



AJ Lucas Group Limited
ABN 12 060 309 104
394 Lane Cove Road
Macquarie Park NSW 2113
Locked Bag 2113
North Ryde BC NSW 1670
T (02) 9490 4000
F (02) 9490 4200
www.lucas.com.au

15 December 2011

ASX ANNOUNCEMENT/MEDIA RELEASE

AJ Lucas announces lodgement of Prospectus

AJ Lucas Group Limited (ABN 12 060 309 104) (**Lucas**) today lodged with the Australian and Securities & Investments Commission the attached Prospectus dated 15 December 2011.

The prospectus has a number of purposes:

- a 1 for 2 non-renounceable pro-rata entitlement offer to raise approximately \$51.3 million;
- the trading of shares issued under the placement to Kerogen in September 2011; and
- the trading of shares that may be issued following any exercise of the options to be granted (subject to shareholder approval at the EGM to be held on 22 December 2011) to Kerogen and funds managed by Goldman Sachs.

A copy of the entitlement and acceptance form has not been included with the Prospectus at this time. However, it will be made available to shareholders after the record date for the rights issue of 6 January 2012.

A copy of the Prospectus will be available in electronic form at www.lucas.com.au from the date of this announcement. The offer constituted by this Prospectus in electronic form is available only to residents in Australia, New Zealand and Hong Kong.

For further information please contact:

AJ Lucas

Investor Enquiries:

Nicholas Swan
Company Secretary
+61 2 9490 4127

Media Enquiries:

David Symons
Cato Counsel
+61 410 559 184

About AJ Lucas Group Limited

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

AJ Lucas is also a proven developer of unconventional hydrocarbon properties. Current investments include a 42% shareholding in Cuadrilla Resources, an exploration and production company focused on unconventional hydrocarbons, and a 25% direct interest in the Bowland Basin shale prospect in North West England. Past projects successfully developed and exited include the Company's investments in Gloucester Basin, Sydney Gas and ATP651 in Queensland's Surat Basin.



AJ Lucas Group Limit
ABN 12 060 309 104

394 Lane Cove Road
Macquarie Park NSW

Locked Bag 2113
North Ryde BC NSW

T (02) 9490 4000
F (02) 9490 4200

www.lucas.com.au

15 December 2011

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 15 December 2011.

A copy of the entitlement and acceptance form has not been included with the Prospectus at this time. However, it will be made available to shareholders after the record date of 6 January 2012.

Yours faithfully

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

Nicholas Swan
Company Secretary

AJ LUCAS GROUP LIMITED

PROSPECTUS 2011



in respect of

Placement of Shares Offer and Issue of Options Non-renounceable Entitlement Offer

A 1 for 2 non-renounceable pro rata entitlement offer by AJ Lucas Group Limited of 1 Entitlement Share for every 2 Shares held by Eligible Shareholders at an issue price of \$1.35 per Entitlement Share to raise approximately \$51.3 million

Entitlement Offer closes at 5.00pm (Sydney time) on 27 January 2012

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

In respect of the Entitlement Offer, if you are an Eligible Shareholder, this is an important document which is accompanied by an Entitlement and Acceptance Form and requires your immediate attention. Both documents should be read in their entirety. If you are in doubt about what to do, you should consult your professional adviser without delay.

Underwriter
The logo for gleneagle securities, featuring a stylized white swoosh above the company name in a lowercase sans-serif font.

Legal Advisor





CONTENTS

Section 1: Important Information.....	3
Section 2: Chairman's Letter.....	7
Section 3: Summary of the Offer and Key Dates.....	10
Section 4: Investment Overview.....	11
Section 5: Risks.....	23
Section 6: Details of the Entitlement Offer.....	41
Section 7: How to Apply.....	49
Section 8: Details of the Placement.....	54
Section 9: Details of the Fund Options.....	55
Section 10: Details of the Kerogen Options.....	57
Section 11: Effect of the Recapitalisation Proposal on the capital of the Company.....	59
Section 12: Effect on Financial Position – Pro Forma Historical Statement of Financial Position....	61
Section 13: Company Information.....	67
Section 14: Australian Taxation Implications.....	83
Section 15: Additional Information.....	87
Schedule: Glossary of Terms.....	101
Corporate Directory.....	108
Annexure A: Summary of the terms of the Underwriting Agreement.....	109
Annexure B: Summary of key terms and conditions of the Sub-underwriting Agreements.....	114
Annexure C: Terms of the Fund Options.....	116
Annexure D: Terms of the Kerogen Options.....	124

1 IMPORTANT INFORMATION

1.1 Notice

This Prospectus is dated 15 December 2011 (**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 Options or Entitlement Shares 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.

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

- (a) the 9,917,650 Shares subscribed for by Kerogen under the Placement at \$1.35 per Share (**Placement Shares**);
- (b) the offer and issue of 1,000,000 options to subscribe for new Shares at \$2.13 per Share to the Fund (**Fund Options**);
- (c) the offer and issue of up to 18,566,763 options to subscribe for new Shares to Kerogen (**Kerogen Options**); and
- (d) the non-renounceable pro rata rights issue of 38,017,657 Shares offered to Shareholders on the basis of 1 Entitlement Share for every 2 Shares held as at the Record Date (**Entitlement Offer**).

This Prospectus has been issued for the following purposes:

- (a) in respect of the Placement Shares, for the purpose of complying with section 708A(11) of the *Corporations Act 2001 (Cth)* (**Corporations Act**) so that Kerogen (as placee) can sell the Placement Shares within the next 12 months without the issue of a further prospectus;
- (b) in respect of the Fund Options and the Kerogen Options, for the purpose of ensuring that the ordinary shares in the Company that are offered and issued on the exercise of the Fund Options or Kerogen Options are not subject to section 707(3) of the Corporations Act and are able to be on-sold without future disclosure to investors; and
- (c) in respect of the Entitlement Offer, for the purpose of complying with section 706 of the Corporations Act.

This Prospectus contains an offer to Eligible Shareholders in Australia and New Zealand of continuously quoted securities (as defined in the Corporations Act) and 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. This Prospectus must be read in the context of, and having regard to, Lucas' continuous disclosure and the publicly available information regarding Lucas and its business.

In preparing this Prospectus, no account has been taken of the investment objectives, financial situation and particular needs of any particular party and nothing in this Prospectus should be interpreted or construed as tax or legal advice or as a recommendation to any investor to purchase the Kerogen Options, Fund Options or Entitlement Shares.

1.2 Entitlement Offer notice

You should read this Prospectus in its entirety before deciding to complete and lodge an Entitlement and Acceptance Form and, in particular, in considering the prospects of Lucas, you should consider the risk factors that could affect Lucas' financial performance. You should consider these factors in the light of your personal circumstances (including financial and taxation issues). The key risk factors that should be considered by potential investors are outlined in **Section 5** of this Prospectus.

If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional adviser before deciding to invest in the Entitlement Shares.

Entitlement Shares issued under this Prospectus will be issued on the terms and conditions set out in this Prospectus. The Entitlement Offer is fully underwritten, subject to certain conditions.

Lucas will apply within seven days after the date of this Prospectus for the grant by ASX of official quotation of the Entitlement Shares issued under this Prospectus. An application for Entitlement Shares will only be accepted on the Entitlement and Acceptance Form accompanying this Prospectus.

1.3 Foreign Shareholders and Foreign Jurisdictions

New Zealand

The Kerogen Options, the Fund Options and the Entitlement Shares being offered under the Prospectus are offered in New Zealand in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand)*.

Hong Kong

WARNING – The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Please note that: (1) shares may not be offered or sold in Hong Kong by means of this document or any other document other than to “professional investors” (as defined in the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (the **SFO**) and any rules made under the SFO) (the **Professional Investors**), or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of the laws of Hong Kong (the **CO**) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO; and (2) no person shall issue, or possess for the purposes of issue, whether in Hong Kong or elsewhere,

any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to the Professional Investors.

This Prospectus has not been, and will not be, registered under the CO, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the SFO. No action has been taken in Hong Kong to authorise or register this Prospectus. Accordingly, the Entitlement Offer has not been and will not be offered in Hong Kong by means of any document other than:

- (a) to the Professional Investors; or
- (b) in other circumstances that do not result in the document being a “prospectus” as defined in the CO or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO.

This Prospectus does not constitute an offer or invitation in any place in which it is unlawful, or to any persons to whom it would not be lawful, to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia, New Zealand and Hong Kong 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.

1.4 Disclaimer of representations

No person is authorised to give any information or make any representation in connection with the Placement Shares, the Kerogen Options, the Fund Options or the Entitlement Offer 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 Lucas, the Directors or the Underwriter.

1.5 Prospectus availability

This Prospectus is available in electronic form at <http://www.lucas.com.au>. The offer constituted by this Prospectus in electronic form is available only to residents in Australia New Zealand and Hong Kong.

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 telephoning the Lucas Shareholding Information Line on 1300 556 161 (within Australia) or +61 3 9415 4000 (outside Australia) between 8.30 am and 5.30 pm (Sydney time) (excluding public holidays). The Corporations Act prohibits any person from passing the Entitlement and Acceptance Form on to another person unless it is attached to a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

1.6 Forward-looking statements

Neither Lucas, the Underwriter nor any other person warrants or guarantees the future performance of any of the Placement Shares, the Fund Options, the Kerogen Options or the Entitlement Shares or any return on any investment made pursuant to investing in them. Any forward looking statements in this Prospectus are based on Lucas' 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 Lucas 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.

1.7 Privacy

As a Shareholder of Lucas, Lucas and the Share Registry have already collected certain personal information from you. If you apply for Entitlement Shares, Lucas and the Share Registry may update that personal information or collect additional personal information. Such information will be used to assess your acceptance of the Entitlement Shares, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

Lucas and the Share Registry may disclose your personal information for purposes related to your shareholding to their agents and service providers, including the Share Registry for ongoing administration of the register and printers and mailing houses for the purposes of preparation and distribution of Shareholder information and for handling of mail or as otherwise authorised under the *Privacy Act 1988 (Cth)* (**Privacy Act**).

Under the Privacy Act, you may request access to your personal information held by (or on behalf of) Lucas or the Share Registry. You can request access to your personal information by contacting Lucas through the Share Registry directly on 1300 850 505 (within Australia) or +61 3 9415 4000.

Alternatively, you can contact the Company directly on (02) 9490 4000 (within Australia) or +61 2 9490 4000 (outside Australia).

1.8 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** (Glossary of Terms) to this Prospectus.

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

1.9 Governing Law

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

2 CHAIRMAN'S LETTER

Dear Shareholder

On behalf of the directors of AJ Lucas Group Limited (**Lucas** or the **Company**), I am pleased to invite you to participate as an existing Eligible Shareholder in a 1 for 2 non-renounceable pro rata entitlement offer for ordinary shares (**Entitlement Shares**) at an offer price of \$1.35 per new fully paid Entitlement Share (**Issue Price**) to raise approximately \$51.3 million (**Entitlement Offer**).

We are able to offer an underwritten Entitlement Offer because of the transactions with Kerogen which are detailed in this Prospectus and in the Notice of EGM. This Prospectus also explains that the whole of the proposed series of transactions with Kerogen are really a complete recapitalisation proposal to Lucas shareholders which needs to be treated as a package. In a time of great uncertainty in global capital markets, Kerogen has shown faith in the future of Lucas by committing to provide us with at least \$100 million of equity and debt funding at prices materially better to shareholders than we would otherwise have been able to obtain from other capital providers.

I assure you, we did investigate many other proposals for re-capitalising our company. The Board is unanimous in its acceptance of the Kerogen proposal and believe it offers a combination of the least dilution to our shareholders and the lowest available cost of capital. Kerogen's support allows us to eliminate our highest cost creditors and gives us much more flexibility to manage our affairs.

We still have some things to do to strengthen our balance sheet however, we cannot proceed with this work without your approval of the complete recapitalisation proposal and your full support of the Entitlement Offer. Accordingly, I urge you to follow your Board's recommendations set out in the Notice of EGM and hope you will participate fully in the Entitlement Offer, so that we may re-position our company in order to fulfil its potential.

Background

As Chairman and Chief Executive, I could not extend this offer to you without acknowledging our mistakes.

Since listing in 1999, we enjoyed 9 years of growth and success, during which time revenues increased from \$24 million to \$424 million. The period for 2009 to 2011, by contrast has been three years of continued struggle and challenge. The acquisition of Mitchell Drilling Pty Ltd (**Mitchell Drilling**) in the second half of 2008, led to residual integration issues and the need to reform a poor safety performance history. In addition, underperforming management within the Building, Construction & Infrastructure division (**BC&I**), project delays and extraordinary wet weather conditions, all combined to create cost over-runs and declining revenue conditions. The consequent cash flow deficit happened to take place during the so-called Global Financial Crisis, when credit was hard to obtain and funding was expensive.

Our internal issues were compounded by a loss of market confidence, leading to a reduced order book in the BC&I division and an inability to take advantage of opportunities in our Drilling division due to capital constraints.

In addition, in 2009, we also realised good profits on our exploration investments in the Gloucester Basin and in ATP 651 in the Surat Basin. We reinvested those proceeds in Cuadrilla,

in direct exploration permits in Cuadrilla's English licenses, and in the Monument Prospect. These investments have taken longer to meet development milestones and have required more capital than we expected. The Company's Prospect Monument interest (which has been fully impaired) does not require any further investment. Cuadrilla, which we believe is highly prospective, has experienced much higher cash flow expenses than planned. In addition, Cuadrilla has suspended fracking operations on its Bowland basin permit and we do not know when operations will be able to resume. These investments have consumed over \$160 million over the past three years.

In retrospect, I believe we were the victims of our own success. Following two successful acquisitions, we overpaid for Mitchell Drilling, failed to understand the differences in culture between the two organisations, underestimated the consequent costs of integration, made an investment, in a project where we had no control and underestimated cash requirements in a capital constrained environment.

Consequently, we were unable to make dividend payments on our preference shares, forcing us into default and much higher rates.

In May, while we were working on the recapitalisation plan, we were forced to suspend trading in the Shares as we believed the market was not trading with full information and without certainty, clarity or agreement with creditors we were unable to rectify the situation with the appropriate announcement.

Reorganisation

During the past 18 months, we re-examined the businesses from the ground up, assisted by professional third party advisors. On their advice, we have reorganised and restructured both the BC&I and Drilling divisions and devised a balance sheet restructuring plan which addresses the Company's requirements. In addition, we have reviewed (and are continuing to review) the most efficient capital spend required within our energy investment portfolio.

We expect to announce further corporate initiatives during calendar year 2012 relating to Lucas' continued corporate development and at the same time, it is noted that both divisions are at advanced stages regarding the negotiation and award of further contracts. We therefore commence calendar year 2012 with a much brighter outlook than that which we have endured for the past three years.

Improved Operating Outlook for the Group

More favourable trading conditions and the impact of reorganisation initiatives have seen a substantial improvement in second half FY11 results: underlying EBITDA improved from approximately \$3.2 million in the first half to in excess of \$13.7 million during the second half, and net profit after tax during the same period has improved from a loss of approximately \$17.8 million to a profit of over \$6.3 million. The continued improvement in operating performance together with perceptions of our improved financial position since the announcement of the Kerogen transactions is reflected in the fact that the Company has won approximately \$353 million of work during the past four months.

When the recapitalisation is completed, Lucas will be re-positioned for growth in all its markets. Australia's coal industry continues to grow, and associated infrastructure demand along with it. Expenditure is also starting to ramp up in the Queensland coal seam gas fields, with demand for

drilling services as well as related infrastructure expected to be significant in the next few years. Further, infrastructure expenditure in other BC&I division areas of expertise is also improving.

Lucas commences calendar year 2012 with a record order book of \$735 million and with the reasonable expectation of further work to be awarded within the next few months. Revenue growth has revived and we believe our operating results will follow suit. The stage of development that the energy investment portfolio is reaching is such that the value of some of these assets should be capable of being crystallised over the next year or so; particularly having regard to the much greater interest within the financial and energy markets relating to unconventional hydrocarbons worldwide.

Further Balance Sheet Strengthening

Our business plan requires us to continue to reduce term debt, other than lease finance (whereby contracted receivables (from clients) match the payables with respect to specific leases). It is therefore our intention to continually examine options to reduce the mezzanine debt being provided by Kerogen. This facility is structured to encourage us to repay early, so as to reduce interest costs in the latter term of the loan and to reduce the potential equity dilution of not redeeming share options which may be clawed-back through early repayment.

Accordingly, we intend to be alert and proactive with respect to any opportunities for value realisation which may occur in both our operating businesses and also in our exploration portfolio, so that we minimise the costs of the debt funding which will remain on our balance sheet when the recapitalisation is completed.

The Entitlement Offer

The Entitlement Offer closes at 5.00pm (Sydney time) on 27 January 2012 (**Closing Date**).

To participate in the Entitlement Offer, you must ensure that applications for Entitlement Shares are received in accordance with the Entitlement and Acceptance Form on or before the Closing Date, otherwise your Entitlement will lapse.

Further details of the Entitlement Offer are set out in this Prospectus which you should read carefully and in its entirety, including the risk factors in **Section 5**.

I would like to take this opportunity to thank our employees, customers and suppliers for their continued goodwill and patience during what has been a very difficult time for the Lucas Group. We can reward you by creating a better, more resourceful and sustainable business that endures for the future.

As for the shareholders, I thank you for your continued support of Lucas and, on behalf of the Board, I encourage you to carefully consider this investment opportunity.

Yours sincerely,



Allan Campbell
Chairman and CEO
AJ Lucas Group Limited

3 SUMMARY OF THE ENTITLEMENT OFFER AND KEY DATES

KEY INVESTMENT ASPECTS

Entitlement Share Issue Price	\$1.35 per Entitlement Share
Shareholder Entitlement	1 Entitlement Share for every 2 Shares held on the Record Date
Number of Entitlement Shares to be issued under the Entitlement Offer	38,017,657
Amount to be raised under the Entitlement Offer	\$51,323,837

KEY DATES

Announcement of Entitlement Offer	18 November 2011
Lodgement of Appendix 3B	18 November 2011
Lodgement of Prospectus with ASIC and ASX	15 December 2011
Prospectus despatched to Shareholders	19 December 2011
EGM	22 December 2011
Appendix 3B notice sent to Shareholders and optionholders	29 December 2011
Securities quoted on an ex basis	30 December 2011
Record Date for determining Entitlements to Entitlement Shares	6 January 2012
Prospectus, Entitlement and Acceptance Forms despatched to Shareholders	9 January 2012
Opening Date and Entitlement and Acceptance Forms despatched to Shareholders	10 January 2012
Closing Date and latest time for receipt of Entitlement and Acceptance Forms and payment in full for Entitlement Shares	5 pm on 27 January 2012
Lucas notifies ASX of under subscriptions	1 February 2012
Allotment and issue of Entitlement Shares	6 February 2012
Entitlement Shares under Entitlement Offer expected to commence trading on ASX on a normal settlement basis	7 February 2012
Despatch holding statements for Entitlement Shares under Entitlement Offer	9 February 2012

*These dates are subject to change and are indicative only. Lucas reserves the right to amend this indicative timetable. In particular, Lucas reserves the right, subject to the Corporations Act and the ASX Listing Rules, to extend the Closing Date or to withdraw the Entitlement Offer without prior notice. Any extension of the Closing Date will have a consequential effect on the date for the issue of Entitlement Shares. All references in this Prospectus are to Sydney time, unless otherwise stated. The commencement of quotation of Entitlement Shares is subject to confirmation from ASX.

ENQUIRIES

If you have any questions, please call the Lucas Shareholder Information Line on 1300 556 161 (within Australia) or on +61 3 9415 4000 (from outside Australia) between 8.30 am and 5.30 pm (Sydney time) Monday to Friday (excluding public holidays) during the Entitlement Offer period, or consult your stockbroker, accountant or other independent professional adviser.

