Business Day	A day (other than a Saturday or a Sunday or a public holiday) on which banks are generally open for business in Sydney
Campbell Options	3,750,000 options to acquire Shares at \$1.35 per Share issued in accordance with the terms set out in Annexure D of the Notice of Meeting and Explanatory Statement

Term	Meaning
Change of Control	<p>In relation to Lucas Cuadrilla, a situation where, as a result of any transaction or other arrangement, either:</p> <p>(a) the person that had Control of Lucas Cuadrilla as at the date of the relevant agreement ceases to have such Control or commences to share joint-Control; or</p> <p>(b) any other person otherwise gains Control of Lucas Cuadrilla excluding (for the avoidance of doubt) an associate or related body corporate of Lucas pursuant to an internal reorganisation,</p> <p>provided that the Company retains the ultimate Control of Lucas Cuadrilla</p>
Company	AJ Lucas Group Limited (ACN 060 309 104)
Constitution	The constitution of the Company
Control	<p>Of a company by a person means:</p> <p>(c) the ability to determine the composition of the board of directors of the company or has the capacity to do so;</p> <p>(d) the board of directors of the company is accustomed to act in accordance with the instructions, directions or wishes of the person; or</p> <p>(e) that the person holds or owns (alone or with its associates or related bodies corporate):</p> <p>(i) the majority of the issued shares of the company;</p> <p>(ii) the majority of the issued shares of the ultimate holding company of the company; or</p> <p>(iii) the majority of any securities or other rights granted by the company entitling holders to distributions based on the profits, earnings or net liquidation proceeds of the company</p>
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Cuadrilla	Cuadrilla Resources Holdings Limited, a company incorporated in England and Wales (registered no. 7147040), whose registered office is at Cuadrilla House, Stowe Court, Stowe Street, Lichfield, Staffordshire, WS13 6AQ

Term	Meaning
Cuadrilla Board	The board of directors of Cuadrilla
Cuadrilla Change of Control Event	A Change of Control that is not a Lucas Parent Change of Control, where the New Controller is not a Qualifying Transferee
Cuadrilla Shareholders Agreement	The Shareholder Agreement between Lucas Cuadrilla, Riverstone and others dated 15 February 2010
DECC	The United Kingdom's Department of Energy and Climate Change
Director	A director of the Company
EGM	The Extraordinary General Meeting of the Company held on 5 September 2012 for the purposes of, among other things, considering and approving the Proposed Resolutions
Entitlement Offer	A non-renounceable pro-rata fully underwritten 1 for 2 rights issue for Shares at \$1.35 per Share which was intended to raise approximately \$51.3 million originally announced to the ASX on 19 September 2011 with the offer being made on 15 December 2011
Entitlement Offer Prospectus	The prospectus dated 15 December 2011 in respect of the Entitlement Offer
Entitlement Time	The time for the purposes of determining entitlements to vote at the General Meeting, being 5pm AEST on 3 September 2012
Exercise Period	The period from the issue of the Options to 5pm on 7 December 2015
Exercise Price	\$1.35 being the exercise price payable on the exercise of each Option
Existing Rights	Rights granted as compensation to each Director and certain executives from time to time
Expiry Date	Has the meaning given to it in Section 1.1
Explanatory Statement	The 'Explanatory Statement' part of the Notice of Meeting and Explanatory Statement
Facility Agreement	The agreement so titled between the Company and Kerogen dated 21 December 2011 under which the Mezzanine Facility is provided
FIRB	Foreign Investment Review Board

Term	Meaning
FIRB Limit	The limit imposed on Kerogen in the approval by FIRB under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) dated 30 May 2012 which allows an acquisition by Kerogen of up to 49.99% of the Company as detailed section 12.3 of the Notice of Meeting and Explanatory Statement
fracking	High pressure hydraulic fracturing of a shale seam using sand, water and chemicals
GAWB	Gladstone Area Water Board
Gleneagle Options	3,872,360 options held by the Placement Agent which Kerogen has the right to repurchase under clause 5 of the Gleneagle Options Transfer Deed
Gleneagle Options Transfer Deed	The document entitled the 'Option Transfer and Call Back Deed' executed on 28 February 2012 between the Placement Agent and Kerogen
Goldman Sachs Funds	The constituent entities of the Goldman Sachs Trans-Tasman Private Equity Fund 2007 (including, as applicable, their respective custodians) and, where applicable, the manager of the Fund, being Goldman Sachs & Partners Australia PIA (Management) Pty Limited (ACN 006 865 710) acting on behalf of the relevant constituent entities of the Fund
Goldman Sachs Fund Options	1,000,000 options to subscribe for Shares at \$2.13 per Share, issued by the Company to the Goldman Sachs Funds on the terms as set out in Annexure C of the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 which is available on the ASX website (www.asx.com.au)
Group	The Company and its subsidiaries
Independent Directors	All Directors other than Allan Campbell
Inveraray	Inveraray Capital Pty Limited (ACN 159 306 395)
Inveraray Subscription Agreement	The agreement titled Subscription Agreement between the Company Inveraray and the Placement Agent under which Inveraray has a right to subscribe for new Shares
Kerogen	Kerogen Investments No. 1 (HK) Limited

