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## **AJ Lucas Group Limited Capital Raising, Amendment to Senior Loan Notes and Operational Update**

The Board of AJ Lucas (**the Company**) has recently undertaken a review of the Company's operations, as its UK investments enter a new phase. As a result of this review the Company is:

- Undertaking a Placement to raise gross proceeds of up to approximately A\$22 million, and a pro rata Entitlement Offer in the second half of January.
- Amending certain provisions of the US\$45 million senior loan notes facility (**Senior Loan Notes**).
- Evaluating a number of incomplete proposals to sell the Engineering and Construction division, as foreshadowed in the Company's response to ASX on 19 December 2017.

**Phil Arnall, Chairman of AJ Lucas said,** "This review comes at a time of increasing awareness of the shale gas industry in the UK and the real prospect that it may provide a solution to the UK's sovereign energy needs. As a significant investor in the UK shale gas industry via its direct investments in Bowland acreage and its shareholding in the operator Cuadrilla Resources, AJ Lucas is well placed to benefit from the successful commercialisation of the UK shale gas industry. Cuadrilla occupies a leading position in the industry given its significant acreage in the prospective Bowland Shale and other parts of the UK, and the advanced stage of the Preston New Road project where it is about to commence drilling the first of two horizontal wells in preparation for hydraulic stimulation.

"The actions outlined will combine to provide the Company with a stronger platform as we move into the next phase of the UK asset development program."

### **Proposed Capital Raising**

AJ Lucas has reached agreement to place shares with a new institutional investor and certain existing institutional shareholders, to raise gross proceeds of up to approximately A\$22 million (**Placement**). In addition, the Board has determined to undertake an entitlement offer (**Entitlement Offer**), to enable existing investors to participate in the capital raising. The Entitlement Offer will not be formally launched until later in January 2018 so shareholders need not take any immediate action at this point. Further details of the capital raising are provided below.

The Board has engaged Barbon Advisors and Patersons Securities which have received commitments from institutional investors for the placement of 70.5 million shares at a price of A\$0.32 per share. These commitments exceed the Company's present placement capacity by approximately 3.66 million shares, accordingly the Company plans to seek a waiver from ASX to calculate its placement capacity taking into account the shares to be



issued under the Entitlement Offer. In the absence of an ASX waiver, the number of shares placed to existing institutional shareholders will be limited to approximately 26.3 million shares, and the total Placement size limited to approximately 66.8 million shares, within the Company's existing placement capacity. No Placement shares are being offered to AJ Lucas' largest shareholder, Kerogen Investments No 1. (HK) Ltd. (**Kerogen**).

Proceeds from the capital raising will be used to:

- i. Fund future commitments to the Company's UK investments as the operating partner, Cuadrilla, enters the horizontal drilling and hydraulic fracturing phase at the Preston New Road site. Additional costs were incurred by Cuadrilla in drilling the first vertical well, due to unforeseen weather and technical issues delaying the drilling timetable;
- ii. Partially repay debt; and
- iii. Fund working capital.

The Entitlement Offer, which is proposed to be launched later in January, is intended to be offered on a 1-for-6 basis. On this basis, approximately 97.5 million new shares would be offered at a price of A\$0.32 per share, the same as the price for shares that would be issued under the Placement. The Entitlement Offer will not be underwritten and will be conducted on an accelerated, non-renounceable basis. Shares to be issued under the Placement would not be eligible to participate in the Entitlement Offer.

Existing institutional shareholders participating in the Placement have committed to take up their pro rata rights under the Entitlement Offer. In addition, Kerogen has agreed to take up its full entitlement of approximately 57.1 million shares, and will fund its entitlement subscription by way of off-setting debt owed by the Company as provided under the Kerogen subordinated debt facility. In total, commitments representing approximately 70% of the Entitlement Offer have already been received.

### **Indicative Capital Raising Timetable**

Subject to ASX approval, it is anticipated that the Entitlement Offer will launch in the second half of January 2018, with the retail portion of the Entitlement Offer closing in the first half of March 2018.

### **Amendment to Senior Loan Notes**

The Board has agreed to amend certain provisions that govern the Senior Loan Notes. These amendments include a commitment to reduce the principal to US\$20 million (approximately A\$26 million) by 30 September 2018; with the balance of the Senior Loan Notes to be repaid by 22 July 2019. The debt reduction will broadly be achieved through (i) the use of cash balances previously restricted to service the Senior Loan Notes; (ii) the application of net cash proceeds from the Entitlement Offer, which is expected to raise gross cash proceeds of up to approximately A\$7.5 million; (iii) part of the proceeds from any sale of the Engineering & Construction business; and if required, (iv) other initiatives as determined by the Board.



