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7 October 2016

Cuadrilla wins consent to test flow of gas at UK site

UK Government's decision 'a watershed' for AJ Lucas

AJ Lucas Group Limited (ASX: AJL) is pleased to announce that final planning consent has today been received from the UK Government to drill and hydraulically stimulate up to four horizontal wells to test the flow of gas at Cuadrilla's Preston New Road exploration site in Lancashire, UK. The UK Secretary of State for Communities and Local Government (SOS) also advised he is minded to grant consent for a similar application at the Roseacre Wood exploration site pending further consultation on highway conditions. AJ Lucas has an effective 46.85% beneficial interest in the Bowland licence that encompasses both exploration sites.

Once planning conditions have been discharged and the site constructed at Preston New Road, drilling is expected to commence in the second quarter of calendar year 2017 with an initial two wells drilled, hydraulically fractured and ready to flow test by Q1 of calendar year 2018.

The approval from the SOS follows appeals by Cuadrilla Resources Holdings Limited (Cuadrilla), the operator of the Bowland joint venture, against the decision by Lancashire County Council's Development Control Committee in June 2015 to reject planning applications for two proposed shale gas exploration sites.

The Bowland licence is located in the North West of England with the exploration sites strategically located close to gas pipelines to allow for the speedy and cost efficient distribution of gas into the United Kingdom's extensive gas transportation network. Gas is the cornerstone of the UK's energy mix with currently over 50% imported with imports expected to increase substantially to 80% by 2020. The UK Government sees the development of a UK shale gas industry as an important step to restore the UK's energy security as a result of the decreasing supply from the North Sea gas fields and increased reliance on imports.

A J Lucas recently completed a capital raising which, along with steps to repair its balance sheet and working capital, will fund the company's share of the drilling and testing programme. The Bowland licence is also subject to a carry from Centrica Plc (Centrica), the UK's premier gas distribution company. Centrica will fund £30.6 million of the cost of drilling and testing these initial exploration wells and a further £46.7 million on appraisal and development following performance criteria being met in testing the upcoming wells.

Phil Arnall, AJL's Chairman commented:

'Today's decision is a watershed for AJ Lucas and allows us to finally test the flow of gas from the highly prospective Bowland exploration licence ahead of commercialisation. Confirmation of flow will result in Bowland becoming the largest onshore gas field in the UK and a world-class resource. It is encouraging to see that the UK Government supports moving forward with onshore shale gas exploration as a means to provide an indigenous energy source for the UK and reduce its reliance on imports. Our operator Cuadrilla Resources has put together a programme to undertake this exploration efficiently and safely with extensive community consultation. It will indeed be a world-class exploration programme and a precursor to an exciting and important development for the UK economy and our Company.'

The full decision of the SOS has been made available on the UK government publications website at www.gov.uk/government/publications and will be made available in the shareholder information section of the Company's website.

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