4 INVESTMENT OVERVIEW

4.1 The Company

What does the Company do?	<ul style="list-style-type: none">• The Company is structured into the following three operational business segments:<ul style="list-style-type: none">○ Drilling Services;○ Building, Construction and Infrastructure; and○ Asset Services.• The Company also has investments in the energy sector, namely:<ul style="list-style-type: none">○ a 42% 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: energy, water and waste water, resources (specifically coal) and public infrastructure. Underpinning this is the application of specialist engineering techniques to provide a bespoke skilled service offering 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 for unconventional hydrocarbons, carry out exploration works thereon to prove up reserves and then invite interest from parties more qualified to develop the acreage. It funds these activities partly by relying on cash flows from its operating activities outlined above.	Section 13
----------------------------------	---	------------

4.2 Effect of the Recapitalisation Proposal

What is the effect of the Recapitalisation Proposal on the financial position of the Company?	<ul style="list-style-type: none"> As at 30 June 2011, the Company's current liabilities exceeded its current assets by \$114.7 million. On a pro forma basis, after taking into account the impacts of the Recapitalisation Proposal, the Company's current assets exceed its current liabilities by \$1.9 million. As at 30 June 2011, the Company's Gearing Ratio was 51.1%. After taking into account the pro forma transactions in relation to the Recapitalisation Proposal, this Gearing Ratio reduces to 38.2% on a pro forma basis. 	Section s 12.2 and 12.3(h)
--	--	----------------------------

4.3 Investments of the Company – highlights

What is the status of the Company's investment in Cuadrilla and its direct investments?	<ul style="list-style-type: none"> The Company has a 42% 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. The Company has invested a total of approximately \$73.6 million as at 30 November 2011 in Cuadrilla and its direct interests. Cuadrilla holds a diversified portfolio of exploration permits over 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 two wells have been completed and drilling at the third well is now at the expected total depth. Progress in proving up the gas reserves at the Bowland basin has been impeded by the temporary suspension from late May 2011 of the fracturing programme following two minor seismic events in the vicinity of Cuadrilla's Preese Hall well site. Cuadrilla recently publicly released an internal estimate of the gas in place within the Bowland basin of 200 trillion cubic feet (tcf). However, further drilling and gas flow analysis is necessary to confirm the presence of recoverable gas reserves. 	Section 13.6
--	--	--------------

What is the status of the Company's investment in the Monument Prospect?	<ul style="list-style-type: none"> This investment, which cost \$87.8 million, is fully impaired in the books of Lucas on account of there being insufficient historical drilling data to assess the recoverability of the investment. 	Section 13.7
What is the status of the Company's investment in Canning Basin?	<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. 	Section 13.8

4.4 Key Risks

What are the key risks associated with the Entitlement Offer?	<ul style="list-style-type: none"> Underwriting Agreement <p>The Underwriting Agreement is subject to the following conditions precedent:</p> <ul style="list-style-type: none"> lodgment of this Prospectus by 16 December 2011; the Underwriter approving the Prospectus; the due diligence process established by the Company in relation to preparation of this Prospectus being completed to the reasonable satisfaction of the Underwriter; 100% Sub-underwriting of the Entitlement Offer (taking into account any FIRB restrictions on Kerogen's sub-underwriting participation); and completion of the RCPS Buy-back by 22 December 2011. <p>If any of the above conditions precedent are not satisfied or waived, the Underwriter may terminate the Underwriting Agreement, in which case there is a risk that the Company will not be able raise the full amount of the Underwritten Amount.</p> <ul style="list-style-type: none"> Sub-underwriting Agreements <p>The Sub-underwriting Agreements are subject to the following conditions precedent:</p> <ul style="list-style-type: none"> lodgment of this Prospectus by 16 December 2011; and approval of Resolution 4 (only in relation to Andial's Sub-underwriting Agreement). <p>If any of the above conditions precedent are not satisfied or waived, the Underwriter may terminate the Sub-underwriting Agreements, in which case there is a risk</p>	<p>Section 15.12</p> <p>Section 15.13</p>
--	---	---

	that the Company will not be able raise the full amount of the Underwritten Amount.	
What are the key risks associated with the Shares?	<ul style="list-style-type: none"> • Future trading of Shares The Company remains in voluntary suspension from the official quotation of the ASX. It is not known how the market will react to the Recapitalisation Proposal and whether the price of the Shares will rise or fall when the suspension is lifted and trading resumes on the ASX, expected to be following the EGM. • 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 Entitlement Offer. Any additional equity financing will dilute shareholdings if Shareholders do not take up their pro rata Entitlement, and 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 Lucas' operations and its financial condition and performance. • 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. 	Section 5.2
What are the key risks associated with the Fund Options?	<ul style="list-style-type: none"> • The exercise price for each Fund Option is \$2.13. There is no assurance that the Share price will be greater than the exercise price during the exercise period. • The Funds Options will not be quoted on the ASX. Accordingly, there is no assurance that there will be any liquid market for such options. • The Fund Options do not confer a right on the Fund to receive any dividends. 	Section 5.2
What are the key risks associated with the Kerogen Options?	<ul style="list-style-type: none"> • The exercise price for the Kerogen Options is the lower of: <ul style="list-style-type: none"> ○ 20% premium to the five day volume weighted average price of the Shares on the ASX; or ○ \$1.70 per Share, provided that the exercise price will not be less than 	Section 5.2

	<p>\$1.35.</p> <ul style="list-style-type: none"> • There is no assurance that the Kerogen Options' exercise price will be less than the Share price at any time during the exercise period. • The Kerogen Options will not be quoted on the ASX. Accordingly, there is no assurance that there will be any liquid market for such options. • The Kerogen Options do not confer a right on the Fund to receive any dividends. 	
<p>What are the key risks associated with the operational businesses of the Company?</p>	<ul style="list-style-type: none"> • Key personnel <p>Like other companies, Lucas' 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 Lucas' operations and financial results.</p> <ul style="list-style-type: none"> • Terminable material contracts <p>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 effect on the Company's revenue.</p> <ul style="list-style-type: none"> • Environmental <p>Environmental laws and regulations in Australia and abroad can affect the operations of businesses, including Lucas 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 Lucas 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.</p>	<p>Section 5.3</p>

	<ul style="list-style-type: none"> • Seasonal weather conditions <p>Natural disasters (such as fire, earthquakes, floods or cyclones) and adverse weather conditions may have a materially adverse impact on Lucas, particularly its drilling business, and hinder Lucas' ability to perform as required under its contracts. This may lead to a reduction in revenue.</p> <ul style="list-style-type: none"> • Litigation and legal risks <p>Lucas is exposed to a variety of litigation and other legal risks from various sources 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, they may have a material adverse impact on the financial performance of Lucas. The Ivy litigation discussed in Section 15.16 is a specific litigation risk.</p>	
	<ul style="list-style-type: none"> • Counterparty (client) payment risk <p>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, may not be paid for work completed and, should projects cease mid-construction, may find itself with an unexpected underemployed workforce to manage.</p> <ul style="list-style-type: none"> • Project based sales revenue <p>A component of the Company's business relates to project based work for clients. Thus, a proportion of the Company's revenue and earnings are sourced from specific projects which may not be repeated. Specific projects may not be repeated nor 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.</p>	

	<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. • Cost variation In some contracts, the Company assumes the risk that sub-contractors do not perform to their original 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. • 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. 	
What are the key risks associated with investments of the Company?	<ul style="list-style-type: none"> • Regulatory risk 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, which may result either in suspension of activities or increasing regulations imposed on the activities. 	Section 5.4

	<ul style="list-style-type: none"> Lucas Cuadrilla's inability to meet funding obligations <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> Inability to recover hydrocarbons <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 either there is a lack of resources or its extraction cannot be achieved in a commercially viable manner, Lucas, through its investment in Lucas Cuadrilla, may not receive any future value from its investment in Cuadrilla.</p> Complexities associated with drilling of exploration wells <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 Lucas' investments in Cuadrilla and Monument Prospect.</p> Cuadrilla Change of Control <p>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.</p> <p>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 not receive any future value from its investment in Cuadrilla.</p> 	
--	---	--

	<ul style="list-style-type: none"> • Monument Prospect <p>If TEKXON Onshore Oil & Gas, LLC (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.</p> <p>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 Lucas' indirect contractual interest in 10% of a net profit interest earned by Thomas Knowlton (TK).</p> <p>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 Lucas' indirect contractual interest in 10% of a net profit interest earned by TK.</p>	
--	---	--

4.5 Entitlement Offer Details

What is the Entitlement Offer?	<ul style="list-style-type: none"> • A 1 for 2 non-renounceable pro rata entitlement by the Company of 1 Entitlement Share for every 2 Shares held as at the Record Date at a price of \$1.35 per Entitlement Share to raise the Underwritten Amount. 	Section s 2 and 6
What is the Purpose of the Entitlement Offer?	<ul style="list-style-type: none"> • The purpose of the Entitlement Offer is to strengthen the Company's balance sheet by paying monies owed to the ATO and paying down debt. 	Section 6.1

4.6 Key terms and details of the Entitlement Offer

Is the Entitlement Offer underwritten?	<ul style="list-style-type: none"> • The Underwriter has agreed, subject to conditions, to fully underwrite the Entitlement Offer. • Kerogen and, subject to Shareholder approval, Andial, have each agreed to sub-underwrite on a firm relief basis up to 50% of the Entitlement Offer and subject to an Equivalent Allocation. 	Section 6.10
---	--	--------------

Which Shareholders are eligible to apply for Entitlement Shares?	<ul style="list-style-type: none"> Eligible Shareholders are those Shareholders who: <ul style="list-style-type: none"> are registered as a holder of Shares as at 7.00pm (Sydney time) on the Record Date; as at Record Date, have a registered address in Australia, New Zealand or Hong Kong; are not in the United States of America or a U.S. Person and are not acting for the account or benefit of a U.S. Person; and are eligible under all applicable securities laws to receive an offer for Entitlement Shares under the Entitlement Offer. 	Section 6.6
What are my options?	<ul style="list-style-type: none"> Eligible Shareholders may do any of the following: <ul style="list-style-type: none"> take up all or part of their Entitlement; take up all of their Entitlement and also apply for Additional Entitlement Shares; or do nothing, in which case all of their Entitlement will lapse. If Eligible Shareholders do not take up their Entitlement Offers in full or they are Non-Eligible Shareholders, their holdings in the Company will be diluted. 	Sections 6.6 and 7.2
How do Eligible Shareholders apply?	<ul style="list-style-type: none"> Eligible Shareholders may apply for their Entitlement by returning the completed Entitlement and Acceptance Form and: <ul style="list-style-type: none"> enclose a cheque, bank draft or money order; or make a payment via BPAY. 	Sections 6.6, 7.3 and 7.6
Where can Shareholders find more information about this Prospectus and the Entitlement Offer?	<ul style="list-style-type: none"> Contact the Lucas Shareholder Information Line on 1300 556 161 (within Australia) or +61 3 9415 4000 (outside Australia) between 8.30 am to 5.30pm (Sydney time) Monday to Friday open from 16 December 2011. If Shareholders are unclear in relation to any matter or are uncertain as to whether participation in the Entitlement Offer is a suitable investment for them, they should seek guidance from their stockbroker, solicitor, accounting or other independent professional adviser before deciding whether to invest. 	Section 2

4.7 Use of funds

How will the Company use the Entitlement Offer proceeds?			Section 6.3
	Item	Amount (millions)	
	Underwritten Amount	\$51.3	
	Fees associated with Entitlement Offer	(\$3.1)	
	Payment to ATO	(\$39.9)	
	Payment to ANZ	(\$8.3)	

4.8 Effect on capital structure

What effect will the Entitlement Offer have on the Company's capital structure?			Section 6.4
		Number	
	Shares currently on issue	76,035,314	
	Number of Entitlement Shares to be issued under the Entitlement Offer	38,017,657	
	Shares on issue following Entitlement Offer	114,052,971¹	
What effect will the issue of the Options have on the Company's capital structure?		Number	Sections 11.2, 11.3 and 11.4
	Shares on issue following Entitlement Offer	114,052,971	
	Existing Rights and Options	778,175	
	Number of Fund Options	1,000,000	
	Number of Kerogen Options	18,566,763	
	TOTAL	133,619,734²	

4.9 Substantial Shareholders

Who are the substantial Shareholders as at the Prospectus Date?				Section 15.13
	Substantial holding	Number	%	
	Andial	17,490,000	23.00%	
	Kerogen	9,917,650	13.04%	
	Amalgamated Dairies Group	4,230,348	5.56%	
	Remaining Shareholders	44,397,316	58.39%	
	TOTAL	76,035,314	100%	

4.10 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 15.3
---------------------------------------	--	--------------

¹ The total number of Shares on issue, following the Entitlement Offer, assumes that none of the Existing Options and Rights are exercised.

² The total number of Shares on issue, following the Entitlement Offer and the exercise of the Options, assumes that none of the Existing Options and Rights are exercised.

4.11 Disclosure of interest of Directors

How many Shares and Existing Options and Rights do the Directors currently hold?	Director	Shares	Existing Options and Rights	Section 15.4
	Allan Campbell	10,140,083	348,648	
	Martin Green	200,000	0	
	Mike McDermott	0	0	
	Phillip Arnall	0	0	
	Genelle Coghlan	0	0	
How many Shares and Existing Options will the Directors hold following the Entitlement Offer?	Director	Shares	Existing Options and Rights	Section 15.4
	Allan Campbell	15,210,124	348,648	
	Martin Green	300,000	0	
	Mike McDermott	0	0	
	Phillip Arnall	0	0	
	Genelle Coghlan	0	0	

4.12 Material Agreements with Directors and Related Parties

Are there any material agreements with Directors and Related Parties	<ul style="list-style-type: none"> Andial is an entity controlled by Allan Campbell. Subject to Shareholder approval, Andial, who has agreed to commit to sub-underwrite, on a firm relief basis, up to 50% of the Entitlement Offer, has entered into a Sub-underwriting Agreement. Assuming that Andial subscribes fully for its Entitlement as an Eligible Shareholder, any Shares that Andial acquires under its Sub-underwriting Agreement will increase Andial's direct holding and its relevant interest percentage in the Company. 	Section 15.4
---	--	--------------

5 RISKS

5.1 Introduction

As with all businesses, there are a number of factors both specific to Lucas and of a general nature that may have a material impact on the Company's future operating and financial performance. This **Section 5** describes certain specific areas that are believed to be risks associated with Lucas and with an investment in the Entitlement Shares.

Each of these risks described below could, if it eventuates, 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 Lucas, its Directors and its senior executives.

Risks have been outlined in three categories:

- specific risks relating to investing in the Options and Shares offered and issued on exercise of the Options or received under the Entitlement Offer and the Placement;
- 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.

5.2 **Specific risks relating to investing in the Options and Shares offered and issued on exercise of the Options or received under the Entitlement Offer and the Placement**

(a) Market Conditions

Entitlement Shares

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.

Fund Options

As set out in **Section 9**, the offer and issue of the Fund Options confers a right for the Fund to exercise the Fund Options by paying the Company an exercise price of \$2.13 for each option and for the Fund (or their nominees) to then be issued with one Share for each option exercised.

The exercise price may be more or less than the market price of the Shares from time to time. Accordingly, there is no assurance that the Fund Options' exercise price will be less than the Share price at any time during the exercise period.

The Shares issued as a result of any exercise of the Fund Options will rank equally with existing Shares. Accordingly, the ongoing value of any Shares received upon the exercise of the Fund Options will depend upon the market price of the Shares after the exercise of the Fund Options.

Kerogen Options

As set out in **Section 10**, the offer and issue of the Kerogen Options confers a right for Kerogen to exercise the Kerogen Options by paying the Company an exercise price per Share of the lower of (a) a 20% premium to the 5 day volume weighted average price (VWAP) of the Shares on the ASX to be calculated on the date which immediately precedes the date on which the notice to exercise the Kerogen Options is issued, and (b) \$1.70, but subject to a minimum price of \$1.35 per Share and for Kerogen to then be issued with one Share for each option exercised. The exercise price may be more or less than the market price of the Shares from time to time. Accordingly, there is no assurance that the Kerogen Options' exercise price will be less than the Share price at any time during the exercise period.

The Shares issued as a result of any exercise of the Kerogen Options will rank equally with existing Shares. Accordingly, the ongoing value of any Shares received upon the exercise of the Kerogen Options will depend upon the market price of the Shares after the exercise of the Kerogen Options.

(b) Liquidity

Fund Options and Kerogen Options

The Fund Options and the Kerogen Options will not be quoted on the ASX. Accordingly, there is no assurance that there will be any liquid market for these options.

Shares

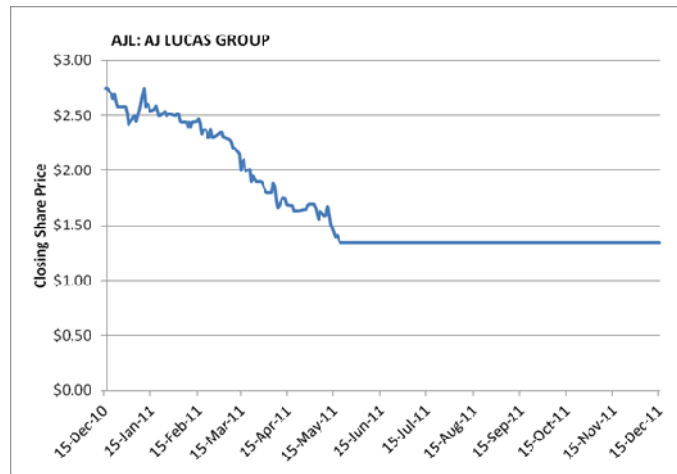
As set out in **Section 5.3(a)**, on 25 May 2011 Lucas requested, and the ASX granted, that Lucas be placed into voluntary suspension from the official quotation of the ASX until further notice.

As at the date of this Prospectus, Lucas' securities remain in voluntary suspension. The ASX must agree to the securities of Lucas coming out of voluntary suspension before the securities of Lucas can commence trading again. There is a risk that the ASX will not agree to allow the securities of Lucas to come out of suspension or to allow them to come out of suspension only once Lucas complies with specified conditions. At this time, the Company does not know what, if any, conditions would be imposed by the ASX.

Given the duration of Lucas' voluntary suspension, once the securities of Lucas come out of suspension and commence trading again on the official list of the ASX, it is not known how the market will react and how or at what price the Shares will be traded.

Table 5.2.1 displays the performance of the Shares on the ASX for the past 12 months.

Table 5.2.1



(c) 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 Entitlement Offer. Any additional equity financing will dilute shareholdings if Shareholders do not take up a pro rata entitlement, 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 Lucas' operations and its financial condition and performance.

In addition, as the Company has issued the Placement Shares and thereby exhausted its authority to issue up to 15% of the Company's share capital, which authority has not been refreshed by obtaining the retrospective approval of Shareholders, any further issue of shares will, unless subject to an exception under the ASX Listing Rules, require shareholder approval. This could result in the delay or non approval of Shareholders in circumstances where the Board wishes to issues new Shares to potential investors.

(d) Shareholder Approval

The Company will not proceed with the Recapitalisation Proposal unless each of resolutions 1, 2 and 3 (as detailed in the Notice of EGM) are approved by the Shareholders in the EGM. The risks arising to holders of existing Shares, as a result of the Recapitalisation Proposal not proceeding, are set out in section 3 of the Notice of EGM.

(e) Underwriting

Under the Underwriting Agreement, the obligation of the Underwriter to subscribe for any Shortfall is subject to satisfaction of each of the following certain conditions precedent:

- (i) lodgement of this Prospectus by 16 December 2011;

- (ii) the Underwriter approving the Prospectus;
- (iii) the due diligence process established by the Company in relation to preparation of this Prospectus being completed to the reasonable satisfaction of the Underwriter;
- (iv) 100% Sub-underwriting of the Entitlement Offer (taking into account any FIRB restrictions on Kerogen's sub-underwriting participation); and
- (v) completion of the RCPS Buy-back by 22 December 2011.

If one or more of these conditions precedent are not satisfied in accordance with the terms of the Underwriting Agreement, the Underwriter may terminate the Underwriting Agreement by notice in writing to the Company. If the Underwriting Agreement is terminated, there is a risk that the Company will not raise the full amount of the Underwritten Amount from Eligible Shareholders. If this were to occur, in the absence of the Company arranging additional funding arrangements, the Company may not be able to use the funds raised in the manner and in the amounts set out in **Section 6.3**.

The Underwriter may, in its absolute discretion, terminate the Underwriting Agreement, on notice to the Company, on the occurrence of certain termination events as set out in **Annexure A**. If the Underwriting Agreement is terminated, there is a risk that the Company will not raise the full amount of the Underwritten Amount.

(f) Sub-underwriting

Andial's obligation to Sub-underwrite the Entitlement Offer is conditional on the following conditions precedent:

- (i) lodgement of this Prospectus by 16 December 2011; and
- (ii) approval of Resolution 4 (only in relation to Andial's Sub-underwriting Agreement).

If Resolution 4 is not passed at the EGM, Andial will not be able to sub-underwrite the Entitlement Offer. However, the Entitlement Offer will proceed, but, due to the non-participation of Andial as a Sub-underwriter, the Underwriter will need to identify and appoint other non-Kerogen sub-underwriters who are able to take up the proportion of the Shortfall that Andial would have taken up. If they cannot, there is a risk that the Company will not raise any of the Underwritten Amount.

Kerogen's obligation to Sub-underwrite the Entitlement Offer is conditional on the lodgement of this Prospectus by 16 December 2011.

If any of the above conditions precedent are not satisfied, there is a risk that the Company will not raise the full amount of the Underwritten Amount.

(g) Liquidity and Realisation Risk

There can be no guarantee that an active market in Lucas' 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 of the Shares. 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 for their Shares that is less or more than the Issue Price under the Entitlement Offer.

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

(a) Commercial, financial and operational risks of business

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

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

- Lucas' 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 Lucas;
- certain public infrastructure alliance contracts contain provisions permitting the project sponsor to change, curtail or cancel the project;
- for certain major projects, Lucas may need to participate in joint ventures which can bring counterparty risks or may limit Lucas' access to opportunities if suitable joint venture partners are not available;
- contracts in the sectors in which Lucas operates often contain penalty clauses, and contractual disputes can potentially have a material adverse effect on Lucas; 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 Lucas' 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 political unrest, outbreak of hostilities, inability to obtain consents and approvals; and
- the Company does not own 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, and should projects cease mid-construction, may find itself with an unexpected underemployed 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 are sourced from specific projects. Specific projects may not be repeated nor 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, and may be impacted in this financial year by the suspension of Shares from the official quotation of the ASX. 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 original 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 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

In addition to the Recapitalisation Proposal, the Company is pursuing some other alternatives regarding the Company's assets which, if successful, will further enhance the Company's balance sheet position and further position Lucas to take advantage of market opportunities. However, if they are not successful, Lucas will be required to source capital from other activities.

Lucas sources capital from cash generated from operations and, where necessary, from debt markets (including finance leases) and equity markets. There is no guarantee that capital 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 Lucas.

Lucas' 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 Lucas' control and that of its directors. Any inability of Lucas to service its existing debt would have a material adverse effect on the Company.

(i) 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 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 such contracts, and is unable to replace such contracts with new contracts, this will have a material effect on the Company's revenue.

(j) Environmental

Environmental laws and regulations in Australia and abroad can affect the operations of businesses, including Lucas 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 Lucas 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 exploration and development activities, particularly drilling and hydraulic fracturing, undertaken by Lucas, entities in which Lucas has an interest and other companies, arising in connection with, for example:

- environmental sensitivities and concerns about pollution;
- concerns about the potential effects of hydraulic fracturing 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 Lucas' ability, or the ability of an entity in which Lucas has an interest, to conduct certain operations such as hydraulic fracturing 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 hydraulic fracturing 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 the issuance of injunctions limiting or preventing some or all of Lucas' operations, as well as reputational damage.

There is also an inherent risk of incurring significant environmental costs and liabilities in the performance of the Lucas' operations, or the operations of an entity in which Lucas 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 Lucas' wells (or the operations of an entity in which Lucas has an interest in) are drilled and facilities where Lucas' 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 Lucas' 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 Lucas' business, prospects, financial condition or results of operations.

(k) Natural disasters and seasonal weather conditions

Some of the areas in which Lucas 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 Lucas' control may adversely impact Lucas' operational and financial performance.

(l) Availability of skilled employees, equipment and resources

Lucas 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 Lucas' future financial performance and growth.

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

Lucas' 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 Lucas.

(m) Reliance on suppliers and sub-contractors

Like other companies, Lucas relies on various suppliers and sub-contractors in 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 that the Company would typically not be exposed to. Due to the Company's balance sheet problems, some suppliers and sub-contractors invoices have not been paid on time by the Company. If the Company is not able to pay such third parties' invoices on time, there is a risk that the Company may not be introduced and/or recommended for future new jobs by these parties.

(n) Reliance on Key Personnel

Like other companies, Lucas' 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 Lucas' 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 arising from periods of rapid growth could affect ongoing relationships with various parties connected to Lucas.

(o) Increased or new competition

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

(p) 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 Lucas' goodwill may be damaged,

including goodwill arising from Lucas' reputation as a reliable and safe service provider. In addition, as with any listed company, Lucas' share price may be affected by market sentiment.

(q) Labour disputes

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

(r) Litigation and legal risks

Litigation risks to Lucas 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, 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 Lucas.

The Ivy litigation discussed in Section 15.16 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 Lucas, 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.

(s) Occupational Health and Safety

Lucas' operations, particularly its drilling and building, construction and infrastructure divisions, 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.

Lucas 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 Lucas' earnings.

5.4 General risks relating to the investments of the Company

(a) Regulatory risk

As stated in **Section 13**, Lucas 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, includes laws that deal with overseas investors. In particular there may be considerable resistance from sections of the public and /or legislators 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, and drilling is now not expected to commence before 2013.

The United Kingdom

As announced to the ASX on 2 June 2011 and 22 September 2011, on 27 May 2011, Cuadrilla suspended its fracturing operations in the Preese Hall well site on the Bowland shale prospect following two minor seismic tremors in the Blackpool area.

