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AJ LUCAS BALANCE SHEET REFINANCING SECURES FUNDING FOR NEXT PHASE OF UK SHALE OPERATIONS

- Three year facilities significantly strengthen balance sheet
- Material reduction in net debt
- Financing expected to fully fund next phase of UK operations – two wells to test the flow of gas
- ATO and legacy legal liabilities fully discharged

AJ Lucas Group Limited (“**AJ Lucas**”) (ASX: AJL) is pleased to announce that it has launched the issue of US\$45 million of senior secured loan notes, and agreed to repay or restructure its other debt obligations. The transaction was notified to the market on 16 May 2016.

The loan notes have been fully underwritten by funds managed by OCP Asia (Singapore) Pte. Limited (“**OCP**”). Concurrently, our major shareholder Kerogen Investments No.1 (HK) Limited (“**Kerogen**”) has restructured and extended its existing facility by up to three years. AJ Lucas’ balance sheet is significantly strengthened by these arrangements, which secure its funding commitments in the Bowland appraisal well program through to prospective flow testing scheduled for December 2017.

AJ Lucas was advised by Barbon Advisors LLP on this transaction.

Impact of the refinancing

The loan notes will be issued in two tranches.

First tranche proceeds of US\$25 million will be used to:

- fully discharge outstanding liabilities with the Australian Taxation Office which have weighed on the balance sheet for more than 5 years;
- settle in full the final material outstanding legal matter, relating to a four year dispute on a civil contract; and
- fund working capital in support of the growth of both the drilling and engineering divisions of AJ Lucas.



The second tranche of US\$20 million secures funding to advance the aforementioned Lancashire exploration assets. Drawdown of the second tranche will occur following a successful appeal against Lancashire County's decisions to reject applications to drill, stimulate and test the flow of gas at either the Preston New Road or Roseacre Wood appraisal sites in which AJ Lucas has a 46.8% interest.

In November 2015 the UK government announced it will make the final determination regarding the appeal. A decision on the appeals is currently expected within the September 2016 quarter. In the event that a successful appeal is not announced within one year, the noteholders have the right to require AJ Lucas to repay the notes.

Significant strengthening of balance sheet

The refinancing includes a pro rata entitlements offer, the proceeds of which will be used to repay US\$25 million of the Kerogen facility. The entitlements offer is expected to occur following a successful UK appeal for the Bowland appraisal sites or within 9 months of the refinancing, whichever is the earlier. Kerogen has underlined its commitment to AJ Lucas by undertaking to subscribe for its pro rata entitlement in the offer and to participate in sub-underwriting the offer if requested.

The refinancing, inclusive of the entitlements offer, is expected to reduce AJ Lucas pro forma net debt by approximately A\$50 million (subject to exchange rate movements) compared with its position prior to the refinancing. This reduction includes an agreement with the ATO to discharge A\$30 million of debt including a partial remission of interest, in exchange for AJ Lucas prepaying cash consideration of A\$12.9 million by up to 3.5 years and partially forgoing carried forward tax losses.

Commenting on the conclusion of the successful refinancing, AJ Lucas Chairman, Phil Arnall, said: "The refinancing has put AJ Lucas on a strong financial footing and paved the way to progress Cuadrilla's exciting UK shale assets. Furthermore, the restructured balance sheet, including deleveraging and the removal of legacy ATO and legal liabilities, should provide confidence to clients of the financial strength of AJ Lucas' Australian drilling and engineering businesses."

"The board is pleased with the performance of the Australian based businesses this year which have modestly exceeded expectations, on the back of ongoing cost reductions and overhead restructuring in response to continuing difficult market conditions, and providing reliable service to our customers. This has led to winning a number of new contracts, enabling AJ Lucas to maintain a healthy order book."



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Chairman

Chief Financial Officer

About OCP Asia

OCP Asia (Hong Kong) Limited and OCP Asia (Singapore) Pte. Limited is a leading institutional investor in the Asia-Pacific region and manages private investment funds from their offices in Hong Kong and Singapore. OCP is a leading investor in the private debt space and has a long and successful track record of private debt investing in the Australian market. Further details of OCP Asia are available on its website www.ocpasia.com.

About Barbon Advisors LLP

Barbon Advisors LLP is a boutique financial services partnership, based in London, focussed on providing financing to middle market corporates across a range of industries including natural resources, real estate and financial services. The firm is led by David Ryan and Simon Lloyd

About AJ Lucas Group Limited

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

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 23.75% of the Bowland Licence and 25% of the Weald Licence in, respectively, North West and South East England.
