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ASX ANNOUNCEMENT/MEDIA RELEASE

Market and Guidance Update

- **AJ Lucas pleased with the results of Cuadrilla development**
- **Engineering and construction, performing ahead of budget**
- **Tough market conditions for drilling business – results in reduction in profit expectation**
- **Refinancing complete with no material debt falling due for repayment within the next three years**

AJ Lucas Group Limited (ASX:AJL) (**Company**) wishes to update the market regarding its trading performance and outlook, having regard to changes in market conditions since the last guidance provided in June 2013.

1. Cuadrilla/Bowland

Following the successful completion of the Centrica farm-in deal announced in June 2013, focus is now directed towards identifying new drill sites and the preparatory work required for the next stage of the Bowland development.

The Joint Operating Committee (Cuadrilla, Centrica and Lucas) is working closely with its advisers to expedite planning and regulatory approvals with a view to commencing drilling operations in H2 2014. Planning submissions will be very robust in a complex regulatory landscape.

The Bowland basin is the largest gas accumulation in Europe and, once developed, has the potential to be one of the largest gas fields in Europe; a world class asset.

The lengthy timeframe taken to complete the required steps to resume drilling should be mitigated by support for the development of a local shale gas industry from the highest levels of the British government and, as polls show, a majority of the British populace.

Within the Bolney Prospect, Balcombe No. 2 was drilled and completed in August/September 2013. The well reached TD (Target Depth) and confirmed Cuadrilla's expectations regarding the presence of hydrocarbons. The well needs to be flowed and tested to fully understand the prospects for this acreage but, similar to the Bowland Prospect, this cannot take place until further planning permission is received; which is expected around February 2014.

Work continues on Cuadrilla's Continental European assets. Further seismic interpretation of the Pionki acreage in Poland is being undertaken as well as geological and engineering work being performed on the Dutch acreage. While Cuadrilla believes that its Dutch acreage is very prospective, work will still not commence in detail in Holland until the government has completed its environmental assessment.



The Company retains its high expectations for its investment in Cuadrilla and its UK E&P acreage, notwithstanding frustrating time delays.

2. Operations

AJL's business environment continues to be challenging. To protect margin and mitigate potential losses, we have therefore continued cutting costs throughout the business and recently merged the management of drilling with the engineering and construction business; both now run out of Brisbane. This restructure has allowed reduction in overhead, cross fertilisation of skill sets and redirection of drilling personnel to pipeline projects as these are won and ramped up, thus allowing the Company to retain core personnel.

The emphasis within the Company remains on productivity and increased performance.

Engineering and Construction

The engineering and construction business is performing above budget with all recently awarded projects performing better than tendered. The focus for engineering and construction is on securing work for CY14 for which the Company is discussing and negotiating a number of opportunities. The Company's much strengthened balance sheet will no longer prejudice its prospects in being considered for work.

The Company's Horizontal Directional Drilling (HDD) capability and the Strategic Co-Operation Agreement signed with CPP is producing results. The Company and CPP are together proposing to execute two projects in Hong Kong both involving challenging and technically demanding HDD capabilities.

Drilling

The drilling business is extremely tough. Cost cutting by clients, large cut backs on capital expenditure and a lack of business confidence is making this business very difficult. We expect these trading conditions will persist until around the middle of 2014 but start to improve thereafter as coal mines ramp up their exploration activities to meet order commitments.

Demand for more technically demanding drilling solutions is increasing in both CSG and coal and the Company is involved in engineering a number of such projects for 2014.

The performance of Lucas' drilling business will ultimately revolve around the impact of this coming wet season and the length of downtime clients require during the January to April period of 2014.

The strategic review of our business, in particular drilling, has resulted in a refocus on activities which reflect the Company's core competencies (ie higher end engineering approach) and multi-faceted solutions. This will produce a smaller drilling business for Lucas during this financial year with forecast revenue of approximately \$100 million (compared to \$163 million last financial year).



Summary

The Engineering & Construction business results for the first half are forecast to meet budget with new business opportunities currently being pursued to fill the Q4 2014 backlog. The Drilling business however remains challenging. The Company now expects underlying EBITDA for FY2014 in the range of \$12 – 15 million.

3. Business and Corporate Structure

The Board has commenced a review of the Company's strategy and structure in order to maximise shareholder value. In particular, the capital requirements for each of the industrial business and Cuadrilla/Bowland are being examined for the next 3 years.

The strategic options available to the Company being considered include divestment or demerger of certain assets, asset swaps, or combinations thereof. The Board recognises that the present structure is unlikely to produce the best outcome for maximisation of shareholder value and therefore expects to choose one of the options above.

Shareholders will be provided with additional information on this initiative once the Board has reached a decision.

Lucas remains in a sound financial position with a strong balance sheet and assuming shareholder approval of the variation of the Kerogen debt facility terms at the forthcoming AGM, has no material debt falling due for repayment over the next three years. With the Company's leading expertise and capability in drilling and technical engineering services, it is therefore well positioned to benefit from the expected recovery in the coal industry and pick up in demand for infrastructure works in due course.

4. Chairman and CEO roles

As previously advised, the Company intends to separate the roles of Chairman and CEO. As from the conclusion of the AGM on 29 November 2013, Mr Phil Arnall will assume the role of non-executive Chairman. The current Chairman, Mr Allan Campbell, will continue in his role as CEO.

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About AJ Lucas Group Limited

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

AJ Lucas is also a proven developer of unconventional hydrocarbon properties. Current investments include a 45% shareholding in Cuadrilla Resources Holdings Limited, an exploration and production company focused on unconventional hydrocarbons, and direct interests of 18.75% of the Bowland and 25% of the Weald shale basin projects in respectively North West and South East England. Past projects successfully developed and sold include AJ Lucas' investments in the Gloucester Basin in NSW, Sydney Gas Limited, ATP651 in Queensland's Surat Basin and a 6.25% interest in the Bowland prospect.