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 (**Geo-Mechanical Study**). These experts have provided Cuadrilla with a report of their investigations together with their conclusions and recommendations. A summary of the report's conclusions are set out in **Section 13.6(i)** including 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 of 2.3 and one in May 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 reports and recommendations were submitted to the United Kingdom's Department of Energy and Climate Change (**DECC**) in early November 2011. Members of the expert panel and Cuadrilla representatives have met with DECC and the British Geological Service (**BGS**) to describe their work programme, and the outcome of their investigations and their recommendations for implementation of a procedure designed to avoid future material seismic events. It is expected that DECC and BGS will review the reports in some detail before DECC makes any decisions about Cuadrilla's fracking operations in the Bowland basin. Although Cuadrilla believes that DECC will allow the resumption of the fracking programme, there is no assurance that such permission will be given, or if it is to be given, when that may occur or what conditions may be imposed.

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

In addition to the Company's investment in Cuadrilla, through a United Kingdom subsidiary Lucas Energy (UK) Limited (**Lucas Energy (UK)**), the Company owns a 25% interest in two of Cuadrilla's English exploration permits, PEDL 165 in the Bowland basin and PEDL 244 in the Weald basin. Cuadrilla owns 75% of these permits and is the operator. As the operator, Cuadrilla is entitled, under the Joint Operating Agreements between the Company and Cuadrilla, to determine the budget for exploration of these areas. The Company does not have any control over the expenditure of Cuadrilla. If the Company fails to make its required contributions to project expenditures in a timely manner, it is exposed to the substantial risk that it may lose its direct interest in these permit areas.

- (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 would 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 13.4**, Lucas, 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 two of Cuadrilla's English exploration permits, PEDL 165 in the Bowland basin and PEDL 244 in the Weald basin.

Cuadrilla's ability to develop successfully its concessions for unconventional hydrocarbons depends not only upon the presence of significant in place hydrocarbon resources in the Cuadrilla's concession areas, but also on the ability of Cuadrilla to recover such 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 others than on a small scale in Hungary, and the data derived 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 concession areas.

Further, even if recovery of such hydrocarbons is technically feasible in the 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, given the high volume, low margin nature of unconventional hydrocarbons production, 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 Lucas' investment in Cuadrilla and the value of its 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, Preese Hall 1 and Grange Hill 1 took longer and were more expensive to drill than expected as a consequence of slower than anticipated penetration rates, encountering 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 to become familiar with these geological conditions and to adapt its equipment accordingly. Accordingly, these complexities, such as greater expense or less available resources, could have an adverse impact on the value of Lucas' investments in Cuadrilla 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 Shareholder Agreement. Under the Cuadrilla Shareholders 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 Onshore Oil & Gas, LLC, (**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 develop successfully 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 such 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 Lucas' Net Profit Interest.

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 Lucas' Net Profit Interest.

(i) 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 and 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. 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.

There is a risk that a native title agreement may not be reached with indigenous groups whose native title claims overlap the permit area. If this were to be the case, the only option open to the Company would be to seek a determination under the Native Title Act 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 the Company 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 the Company is able to find shale gas, shale oil and tight gas, there is no guarantee that the Company will be able to recover any such materials 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 the Company fails to comply with the expenditure commitments and agreed work program within the required time frame.

(j) Risks relating to the unconventional hydrocarbon sector

Lucas 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 Lucas. 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.

5.5 Risk Mitigation

Lucas 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

Lucas has in place risk management systems, procedures and internal control mechanisms. These systems include recognised operating business system applications, such as Workbench (job costing, project management and property and equipment maintenance), Microsoft Dynamics (Great Plains) for financials and LMS (**Lucas Management System**) which is a control system for referencing compliance requirements and check points of company policies and procedures. In addition, the organisational structure, including various oversight committees, is designed to actively manage the risk profile of the Company.

Lucas' 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 Lucas Quality Management System forms part of the Lucas Management System described above. Lucas has been granted unconditional certification for its Quality Management System to AS/NZS ISO 9001:2008 from certification authority (BVQi) Bureau Veritas Quality International, since 25 October 2001.

(c) Occupational Health & Safety

Lucas has established an occupational health and safety system which is mandatorily applied throughout Lucas. It is based on standards published by Standards Australia namely AS/NZS 14001:2004 Occupational Health & Safety and AS/NZS 4801:2001 Safety Management Systems.

Projects and operations are regularly audited for compliance with this system.

(d) Environmental Management

Lucas has established an environmental management system which is mandatorily applied throughout Lucas. It is based on standards published by Standards Australia namely AS/NZS 14001:2004 Environmental Management Systems.

Projects and operations are regularly audited for compliance with this system.

The summary of risks in this Section 5 is not exhaustive, and investors should consult their financial adviser or other professional adviser before making any investment decision.

6 DETAILS OF THE ENTITLEMENT OFFER

6.1 Purpose of the Entitlement Offer

Lucas intends to apply the funds raised from the Entitlement Offer towards strengthening its balance sheet by paying monies owed to the ATO and paying down debt.

6.2 The Entitlement Offer

Under the Entitlement Offer, Eligible Shareholders are being offered the opportunity to subscribe for Entitlement Shares.

You should note that not all Shareholders, as at the Record Date, will be eligible to participate in the offer of Entitlement Shares. For eligibility, please see the requirements for Eligible Shareholders set out in **Section 6.6**.

6.3 Use of Funds

Table 6.3.1 details the intended use of the funds raised under the Entitlement Offer.

Table 6.3.1

Item	Amount (millions)
Underwritten Amount	\$51.3
Fees associated with Entitlement Offer	(\$3.1)
Payment to ATO	(\$39.9)
Payment to ANZ	(\$8.3)

6.4 Financial Effect of the Entitlement Offer on Lucas

(a) General

The Entitlement Offer will have an effect on the capital structure of Lucas and the financial position of Lucas as described below in this **Section 6.4**.

(b) Effect on Capital Structure

The following table 6.4.1 shows the proposed capital structure on completion of the Entitlement Offer:

Table 6.4.1

Shares	Number
Shares on issue pre Entitlement Offer	76,035,314
Number of Entitlement Shares proposed to be issued under the Entitlement Offer	38,017,657
Proposed total Shares on issue after the Entitlement Offer	114,052,971

Of the total number of Shares on issue, this number:

- (i) does not include the issue of the Fund Options over unissued Shares in Lucas (for an issue price of \$0.01 and with an exercise price for each Share of \$2.13), to the Fund; and
- (ii) does not include the issue of the Kerogen Options over unissued Shares in Lucas (for nil issue price and with an exercise price for each Share of the lower of (a) a 20% premium to the 5 day volume weighted average price of the Shares on the ASX to be calculated on the date which immediately precedes the date on which the notice to exercise the Kerogen Options is issued and (b) \$1.70, but subject to a minimum price of \$1.35 per Share), to Kerogen.

(c) **Effect on Financial Position – Pro-Forma Statement of Financial Position**

As at 30 June 2011, the Company's current liabilities exceeded its current assets by \$114.7 million. On a pro forma basis, after taking into account the impacts of the Recapitalisation Proposal, the Company's current assets exceed its current liabilities by \$1.9 million.

See **Section 11** for further details.

6.5 Additional Entitlement Shares

Eligible Shareholders who take up all of their Entitlement may also apply for Entitlement Shares in excess of their Entitlement (**Additional Entitlement Shares**).

Additional Entitlement Shares will only be available to the extent that Eligible Shareholders do not take up their Entitlements. The availability of Additional Entitlement Shares will not increase the size of the Entitlement Offer or the amount to be raised by the Entitlement Offer.

Lucas reserves the right in its absolute discretion to allot any Additional Entitlement Shares if and only to the extent that the Board of Lucas determines, having regard to circumstances as at the time of the Closing Date. Lucas reserves its right to scale-back applications for Additional Entitlement Shares in its absolute discretion.

The decision of the Board of Lucas regarding the number of Additional Entitlement Shares to be allocated to any Eligible Shareholder will be final.

Therefore, your application for Additional Entitlement Shares may not be successful (wholly or partially).

Entitlement Shares and Additional Entitlement Shares issued pursuant to the Entitlement Offer will be fully paid and will rank equally with existing Shares on issue.

6.6 Eligible Shareholders

This Prospectus and the accompanying Entitlement and Acceptance Form (**Information**) contains an offer of Entitlement Shares to Eligible Shareholders in Australia, New Zealand and Hong Kong and has been prepared in accordance with section 713 of the Corporations Act.

Only Eligible Shareholders are eligible to participate in the Entitlement Offer.

Eligible Shareholders are those holders of Shares who:

- (a) are registered as a holder of Shares as at 7.00pm (Sydney time) on the Record Date;
- (b) as at the Record Date, have a registered address in Australia, New Zealand or Hong Kong;
- (c) are not in the United States of America or a U.S. Person (as defined in Regulations under the *U.S. Securities Act* of 1933 (**U.S. Securities Act**) or acting for the account or benefit of a U.S. Person; and
- (d) are eligible under all applicable securities laws to receive an offer under the Entitlement Offer without any requirement for a prospectus or Prospectus to be lodged or registered.

Under the Entitlement Offer, Eligible Shareholders who take up their full Entitlement will not have their holdings diluted. However, if you take no action, you will have your holdings in Lucas diluted as a result of the Shares issued in the Entitlement Offer.

It is important that Eligible Shareholders understand the risks associated with not accepting their Entitlements. Please carefully consider whether to accept your Entitlement and, if, after reading the Information, you have any questions about the Entitlement Offer, you should contact your stockbroker, accountant or other independent professional adviser.

By returning a completed Entitlement and Acceptance Form or making a payment by BPAY, you will be taken to have represented and warranted that you satisfy each of the criteria listed above. Eligible Shareholders who are nominees, trustees or custodians are therefore advised to seek independent professional advice as to how to proceed.

As Eligible Shareholders, your Entitlement to Entitlement Shares is shown in the accompanying Entitlement and Acceptance Form and has been calculated as 1 Entitlement Share for every 2 Shares you held as at the Record Date. If the result is not a whole number, your Entitlement will be rounded up to the nearest whole number.

If you have more than one registered holding of Shares, you will be sent more than one Entitlement and Acceptance Form and you will have a separate Entitlement for each separate holding.

Please also note that the Entitlement stated on your Entitlement and Acceptance Form may be in excess of the actual Entitlement you may be permitted to take up where, for example, you are holding Shares on behalf of a U.S. Person.

6.7 Non-Eligible Shareholders

The Entitlement Offer does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. Lucas has decided that it is unreasonable to make offers under this Prospectus to Shareholders with registered addresses outside Australia, New Zealand and Hong Kong having regard to:

- (a) the number of Shareholders in those places;
- (b) the number and value of the securities they would be offered; and
- (c) the cost of complying with the legal and regulatory requirements in those places.

Accordingly, the Entitlement Offer is not being extended to, and does not qualify for distribution or sale, and no Entitlement Shares will be issued to Shareholders having registered addresses outside Australia, New Zealand and Hong Kong. This Prospectus is sent to those Shareholders for information purposes only.

6.8 Nominee to sell rights Non-Eligible Shareholders

The Company has appointed Gleneagle Securities Nominees Pty Limited (ACN 150 259 877), a wholly owned subsidiary of the Underwriter, as nominee (**Nominee**), pursuant to ASX Listing Rule 7.7 and subject to the approval of ASIC under section 615 of the Corporations Act, for Non-Eligible Shareholders to sell the Entitlement Shares, which would have been offered to the Non-Eligible Shareholders had they been eligible to participate in the Entitlement Offer. The Company will transfer the Entitlements of the Non-Eligible Shareholders to the nominee who will account to those Non-Eligible Shareholders for the net proceeds of the sale of the Entitlement (if any).

The Nominee will have the absolute and sole discretion to determine the timing, price and manner of sale of such Entitlements. Neither the Company nor the Nominee will be liable for any failure to sell the Entitlements or to sell them at a particular price. If, in the reasonable opinion of the Nominee, there is no market, or no viable market, for the Entitlements, or a surplus of sale proceeds over the expenses of sale cannot be obtained for the Entitlements that would have been offered to the Non-Eligible Shareholders, then such Entitlements will be allowed to lapse and will form part of the Shortfall. The Company has agreed to pay the Nominee a fee of \$10,000 (plus GST) plus legal expenses of \$3,500 (plus GST).

6.9 General Risks

Potential investors should read the entire Prospectus and, in particular, consider the risks that could affect Lucas before deciding to invest. A summary of certain specific risks associated with the Entitlement Offer and the general risks associated with Lucas are set out in **Section 5.3**.

Potential investors should carefully consider the risks in light of their personal circumstances (including financial and taxation).

Before deciding whether to apply for Entitlement Shares or Additional Entitlement Shares, you should consider whether they are a suitable investment for you in light of your own investment objectives and financial circumstances and having regard to the merits or risks involved. If, after reading the Information, you have any questions about the Entitlement Offer, you should contact your stockbroker, accountant or other independent professional adviser.

6.10 Underwriter

The Underwriter has agreed to manage and fully underwrite, subject to conditions, the Entitlement Offer by acquiring or requiring the Sub-underwriters to acquire all Entitlement Shares remaining after any Additional Entitlement Shares have been allocated by the Board of Lucas.

For additional information regarding the Underwriter and the Underwriting Agreement, see **Section 15.12**.

6.11 Sub-underwriters

It is a condition of the Underwriting Agreement that the Entitlement Offer be fully sub-underwritten. Accordingly, Kerogen and, subject to Shareholder approval, Andial have each committed to sub-underwrite on a firm relief basis up to 50% of the underwritten amount, subject to Kerogen not acquiring more than an aggregate of 40% of the Shares, and subject to an equivalent allocation in the Sub underwriting pool of at least as many Shares as any other Sub-underwriter is allocated of the total amount of the Shortfall under the Entitlement Offer (**Equivalent Allocation**).

For additional information regarding the Sub-underwriter and the Sub-underwriting Agreement see **Section 15.13**.

6.12 Rights and liabilities attaching to the Entitlement Shares

The rights and liabilities attaching to the Shares are set out in the Company's Constitution (and are regulated by the Corporations Act, the general law, the ASX Listing Rules and the ASX Settlement Operating Rules. The Company's 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 before the Closing Date.

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	<p>Subject to the Corporations Act, the Directors may pay any interim and final dividends as, in their judgment, the financial position of the Company justifies, and may fix the amount, time 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 Lucas has a lien. Lucas 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	Lucas 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.
Transfer of Ordinary Shares	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.

6.13 Withdrawal

The Board reserves the right to withdraw all or part of the Entitlement Offer at any time before the issue of the Entitlement Shares, in which case Lucas will refund application monies without payment of interest.

6.14 No cooling off rights

Cooling off rights do not apply to an investment in Entitlement Shares or Additional Entitlement Shares. You cannot withdraw your application once it has been accepted, except as allowed by law.

6.15 No entitlements trading

Entitlements are non-renounceable and cannot be traded on ASX or any other exchange, nor can they be privately transferred.

6.16 Notice to nominees and custodians

Nominees and custodians should note in particular that the Entitlement Offer is only being made to Eligible Shareholders and that when they are holding Shares on behalf of persons in a jurisdiction outside Australia and New Zealand they may participate on behalf of that person if that person is otherwise eligible under applicable securities laws to receive an offer, and be issued Entitlement Shares, under the Entitlement Offer without any requirement for a prospectus or Prospectus to be lodged or registered. Nominees and custodians should refer to **Section 15.10**.

6.17 Director's intentions

Each Director (who is also an Eligible Shareholder) has indicated that they currently intend to fully take up their entire individual Entitlement in respect of Shares held directly and indirectly.

6.18 Taxation Implications

Section 14 sets out a general summary of the taxation consequences of accepting Entitlement Shares. Such summary does not constitute as tax advice, nor should it be construed as such. Lucas, its advisers and its officers do not accept any responsibility or liability for any taxation consequences that occur as result of subscribing for Entitlement Shares or Additional Entitlement Shares. As a result, Eligible Shareholders should consult their own professional tax advisers in connection with subscribing for Entitlement Shares under this Prospectus.

6.19 Brokerage, Commission and Stamp Duty

There is no brokerage, commission or duty payable by a Shareholder who accepts any Entitlement Shares.

6.20 CHESS

The Entitlement Shares issued pursuant to this Prospectus will participate from the date of commencement of quotation in CHESS operated by ASX Settlement. The Entitlement

Shares must be held in uncertificated form (i.e. no share certificate will be issued) on the CHES subregister or the issuer sponsored subregister.

6.21 Shortfall

The number of Entitlement Shares comprising a Shortfall will equal the number of Entitlement Shares not taken up under the Entitlement Offer. The Shortfall will be taken up, in whole or in part, subject to and pursuant to the Underwriting Agreement and the Sub-underwriting Agreement, described in **Sections 15.12** and **15.13**.

7 HOW TO APPLY

7.1 Consider the Entitlement Offer in light of your particular investment objectives and circumstances

Please consult with your stockbroker, accountant or other independent professional adviser if you have any queries or are uncertain about any aspect of the Entitlement Offer. You should also refer to the "Risks" contained in **Section 5** of this Prospectus.

7.2 Complete and return the accompanying Entitlement and Acceptance Form with your application monies or make a payment by BPAY

If you are an Eligible Shareholder, you may do any one of the following:

- (a) take up all or part of your Entitlement;
- (b) take up all of your Entitlement and also apply for Additional Entitlement Shares in excess of your Entitlement; or
- (c) do nothing, in which case all of your Entitlement will lapse.

If you decide to take up all or part of your Entitlement, or apply for Additional Entitlement Shares, please complete and return the personalised Entitlement and Acceptance Form with the requisite application monies or pay your application monies via BPAY by following the instructions set out on the personalised Entitlement and Acceptance Form.

Lucas will treat you as applying for as many Entitlement Shares as your payment will pay for in full. Amounts received by Lucas in excess of your Entitlement (**Excess Amount**) may be treated as an application to apply for as many Additional Entitlement Shares as your Excess Amount will pay for in full, subject to Lucas' absolute discretion to scale-back your allocation of Additional Entitlement Shares (in whole or part). If you are paying by BPAY, please make sure to use the specific Biller Code and unique Reference Number on your personalised Entitlement and Acceptance Form.

If you receive more than one personalised Entitlement and Acceptance Form, please only use the Reference Number specific to the Entitlement on that Entitlement and Acceptance Form. If you inadvertently use the same Reference Number for more than one of your Entitlements, you will be deemed to have applied only for Entitlement Shares on the Entitlement to which that Reference Number applies.

If you take no action, you will not be allocated Entitlement Shares and your Entitlement will lapse. Your Entitlement to participate in the Entitlement Offer is non-renounceable and cannot be traded on ASX or any other exchange, nor can they be privately transferred. Shareholders who do not take up their Entitlements in full will not receive any payment or value for those Entitlements they do not take up.

If you take up and pay for all or part of your Entitlement before the Closing Date, you will be allotted your Entitlement Shares on 6 February 2012. If you apply for Additional Entitlement Shares before the Closing Date then, subject to Lucas' absolute discretion to

scale-back your allocation of Additional Entitlement Shares (in whole or part), you will also be issued these on 6 February 2012.

Lucas' decision on the number of Additional Entitlement Shares to be allocated to you will be final. Lucas also reserves the right (in its absolute discretion) to reduce the number of Entitlement Shares allocated to Eligible Shareholders, or persons claiming to be Eligible Shareholders, if their claims prove to be overstated or if they or their nominees fail to provide information to substantiate their claims.

7.3 Acceptance of the Entitlement Offer

The method of acceptance of the Entitlement Offer will depend on your method of payment being:

- (a) by BPAY; or
- (b) by cheque, bank draft or money order.

By completing and returning your personalised Entitlement and Acceptance Form or making a payment by BPAY, you will be deemed to have represented that you are an Eligible Shareholder (see **Section 6.6**).

7.4 Representations by Acceptance

By completing and returning your personalised Entitlement and Acceptance Form or making a payment by BPAY, you will be deemed to have represented to Lucas that you are an Eligible Shareholder and that you:

- (a) acknowledge that you have read and understand this Prospectus and your Entitlement and Acceptance Form in its entirety;
- (b) agree to be bound by the terms of the Entitlement Offer, the provisions of this Prospectus and the Constitution;
- (c) authorise Lucas to register you as the holder of Entitlement Shares allotted to you;
- (d) declare that all details and statements in the Entitlement and Acceptance Form are complete and accurate;
- (e) declare that you are over 18 years of age and have full legal capacity and power to perform all your rights and obligations under the Entitlement and Acceptance Form;
- (f) acknowledge that once Lucas receives your Entitlement and Acceptance Form or any payment of application monies via BPAY, you may not withdraw your application or funds provided except as allowed by law;
- (g) agree to apply for and be issued up to the number of Entitlement Shares specified in the Entitlement and Acceptance Form, or for which you have submitted payment of any application monies via BPAY, at the Issue Price per Entitlement Share;

- (h) authorise Lucas, the Underwriter, the Share Registry and their respective officers or agents to do anything on your behalf necessary for Entitlement Shares to be issued to you, including to act on instructions of the Share Registry upon using the contact details set out in your Entitlement and Acceptance Form;
- (i) declare that you were the registered holder(s) at the Record Date of the Shares indicated on the Entitlement and Acceptance Form as being held by you on the Record Date;
- (j) acknowledge that the information contained in this Prospectus and your Entitlement and Acceptance Form is not investment advice nor a recommendation that Entitlement Shares are suitable for you, given your investment objectives, financial situation or particular needs;
- (k) acknowledge the statement of risks in the "Risks" section (see **Section 5**), and that investments in Lucas are subject to risks;
- (l) acknowledge that none of Lucas, the Underwriter or their respective related bodies corporate and affiliates and their respective directors, officers, partners, employees, representatives, agents, consultants or advisers, guarantees the performance of Lucas, nor do they guarantee the repayment of capital;
- (m) agree to provide (and direct your nominee or custodian to provide) any requested substantiation of your eligibility to participate in the Entitlement Offer and of your holding of Shares on the Record Date;
- (n) authorise Lucas to correct any errors in your Entitlement and Acceptance Form or other form provided by you; and
- (o) represent and warrant that the law of any place does not prohibit you from being given this Prospectus and the Entitlement and Acceptance Form, nor does it prohibit you from making an application for Entitlement Shares and that you are otherwise eligible to participate in the Entitlement Offer.

7.5 U.S. Representations

If you submit an Entitlement and Acceptance Form or make a payment via BPAY or otherwise apply to participate in respect of Entitlement Shares, you will be deemed to have represented, warranted and agreed, on behalf of yourself and each person or account for which you are acting, that:

- (a) you understand and acknowledge that neither the Entitlement nor the Entitlement Shares have been, or will be, registered under the U.S. Securities Act or any US state or other securities laws in any jurisdiction, and may not be offered, sold or otherwise transferred except in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws;
- (b) you are not in the United States of America and are not acting for the account or benefit of a person in the United States; and

- (c) you have not sent and will not send this Prospectus, the Entitlement and Acceptance Form or any other material relating to the Entitlement Offer to any person in the United States of America.