Term	Meaning
Kerogen Option Terms	The terms of issue of the Kerogen Options. A summary of the terms and conditions of the Kerogen Options was included in the 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 18 November 2011 and is available on the ASX website (www.asx.com.au)
Kerogen Options	18,566,763 options to subscribe for Shares (each option entitles the holder to be issued one Share) issued under the Kerogen Option Terms, of which Kerogen currently holds 14,694,403 options and has a right under the Gleneagles Options Transfer Deed to re-purchase the Gleneagle Options from the Placement Agent
Kerogen Subscription Agreement	The agreement titled Subscription Agreement between the Company Kerogen and the Placement Agent under which Kerogen will subscribe for the Placement Shares
Listing Rules	The ASX Listing Rules published by the ASX
Lucas Cuadrilla	Lucas Cuadrilla Pty Limited (ACN 138 750 722)
Lucas Drilling	The drilling division of the Company, which is more specifically described in the Prospectus
Lucas Energy (UK)	Lucas Energy (UK) Limited
Lucas Engineering & Construction	The engineering and construction division of the Company, which is more specifically described in the Prospectus
Lucas Operations	AJ Lucas Operations Pty Limited (ACN 087 777 633)
Lucas Parent Change of Control	A Change of Control that occurs as a result of a public takeover of the Company
Management Options	1,250,000 options to acquire Shares at \$1.35 per Share issued in accordance with the terms set out in Annexure D of the Notice of Meeting and Explanatory Statement
Market Price	The market price of a Share as quoted on the ASX from time to time
Mezzanine Facility	A Facility Agreement dated 21 December 2011 between Kerogen (as Lender) and the Company (as Borrower) under which Kerogen advanced a loan of \$86.5 million to the Company
New Controller	In respect of a Change of Control, the person who acquires Control or joint Control of Lucas Cuadrilla as a result of that

Term	Meaning
	Change of Control
Notice of Meeting	The Notice of Extraordinary General Meeting dated 1 August 2012
Notice of Meeting and Explanatory Statement	The 'Notice of Extraordinary General Meeting and Explanatory Statement' dated 1 August 2012
Options	The Campbell Options and the Management Options
Option Shares	Any Shares that are offered and issued on the exercise of the Options
Placement	A subscription by Kerogen for the Placement Shares at the Placement Price
Placement Agent	Gleneagle Securities (Aust) Pty Limited (ACN 136 930 526)
Placement Options	7,407,407 Kerogen Options held by Kerogen to subscribe for Shares at the Placement Options Exercise Price
Placement Options Exercise	The exercise by Kerogen of the Placement Options at the Placement Options Exercise Price per Share to raise a minimum of \$10 million in accordance with Resolution 2
Placement Options Exercise Price	The lower of \$1.70 and 120% of the 5 Day VWAP, subject to a floor of \$1.35 per Share
Placement Price	An issue price of \$1.35 per Placement Share
Placement Shares	22,222,222 new Shares to be issued to Kerogen under the Kerogen Subscription Agreement
Proposed Resolutions	Each of Resolution 1, Resolution 2, Resolution 3, Resolution 4, Resolution 5, Resolution 6 and Resolution 7 set out in the Notice of Meeting
Prospectus	This prospectus
Prospectus Date	Has the meaning given to it in Section 1.1

Term	Meaning
Qualifying Transferee	A transferee approved in writing by the Cuadrilla Board (such approval not to be unreasonably withheld or delayed) after taking into account the financial strength, industry background, any issues relating to the <i>US Foreign Corrupt Practices Act 1977</i> in respect of such transferee and such other matters as it considers appropriate, acting reasonably
Resolution	The resolutions as set out in the Notice of Meeting
Riverstone	Riverstone/Carlyle Global Energy and Power Fund IV (Cayman), LP, a limited partnership established in the Cayman Islands, whose registered office is at Walkers Corporate Services Limited, Walkers House, 87 Mary Street, George Town, Grand Cayman KY1-9005 by its general partner, Riverstone/Carlyle Energy Partners IV (Cayman), L.P., by its general partner, R/C GP IV Cayman LLC I
Senior Facility	The facilities provided by ANZ to the Company (as further described in Section 11.15 of this Prospectus) in accordance with the document entitled “Facilities Agreement” dated on or about 21 August 2008 as amended from time to time.
Share	A fully paid ordinary share in the capital of the Company
Shareholder	A holder of Shares from time to time
Share Register	The register of members maintained by (or on behalf of) the Company
TEKXON	TEKXON Onshore Oil & Gas, LLC