Upon completion of the Entitlement Offer, it is expected that AJ Lucas' debt will be reduced by approximately A\$31 million (US\$24 million) to approximately A\$82 million (US\$63 million), including the Kerogen subordinated debt facility. This will reduce the Company's annual interest commitments by approximately A\$5 million (US\$4 million).

In addition, as part of the amendment reached with the holders of the Senior Loan Notes, the testing of certain financial covenants (including an 8x leverage test and a 1x interest coverage test, which are calculated based on the financial performance of the Australian operations in the previous 12 months) will next be tested on 30 September 2018.

### **Operational Update – UK Investments**

Drilling of the first vertical well at Preston New Road has now reached a depth of approximately 2,700 metres and extensive cores have been successfully recovered from both the Upper and Lower Bowland shales. The cores will be tested over the coming weeks to determine where best to place the two horizontal wells. As communicated at the AJ Lucas AGM in November 2017 (**AGM**), the first two horizontal wells are expected to be 1km in length and Cuadrilla will use up to 46 hydraulic stimulation stages – each up to approximately 30 metres in length – to stimulate the shale.

Drilling of the horizontal wells is presently expected to be completed by the end of the 1<sup>st</sup> quarter of calendar year 2018, and hydraulic stimulation is therefore likely to take place in the 2<sup>nd</sup> quarter. Initial flow tests are presently expected to commence in mid-2018.

The Bowland joint venture has decided to test the flow of gas for a period up to six months before connecting the wells to the national grid and drilling the 3<sup>rd</sup> and 4<sup>th</sup> wells. Accordingly, the Centrica carry agreement has been amended such that the milestone for commencement of the contingent 2<sup>nd</sup> carry (£46.7 million gross) is the flow testing of gas for six months, rather than the original milestone of six months from commencement of gas sales. AJ Lucas expects this contingent 2<sup>nd</sup> carry to be exercised by Centrica on the successful flow of gas from the first two wells and the amendment brings forward the time at which this decision would be made.

As explained at the AGM, Cuadrilla and AJ Lucas remain committed to maintaining high standards of safety and environmental responsibility in their operations and Cuadrilla has implemented a comprehensive site environmental monitoring programme at Preston New Road. Cuadrilla has launched an ePortal on its website to enable the public to track various elements of its environmental site monitoring, the first UK operator to provide this level of transparency. Communication and engagement with the local community remains a priority and this year Cuadrilla has commenced a programme of providing live streamed site visits, accessible on the media section of its website, to enable it to share site activities transparently with as wide an audience as possible. Three of these "PNR live" videos and the ePortal can be accessed on the Cuadrilla website [www.cuadrillaresources.com](http://www.cuadrillaresources.com).



As also highlighted at the AGM, the UK Secretary of State for Communities and Local Government is minded to grant Cuadrilla approval to drill and hydraulically stimulate a further four wells at Roseacre Wood, subject to Cuadrilla addressing certain traffic control issues. This will be the subject of a planning hearing set down for April 2018. AJ Lucas expects Cuadrilla to put forward a strong case for approval. With respect to the Preston New Road site there remains an appeal against the High Court's dismissal of earlier judicial challenges against the planning consent. This has been heard by the Court of Appeal during a 2-day hearing in August 2017 and a judgment is expected early in 2018. AJ Lucas and Cuadrilla remain confident that the High Court's finding will be upheld by the Court of Appeal.

### **Operational Update – Australian Business Performance**

As reported in the Annual Report to Shareholders and updated at the AGM, the operational performance of the Australian businesses as a whole has improved considerably since the start of the current financial year, after performing below expectations in the year to June 2017.

In the four months to 31 October 2017, underlying unaudited EBITDA was \$2.5 million, representing a significant improvement in performance compared with the four months to 31 October 2016 (underlying unaudited EBITDA of positive \$0.5 million). As explained at the AGM, this has been driven primarily by an improved performance in the drilling division which has seen increased rig utilisation flowing from a material improvement in the East Coast coal market.

The Engineering and Construction division has focused on smaller projects within its capacity as well as larger projects awarded alongside bespoke partners, such as the Port of Tauranga project in New Zealand and the Tangguh Expansion Project in Indonesia. As previously stated, the Board continues to assess a number of incomplete proposals to sell the Engineering and Construction division, and AJ Lucas will provide a further update to the market as required.

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