7.6 Payment by BPAY

For payment by BPAY, please follow the instructions on the personalised Entitlement and Acceptance Form (which includes the Biller Code and your unique Reference Number). You can only make a payment via BPAY if you are the holder of an account with an Australian financial institution that supports BPAY transactions.

Please note that, should you choose to pay by BPAY:

- (a) you do not need to submit the personalised Entitlement and Acceptance Form, but are taken to have made the declarations on that personalised Entitlement and Acceptance Form; and
- (b) if you do not pay for your full Entitlement, you are deemed to have taken up your Entitlement in respect of such whole number of Entitlement Shares (and Additional Entitlement Shares, if any) which is covered in full by your application monies.

It is your responsibility to ensure that your BPAY payment is received by the Share Registry by no later than the Closing Date (subject to variation). You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should, therefore, take this into consideration when making payment.

Any application monies received for more than your final allocation of Entitlement Shares and Additional Entitlement Shares will be refunded (except for where the amount is less than \$2.00, in which case it will be retained by the Company) on or around 9 February 2012. No interest will be paid on any application monies received or refunded.

7.7 Payment by cheque, bank draft or money order

For payment by cheque, bank draft or money order, you should complete your personalised Entitlement and Acceptance Form in accordance with the instructions set out on that form and return it accompanied by a cheque, bank draft or money order in Australian currency for the amount of the application monies, payable to Lucas Entitlement Offer and crossed "Not Negotiable".

Your cheque, bank draft or money order must be:

- (a) for an amount equal to \$1.35 multiplied by the number of Entitlement Shares (and Additional Entitlement Shares, if any) that you are applying for; and
- (b) in Australian currency drawn on an Australian branch of a financial institution.

You should ensure that sufficient funds are held in the relevant account(s) to cover the application monies. If the amount of your cheque for application monies (or the amount for which the cheque clears in time for allocation) is insufficient to pay in full for the number of Entitlement Shares and Additional Entitlement Shares you have applied for in

your personalised Entitlement and Acceptance Form, you will be taken to have applied for such lower number of whole Entitlement Shares (and Additional Entitlement Shares, if any) as your cleared application monies will pay for (and taken to have specified that number of Entitlement Shares (and Additional Entitlement Shares, if any) on your personalised Entitlement and Acceptance Form). Alternatively, your application will not be accepted.

Cash payments will not be accepted. Receipts for payment will not be issued.

7.8 Mail or delivery

It is important to note that, in order to participate in the Entitlement Offer, your payment must be received by the Share Registry no later than 5.00pm (Sydney time) on 27 January 2012. If not paying by BPAY, your completed Entitlement and Acceptance Form, together with application monies, should be mailed to the Share Registry at:

Mail to:

AJ Lucas Group Limited Entitlement Offer
c/- Computershare Investor Services Pty Ltd
GPO Box 2987
Adelaide SA 5001

8 DETAILS OF THE PLACEMENT

8.1 Details of Placement

As stated in the Chairman's Letter in **Section 2**, on 30 September 2011, the Company placed 9,917,650 Placement Shares with Kerogen, at an issue price of \$1.35 per Placement Share for a total payment of \$13,388,827. US\$9.9 million of the proceeds of the Placement were used by the Company to pay the Cuadrilla Cash Call on 30 September 2011. As Kerogen is a sophisticated investor, this placement was able to be conducted without disclosure, under section 708(8) of the Corporations Act.

Generally, 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; and
 - (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 their Placement Shares within the 12 months without the issue of a further prospectus.

The Placement was not undertaken by the Company with the purpose of Kerogen selling or transferring their Placement Shares. However, the Directors consider that Kerogen should be able to sell their Placement Shares should they wish to do so, without being required to issue a prospectus.

8.2 Effect of the issue of the Placement Shares on the capital structure of the Company

Please see **Section 11** which sets out the impact of the issue of the Placement Shares on the capital structure of the Company.

9 DETAILS OF THE FUND OPTIONS

9.1 Background to the offer and issue of the Fund Options

The Company and certain funds (or custodians for the trustee of the funds) managed by Goldman Sachs Australia PIA (Management) Pty Limited (**Fund**) have agreed on the terms of an orderly redemption of the RCPS. The Company and the Fund have entered into an agreement with the Fund to facilitate the RCPS Buy Back.

As a part of the RCPS Buy Back, Lucas, subject to Shareholder approval at the EGM, proposes to offer and issue 1,000,000 options over Shares (**Fund Options**) for an issue price of \$0.01 and with an exercise price for each for each Share of \$2.13 to the Fund (or their nominees).

Shareholder approval for the offer and issue of the Fund Options is being sought at the EGM for the purposes of ASX Listing Rule 7.1, including for the issue of Shares on conversion of the Fund Options.

9.2 Terms of the Fund Options

The full terms of offer and issue of the Fund Options are set out in **Annexure C**.

9.3 Effect of the issue of the Fund Options on the capital structure of the Company

Please see **Section 11** which sets out the impact of the issue of the Fund Options on the capital structure of the Company.

9.4 Consequences if Shareholder approval is obtained

(a) Use of funds

The proceeds of issue of the Fund Options, if approved, will be nominal (\$10,000).

The proceeds of the exercise of the Fund Options, at the relevant times, will be used for working capital and to reduce debt, as appropriate having regard to the needs of the Company at that time.

(b) Impact on placement capacity

If Shareholder approval is obtained:

- (i)** the Company will issue the Fund Options;
- (ii)** the issue (and exercise) of the Fund Options will not absorb any of the Company's capacity to issue shares within the 15% limit in ASX Listing Rule 7.1; and

- (iii) the Company's placement capacity to issue further shares under ASX Listing Rule 7.1 will increase each time that Shares are issued on exercise of the Fund Options.

The Company will be able to issue Shares on exercise of the Fund Options, from time to time without a further Prospectus or cleansing notice;

9.5 Consequences if Shareholder approval is not obtained

Please see Section 3.2 of the Notice of EGM.

9.6 Rights and liabilities attaching to Shares

The rights and liabilities attaching to Shares are set out in the Company's Constitution (a full copy of the Constitution is available from the Company on request free of charge) and are outlined in **Section 6.12** of this Prospectus.

9.7 Risks of an investment in the Fund Options or underlying Shares

Key risks associated with any investment in the Fund Options or the underlying Shares are outlined in **Section 5** of this Prospectus.

9.8 ASX Listing

The Fund Options are not proposed to be quoted on ASX.

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

10 DETAILS OF THE KEROGEN OPTIONS

10.1 Purpose of the Kerogen Options

As a part of the Recapitalisation Proposal, Lucas proposes to enter into the Mezzanine Facility. The offer and issue of the Kerogen Options is a condition to the provision of the Mezzanine Facility by Kerogen to the Company.

Accordingly Lucas, subject to Shareholder approval at in the EGM, proposes to offer and issue to Kerogen the Kerogen Options which will have an exercise price per Share of the lower of (a) a 20% premium to the 5 day volume weighted average price (VWAP) of the Shares on the ASX to be calculated on the date which immediately precedes the date on which the notice to exercise the Kerogen Options is issued, and (b) \$1.70, but subject to a minimum price of \$1.35 per Share.

Shareholder approval for the offer and issue of the Kerogen Options is being sought at the EGM for the purposes of ASX Listing Rule 7.1, including for the issue of Shares on conversion of the Kerogen Options.

10.2 Terms of the Kerogen Options

The proposed terms of the Kerogen Options are set out in **Annexure D**. ASX maintains detailed 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). The Company will provide a copy of the Notice of EGM, free of charge, to any person who ask for a copy before the Closing Date. These terms include an agreement that the Company may cancel an agreed number of Kerogen Options for no consideration if the Mezzanine Facility is repaid by an amount in excess of \$30 million up to a maximum amount of \$45 million on or before 31 August 2012. See Section 6.6 of the Notice of EGM regarding the number of Kerogen Options that will be cancelled.

10.3 Effect of the issue of the Kerogen Options on the capital structure of the Company

Please see **Section 11** which sets out the impact of the issue of the Kerogen Options on the capital structure of the Company.

10.4 Consequences if Shareholder approval is obtained

If Shareholder approval is obtained:

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

The Company will be able to issue Shares on exercise of the Kerogen Options, from time to time without the need to issue a further prospectus or cleansing notice;

10.5 Consequences if Shareholder approval is not obtained

Please see Section 3.2 of the Notice of EGM.

10.6 Rights and liabilities attaching to Ordinary Shares

The rights and liabilities attaching to Shares are set out in the Company's Constitution (a full copy of the Constitution is available from the Company on request free of charge) and are outlined in **Section 6.12** of this Prospectus.

10.7 Risks of an investment in the Kerogen Options or underlying Shares

Key risks associated with any investment in the Kerogen Options and the Entitlement Shares are outlined in **Section 5** of this Prospectus.

10.8 ASX Listing

The Kerogen Options are not proposed to be quoted on the ASX.

Shares issued on exercise of the Kerogen 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 Shares to be issued from time to time upon exercise of the Kerogen Options.

11 EFFECT OF THE RECAPITALISATION PROPOSAL ON THE CAPITAL STRUCTURE OF THE COMPANY

11.1 Structure before Placement and Entitlement Offer

The Company's capital structure before the Placement, the Entitlement Offer Issue or the issue of the Options was as set out in Table 11.1.1 below.

Table 11.1.1

Securities	Number
Shares	66,117,664
Existing Options and Rights	788,175

11.2 Structure following Placement and Entitlement Offer

The Company's capital structure following the Placement and the Entitlement Offer but before the issue of the Options will be as set out in Table 11.2.1 below.

Table 11.2.1

Securities	Number
Shares	114,052,971
Existing Options and Rights	788,175

11.3 Structure following issue of the Fund Options and Kerogen Options

The Company's capital structure following the Placement and the Entitlement Offer and after the issue of the Fund Options and the Kerogen Options, assuming that none of the Existing Options and Rights, the Kerogen Options and the Fund Options are exercised, will be as set out in Table 11.3.1 below.

Table 11.3.1

Securities	Number
Shares	114,052,971
Existing Options and Rights	788,175
Fund Options	1,000,000
Kerogen Options	18,566,763

11.4 Structure following exercise of the Fund Options only

The Company's capital structure following the Placement and the Entitlement Offer and after the issue of the Fund Options and the Kerogen Options, assuming none of the Existing Options and Rights or the Kerogen Options are exercised but assuming that all of the Fund Options are exercised, will be as set out in Table 11.4.1 below.

Table 11.4.1

Securities	Number
Shares	115,052,971
Existing Options and Rights	788,175
Fund Options	0
Kerogen Options	18,566,763

11.5 Structure following exercise of the Kerogen Options only

The Company's capital structure following the Placement and the Entitlement Offer and after the issue of the Fund Options and the Kerogen Options, assuming none of the Existing Options and Rights or the Fund Options are exercised but assuming that all of the Kerogen Options are exercised, will be as set out in Table 11.5.1 below.

Table 11.5.1

Securities	Number
Shares	132,619,734
Existing Options and Rights	788,175
Fund Options	1,000,000
Kerogen Options	0

11.6 Structure following exercise of the Fund Options and the Kerogen Options

The Company's capital structure following the Placement and the Entitlement Offer and after the issue of the Fund Options and the Kerogen Options, assuming the Existing Options and Rights are not exercised but all of the Kerogen Options and the Fund Options are exercised, will be as set out in Table 11.6.1 below.

Table 11.6.1

Securities	Number
Shares	133,619,734
Existing Options and Rights	788,175
Fund Options	0
Kerogen Options	0

12 EFFECT ON FINANCIAL POSITION – PRO FORMA HISTORICAL STATEMENT OF FINANCIAL POSITION

12.1 Introduction and basis of preparation

To illustrate the effect of the Recapitalisation Proposal, the following unaudited pro forma consolidated historical statement of financial position of the Company as at 30 June 2011 (the **Pro Forma Historical Statement of Financial Position**) has been prepared by the Company based on the audited statutory consolidated statement of financial position of the Company at 30 June 2011, adjusted for certain pro forma transactions in relation to the Recapitalisation Proposal as if they had occurred at 30 June 2011.

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 Company.

The 2011 Annual Report for the Company is available at www.lucas.com.au and includes the statutory financial statements of the Company, including the accounting policies adopted by the Company. These financial statements were audited by KPMG. KPMG issued an unqualified audit opinion on the financial report with an emphasis of matter regarding going concern as follows:

“Without qualifying our opinion, we draw attention to Note 2(C) in the financial report which indicates that the Group incurred a net loss of \$17.5 million during the year ended 30 June 2011, has forecast additional short term additional working capital funding requirements amounting to \$10 million and, as of that date, the Group's current liabilities exceed its current assets by \$114.7 million.

These conditions along with other matters set forth in Note 2(C), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern without the ongoing support of the Group's financiers and other third parties, until the completion of the financial arrangements and asset sale initiatives described in Note 2(C), and the achievement of forecast profits and cash flows.”

As detailed in Note 2(C) of the financial report in 2011 Annual Report, the uncertainties in relation to going concern are intended to be mitigated by the Recapitalisation Proposal, the steps for which are discussed in detail in the Notice of EGM. The Pro Forma Historical Statement of Financial Position shows that, on a pro forma basis after taking into account the impacts of the Recapitalisation Proposal, the Company's current assets exceed its current liabilities by \$1.9 million.

Notwithstanding this pro forma net current asset position, the Directors, after taking into account the impacts of the Recapitalisation Proposal, continue to have regard to the following matters in assessing the uncertainties in relation to going concern:

- (a) the Company continues to investigate the sale of some of its business activities. Should a sale occur, the proceeds will be applied to funding future working capital requirements and, depending on the amount realised, partial repayment of the Mezzanine Facility, as required;
- (b) the Director's views in respect of the reasonableness of the profit and cash flow forecasts of the Company, having regard to the status of tenders recently won and pending, cost reduction program, recent improved financial performance and lower financing costs resulting from the anticipated recapitalisation of the balance sheet;
- (c) the Director's views in respect of the progress being made towards commercialising the Company investment in Monument Prospect; and
- (d) the Director's views in respect of the value of the Company's investment in Cuadrilla and the direct equity interest in the Bowland basin and Weald basin shale prospects in England.

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

12.2 Pro Forma Historical Statement of Financial Position

The Pro Forma Historical Statement of Financial Position is set out in Table 12.2.1 below.

A description of the pro forma transactions in relation to the Recapitalisation Proposal that have been applied to the audited statutory consolidated statement of financial position of the Company at 30 June 2011 to derive the Pro Forma Historical Statement of Financial Position is provided in **Section 12.3** below.

For information purposes, an interim column has also been provided showing the Pro Forma Historical Statement of Financial Position following completion of the transactions contemplated in the Notice of EGM, and prior to the impact of the Entitlement Offer (and subsequent ATO and ANZ term debt repayments).

Table 12.2.1 Pro Forma Historical Statement of Financial Position as at 30 June 2011

	Statutory 30 June 2011 \$'000	Kerogen Placement \$'000	Cuadrilla Capital Call \$'000	Mezzanine Facility \$'000	RCPS Buy-back \$'000	Pro forma before Entitlement Offer 30 June 2011 \$'000	Entitlement Offer \$'000	Repay ATO & repayment of ANZ term debt \$'000	Pro forma after Entitlement Offer 30 June 2011 \$'000
Current assets									
Cash and cash equivalents	1,348	13,389	(10,108)	85,000	(59,159)	30,470	48,219	(70,067)	8,622
Trade and other receivables	61,193	—	—	—	—	61,193	—	—	61,193
Inventories	52,946	—	—	—	—	52,946	—	—	52,946
Assets classified as held for sale	11,072	—	—	—	—	11,072	—	—	11,072
Other assets	1,899	—	—	—	—	1,899	—	—	1,899
Total current assets	128,458	13,389	(10,108)	85,000	(59,159)	157,580	48,219	(70,067)	135,732
Non-current assets									
Property, plant and equipment	136,896	—	—	—	—	136,896	—	—	136,896
Investments	—	—	—	—	—	—	—	—	—
Exploration assets	7,946	—	—	—	—	7,946	—	—	7,946
Intangible development assets	647	—	—	—	—	647	—	—	647
Other intangible assets	112,283	—	—	—	—	112,283	—	—	112,283
Investments in equity accounted investees	52,687	—	10,108	—	—	62,795	—	—	62,795
Total non-current assets	310,459	—	10,108	—	—	320,567	—	—	320,567
Total assets	438,917	13,389	—	85,000	(59,159)	478,147	48,219	(70,067)	456,299
Current liabilities									
Trade and other payables	88,412	—	—	—	(9,465)	78,947	—	(13,888)	65,059
Interest-bearing loans and borrowings	99,745	—	—	14,704	(44,460)	69,989	—	(8,257)	61,732
Current tax liabilities	47,922	—	—	—	—	47,922	—	(47,922)	—
Employee benefits	7,031	—	—	—	—	7,031	—	—	7,031
Total current liabilities	243,110	—	—	14,704	(53,925)	203,889	—	(70,067)	133,822
Non-current liabilities									
Interest-bearing loans and borrowings	12,718	—	—	61,044	—	73,762	—	—	73,762
Derivative liability	—	—	—	9,252	—	9,252	—	—	9,252
Deferred tax liabilities	5,677	—	—	—	—	5,677	(932)	—	4,745
Employee benefits	1,529	—	—	—	—	1,529	—	—	1,529
Total non-current liabilities	19,924	—	—	70,296	—	90,220	(932)	—	89,288
Total liabilities	263,034	—	—	85,000	(53,925)	294,109	(932)	(70,067)	223,110
Net assets	175,883	13,389	—	—	(5,234)	184,038	49,151	—	233,189
Equity									
Share capital	91,935	13,389	—	—	—	105,324	49,151	—	154,475
Reserves	(810)	—	—	—	637	(173)	—	—	(173)
Retained earnings	84,758	—	—	—	(5,871)	78,887	—	—	78,887
Total equity	175,883	13,389	—	—	(5,234)	184,038	49,151	—	233,189

Note - The Pro Forma Historical Statement of Financial Position presented above differs from that presented in Annexure G of the Notice of EGM due to an updated estimate of equity raising expenses (noted in **Section 12.3(e)** below), resulting in pro forma net assets of \$233.2 million (versus \$234.3 million disclosed in the Notice of EGM).

12.3 Pro forma adjustments

The pro forma adjustments incorporate the impact of the following:

(a) Placement

Net proceeds of \$13.4 million were received on 30 September 2011 from the Placement of the Placement Shares (see **Section 8**).

(b) Cuadrilla Cash Call

A payment of \$10.1 million (US\$9.9 million) was made on 30 September 2011 out of the proceeds of the Placement to satisfy the Cuadrilla Cash Call.

(c) Mezzanine Facility

The Company agreed terms with Kerogen on 17 November 2011 to receive a two-year \$86.5 million Mezzanine Facility subject to shareholder approval of the issue of the Kerogen Options to Kerogen. This adjustment reflects the net proceeds of the Mezzanine Facility (\$85.0 million after \$1.5 million of Mezzanine Facility fees). The Mezzanine Facility fees have been capitalised as borrowing costs and are to be amortised on an effective interest rate basis for the expected term of the Mezzanine Facility, being two years. Key terms of the Mezzanine Facility are set out in section 4.6 of the Notice of EGM.

At the same time as entering into the Mezzanine Facility, the Company will issue, subject to Shareholder approval, the Kerogen Options to Kerogen for nil consideration. For the purposes of the Pro Forma Historical Statement of Financial Position, the Kerogen Options have been recognised as a non-current derivative liability at fair value, which has been determined to be \$9.3 million. Details of the Kerogen Options are set out in **Section 10**.

The fair value ascribed to the Kerogen Options has an offsetting impact on the fair value of the Mezzanine Facility, equating to \$75.7 million (\$85.0 million less \$9.3 million). After taking into account the accounting impact of the Kerogen Options and Mezzanine Facility fees, \$14.7 million of the Mezzanine Facility has been classified as a current liability in accordance with the amortisation schedule calculated based on the principal and interest repayment terms of the Mezzanine Facility (refer to section 4.6 of

the Notice of EGM). \$61.0 million of the Mezzanine Facility has been classified as non-current on this basis.

In accordance with other terms of the Mezzanine Facility, such as the mandatory prepayment conditions and review event conditions, actual repayment terms are subject to change based on the occurrence of future events. These events may change the timing of the cash flow repayments and, therefore, the amortised cost of the loan facility and subsequent classification between current and non-current liabilities.

(d) RCPS Buy-Back and dividend payment

The Company will pay \$59.2 million out of the proceeds of the Mezzanine Facility to redeem the RCPS as follows:

- (i) \$45.0 million buy-back of the RCPS principal amount;
- (ii) \$12.2 million payment for RCPS Accrued Dividends, being \$9.5 million accrued as at 30 June 2011 and an estimated \$2.7 million accrued to the assumed payment date of 22 December 2011;
- (iii) \$0.8 million consent fee which has been recognised in retained earnings; and
- (iv) \$1.2 million RCPS Buy Back fee payable to the Fund which has been recognised in retained earnings.

\$0.5 million in unamortised borrowing costs at 30 June 2011 will be expensed on completion of the RCPS Buy-Back.

As part of the Recapitalisation Proposal, the Company will also issue 1,000,000 Fund Options to the Fund for \$0.01 per Fund Option. For the purposes of the Pro Forma Historical Statement of Financial Position, and in accordance with Australian Accounting Standards, the issue of the Fund Options have been treated as equity instruments and recognised within equity reserves at fair value, which has been determined to be \$0.6 million (such amount to be expensed in the income statement on issue of the options). Details of the Fund Options are set out in **Section 9**.

(e) Entitlement Offer

The Company has assumed the receipt of net proceeds of approximately \$48.2 million from the issue of approximately 38 million Entitlement Shares through the Entitlement Offer (providing gross proceeds of \$51.3 million), and settlement by cash of the associated equity raising expenses (including underwriting fees, professional fees and other costs) estimated to be \$3.1 million, recognised as a reduction to contributed equity net of tax effects. (Note that the estimate of equity raising expenses of \$3.1 million

has been updated from the \$1.5 million estimate that was disclosed in Annexure G of the Notice of EGM).

(f) Payment of amounts owing to the ATO

As at 30 June 2011, the Company owed \$61.8 million to the ATO, comprising of \$47.9 million in current tax payable, \$4.4 million of pay-as-you-go (**PAYG**) withholding tax, and \$9.5 million in accrued general interest charges (**GIC**). For the purposes of the Pro Forma Historical Statement of Financial Position, it has been assumed that these amounts owing to the ATO will be fully paid out of the proceeds of the Mezzanine Facility and the Entitlement Offer.

Subsequent to 30 June 2011, further accrued GIC is being incurred up until the repayment of the amounts owing to the ATO. The Company plans to also pay this incremental GIC from the proceeds of the Entitlement Offer. This amount has not been reflected in the Pro Forma Historical Statement of Financial Position.