ANNEXURE A – TERMINATION EVENTS UNDER THE KEROGEN SUBSCRIPTION AGREEMENT

Either the Company or Kerogen may terminate all of its obligations under the Kerogen Subscription Agreement, upon notice to the other party, if any of the following occur:

- (a) **(Insolvency)** a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other similar official is appointed in relation to, or to any property of the other party (or any subsidiary of that party) for the purposes of that party (or subsidiary) being wound up or dissolved or entering into a scheme, moratorium, composition or other arrangement with, or to obtain protection from, that's party's (or subsidiary's) creditors or any class of them or an assignment for the benefit of the that party's (or subsidiary's) creditors or any class of them;
- (b) **(Material breach)** the other party materially breaches the Kerogen Subscription Agreement or fails to perform any of its obligations under the Kerogen Subscription Agreement; or
- (c) **(Breach of representation or warranty)** a representation or warranty made or given, or deemed by to have been made or given, by the other party under the Kerogen Subscription Agreement proves to be, has been, or becomes, untrue or incorrect.

Kerogen may terminate all of its obligations under the Kerogen Subscription Agreement, upon notice to the Company, if any of the following occur:

- (a) **(Change in management)** a change in the board of directors of the Company occurs, in circumstances that would have a material adverse effect on the Company;
- (b) **(Capital)** the Company alters its capital structure or constitution without the prior consent of Kerogen other than alterations to the Company's capital structure or constitution to give effect to proposals disclosed in writing to Kerogen prior to the Kerogen Subscription Agreement (including to give effect to the Placement or the exercise of the Placement Options as contemplated by the Kerogen Subscription Agreement);
- (c) **(Material adverse change)** Kerogen forms the view that any material adverse change has occurred in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company (or any entity in the Group insofar as the position in relation to an entity affects the overall position of the Company), including any material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company and the Group from those respectively disclosed in:
 - (i) information publicly available at the date of Kerogen Subscription Agreement;

- (ii) the Notice of Meeting; or
- (iii) the Prospectus;
- (d) **(Disposal)** the Company sells, assigns, transfers or otherwise disposes of or parts with possession of any of its assets except the BCI businesses;
- (e) **(disclosures in this Prospectus)** in Kerogen's reasonable opinion, a statement contained in this Prospectus or the Notice of Meeting is misleading or deceptive, or is likely to mislead or deceive, or a matter is omitted from this Prospectus; or
- (f) **(Prospectus to comply)** this Prospectus or Notice of Meeting does not comply with the Corporations Act, the Listing Rules, ASIC or Takeovers Panel guidance or any other applicable law or regulation.

ANNEXURE B– SUMMARY OF KEY COMMERCIAL TERMS OF THE ADVANCE FACILITIES

The table below summarises the Advance Facilities between Kerogen and the Company (as amended from time to time) which will remain on foot following completion of the Placement.

The principal loan amounts owing under the Advance Facilities entered into between Kerogen and the Company on 6 July 2012 and 26 July 2012, and the interest accrued on the 11 May 2012 Advance Facility for the period to 15 September 2012 and the interest accrued on the 6 July 2012 and 26 July 2012 Advance Facilities for the period to 28 September 2012, will be fully repaid in full from the funds raised under the Placement. Details of the 6 July 2012 and 26 July 2012 Advance Facilities have not been included in the table.

Facility Agreement	Parties	Loan amount (to the extent not cancelled, transferred or reduced)	Applicable interest rate	Maturity Date
Facility Agreement dated 11 May 2012 (as amended from time to time)	Kerogen (as the Lender) Company (as the Borrower)	US\$11,612,500	15% per annum	31 December 2012
Facility Agreement dated 15 August 2012 (as amended from time to time)	Kerogen (as the Lender) Company (as the Borrower)	US\$1,000,000	15% per annum	31 December 2012
Facility Agreement dated 5 September 2012 (as amended from time to time)	Kerogen (as the Lender) Company (as the Borrower)	US\$4,000,000	15% per annum	31 December 2012