(g) Repayment of ANZ term debt

The Company will repay the outstanding ANZ term debt balance of \$8.3 million out of the proceeds of the Entitlement Offer. As announced to the ASX on 30 **November** 2011, the Company has extended the maturity of the ANZ Facilities Agreement from 30 November 2011 to 3 January 2012.

(h) Effect on gearing position

As at 30 June 2011, the Company's Gearing Ratio (see basis of calculation in the **Schedule** (Glossary of Terms)) was 51.1%. After taking into account the pro forma transactions in relation to the Recapitalisation Proposal, this Gearing Ratio reduces to 38.2% on a pro forma basis.

13 COMPANY INFORMATION

13.1 General overview

Lucas is a diversified drilling services, construction and engineering/infrastructure services group. The Company offers services to the water and waste water, energy, resources and public infrastructure sectors in Australia, as well as being a leading Australian mining services provider to both the coal and (**CSG**) sectors. Lucas currently employs more than 940 staff in 8 offices around Australia.

Lucas is structured into three operational business segments with the client base of each comprising predominantly major corporations and Australian, States and local governments.

- **Drilling Services** – AJ Lucas Coal Technologies Pty Ltd (ACN 093 489 671), a wholly owned subsidiary of the Company (**Lucas Drilling Services**), provides a comprehensive suite of services to the both the coal and CSG sectors, including exploration and development drilling for coal and coal seam gas, coal seam gas production drilling, inseam directional drilling for the degasification of coal mines and well services and specialty services including engineering services for well design. Lucas Drilling Services is fully integrated with a strong technical focus such that it is able to undertake a project from engineering and planning, through to field exploration, field development and then production of gas and well workover.
- **Building, Construction and Infrastructure** – Building, Construction and Infrastructure (**BC&I**), which is conducted by AJ Lucas Operations Pty Limited (ACN 087 777 633) (**Lucas Operations**), a wholly owned subsidiary of the Company, provides engineering and construction services to the resources (coal), energy, water and waste water and public utilities sectors as well as civil engineering design, construction and maintenance services via a range of delivery methods including internal resources, alliances and joint ventures.. Current customers include Water Corporation via the Southern SeaWater Alliance, Chevron Australia, Gladstone Area Water Board, Bechtel and APA Group.
- **Asset Services** – Operating within Lucas Operations, various facilities management and construction maintenance services to the gas and water veticulation networks are offered by Lucas. Known as “Asset Services” this is a relatively new business for Lucas and incorporates in-house design and experience with proven European technologies to reduce environmental impact and enhanced production. Current customers include APA, EPIC, Opera House and SSWA.

13.2 Drilling Services

Lucas Drilling Services is the largest drilling services provider to the coal and CSG sectors in Australia. It operates a total of 77 multi-purpose drill rigs and employs more than 650 people. 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 Services has strategically located its regional facilities in Moranbah, Roma, Middledmount, 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 Services 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 Services 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 Services is a market leader in exploration and development drilling servicing both the coal and CSG markets. 56 rigs are employed in the coal industry (32 in New South Wales and 24 in Queensland) drilling vertical wells to establish underground coal reserves. Clients include major coal companies such as Xstrata, Anglo Coal and BHP Billiton. Lucas' immediate focus for this division is reducing cost per metre to customers whilst increasing profitability and efficiency for Lucas. This is achieved by standardising equipment and procedures and fostering a culture of continuous improvement in the management team. With the Company's strategic growth plan in mind, it is finalising plans with major equipment suppliers for a significant acquisition of new state of the art equipment to provide multi-purpose growth rigs with hands-free pipe handling. Lucas plans to secure two more key clients in 2012 and expand its offering to include geological and grouting services. A key growth opportunity is in providing an integrated end-to-end solution.

(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 Services currently operates 4 new CSG exploration rigs working for Arrow and Santos. This modern fleet is less than three years old and is able to easily cross into the coal exploration market when needed. CSG exploration drill rigs are, however, required to have well control capabilities and meet stricter compliance and regulatory requirements than coal exploration drill rigs. The contracted rigs have moved to a continuous 24/7 roster to meet increased demand requirements. This demand is expected to increase, as LNG operators seek to ramp up exploration in order to prove up reserves to meet demand for LNG plants under construction.

(b) Production Drilling

Production drilling employs 8 rigs, principally directed to CSG production drilling, and coal mine methane (**CMM**) drainage ahead of underground mining. The fleet comprises 4x100-tonne rigs and 4x60-tonne rigs. The division is currently contracted with Santos, Origin, 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 hole completion techniques to meet the client's particular requirements, which Lucas 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, conventional workover and completions and shale CSG and oil production. The division has recently entered into a contract with Armour Energy Limited to provide production drilling for its shale gas project in the Northern Territory.

(c) Directional Drilling

Directional drilling provides services to underground coal mines to drain CMM to the surface; typically completed 1-3 years in advance of the mining program. The business operates 7 directional drilling rigs and 2 vertical rigs. Rigs in the core exploration fleet can be adapted for conventional directional drilling, if required. Directional drilling demands the drill bit to be steered accurately through the coal seam, to intersect with a vertical well and requires highly specialised technical skills to do so. This skill set is a significant barrier to entry. This drilling methodology 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.

Lucas announced on 5 December 2011 that it had entered into a \$240 million contract with Xstrata to provide a full turn-key service. Management believe that this division will increase from 9 rigs in 2012 to 11 in 2013 and 15+ in 2014. In-house steering capabilities and existing of contracted work has allowed.

Currently contracted with Anglo Coal, Xstrata and Arrow, Lucas Drilling Services has established itself as one of the most technically advanced surface to in-seam (**SIS**) providers in Australia.

(d) Well Services

Well Services operates two workover rigs to install and commission down hole pumps, surface infrastructure, including monitoring systems, gas gathering lines, flares to connect to the gas gathering network and provide 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 and drag analysis; and
- (iii) professional steering team and expertise in a range of steering tools to execute the well design.

Growth of revenue and profitability in Engineering Services has suffered due to the capital constraints with the inability to acquire additional equipment. Lucas has ordered 5 new steering tools (to be delivered in April 2012) to supplement its existing capabilities with a view to double the capability of this activity during FY12. This positions the Company to provide technical project management services for all aspects of directional drilling CMM projects within this market, Lucas offers a cost-efficient and reliable service which combines oil field expertise and, advanced engineering techniques and which Lucas, intends to continue to develop.

Lucas Drilling Services 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 Services 12 month rolling Total Recordable Injury Frequency Rate reduced from 27.7 in November 2010 to 9.7 in October 2011. In the same time period, the Lucas Drilling Services 12 month rolling Lost Time Injury Frequency Rate reduced from 2.9 in November 2010 to 0.6 in October 2011.

13.3 Building, Construction and Infrastructure (BC&I)

BC&I provides engineering and construction services to the resources (coal), energy, water and waste water and public utilities sectors. Employing more than 230 people, with projects located across Australia, BC&I offers civil engineering design, construction and maintenance services via a range of delivery methods including internal resources, alliances and joint ventures. Clients are generally major corporates or government bodies. Current customers include Water Corporation via the Southern SeaWater Alliance, Chevron Australia, Gladstone Area Water Board, Bechtel and APA Group.

The sectors serviced by BC&I are as follows:

(a) Energy

Services provided to the energy industry predominantly comprise infrastructure services including pipelines, gathering systems and related facilities such as pump stations, compressor stations, valves, metering and associated network piping.

Often constructed in remote locations with difficult access, substantial planning is required to manage delivery of the work as Lucas is required to be largely self-sufficient for long periods of time with relatively little access to outside resources. Further, innovative delivery methods are often required to minimise the environmental impact including application of horizontal directional drilling.

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

(b) Water and Waste water

Lucas has a growing presence in developing infrastructure for Australia's water and waste water industry. Initially founded on the installation of cross country pipelines, the Company's service offering has expanded in recent years to include design and construction for waste water reuse, potable water treatment and associated pumping and pipeline networks. The Company also has a 19% interest in the Southern SeaWater Alliance

which is responsible for the construction and operation of the desalination plant located at Binningup, 150km south of Perth.

Recent contracts awarded to Lucas include the Curtis Island Water and Sewerage Infrastructure Project for the Gladstone Area Water Board. This project requires Lucas to construct and commission trunk mains, storage reservoirs, pump stations and distribution pipelines. Other contracts on which the Company is currently engaged include the design and construction of a waste water treatment system using a Membrane Bioreactor for the Wingecarribee Shire Council and the construction of the Mayfield to Broadmeadow Waste Water Transfer System for the Hunter Water Corporation.

Other contracts previously completed by Lucas in the water industry include the Western Corridor Recycled Water Project in the suburbs of Brisbane.

(c) Construction

Lucas has decades of design and construction experience in commercial, industrial, government and residential building experience. Lucas' construction expertise and attention to detail has been recognised by receipt of numerous industry awards including most recently the Master Builders Association award for Commercial Buildings valued at \$10 million to \$20 million for the Port Botany Operations Centre. Lucas also recently completed the Federal Government BER schools programme upgrading 56 schools across New South Wales.

(d) Micro-trenching

Lucas is a party to a joint venture with Groupe Marais SA (a French company) to apply micro-trenching technology for the installation of underground infrastructure with minimal environmental impact. Lucas holds a 50% equity holding in the joint venture company, Marais-Lucas Technologies Pty Limited (**Marais-Lucas**). The technology has particular application for the installation of fibre optic cable. The national broadband network rollout programme in Australia and the equivalent ultra fast broadband programme in New Zealand will require installation of thousands of kilometres of cable in both countries. Marais-Lucas has previously completed several small projects for clients such as Fulton Hogan, Optus and is currently working for Chorus Downer in New Zealand. Marais-Lucas is hopeful of securing further work over the coming years as the rollout progresses.

Focusing on the energy, resources and water industry, Lucas believe that BC&I is ideally positioned to take advantage of the expected growth in demand for supporting infrastructure with a strong order backlog. These

include the second stage construction and upgrade of the Southern Seawater Desalination Plant in Western Australia and the Curtis Island Water and Sewerage Infrastructure Projects. These projects illustrate both the size and diversity of the market in which BC&I operates.

(e) Latest developments

The Company is currently in discussions with an international specialist construction group in relation to the acquisition of part of BC&I. Any agreement between the parties is likely to be subject to customary conditions precedent including board approvals of each party. On completion of the proposed transaction, the parties would enter into a shareholders' agreement to govern the parties' relationship.

13.4 Asset Services

Within its newly created Asset Services division, Lucas offers a number of operation and maintenance and facility management services, including the following:

(a) In the Energy sector:

- Corrosion monitoring and integrity management for steel pipelines;
- Installation of gas networks;
- Site safety and environmental management;
- Surveillance, external interference detection and control;
- Coal seam methane polyurethane networks and power station support.

(b) In the Water and Wastewater sector:

- Installation and repair of pipes, hydrants and valves;
- Management of SCADA systems;
- Asset condition assessments and lifecycle planning;
- Operation and control of specialist water facilities.

(c) In the Building industry:

- Maintenance management solutions and essential trade services;
- Programmed maintenance, project management and supervision of maintenance of facilities;
- Heritage building restoration;
- Graffiti removal.

This division is designed to leverage off the client base and skill sets which reside within other divisions within the Group, to provide additional infrastructure services to clients within Lucas' core sectors. In particular, in the area of gas and water reticulation networks, Lucas has adopted many practices and procedures from Europe, where this type of activity has been undertaken for some years.

It is the intention of Lucas to develop this division, both in forms of services offered (to more extensive, longer term operation and maintenance type contracts – particularly in the water and wastewater sectors) as well as its size. At present, the Lucas Asset Services division is considered a start-up.

13.5 Interest in Cuadrilla's exploration permits

In association with its investment in Cuadrilla, through a UK subsidiary, Lucas owns a direct 25% interest in two of Cuadrilla's English exploration permits, PEDL 165 in the Bowland basin and PEDL 244 in the Weald basin. Cuadrilla is the operator of the exploration programme for these permits and Lucas has entered into operating agreements with Cuadrilla which obliges it to contribute 25% of the direct exploration expenses attributable to these permit areas. A description of exploration activity to date is included in the description of Cuadrilla in **Section 13.6**.

13.6 Cuadrilla

(a) Introduction

Cuadrilla is a company incorporated in England and based in Lichfield, Staffordshire. The principal business of Cuadrilla is exploration for unconventional sources of gas and oil in Europe.

As of the date of this Prospectus, Cuadrilla holds exploration permits in six different sedimentary basins in the United Kingdom (Bowland and Weald basins), the Netherlands and Poland, covering in excess of 1 million net acres. In addition, Cuadrilla has exploration license applications pending in Poland and the Czech Republic.

Cuadrilla has recently exercised an option to take a 29⅓% interest in Delta Hydrocarbons Hungary LLC (**DHH**), a Hungarian company which holds exploration and mining licenses in Hungary's Pannonian basin. If all of its pending license applications are approved, Cuadrilla will have activities in eight sedimentary basins across Europe.

(b) Ownership and funding

Lucas, through its wholly owned subsidiary Lucas Cuadrilla Pty Limited, has a 42% 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%.

Lucas has invested \$73.6 million in Cuadrilla and its direct exploration interest since Cuadrilla began operations in 2007. USD\$5m in further funding for Cuadrilla's planned operations will be required in January 2012.

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. In 2012, Lucas 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 review of the Geo-Mechanical Study, as set out below. It is not planning further drilling in the Bowland basin until the UK Government makes its determination on future fracking activity.

(c) Strategy

Cuadrilla's strategy since inception has been to identify and obtain exploration permits in prospective unconventional energy sedimentary basins in the European Union, to build a diversified portfolio of licenses across several exploration areas, to explore these areas sufficiently to identify the probability of prospective commercial reserves of gas, condensates or oil, and to invite interest for those areas from prospective larger partners which are better suited in terms of financial, technical and production capability to exploit any prospective reserves which have been identified.

In support of that strategy, in recognition of the challenges and opportunities associated with the relatively small scale of the unconventional exploration support services available in Europe when it commenced operations in 2007, and in order to enhance operating capability and reduce operating costs, Cuadrilla purchased and operates its own drilling rig, hydraulic stimulation and well services equipment.

Cuadrilla seeks to minimise exploration risk by targeting basins which have a history of conventional energy production or, where there is available exploration data such as well logs and other geological/geophysical data, basins which are known to contain hydrocarbons. Cuadrilla's management evaluates prospective basins where large, contiguous land positions can be assembled. Where possible, it seeks to identify multiple prospective plays (shale gas, shale oil, tight gas sands) within the areas it is examining. The Noord Brabant exploration area is such an example, where Cuadrilla believes there is more than one prospective unconventional resource play.

(d) Board and Management

The board of Cuadrilla is composed of three nominees from Lucas, three nominees from Riverstone and two members of the management team.

Lucas and Riverstone have no direct role in the day-to-day operations of Cuadrilla. On occasions Lucas has seconded employees from Australia to complete discrete assignments or provide advice associated with setting up systems such as health and safety, and on-site drilling operations, and Riverstone upon request has made available technical advice from companies in its portfolio of energy investments.

The management team is composed of executives with considerable experience in the energy and energy services industry, supplemented by academic and industry consultants.

(e) Exploration Licences

Other than in Hungary, all of Cuadrilla's exploration licenses and applications are held through wholly-owned subsidiaries incorporated in the countries where the licenses are held.

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.

In July 2011, Cuadrilla completed the purchase of PEDL 247 in the Weald basin. Other than in Hungary, Cuadrilla is the operator of all the license areas.

Cuadrilla's current exploration portfolio is set out 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.

Cuadrilla Exploration Licenses						
License/Prospect	Country	Basin	Award Date	Gross Acres	Net Acres	Partner (%WI)
PEDL 165	UK	Bowland	2008	293,190	219,893	Lucas 25%
PEDL 244	UK	Weald	2008	67,000	50,250	Lucas 25%
PEDL 247	UK	Weald	2011	135,265	135,265	
Noord Brabant	Neth	Roer	2009	476,666	286,000	EBN 40%
Noordoostpolder	Neth	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	

Cuadrilla is up to date with the work commitments required by the terms of its exploration licences.

(f) Operations

From its inception in 2007 until mid-2010, Cuadrilla's activities were focused on capital raising, land acquisition, the construction, procurement and certification of its drill rig and well service equipment, and obtaining exploration licenses and drilling permits. During this time, Cuadrilla obtained its exploration license in the Bowland basin and PEDL 244 in the Weald basin in the United Kingdom, the Noord Brabant and Noordoostpolder permits in the Netherlands and the Lublin Trough permits in Poland. It currently has drilling permits in the Bowland and Weald basins in the United Kingdom. It will re-apply for its drilling permit in the Noord Brabant license area in the Netherlands, and is preparing drilling permit applications for Noordoostpolder.

(g) Bowland basin

In August 2010, the first vertical exploration well, Preese Hall 1, was spudded in the Bowland basin, near Blackpool in Lancashire. To Lucas' 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.

Core studies, analysis of sample cuttings, mud log data, drilling information and geophysical analyses of Preese Hall 1 and Grange Hill 1 have identified a series of prospective pay zones throughout the shale zones drilled. In Preese Hall 1, the shales are over 3,000 feet thick. In Grange Hill 1, the shales are thicker. The Preese Hall fracturing programme was planned for 12 frac stages through this interval in order to test these prospective pay zones. 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 discussed in **Sections 5.4(a)** and **13.6 (i)**.

As a consequence of the temporary suspension of the fracturing programme, Cuadrilla is not yet able to provide a full report of the gas productivity of the two wells drilled to date. The five frac stages completed in Preese Hall 1 have shown that the shales will respond to fracturing and that gas will flow to the surface.

Testing of Preese Hall 1 gas flows to date has been limited to the zones fractured by the last two frac stages, where satisfactory flow rates have been observed. The earlier frac stages also flowed satisfactory amounts of gas during short term flowback and clean up operations. Currently, the well fracing is temporarily suspended.

(h) Preliminary Estimate

As announced to the ASX on 22 September, Cuadrilla released publicly 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.

(i) Geo-mechanical Study

On 1 November 2011, Cuadrilla provided to DECC and BGS the Geo-Mechanical Study into the Bowland basin seismic events which occurred in April and May, 2011. The 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 at the Prospectus Date, Cuadrilla, and consequently Lucas, understands that the study is being considered by DECC and the BGS. Cuadrilla has not received any indication as to whether the UK Government believes that it has sufficient information from the study or when it will make any decision on whether or not fracking activities will be allowed to resume.

The study concludes:

- It is highly probable that the hydraulic fracturing of Cuadrilla's Preese Hall-1 well did trigger a number of minor seismic events.
- None of the events recorded, including one in April of 2.3 and one in May of 1.5 on the Richter scale, had any structural impact on the surface above.
- The seismic events were due to an unusual combination of geology at the well site coupled with the pressure exerted by water injection as part of operations.
- This combination of geological factors was extremely rare and would be unlikely to occur together again at future well sites.
- 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".
- Cuadrilla's water injection operations take place very far below the earth's surface which significantly reduces the likelihood of a seismic event of less than 3 on the Richter scale having any impact at all on the surface.

In addition, the study sets out a description of, and recommends that Cuadrilla implement, an early detection system which can monitor seismic activity and which allows implementation of a series of steps to prevent the escalation of any future seismicity. Similar systems are in place in the Netherlands and Germany. The purpose of the recommended system is to ensure that any seismic activity triggered by the hydraulic fracturing process, however unlikely, can be managed to prevent any impact to people and property.

(j) Hungary

In 2010, Cuadrilla entered into an agreement with a Dutch company, Delta Hydrocarbons BV (**Delta**) to earn a 29⅓% interest in Delta's Hungarian exploration subsidiary, DHH, by re-completing a well, BA-E-1, in the Ba-IX Mining Block (**Ba-IX**) in the southern Pannonian basin in Hungary. The

permit area is owned by Delcuadra Ltd which in turn is owned 75% by DHH and 25% by RAG AG. Cuadrilla also has the option to earn a further 29⅓% interest in DHH by drilling and completing a second well in Ba-IX. If Cuadrilla does elect to drill the second well in Ba-IX, it is unlikely to be drilled before the second half of 2012.

During July 2011, Cuadrilla completed the three required zones of BA-E-1. During post completion well testing, satisfactory initial flow rates of gas and small amounts of condensate were recovered. The well has completed an extended production test into a sales pipeline and gas and condensate production has begun. The expected revenues to Cuadrilla from this one well are not expected to be material.

In accordance with its agreement with Delta, Cuadrilla has exercised its option to take up the 29⅓% interest in DHH.

(k) Proposed Exploration Programme for remainder of 2011 and 2012

Cuadrilla is currently drilling its third exploration well, Beconsall 1, in the Bowland basin. This well has reached its total depth of 10,500 feet.

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 commissioned a minimum 100 square kilometre 3D seismic programme of the Bowland basin. Depending on seismic crew availability, Cuadrilla hopes to complete the field acquisition in the second quarter of 2012.

In Hungary, Cuadrilla is currently planning to drill the BA-E-2 well in the second half of 2012.

13.7 Monument Prospect

Under the terms of the Amended and Restated Participation Agreement between Allan Campbell and Thomas E. Knowlton (**TK**) dated 24 August 2009 and a Deed of Acknowledgement between Allan Campbell and Lucas dated 30 September 2009, Lucas has an indirect contractual interest in 10% of a net profit interest earned by TK 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 Lucas.

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 TK that he has transferred the approximately 62,560 leasehold net acres in the area of mutual interest to an affiliate of TK,

TEKXON Onshore Oil & Gas, LLC (**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 Lucas. However, the Company has not been provided with information of the nature or value of the non-cash interest paid by TEKXON to TK 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.

13.8 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.

13.9 Reports and ASX announcements

A summary of the operations, strategic focus, major activities and financial information for the Company is in the 2011 Annual Report. A full copy of the 2011 Annual Report has been lodged with ASIC.

The 2011 Annual Report contains information concerning the activities of the Company to 30 June 2011 as well as information about the Company's financial position as at that date.

Since 1 January 2011, the Company has also issued certain other material ASX announcements as listed in the table below.

Date	Announcement
05/12/2011	AJ Lucas Signed \$240 million Contract with Xstrata
02/12/2011	Response to ASX Query
30/11/2011	Amended Appendix 3Y - Allan Campbell
30/11/2011	Amended Appendix 3Y - Allan Campbell
30/11/2011	Results of AGM
30/11/2011	Extension of ANZ Bank Facilities
30/11/2011	AGM Presentation
30/11/2011	Chairman's Address to Shareholders
28/11/2011	Appendix 3Y – Allan Campbell Lapse of Options

28/11/2011	Appendix 3B - Lapse of Options
21/11/2011	Amended Appendix 3B for Proposed Rights Issue
18/11/2011	Notice of Extraordinary General Meeting Proxy Form
18/11/2011	Appendix 3B regarding Rights Issue
17/11/2011	Annual General Meeting – Proxy Form
17/11/2011	AJ Lucas Announces Amendment to Recapitalisation Plan
04/11/2011	Cuadrilla Releases Geo-mechanical Study of Bowland Shale
27/10/2011	Notice of Annual General Meeting/Proxy Form
26/10/2011	Annual Report to Shareholders
05/10/2011	Kerogen Becoming a substantial holder
30/09/2011	Appendix 3B Kerogen Placement and Cuadrilla Equity Subscription
30/09/2011	Full Year Statutory Accounts
22/09/2011	Cuadrilla announces estimate of Gas in Place at Bowland
21/09/2011	Appendix 3B – Cancellation of options
19/09/2011	AJ Lucas Announces Major Recapitalisation of the Company
09/09/2011	Preliminary Final Report
31/08/2011	Update on Balance Sheet Restructuring
17/08/2011	BC&I Division secures projects totalling \$168.6 million
12/08/2011	Cuadrilla Activity Update Report
01/07/2011	Progress Update on Balance Sheet Restructuring
02/06/2011	Cuadrilla Update – Suspension of Fracking Operations
31/05/2011	Cuadrilla Update – First Frac Completed at Preese Hall
27/05/2011	Operations and Earning Guidance
25/05/2011	Suspension from Official Quotation
23/05/2011	Trading Halt
03/05/2011	Upstream investment update
27/04/2011	Cuadrilla Activity Update Report
15/04/2011	Recent Contract Wins
11/04/2011	Response to ASX Price Query
14/03/2011	Sale of Underground In-Seam Services Business
28/02/2011	Half Yearly Report and Accounts

The 2011 Annual Report and all ASX announcements for the Company are available from ASX on its website – www.asx.com.au. Copies of the 2011 Annual Report, including the 2011 financial report may also be obtained on request and free of charge, from the Company Secretary.

14 AUSTRALIAN TAXATION IMPLICATIONS

14.1 Purpose and disclaimer

The following is a summary of the Australian taxation implications for Australian resident Eligible Shareholders who have been offered the opportunity to participate in the Entitlement Offer. Specifically, this Section considers the application of the income tax provisions for Eligible Shareholders who are residents of Australia for tax purposes and who hold their Shares on capital account for the purposes of investment.

The Australian taxation system is complex and the taxation consequences for each Eligible Shareholder may differ depending upon their particular circumstances and the views of the ATO. This Section is intended as a general guide only and is not an authoritative or complete statement of all potential tax implications for any Eligible Shareholder. It does not constitute taxation advice and should not be relied upon as such. All Eligible Shareholders should seek professional taxation advice as to the taxation implications of the Entitlement Offer appropriate to their own circumstances.

This Section reflects the provisions of the Australian tax laws and the regulations made under those tax laws, taking into account rulings and determinations published by the ATO applicable as at the date of the Prospectus. The summary does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action, nor does it take into account taxation legislation of countries other than Australia.

The summary is not exhaustive of all the Australian taxation considerations that may apply to an Eligible Shareholder and, in particular, does not apply to Eligible Shareholders who:

- (a) hold their Shares (or will hold their Entitlement Shares) as revenue assets (i.e. they are engaged in a business of share trading, banking or investment) or as trading stock or otherwise;
- (b) have acquired their Shares for the purposes of resale at a profit;
- (c) acquired their Shares at a 'discount' under an arrangement which qualifies as an employee share or option plan for Australian tax purposes;
- (d) will hold their Entitlements Shares under an arrangement that constitutes an employee share scheme' for Australian tax purposes; or
- (e) are subject to special tax rules such as a bank, insurance company, tax exempt organisation or superannuation fund.

Furthermore, this summary does not consider the operation of the rules dealing with the taxation of financial arrangements (**ToFa**).

14.2 Granting of Entitlements to acquire Shares

Subject to the qualifications noted above, the granting of the Entitlements to subscribe for 1 Share for every 2 Shares held at 5.00 pm (AEST) on the Record Date should not of itself result in any amount being included in the assessable income of an Eligible Shareholder.

14.3 Taking up Entitlement to acquire Shares

For Eligible Shareholders who take-up all or part of their Entitlement and subscribe for Entitlement Shares:

- (a) there should be no immediate Australian taxation liability in respect of the exercise of an Entitlement by an Eligible Shareholder to acquire a Share;
- (b) the Entitlements will cease to exist and a capital gains tax (**CGT**) event will occur. However, any capital gain or loss made on the exercise of the Entitlements should be disregarded for income tax purposes;
- (c) the Entitlement Shares acquired as a result of exercising the Entitlements will be treated for CGT purposes as having been acquired on the day on which an Eligible Shareholder exercises their Entitlements; and
- (d) the Entitlement Shares should have a cost base for CGT purposes equal to the Issue Price payable for the acquisition of the Entitlement Shares, plus any non-deductible incidental costs incurred in acquiring the Entitlement Shares.

14.4 Taxation of Dividends and Distributions

Eligible Shareholders who exercise all or part of their Entitlements will acquire Shares. Any future dividends or other distributions made in respect of those Shares will be subject to the same taxation treatment as dividends or other distributions made on existing Shares held in the same circumstances (note that the actual date of acquisition of the Shares will be relevant for the application of certain integrity rules that are based on ownership periods such as the '45 day holding period rule').

14.5 Taxation of Capital Gains

On any future disposal of Shares, Eligible Shareholders may make a capital gain or capital loss, depending on whether the capital proceeds received in respect of the disposal are more than the cost base or less than the reduced cost base of the Shares. The cost base of those Shares is described above.

An Eligible Shareholder will, therefore, make a capital gain from the disposal of their Shares if the capital proceeds that they receive exceeds the cost base of their Shares. Conversely, a capital loss will arise if the reduced cost base of the Shares held by an Eligible Shareholder exceeds the capital proceeds they receive.

Any capital gain made from the disposal of the Shares will be combined with any other capital gains an Eligible Shareholder has made for the income year. The total capital gains will then be reduced by any capital losses an Eligible Shareholder has made in the income year or can deduct from a prior income year. The resulting net capital gain (if any) will consequently be included in the Eligible Shareholder's assessable income for the income year, subject to any available CGT discount (please see **Section 14.6** below). Any revenue losses of the Eligible Shareholders may be available for offset against a net capital gain, provided that the loss utilisation requirements are met.

A capital loss that arises on the disposal of the Shares may only be offset against an Eligible Shareholder's assessable capital gains (before taking into account the CGT discount, if applicable) for the current income year. Any excess capital loss may be applied against the Eligible Shareholder's future assessable capital gains (before taking into account the CGT discount, if applicable), provided that the loss utilisation requirements are met. A capital loss is not available to reduce other revenue or assessable income amounts. No CGT discount can apply for the purpose of calculating a capital loss.

14.6 CGT Discount

Any capital gain arising to Eligible Shareholders who are individuals and trusts (other than trusts that are complying superannuation funds) can generally be reduced by 50% (after first offsetting current year or prior year capital losses from other asset disposals) if those Shares are held for at least 12 months between the date those Shares are acquired and the date of disposal.

For Eligible Shareholders who are complying superannuation funds, any capital gain can generally be reduced by one-third (after first offsetting current year or prior year capital losses from other asset disposals) if those Shares are held for at least 12 months between the date those Shares are acquired and the date of disposal. The CGT discount is not available to Eligible Shareholders that are companies.

Shares acquired by Eligible Shareholders taking up all or part of their Entitlement to acquire Shares will be treated for the purposes of the CGT discount as having been acquired when the Eligible Shareholder exercised the Entitlement to subscribe for them. Accordingly, in order to benefit from the CGT discount in respect of a disposal of those Shares, they must have been held for at least 12 months after the date of exercise.

14.7 Allowing the Entitlement to lapse

The Entitlements offered to Eligible Shareholders are personal and are not capable of being traded on ASX (or any other exchanges) nor can they be privately transferred. Eligible Shareholders' Entitlements will lapse on the Closing Date. Eligible Shareholders may not otherwise dispose of their Entitlements.

In circumstances where Entitlements lapse, the Eligible Shareholders will not acquire any new Shares under the Entitlement Offer and will not have any taxation consequences as a result of the Entitlements they receive and do not exercise.

14.8 Other Australian taxes

No Australian Goods and Services Tax or stamp duty is payable in respect of the grant or exercise of the Entitlements or the acquisition of new Shares.

14.9 Tax File Number – Australian Business Number

Unless you have already provided the Company with your tax file number (**TFN**), please provide us with these details or an exemption code when you apply for Shares or Additional Shares. Investors whose investment are made in the course of carrying on an enterprise may quote their ABN as an alternative. Collection of TFNs/ABNs in relation to your investment in Lucas is authorised, and its use and disclosure are strictly regulated, by the tax laws and the Privacy Act. Quotation is not compulsory but withholding tax may be deducted from payments at the highest marginal tax rate plus Medicare levy (being 46.5%, the TFN withholding rate should not include the flood levy) if you do not quote your TFN/ABN or claim an appropriate exemption. Any amount of tax withheld from payments paid to you can be claimed as a credit in your tax return.

For more information about the use of TFNs/ABNs, please consult your professional adviser or contact the ATO.

15 ADDITIONAL INFORMATION

15.1 Continuous Disclosure obligation

Lucas 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 Lucas during the relevant accounting period, together with an audit or review report thereon by Lucas’ auditor; and
- (b) immediate notification to ASX of any information concerning Lucas 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 Lucas securities, subject to certain limited exceptions.

The ASX maintains detailed 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 Lucas may be obtained from, or inspected at, an office of ASIC.

15.2 Information that has been excluded from continuous disclosure

This Prospectus contains an offer to Eligible Shareholders in Australia and New Zealand of continuously quoted securities (as defined in the Corporations Act) and 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.

15.3 Directors

- (a) Allan Campbell – Executive Chairman and CEO

After qualifying as a lawyer, Mr Campbell worked as an investment banker, initially in Australia and then for ten years in London and New York. Mr Campbell was head of mergers and acquisitions and corporate reorganisations at James Capel & Co Ltd in London where he gained valuable hands-on experience in the turnaround of distressed companies. Mr Campbell acquired Lucas in 1995 and listed it on the ASX in 1999. Subsequently, he has been responsible for the Company’s strategic direction and has established its position as one of the leading providers of infrastructure, construction and mining services in Australia.

(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 chairman of Ludowici Limited (since 2003) and a non-executive director of Bradken Limited since 2002 and Macquarie Generation since 2009. Directorships of other listed companies over the past three years: Capral Limited (Chairman, 2002-2010). 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 the State's largest drilling company over the next 36 years. Lucas acquired McDermott Drilling in 2006, retaining Mike to integrate McDermott's with the rest of the Lucas drilling business. He is a director of the Australian Drilling Industry Association (ADIA), Australian Drilling Industry Training Committee (ADITC) and was the director representing the drilling industry on the Resources and Infrastructure Industry Skills Council (RIISC).

15.4 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 Lucas, the Entitlement Offer, the Placement, the Mezzanine Facility or property acquired or proposed to be acquired by Lucas in connection with its formation or promotion of the Entitlement Offer; 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 Lucas, the Entitlement Offer, the Placement or the Mezzanine Facility.

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 15.4.1.

Table 15.4.1

Director / Director-related Entity	Shares	Existing Options and Rights
Allan Campbell	10,140,083	348,648
Andial	17,490,000 ³	
Martin Green	200,000	-
Phillip Arnall	-	-
Genelle Coghlan	-	-
Mike McDermott	-	-

The maximum relevant interest of each Director and their Director-related entities in the Shares and Options over the Share issued by the Company following the issue of the Entitlement Shares and Options are set out in Table 15.4.2. The maximum holdings reflect maximum Sub-underwriting positions (including as a consequence of a failure of sub-underwriters other than Kerogen and Andial to sub-underwrite), the non-subscription to rights entitlements by any shareholder other than Kerogen

³ Andial's shareholding includes its relevant interest in Allan Campbell's Shares.

and Andial but disregards any potential increase in their holdings that may occur by acquiring Shares on market.

Table 15.4.2

Director / Director-related Entity	Maximum Number of Shares	Existing Options and Rights
Allan Campbell	15,210,125	348,648
Andial	55,881,916	348,648
Martin Green	300,000	-

15.5 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 Lucas 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 non-executive Directors are set out below in Table 15.5.1.

Table 15.5.1

Director	Salary/Fees	Value of Options	Total
Allan Campbell	\$649,957	\$166,524	\$866,481 (inclusive of \$50,000 superannuation)
Martin Green	\$80,000	-	\$80,000
Phillip Arnall	\$73,314	-	\$73,314
Genelle Coghlan	\$73,333	-	\$73,333
Mike McDermott	\$91,535	-	\$101,285 (inclusive of superannuation and long service leave)

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 may be fixed by the Board and may be by way of salary or commission or participation in profits or by all or any of those

modes, but may not be by a commission on or percentage of operating revenue. 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.

Lucas has agreed to indemnify all directors and officers of Lucas 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 Lucas and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. Lucas 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.

15.6 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 Entitlement Offer:

- (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 Lucas, the Entitlement Offer, the Placement, the Mezzanine Facility or property acquired or proposed to be acquired by Lucas in connection with its formation or promotion of the Entitlement Offer; 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 Lucas, the Entitlement Offer, the Placement or the Mezzanine Facility.

15.7 Information Availability

Pursuant to Class Order 00/44, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

Eligible Shareholders in Australia and New Zealand can obtain a copy of this Information during the period of the Entitlement Offer on the Lucas website at www.lucas.com.au or by calling the Lucas Shareholder Information Line on the numbers listed in the **Schedule** (Corporate Directory) in this Prospectus. Persons who access the electronic version of this information should ensure that they download and read the entire Information. The electronic version of this Information

on the Lucas website will not include a personalised Entitlement and Acceptance Form.

The Company reserves the right not to accept an Entitlement and Acceptance Form from a person it has reason to believe that when that person was given access to the electronic Entitlement and Acceptance Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

A replacement Entitlement and Acceptance Form can be requested by calling the Lucas Shareholder Information Line on the numbers listed in the **Schedule** (Corporate Directory) in this Prospectus.

Neither this Prospectus nor the accompanying personalised Entitlement and Acceptance Form may be distributed to, or relied upon by, persons in the United States of America or that are, or are acting on behalf of or for the account or benefit of, a U.S. Person, or otherwise distributed in the United States.

15.8 Past performance

Investors should note that the past share price performance of Lucas provides no guidance as to future share price performance.

15.9 Governing law

This Information, the Entitlement Offer and the contracts formed on acceptance of personalised Entitlement and Acceptance Forms are governed by the laws applicable in New South Wales, Australia. Each applicant for Entitlement Shares submits to the non-exclusive jurisdiction of the courts of New South Wales, Australia.

15.10 Foreign jurisdictions

This Information has been prepared to comply with the requirements of the securities laws of Australia and New Zealand.

New Zealand

Entitlement Shares being offered under this Information are also being offered to Eligible Shareholders with registered addresses in New Zealand in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand). This Information is not an investment statement or prospectus under New Zealand law, and may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

Hong Kong

Please note that: (1) shares may not be offered or sold in Hong Kong by means of this document or any other document other than to “professional investors” (as

defined in the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (the **SFO**) and any rules made under the SFO) (the **Professional Investors**), or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of the laws of Hong Kong (the **CO**) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO; and (2) no person shall issue, or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to the Professional Investors.

This Prospectus has not been, and will not be, registered under the CO, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the SFO. No action has been taken in Hong Kong to authorise or register this Prospectus. Accordingly, the Entitlement Offer has not been and will not be offered in Hong Kong by means of any document other than:

- (a) to the Professional Investors; or
- (b) in other circumstances that do not result in the document being a “prospectus” as defined in the CO or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO.

This Prospectus does not constitute an offer or invitation in any place in which it is unlawful, or to any persons to whom it would not be lawful, to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia, New Zealand and Hong Kong 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.

This Information does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Entitlement Offer, the Entitlements or the Entitlement Shares (or Additional Entitlement Shares), or otherwise permit the public offering of the Entitlement Shares (or Additional Entitlement Shares), in any jurisdiction other than Australia, New Zealand and Hong Kong.

The distribution of this Information (including an electronic copy) outside Australia, New Zealand and Hong Kong may be restricted by law. If you come into possession of this Information, you should observe such restrictions and should seek your own advice on such restrictions.

Any non-compliance with these restrictions may contravene applicable securities laws.

15.11 Disclaimer of representations

No person is authorised to give any information, or to make any representation, in connection with the Entitlement Offer, 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 Lucas, or its related bodies corporate, in connection with the Entitlement Offer. Except as required by law, and only to the extent so required, none of Lucas, or any other person, warrants or guarantees the future performance of Lucas or any return on any investment made in connection with the Prospectus.

15.12 Underwriting agreement

(a) General

On 17 November 2011, the Company and the Underwriter entered into the Underwriting Agreement, under which the Underwriter agreed to manage and fully underwrite the Entitlement Offer by acquiring or requiring the Sub-underwriters to acquire all Entitlement Shares remaining after any Additional Entitlement Shares have been allocated by the Board of Lucas for the following fees:

- (i) an underwriting fee of 2% of the Underwritten Amount; and
- (ii) a management fee of 3% of the Underwritten Amount.

Under the Underwriting Agreement, the Underwriter has underwritten the Entitlement Offer to cover the subscription of Entitlement Shares to the extent of the Underwritten Amount, being the equivalent of 38,017,657 Entitlement Shares, subject to a number of conditions precedent and termination rights as set out in **Annexure A** and described further below.

Should Lucas not receive valid applications from Eligible Shareholders for a total of 38,017,657 Entitlement Shares, the Underwriter has agreed to allocate the difference in the number of Entitlement Shares for which valid applications have been received and the total number of Entitlement Shares underwritten, subject to and upon the terms and conditions of the Underwriting Agreement and Sub-underwriting Agreements.

Any Entitlement Shares not taken up by Eligible Shareholders under the Entitlement Offer and any applications for Additional Entitlement Shares that are within the Underwritten Amount (**Shortfall**) will be taken up by the Underwriter or Sub-underwriters within 15 Business Days after the Closing Date.

The Underwriter's obligation to underwrite the Entitlement Offer is dependent on the following conditions precedent being satisfied or waived:

- (i) lodgement of this Prospectus by 16 December 2011;

- (ii) the Underwriter approving the Prospectus;
- (iii) the due diligence process established by the Company in relation to preparation of this Prospectus being completed to the reasonable satisfaction of the Underwriter;
- (iv) 100% Sub-underwriting of the Entitlement Offer (taking into account any FIRB restrictions on Kerogen's sub-underwriting participation); and
- (v) completion of the RCPS Buy-back by 22 December 2011.

In addition, the Underwriting Agreement also contains a number of termination rights, including (amongst other things):

- (vi) non-receipt by the Underwriter by 1 Business Day before settlement of sub-underwriting commitments of at least 100% of the Underwritten Amount;
- (vii) the non-approval of either the Mezzanine Facility or the Kerogen Options;
- (viii) the non-approval of RCPS Buy Back; or
- (ix) the Fund does not agree to issue a RCPS Redemption Notice to permit the RCPS Redemption to occur.

If a condition precedent is not satisfied or waived or a termination right is exercised, the Company will not raise the full amount of the Underwritten Amount.

A summary of the terms of the Underwriting Agreement are set out in **Annexure A**.

(b) Potential Voting Power in Lucas by the Underwriter

The Underwriter has a relevant interest in 727,590 Shares pursuant to and Australian Master Securities Lending Agreement.

In the event that a Sub-underwriter does not comply with some or all of its subscription and payment obligations under the relevant Sub-underwriting Agreement, and the Underwriter has (acting reasonably and in good faith) used all reasonable efforts to obtain a commitment from other sub-underwriters to take up those obligations on or before one business day before the Settlement Date (**Defaulting Shortfall Shares**), the Underwriting Agreement provides that the number of Shortfall Shares will be reduced by the number of Defaulting Shortfall Shares. In this case, it is unlikely that the Underwriter will acquire any Shares under the Entitlement Offer pursuant to the Underwriting Agreement.

15.13 Sub-underwriting of Entitlement Offer

(a) General

It is a condition of the Underwriting Agreement that the Entitlement Offer will be fully sub-underwritten.

Sub-underwriters will include Kerogen and, subject to Shareholder approval, Andial. Each of Kerogen and Andial (if Resolution 4 is approved by Shareholders) will commit to sub-underwrite on a firm relief basis up to 50% of the Underwritten Amount (subject to Kerogen not acquiring more than an aggregate of 40% of the Shares) and subject to a minimum allocation in the Sub underwriting pool of at least as many Shares as any other Sub-underwriter is allocated of the total amount of the Shortfall under the Entitlement Offer. No Sub-underwriting fee is payable to Kerogen.

The Underwriter has discretion to appoint other Sub-underwriters and will seek to do so. Other Sub-underwriters may require payment of a Sub-underwriting fee, which will be payable by the Underwriter. If other Sub-underwriters are appointed, the Underwriter may scale back the Shortfall to be allocated to each of Kerogen and Andial and allocate that scale back to those Sub-underwriters, subject to Kerogen and Andial receiving at least the Equivalent Allocation. That will reduce the maximum sub-underwriting commitment of each of Kerogen and Andial pro rata.

In the event that there is a Shortfall, the Underwriter will then be able to place part of that Shortfall with the appointed Sub-underwriters and each Sub-underwriter will be obliged to subscribe for the Shares placed with them at the Issue Price of \$1.35 per Share, subject to the aggregate interests of Kerogen in the Shares not exceeding 40%.

The participation of Kerogen and Andial in the Sub-underwriting will not affect or have any impact on their rights as Shareholders.

(b) Terms of Sub-underwriting

The terms of the Sub-underwriting Agreements have been determined by the Underwriter having regard to its usual form of sub-underwriting agreement, in consultation with the Company.

Sub-underwriters have had a limited opportunity to negotiate the terms of the Sub-underwriting Agreement and each of Kerogen and Andial have accepted the Sub-underwriting Agreement in the form put forward by the Underwriter after discussion with the Company, being no more favourable than the form offered to other Sub-underwriters.

(c) A summary of the principal terms the Sub-underwriting Agreements are set out in **Annexure B**. Effect of Sub-underwriting on shareholding of Andial

Andial currently holds a relevant interest in 17,490,000 Shares, representing 23.00% of the issued share capital of the Company.

Assuming that Andial subscribes fully for its entitlement to Shares under the Entitlement Offer as a Shareholder, any Shares that Andial acquires under its Sub-underwriting Agreement will increase Andial's direct holding and its relevant interest percentage in the Company.

The extent to which this occurs will depend on the extent to which other Shareholders do not subscribe for their entitlements under the Entitlement Offer, the extent of over-subscriptions under the Entitlement Offer and the allocation of the Shortfall amongst the various other Sub-underwriters. Andial does not have any priority in the Shortfall allocation.

If there was a significant Shortfall, and Andial was called upon to Sub-underwrite to the full extent of its commitment, its relevant interest in Shares would increase by a maximum the following percentage as set out in Table 15.13.1.

Table 15.13.1

Andial's relevant interest before the Entitlement Offer	Andial's maximum relevant interest after the Entitlement Offer
23.00%	33.66% ⁴

However, the participation of other Shareholders in over-subscriptions and the allocations to other Sub-underwriters are likely to reduce that percentage. The Underwriter has discretion to appoint additional Sub-underwriters.

(d) Effect of Sub-underwriting on shareholding of Kerogen

Kerogen currently holds a relevant interest in 9,917,650 Shares, representing 13.04% of the issued share capital of the Company.

Assuming that Kerogen subscribes fully for its entitlement to Shares under the Entitlement Offer as a Shareholder, any Shares that Kerogen acquires under its Sub-underwriting Agreement will increase Kerogen's direct holding and its relevant interest percentage in the Company.

⁴ The maximum holdings reflect maximum sub-underwriting positions (including as a consequence of a failure of sub-underwriters other than the Subunderwriters to sub-underwrite), the non-subscription to Entitlements by any Shareholder other than Kerogen and Andial but disregards any potential increase in their holdings that may occur by acquiring Shares on market

The extent to which this occurs will depend on the extent to which other Shareholders do not subscribe for their entitlements under the Entitlement Offer, the extent of over-subscriptions under the Entitlement Offer and the allocation of the Shortfall amongst the various other Sub-underwriters. Kerogen does not have any priority in the Shortfall allocation.

If there was a significant Shortfall, and Kerogen was called upon to Sub-underwrite to the full extent of its commitment, its relevant interest in Shares would increase by a maximum the following percentage as set out in Table 15.13.2.

Table 15.13.2

Kerogen's relevant interest before the Entitlement Offer	Kerogen's maximum relevant interest after the Entitlement Offer
13.04%	23.70% ⁵

15.14 ASX quotation

Lucas will apply for official quotation of all the Entitlement Shares on ASX within 7 Business Days after the Prospectus Date. If the Entitlement Shares offered by this Prospectus are not admitted to quotation within 3 months after the date of this Prospectus (or any longer period permitted by ASIC), any issue of Entitlement Shares is void and Lucas will repay, as soon as practicable, without interest all application money received under this Prospectus.

15.15 Enquiries

Enquiries about the Entitlement Offer should be directed to the Lucas Shareholder Information Line on the numbers listed in the **Schedule** (Corporate Directory) of this Prospectus or your solicitor, accountant or other financial adviser.

If you have any queries about the number of Entitlement Shares shown on the Entitlement and Acceptance Form which, in the case of Eligible Shareholders, accompanies this Prospectus, or how to complete the Entitlement and Acceptance Form, please contact the Lucas Shareholder Information Line on the numbers listed in the **Schedule** (Corporate Directory).

15.16 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

⁵

See footnote 4 on page 99

Hemmes. Hemmes, in turn, has counterclaimed against Lucas Stuart. As at the Prospectus Date, the Company is not able 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.

15.17 Expenses of the issue

All expenses connected with the Entitlement Offer, including legal fees, printing costs and other miscellaneous expenses, are estimated at approximately \$3,107,337 (exclusive of GST). These expenses are broken down in Table 15.17.1.

Table 15.17.1

Item of Expenditure	Amount (\$)
Underwriter's fees	2,566,200
Legal fees	360,000
Other	181,137
TOTAL	3,107,337

These expenses will be borne by the Company.

15.18 Consents

- (a) None of the persons named 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 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 Australian solicitors in this Prospectus. Holding Redlich has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;
 - (ii) KPMG has given its consent to be named as the Company's auditor in this Prospectus. KPMG has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;

- (iii) Gleneagle Securities (Aust) Pty Limited has given its consent to be named as the Underwriter to the Company in this prospectus. Gleneagle Securities (Aust) Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;
- (iv) Gleneagle Securities Nominees Pty Limited has given its consent to be named as Nominee to the company in the form and context as set out in this Prospectus. Gleneagle Securities Nominees Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC;
- (v) Kerogen Investments No.1 (HK) Limited has given its consent to be named as one of the Company's sub-underwriters in this Prospectus. Kerogen Investments No.1 (HK) Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC; and
- (vi) Andial Holdings Pty Limited has given its consent to be named as one of the Company's sub-underwriters in this Prospectus. Andial Holdings Pty Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

15.19 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 15 December 2011

A handwritten signature in black ink, appearing to read 'Allan Campbell'.

Allan Campbell
Director

SCHEDULE – GLOSSARY OF TERMS

Term	Meaning
\$	Australian Dollars
Additional Entitlement Shares	Entitlement Shares that a Shareholder is entitled to apply for over and above of their Entitlement and which are Entitlement Shares that other Shareholders have not taken up the right to subscribe for
Andial	Andial Holdings Pty Limited (ACN 087 777 660)
ANZ	Australia and New Zealand Banking Group Limited and, if applicable, its related bodies corporate
ANZ Facility	The facilities provided by ANZ to the Company in accordance with the document entitled “Facilities Agreement” dated on or about 21 August 2008 as amended from time to time
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the market operated by ASX
ASX Listing Rules	The official listing rules of ASX
ASX Settlement Operating Rules	The operating rules of the ASX’s settlement facility
ATO	The Australian Tax Office
Board	The board of directors of Lucas
Business Day	Monday to Friday inclusive, except New Year’s Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that ASX declares is not a business day
Change of Control	<p>In relation to Lucas Cuadrilla, a situation where, as a result of any transaction or other arrangement, either:</p> <ul style="list-style-type: none"> (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 (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, provided that the Company retains the ultimate Control of Lucas.

Term	Meaning
CHESS	Clearing House Electronic Subregister System that is operated by ASX Settlement Pty Limited
Closing Date	5.00pm (Sydney time) on 27 January 2012
Company or Lucas	AJ Lucas Group Limited (ABN 12 060 309 104)
Constitution	The constitution of Lucas
Control	<p>Of a company by a person means:</p> <ul style="list-style-type: none"> (a) the ability to determine the composition of the board of directors of the company or has the capacity to do so; (b) the board of directors of the company is accustomed to act in accordance with the instructions, directions or wishes of the person; or <ul style="list-style-type: none"> (i) that the person holds or owns (alone or with its associates or related bodies corporate): (ii) the majority of the issued shares of the company; (iii) the majority of the issued shares of the ultimate holding company of the company; or <p>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, England
Cuadrilla Board	The board of directors of Cuadrilla
Cuadrilla Cash Call	US\$9.9 million paid by the Company to Cuadrilla on 30 September 2011
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 Shares	The shares in Cuadrilla held by Lucas Cuadrilla

Term	Meaning
Cuadrilla Shareholder Agreement	The Shareholder Agreement between Lucas Cuadrilla, Riverstone and others dated 15 February 2010
Directors	The directors of Lucas
EGM	The extraordinary general meeting of Lucas to be held at 22 December 2011 at 10 am
Eligible Shareholders	Persons who: <ul style="list-style-type: none"> • are registered as a holder of Shares as at the Record Date; • as at the Record Date, have a registered address in Australia New Zealand; • are not in the United States or a U.S. Person or acting for the account or benefit of a U.S. Person; and • are eligible under all applicable securities laws to receive an offer under the Entitlement Offer without any requirement for a prospectus or Prospectus to be lodged or registered
Entitlement	The entitlement of a Shareholder to 1 Entitlement Share for every 2 Shares in Lucas held as at the Record Date by that Shareholder
Entitlement and Acceptance Form	The entitlement and acceptance form that accompanies this Prospectus, under which an Eligible Shareholder may apply for Entitlement Shares and Additional Entitlement Shares under the Entitlement Offer
Entitlement Offer	The non-renounceable pro rata rights issue of Entitlement Shares offered under this Prospectus to Shareholders on the basis of the Entitlement at the Issue Price
Entitlement Offer Period	The period from and including the Opening Date until and including the Closing Date
Entitlement Shares	The Shares to be issued in Lucas under this Prospectus
Equivalent Allocation	A term of the Sub-underwriting Agreement whereby each of Kerogen and Andial will commit to sub-underwrite on a firm relief basis up to 50% of the underwritten amount subject to the FIRB Control Limit (for Kerogen only) and subject to a minimum allocation in the sub-underwriting pool of at least as many shares as any other sub-underwriter is allocated of the total amount of the Shortfall under the Entitlement Offer

Term	Meaning
Excess Amount	Application monies received by Lucas in excess of the value of your Entitlement
Existing Options and Rights	The options and management rights issued by the Company to management as at the date of this Prospectus
FIRB	Foreign Investment Review Board
Fund	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 Australia PIA (Management) Pty Limited (ACN 006 865 710) acting on behalf of the relevant constituent entities of the Fund
Fund Options	1,000,000 options to subscribe for Shares at \$2.13 per Share, to be issued by the Company to the Fund on the terms as set out in Annexure C of the Notice of EGM
Gearing Ratio	Calculated as total interest bearing debt (including current interest bearing loans and borrowings, non-current interest bearing loans and borrowings, interest bearing amounts owing to the ATO, RCPS accrued dividends and the derivative liability) divided by the aggregate of total interest bearing debt and total equity
Information	The Prospectus and enclosed personalised Entitlement and Acceptance Form
Issue Price	\$1.35 per Entitlement Share
Kerogen	Kerogen Investments No.1 (HK) Limited, being a wholly owned subsidiary of Kerogen General Partner Limited
Kerogen Options	8,566,763 options to subscribe for new Shares to Kerogen
Knowlton	TEXKON Onshore Oil & Gas, LLC
Lucas or the Company	AJ Lucas Group Limited (ABN 12 060 309 104)
Lucas Cuadrilla	Lucas Cuadrilla Pty Limited (ACN 138 750 722)
Lucas Energy UK	Lucas Energy (UK) Limited
Lucas Parent Change of	A Change of Control that occurs as a result of a public takeover of the Company

Term	Meaning
Control	
Mezzanine Facility	\$86.5 million mezzanine loan facility
Mezzanine Facility Agreement	The agreement so entitled to be entered into between, amongst others, Kerogen and Lucas incorporating, amongst other things, the provisions of the Mezzanine Facility
Monument Prospect	The East Texas exploration area held by Thomas Knowlton in the 'Monument Prospect Area of Mutual interest' located in Trinity County, Texas, USA in which Lucas has a contractual right to 10% of a net profit interest
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 Change of Control
Net Profit Interest	Lucas indirect contractual interest in 10% of a net profit interest earned by TK 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, being the Monument Prospect
Notice of EGM	The notice of extraordinary general meeting dated 18 November 2011 sent by the Company to the Shareholders in relation to the Company's EGM at 10am on 22 December 2011
Non-Eligible Shareholders	Shareholders that are not eligible to participate in the Entitlement Offer
Opening Date	10 January 2012
Options	The Kerogen Options and the Fund Options
Placement	The subscription by Kerogen for the Placement Shares to raise the Placement Amount
Placement Amount	\$13,388,827
Placement Shares	9,917,650 Shares at \$1.35 per Share
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 US Foreign Corrupt Practices Act 1977 in respect of such transferee and such other matters as it considers appropriate, acting reasonably

Term	Meaning
RCPS	450,000 redeemable convertible preference shares in the capital of the Company issued on the terms set out in the RCPS Prospectus
RCPS Accrued Dividend	The amount of the RCPS Dividend that remains unpaid on 22 December 2011
RCPS Buy Back	The selective share buy back of all of the issued RCPS for the RCPS, conducted to effect a Redemption of the RCPS, in accordance with the RCPS Terms
RCPS Dividend	The dividend payable on the RCPS as calculated under the RCPS Terms
RCPS Prospectus	A Prospectus dated on or about 8 December 2008 for an offer of the 450,000 RCPS at \$100.00 each issued by the Company
RCPS Terms	The terms and conditions that the RCPS were issued under, being the Terms and Conditions contained in Annexure 1 of the RCPS Prospectus
Recapitalisation Proposal	<p>The arrangements with Kerogen in order to raise approximately \$151 million structure on the following basis:</p> <ul style="list-style-type: none"> (a) \$13.4 million, through a placement of the Placement Shares to Kerogen to fund the US\$9.9 million Cuadrilla Cash Call and the Company's working capital requirements. The Placement was completed on 30 September 2011; (b) \$86.5 million through a Mezzanine Facility, to be provided by Kerogen, which will be used to fund the payments to the Fund for the RCPS Buy Back, pay fees, to contribute to the payment of amounts owing to the ATO and provide working capital. As part of the arrangements for the Mezzanine Facility, Kerogen will be issued the Kerogen Options; and (c) a 1 for 2 non-renounceable pro rata entitlement offer, which is to be partly sub-underwritten by Kerogen, to raise approximately the Underwritten Amount, to contribute to the payment of amounts owing to the ATO, pay fees and reduce debt.
Record Date	7.00pm (Sydney time) on 6 January 2012, being the time and date for determination of Entitlements of Shareholders to participate in the Entitlement Offer
Resolution 4	The fourth resolution, as set out in the Notice of EGM, to be put to Shareholders regarding the appointment of Andial as a Sub-underwriter to the Entitlement Offer

Term	Meaning
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
Shareholders	Holders of Shares
Share Registry	Computershare Investor Services Pty Ltd, GPO Box 1903, Adelaide SA 5001
Shares	Fully-paid ordinary shares in the capital of Lucas
Shortfall	Entitlement Shares not taken up by Eligible Shareholders under their Entitlements other than the Additional Entitlement Shares distributed
Sub-underwriter	Each Sub-underwriter appointed by the Underwriter, including Kerogen, and subject to Shareholder approval, Andial
Sub-Underwriting Agreements	Each sub-underwriting agreement and letter of variations between the Underwriter and a Sub-underwriter
Underwritten Amount	\$51,323,836 to be raised under the Entitlement Offer
Underwriter	Gleneagle Securities (Aust) Pty Limited (ACN 136 930 526)
Underwriting Agreement	The underwriting agreement entered into on 17 November 2011 between Lucas and the Underwriter and the letter of variation dated 9 December 2011

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

Website: www.investorcentre.com/contact

LUCAS SHAREHOLDER INFORMATION LINE

Australia: 1300 556 161
International: +61 3 9415 4000
Open 8.30am to 5:30pm (Sydney Time) Monday to Friday
(excluding public holidays) during the Entitlement Offer period

WEBSITE

Corporate information and the 2011 Annual Report can be found via Lucas' website at www.lucas.com.au

UNDERWRITER

Gleneagle Securities (Aust) Pty Limited
Level 10, 2 Bligh Street
Sydney NSW 2000

AUDITOR

KPMG
10 Shelley Street
Sydney NSW 2000

NOMINEE

Gleneagle Securities Nominees Pty
Limited
Level 10, 2 Bligh Street
Sydney NSW 2000

LEGAL ADVISER

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

ANNEXURE A – Summary of the terms of the Underwriting Agreement

Feature	
Underwriting and Management Fee	The Underwriter will receive an underwriting fee equal to 2% of the Underwritten Amount (Underwriting Fee) and a management fee equal to 3% of the Underwritten Amount (Management Fee) from the Company.
Costs and expenses	The Company must pay or reimburse the Underwriter for legal costs and costs for ancillary matters (subject to certain limits), travel and accommodation expenses and printing and production costs, or out of pocket expenses in respect of the underwriting of the Entitlement Offer, and any taxes payable in respect of the Underwriting Agreement or the Entitlement Offer.
Termination Fee	<p>If the Underwriting Agreement is terminated by the Underwriter for reasons within the control of the Company, the Company must immediately pay to the Underwriter:</p> <ul style="list-style-type: none"> (a) 50% of the Underwriting Fee; (b) 50% of the Management Fee; and (c) all reasonable expenses incurred by the Underwriter incurred up to the date of termination.
Conditions Precedent	<p>The Underwriter's obligations are conditional upon satisfaction or waiver of the following conditions precedent:</p> <ul style="list-style-type: none"> (a) completion of Prospectus due diligence, approval by the Underwriter of the Prospectus, and lodgment of the Prospectus by 16 December 2011; (b) 100% sub-underwriting of the Entitlement Offer (taking into account any FIRB limits on any sub-underwriter's participation); and (c) completion of the RCPS Buy-back by 22 December 2011.
Termination events	<p>The Underwriter can terminate the Underwriting Agreement if certain specified events occur, including:</p> <ul style="list-style-type: none"> (a) (listing approvals): approval is refused or not granted (or later withdrawn), other than subject to customary conditions, to the official quotation of the Shares to be issued under the Entitlement Offer, or approval is subsequently withdrawn or qualified; (b) (change in management): there is a material change in the senior management or in the board of directors of the Company; (c) (insolvency): a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other similar official is

Feature	
	<p>appointed to the Company or in relation to any property of the Company;</p> <p>(d) (capital structure): the Company alters its capital structure without the prior written consent of the Underwriter, other than:</p> <ul style="list-style-type: none"> (i) as disclosed in accordance to the ASX prior to the date of the Underwriting Agreement; (ii) in accordance with the Underwriting Agreement or in connection with the Entitlement Offer; or (iii) the issue of shares, options or warrants as contemplated by the Prospectus or issues of shares or options under a management share or option plan; <p>(e) (suspension) trading in the shares of the Company is suspended during any period between the opening date of the Entitlement Offer and the allotment date of the Entitlement Offer;</p> <p>(f) (Prospectus defect): there is an omission from, or a statement which is, or has become, false or misleading in the Prospectus and such omission or statement is or is likely to be materially adverse from the point of view of an investor and has not been promptly remedied by lodgment of a supplementary or replacement Prospectus;</p> <p>(g) (investigation): ASIC issues, or threatens to issue, proceedings in relation to the Entitlement Offer, the Prospectus or the Company or any of its officers, or commences or threatens to commence an inquiry or investigation in relation to the Entitlement Offer, the Prospectus or the Company or any of its officers or any other person is appointed under any legislation in respect of the Company to investigate the affairs of the Company or any of its officers and such action is not withdrawn by the earlier of 6.00pm on the fourth Business Day after it is made or 10.00am on the settlement date for the Entitlement Offer;</p> <p>(h) (Court Order): An order is made in connection with the Prospectus or the Entitlement Offer, including under sections 1324 and 1325 of the Corporations Act;</p> <p>(i) (consent withdrawal): If any person, other than the Underwriter, who has previously consented to being named in the Prospectus, withdraws their consent whether publicly or not;</p> <p>(j) (ASIC Stop Order): ASIC gives a notice of intention to hold a hearing in relation to the Prospectus under section 739(2) of the Corporations Act or makes an order under sections 739(1), 739(3) or 739(4) of the Corporations Act and such notice or order is not withdrawn by the earlier of 6.00pm on the fourth Business</p>

Feature	
	<p>Day after it is made or 10.00am on the settlement date for the Entitlement Offer;</p> <p>(k) (Takeovers Panel) the Takeovers Panel makes an order of unacceptable circumstances with respect to the Entitlement Offer or the Prospectus, and makes an order restraining settlement of the Entitlement Offer; or</p> <p>(l) (withdrawal of Prospectus): The Prospectus is withdrawn by the Company at any time prior to the settlement date for the Entitlement Offer.</p> <p>However, if a termination event occurs, exercise of a termination right is at the Underwriter's discretion.</p> <p>In addition, the Underwriting Agreement automatically terminates if each of Resolutions 1, 2 and 3 only relating to the Recapitalisation Proposal are not approved at the EGM on 22 December 2011.</p>
	<p>In addition to the termination events list above, the events listed below are also termination events, but only if, in the reasonable opinion of the Underwriter, that event:</p> <ul style="list-style-type: none"> • renders it impracticable to effect acceptances of valid applications for the Entitlement Offer; or • could be expected to give rise to a material liability for the Underwriter under the Corporations Act or any other applicable law; or • is likely to have a material adverse effect on the financial position or prospects of the Company or the success of the Entitlement Offer or market price of the Shares. <p>(a) (compliance with regulatory requirements) there is a contravention by the Company of the Corporations Act or the Constitution;</p> <p>(b) (breach) the Company fails to perform or observe any of its obligations under the Underwriting Agreement;</p> <p>(c) (warranties): a representation or warranty contained in the Underwriting Agreement made or given by the Company or any of its related bodies corporate, is not true or correct;</p> <p>(d) (other events): there is a suspension or material limitation in trading in securities generally on ASX occurring after the opening date of the Entitlement Offer and continuing as at the closing date for the Entitlement Offer;</p> <p>(e) (director): a director of the Company:</p> <ul style="list-style-type: none"> (i) is charged with an indictable offence relating to any

Feature	
	<p>financial or corporate matter in his or her capacity as director of the Company; or</p> <p>(ii) any regulatory body commences any public action against the director in his or her capacity as a director of the Company that relates to any financial or corporate matter; or</p> <p>(iii) is disqualified from managing a corporation under section 206B, 206C, 206D, 206E, 206F or 206G of the Corporations Act;</p> <p>(f) (timetable) any event specified in the Timetable is delayed for more than 5 business days without the prior written approval of the Underwriter;</p> <p>(g) (no certificate) the Company does not provide a certificate to the Underwriter in accordance with and by the time specified in the Underwriting Agreement;</p> <p>(h) (business): except as previously disclosed to the ASX or in writing to the Underwriter, the Company or any of its related parties:</p> <p>(i) disposes or agrees to dispose of the whole or a substantial part of its business or property; or</p> <p>(ii) ceases or threatens to carry on business</p> <p>in either case, without the prior written consent of the Underwriter which is not to be unreasonably withheld;</p> <p>(i) (material adverse change) since 30 June 2011, there is a material adverse effect on the assets and liabilities, financial position or performance, profits and losses or prospects of the Company, except as fully disclosed in writing to the Underwriter prior to the date of the Underwriting Agreement or as otherwise contemplated in the Underwriting Agreement, the Prospectus or the Notice of Meeting and Explanatory Statement; or</p> <p>(j) (agreements) a fact, matter or circumstance occurs which may have a material adverse effect on the Company's ability or willingness to complete, satisfy any conditions precedent or otherwise perform its obligations in connection with any agreements.</p> <p>However, if one of these termination event occurs and it meets the requisite materiality threshold, exercise of the termination right is at the Underwriter's discretion.</p>
Indemnity	The Company has provided an indemnity to the Underwriter and its officers, employees, advisers and related bodies corporate (together the

Feature	
	<p>Indemnified Parties) in connection with Entitlement Offer, the Prospectus, the Underwriting Agreement and certain associated matters (including certain public disclosures and regulatory investigations, enquiries or hearings).</p> <p>The indemnity does not extend to losses of an Indemnified Party to the extent those Losses are finally judicially determined to have primarily resulted from:</p> <ul style="list-style-type: none"> (a) any fraud, recklessness, willful misconduct, willful default or gross negligence of that Indemnified Party; (b) any penalty or fine which that Indemnified Party is required to pay for any contravention by it of any applicable law; or (c) any amount in respect of which this indemnity would be illegal, void or unenforceable under any law.
Representations and warranties	<p>The Company gives various customary representations and warranties to the Underwriter in relation to the Prospectus, the Entitlement Offer, its compliance with applicable laws and the information provided by the Company to the Underwriter.</p>
Undertakings	<p>Under the Underwriting Agreement, the Company also provides various customary undertakings to the Underwriter, including matters relating to compliance, provision of information, conduct of the Entitlement Offer, public statements, management support and access in the event of litigation.</p>

ANNEXURE B – Summary of key terms and conditions of Sub-underwriting Agreements

Feature	
Appointment	<p>The Underwriter is permitted to appoint sub-underwriters, at its discretion, under the Underwriting Agreement. However, the conditions precedent to the Underwriter's obligations under the Underwriting Agreement include a condition that 100% sub-underwriting is obtained.</p> <p>The Underwriter has invited Kerogen and Andial (subject to Shareholder approval of Resolution 4) together with other potential sub-underwriters (collectively, the Sub-underwriters) to Sub-underwrite the Sub-underwritten amount under individual Sub-underwriting agreements, on substantially equivalent terms (except as indicated below).</p>
Sub-underwritten amount	<p>Kerogen - up to \$25,661,917 million of Shares at the Issue Price.</p> <p>Andial - up to \$25,661,917 million of Shares at the Issue Price.</p>
Equivalent Allocation	<p>A term of the relevant Sub-underwriting Agreement with each of Andial and Kerogen is that each Sub-underwriter commits to sub-underwrite on a firm relief basis up to 50% of the underwritten amount (subject to the limits imposed under the FIRB Approval for Kerogen only) and subject to an equivalent allocation in the sub underwriting pool of at least as many shares as any other sub-underwriter is allocated of the total amount of the shortfall under the Entitlement Offer.</p> <p>The Underwriter has discretion to appoint other sub-underwriters and to scale back the amount of the shortfall allocated to each of Kerogen and Andial and to allocate that scale back to those sub-underwriters, subject to Kerogen and Andial each receiving at least their Equivalent Allocation. That will reduce the maximum sub-underwriting commitment of each of Kerogen and Andial pro rata.</p>
Shortfall	<p>Each Sub-underwriter will be allocated a certain number of shares from any shortfall arising under the Entitlement Offer, up to a certain maximum. Allocations are subject to scaleback by the Underwriter to ensure compliance with any relevant FIRB approval conditions and limits, and the Underwriter's discretion (subject to terms negotiated with any individual sub-underwriter).</p>
Commitment of Sub-underwriters	<p>The Sub-underwriters have committed to:</p> <ul style="list-style-type: none"> (a) subscribe for the entirety of the shares allocated to them by the Underwriter; and (b) take up their full pro rata entitlements (if any) under the Entitlement Offer, if the Sub-underwriter is an existing Shareholder.

Feature	
	<p>Shares subscribed for as part of a Sub-underwriter's pro rata entitlement under the Entitlement Offer will not count towards relieving their Sub-underwriting obligation to subscribe for the additional shares allocated to them by the Underwriter under the Sub-underwriting Agreement.</p>
<p>Sub-underwriting fees</p>	<p>No fee is payable to Andial or Kerogen in respect of their Sub-underwriting obligations.</p> <p>Other Sub-underwriters may negotiate fees in respect of their Sub-underwriting obligations. The Underwriter has indicated that it may agree fees with additional Sub-underwriters in order to secure greater dispersion and Sub-underwriting coverage. All such fees will be payable by the Underwriter.</p>
<p>Rights of termination</p>	<p>No rights of termination.</p> <p>The Sub-underwriters have agreed to accept and be bound by the decisions and actions of the Underwriter in respect of the Underwriter's decision to exercise or not exercise any rights of termination. The Underwriter is not obliged to consult with the Sub-underwriters and can have sole regard to its own interests in its discretion to exercise its rights under the Underwriting Agreement.</p>
<p>Termination of Underwriting Agreement</p>	<p>If the Underwriter terminates the Underwriting Agreement, or if the Entitlement Offer does not proceed, then the Sub-underwriting Agreement will terminate immediately. Sub-underwriters do not have termination rights separate to the Underwriter's rights under the Underwriting Agreement.</p>
<p>Representations and warranties</p>	<p>The Sub-underwriters give various customary representations and warranties to the Underwriter.</p>

ANNEXURE C – Terms of the Fund Options

Option Terms

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

The meanings of the terms used in the Option Terms are set out below.

Term	Meaning
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited ACN 008 624 691.
ASX Listing Rules	the ASX Listing Rules published by the ASX.
ASX Operating Rules	the ASX Operating Rules published by the ASX.
Company	AJ Lucas Group Limited ACN 060 309 104.
Corporations Act	the Corporations Act 2001 (Cth).
Exchange's Rules	the ASX Listing Rules, the ASX Operating Rules, the ASX Settlement Operating Rules published by ASX Settlement Pty Limited ACN 008 504 532 and the ASIC Market Integrity Rules (ASX Market) published by ASIC.
Exercise Notice	a notice in the form attached, or in such other form as the board of the Company approves from time-to-time.
Exercise Price	in relation to an Option, the exercise price specified in clause 2.1(a) as adjusted from time to time in accordance with clause 4.
Expiry Date	the date specified in clause 2.4.
Option	a right to subscribe for one Share on these terms, subject to adjustment in accordance with clause 4.
Optionholder	a person registered from time-to-time on the Company's register of option holders as a holder of Options.
New Issue	any issue of Securities in the Company that is not a Bonus Issue or a Pro-Rata Issue
Pricing Period	the 5 Trading Days ending on (and including) the Trading Day immediately preceding the day on which the Optionholder exercises the

	relevant Options.
RCPS	redeemable convertible preference shares in the capital of the Company issued on the terms set out in the Redeemable Convertible Preference Shares Prospectus issued by the Company dated on or 8 December 2008 for an offer of 450,000 Redeemable Convertible Preference Shares.
Share	a fully paid ordinary share in the capital of the Company.
Trading Day	has the same meaning given in the ASX Operating Rules.

1.2 Interpretation

In these terms, headings and boldings are for convenience only and do not affect the interpretation of these terms and, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) other parts of speech and grammatical forms of a word or phrase defined in these terms have a corresponding meaning;
- (c) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency;
- (d) a reference to any thing (including any right) includes a part of that thing, but nothing in this paragraph implies that performance of part of an obligation constitutes performance of the obligation;
- (e) a reference to a clause or glossary is a reference to a clause of, and a glossary to, these terms and a reference to these terms includes any glossary;
- (f) a reference to a document includes all amendments or supplements to, or replacements or novations of, that document;
- (g) a reference to a document includes any agreement in writing, or any certificate, notice, instrument or other document of any kind;
- (h) a reference to a party to a document includes that party's successors and permitted assigns;
- (i) a reference to dollars and \$ is a reference to the lawful currency of the Commonwealth of Australia;
- (j) a reference to a body (including an institute, association or authority), other than a party, whether statutory or not:

- (1) that ceases to exist; or
- (2) whose powers or functions are transferred to another body,
is a reference to the body that replaces it or substantially succeeds to its powers or functions; and
- (k) none of these terms will be construed adversely to the Company solely on the ground that the Company was responsible for preparing these terms.

1.3 Use of 'include' and 'in particular'

Use of the expressions 'include' and 'in particular' does not limit the generality of the preceding words, or exclude anything not expressly included or particularised, unless these terms expressly provide otherwise.

1.4 Definitions in ASX Listing Rules

In these terms, unless the context requires otherwise, the following expressions have the same meaning as in the ASX Listing Rules: **Bonus Issue, Business Day, Ordinary Security, Pro Rata Issue, Record Date, Security, Trading Day and Underlying Security.**

For the avoidance of doubt, Bonus Issue does not include any issue of equity securities under an employee or executive share, option or incentive plan.

2 RIGHTS AND LIABILITIES OF OPTIONS

2.1 Issue Price, Exercise Price and Share entitlement

Subject to these terms:

- (a) the issue price for each Option is \$0.01 per Option;
- (b) the exercise price for each Option is \$2.13; and
- (c) on exercise, each Option entitles the Optionholder to the issue of 1 Share, subject to clause 4.

2.2 Transfer

Subject to the law, and the Exchange's Rules (to the extent that they apply), an Optionholder may freely transfer the Optionholder's Options without requiring the prior written consent of the Company at any time.

Transfer of an Option takes effect on registration in the Company's register of optionholders.

2.3 Dividends

Options do not confer any right to dividends.

2.4 Expiry of Options

All unexercised Options expire at 5.00pm on the date which is 5 years after the date of issue of the Options.

2.5 Interest in Shares

An Optionholder has no interest in or voting entitlements in respect of Shares the subject of the Options until those Options are exercised in accordance with these terms and the Shares are issued by the Company in accordance with clause 3.5 of these terms.

2.6 Quotation of Options

The Company will not apply for quotation of the Options.

3 EXERCISE

3.1 Optionholder may exercise

An Optionholder may exercise the Options of which the Optionholder is the registered holder in whole or in part in accordance with this clause 3.

3.2 When the Optionholder may exercise

The Optionholder may exercise some or all of the Options held by the Optionholder at any time on or after the date of issue of the Options and before the Options expire.

3.3 How the Optionholder may exercise

- (a) The Optionholder may only exercise Options by:
 - (1) giving the Company a completed Exercise Notice signed by the Optionholder or a director or secretary of the Optionholder, and, if the Optionholder nominates another person to receive Shares on exercise of the Options, the nominee or a director, secretary, authorised officer or attorney of the nominee);
 - (2) paying, or procuring payment of, the amount payable by the Optionholder on exercise of the Options (being the number of Options specified in the Exercise Notice multiplied by the Exercise Price) to the Company by a cheque in favour of the Company or an electronic funds transfer into an account nominated by the Company; and
 - (3) if the Company has issued a certificate for the Options, providing that certificate to the Company.
- (b) An Option is taken to have been exercised on the date on which all of the steps set out in clause 3.3(a) are completed.

3.4 Issue of Shares on exercise

If the Optionholder properly exercises Options in accordance with this clause 3, the Company must issue the Optionholder (or, if applicable, the nominee) the Shares (and any other Securities to which the Optionholder may become entitled under clause 4) to which the Optionholder is entitled on exercise within 15 Business Days after exercise of the Options.

4 SHARE ISSUES AND REORGANISATIONS

4.1 Pro Rata Issues

An Optionholder has no right to participate in a Pro Rata Issue without exercising the Option. However, if there is a Pro Rata Issue (except a Bonus Issue or any offer conducted to redeem the RCPS) to holders of Underlying Securities, from the date of the issue the Exercise Price for each Option is reduced according to the following formula:

$$O' = O - \left(\frac{E \times [P - (S + D)]}{N + 1} \right)$$

Where:

- O'** is the new Exercise Price of the Option
- O** is the old Exercise Price of the Option
- E** is the number of Underlying Securities over which the Option is exercisable
- P** is the average market price per Security (weighted by reference to volume) of the Underlying Securities during the 5 Trading Days ending on the day before the ex rights date or ex entitlements date
- S** is the subscription price for a Security under the Pro Rata Issue
- D** the dividend due but not yet paid on existing Underlying Securities (except those to be issued under the Pro Rata Issue)
- N** is the number of Securities with rights or entitlements that must be held to receive a right to 1 new Security

4.2 Bonus Issues

An Optionholder has no right to participate in a Bonus Issue without exercising the Option. However, if there is a Bonus Issue to holders of Underlying Securities, from the date of the issue the number of Securities over which an Option is exercisable is increased by the number of Securities which the holder of the Option would have received if the Option had been exercised immediately before the Record Date for the Bonus Issue.

4.3 Reorganisation

If, before exercise or expiry of the Options, the Company implements a reorganisation of its capital, terms of the Options will be amended to the extent required to comply with the Listing Rules.

4.4 New Issues

An Optionholder has no right to participate in a New Issue without exercising the Option.

5 RIGHTS OF SHARES ISSUED ON EXERCISE OF OPTIONS

5.1 Shares rank equally

Shares issued on exercise of Options:

- (a) are of the same class, and rank equally with, other Shares on issue as at that date; and
- (b) only carry an entitlement to receive dividends that have a Record Date after the date the Shares were issued.

5.2 Quotation of Shares

Subject to the ASX Listing Rules, the Company must apply for quotation of Shares issued on exercise of Options promptly after issue of the Shares (unless at the time of exercise, it is not admitted to the official list of the ASX).

5.3 Cleansing statement

Unless the Company has issued a prospectus under Chapter 6D of the Corporations Act in relation to the offer of Options (with the effect that Shares issued on exercise of the Options may be sold or transferred without the need for any disclosure under Part 6D of the Corporations Act), before issuing any Shares on exercise of any Options, the Company must:

- (a) give the ASX a notice under section 708A(5)(e) of the Corporations Act in respect of the issue of the Shares; or
- (b) lodge with ASIC a prospectus in respect of the same class of securities as the Shares in accordance with section 708A(11) of the Corporations Act,

so that the Optionholder (and, if applicable, the nominee) may sell or transfer the Shares without the need for any disclosure under Part 6D of the Corporations Act.

6 GENERAL

6.1 Notices

- (a) All notices, requests and statements given or made under these terms must be in writing.
- (b) The Company must send any notice, request or other document relating to the Options to be sent to an Optionholder under these terms to the Optionholder's registered address as recorded in the Company's register of optionholders.
- (c) An Optionholder must send any notice, request or other document relating to the Options to be sent to the Company under these terms to:

394 Lane Cove Road
Macquarie Park NSW 2113

or as otherwise specified by the Company by notice to the Optionholder.

6.2 Exercise Notices

At any time, an Optionholder may request the Company to give the Optionholder a blank Exercise Notice. The Company must give the Optionholder a blank Exercise Notice promptly on receiving the request.

6.3 Certificates

- (a) The Company may issue certificates for the Options if, and only if:
 - (1) the Options are not, or cease to be, quoted by the ASX; or
 - (2) the law, or Exchange's Rules require the Company to issue certificates for the Options.
- (b) If any certificate for an Option is lost, stolen, mutilated, defaced or destroyed, the Optionholder may request a replacement certificate. The request must
 - (1) state that the certificate has been lost, stolen, mutilated, defaced or destroyed and not been pledged, sold or otherwise disposed of;
 - (2) if the certificate has been lost — state that proper searches have been made; and
 - (3) include an undertaking that, if the certificate is found or received by the Optionholder, it will be returned to the Company.
- (c) The Company must issue the replacement certificate within 15 Business Days of accepting the request, unless when it accepts the request, the Company has ceased to issue certificates for Options.

6.4 Governing law

- (a) These terms and the Options are governed by the laws of New South Wales.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of the courts of New South Wales. Each party irrevocably waives any objection to the venue of any legal process on the basis that the process has been brought in an inconvenient forum.

6.5 Variation

- (a) The Company may vary these terms and change the Optionholder's rights and liabilities, to the extent necessary to comply with the ASX Listing Rules applying to reorganisations of capital at the time of the reorganisation. The Company must notify each Optionholder of any such variation within 10 Business Days of the date of the variation.
- (b) Otherwise, subject to the ASX Listing Rules, the Company and an Optionholder may vary the terms applicable to any Options of which the Optionholder is registered holder by agreement.

6.6 Duties and taxes

The Company is not responsible for any duties or taxes that may become payable in connection with the issue of Securities following exercise of, or in connection with any other dealing with, the Options.

ANNEXURE D – Terms of the Kerogen Options

Term	Meaning
ASX	ASX Limited ACN 008 624 691.
ASX Listing Rules	the ASX Listing Rules published by the ASX.
ASX Operating Rules	the ASX Operating Rules published by the ASX.
Company	AJ Lucas Group Limited ACN 060 309 104.
Corporations Act	the <i>Corporations Act 2001 (Cth)</i> .
Equity Documents	has the meaning given under the Facility.
Exchange's Rules	the ASX Listing Rules, the ASX Operating Rules, the ASX Settlement Operating Rules published by ASX Settlement Pty Limited ACN 008 504 532 and the ASIC Market Integrity Rules (ASX Market) published by ASIC.
Exercise Notice	a notice in the form attached, or in such other form as the board of the Company approves from time-to-time.
Exercise Price	in relation to an Option, the exercise price specified in clause 2.1(a) as adjusted from time to time in accordance with clause 4.
Expiry Date	the date specified in clause 2,4.
Facility	the mezzanine facility of \$86.5 million provided by Kerogen to the Company.
New Issue	any issue of Securities in the Company that is not a Bonus Issue or a Pro-Rata Issue
Option	a right to subscribe for one Share on these terms, subject to adjustment in accordance with clause 4.
Optionholder	a person registered from time-to-time on the Company's register of option holders as a holder of Options.
Related Body Corporate	has the meaning given to that term in the Corporations Act.
Rights Issue	the rights issue to be made by the Company under the Equity Documents.
Share	a fully paid ordinary share in the capital of the Company.
Trading Day	has the same meaning given in the ASX Operating Rules.

Term	Meaning
VWAP	<p>in relation to Shares for a particular period, means the average of the daily volume-weighted average sale prices (rounded to the nearest full cent) of the Shares sold on the ASX for each Trading Day during the relevant period, excluding:</p> <ol style="list-style-type: none"> 1 any transaction defined in the ASX Operating Rules as 'special'; 2 any crossings before commencement of normal trading; 3 crossings during the closing phase and the after hours adjust phase; 4 overseas trades; 5 trades on exercise of options over Shares; 6 overnight crossings; and 7 trades agreed to be excluded by the Optionholder and the Company on the basis that those trades are not representative of the general price at which Shares trade on ASX. <p>If for any reason Shares cease to be quoted, or quotation of the Shares is suspended, at any time during the relevant period, the VWAP will be the amount that the Company determines, acting reasonably, having regard to trading in Shares on any other exchange or market facility, and, to the extent the Company reasonably considers relevant, trading in Shares on the ASX before their quotation ceased or was suspended.</p>
Feature	Clause ref.
Other terms	<p>Unless the context requires otherwise, the following expressions have the same meaning as in the ASX Listing Rules: Bonus Issue, Business Day, Ordinary Security, Pro Rata Issue, Record Date, Security, Trading Day and Underlying Security.</p> <p>For the avoidance of doubt, Bonus Issue does not include any issue of equity securities under an employee or executive share, option or incentive plan.</p>
Option issue fee	<p>\$NIL per Option</p>
Exercise price	<p>an amount equal to the lower of:</p> <ol style="list-style-type: none"> (a) 120% of the 5 day VWAP of the Shares on the ASX to be calculated on and include the date (and based only on days which the Shares are actually traded on the ASX) which immediately precedes the date on which the notice to exercise

Feature		Clause ref.
	<p>the Options is issued; and</p> <p>(b) \$1.70 per Share, provided that the exercise price will not be lower than \$1.35 per Share</p>	
Right to dividends	No right to dividends	2.3
Expiry date	at 5.00pm on the date which is the 4 years from the date of issue	2.4
Transfer	<p>Subject to the law, and the Exchange's Rules (to the extent that they apply), an Optionholder may freely transfer the Optionholder's Options without requiring the prior written consent of the Company:</p> <p>(a) to a Related Body Corporate of the Optionholder before 31 August 2012; and</p> <p>(b) at any time after 31 August 2012.</p> <p>Transfer of an Option takes effect on registration in the Company's register of optionholders</p>	2.2
Cancellation of options	Options may be cancelled for no consideration only where separately agreed with the registered Optionholder.	
Exercise period	<p>The Optionholder may exercise some or all of the Options held by the Optionholder at any time on or after the date which is the earlier of:</p> <p>(a) the day following the completion of the Rights Issue; and</p> <p>(b) 3 months from the date of drawdown of the Facility.</p>	3.2
How options are exercised	<p>The Optionholder may only exercise Options by:</p> <p>(a) giving the Company a completed Exercise Notice signed by the Optionholder or a director or secretary of the Optionholder, and, if the Optionholder nominates another person to receive Shares on exercise of the Options, the nominee or a director, secretary, authorised officer or attorney of the nominee);</p> <p>(b) paying, or procuring payment of, the amount payable by the Optionholder on exercise of the Options (being the number of Options specified in</p>	3.3

Feature		Clause ref.
	<p>the Exercise Notice multiplied by the Exercise Price) to the Company by a cheque in favour of the Company or an electronic funds transfer into an account nominated by the Company; and</p> <p>(c) providing the certificate for the options to the Company.</p>	
Issue of Shares on exercise	<p>If the Optionholder properly exercises Options in accordance with clause 3, the Company must:</p> <p>(a) issue the Optionholder (or, if applicable, the nominee) the Shares (and any other Securities to which the Optionholder may become entitled under clause 4) to which the Optionholder is entitled on exercise within 5 Business Days after exercise of the Options;</p> <p>(b) procure that the Company's share registry issue a holding statement to the Optionholder in respect of the Shares issued on exercise of those Options; and</p> <p>(c) provide such other evidence satisfactory to the Optionholder of the admission and delivery of those Shares (including any documents issued by ASX)..</p>	3.5
Pro Rata Issues	<p>An Optionholder has no right to participate in a Pro Rata Issue without exercising the Option. However, if there is a Pro Rata Issue (except a Bonus Issue or any offer conducted to redeem the RCPS) to holders of Underlying Securities, from the date of the issue the Exercise Price for each Option is reduced according to the following formula:</p> $O' = O - \left(\frac{E \times [P - (S + D)]}{N + 1} \right)$ <p>Where:</p> <p>O' is the new Exercise Price of the Option</p> <p>O is the old Exercise Price of the Option</p> <p>E is the number of Underlying Securities over which the Option is exercisable</p> <p>P is the average market price per Security (weighted by reference to volume) of the Underlying Securities during the 5 Trading Days ending on the day before the ex rights date or ex</p>	4.1

Feature		Clause ref.
	entitlements date S is the subscription price for a Security under the Pro Rata Issue D the dividend due but not yet paid on existing Underlying Securities (except those to be issued under the Pro Rata Issue) N is the number of Securities with rights or entitlements that must be held to receive a right to 1 new Security	
Bonus Issues	An Optionholder has no right to participate in a Bonus Issue without exercising the Option. However, if there is a Bonus Issue to holders of Underlying Securities, from the date of the issue, the number of Securities over which an Option is exercisable is increased by the number of Securities which the holder of the Option would have received if the Option had been exercised immediately before the Record Date for the Bonus Issue.	4.2
New Issues	An Optionholder has no right to participate in a New Issue without exercising the Option.	
Reorganisation	If, before exercise or expiry of the Options, the Company implements a reorganisation of its capital, the terms of the Options will be amended to the extent required to comply with the Listing Rules	4.3
Interest in Shares	No interest in or voting entitlements in respect of Shares the subject of the Options until the Options are exercised in accordance with the terms and the Shares are issued by the Company	
Ranking of Shares on exercise	Shares issued on exercise of Options: (a) are of the same class, and rank equally with, other Shares on issue as at that date; and (b) only carry an entitlement to receive dividends that have a Record Date after the date the Shares were issued.	5.1
Quotation of Options	The Company will not apply for quotation of the Options	
Quotation of Shares	Subject to ASX Listing Rules, the Company must apply for quotation of Shares issued on exercise of the Options promptly after issue of the Shares (unless, at the time of exercise, it is not admitted to the official list	5.2

Feature		Clause ref.
	of the ASX).	
Disclosure Document	The Company will issue a disclosure document for the Options as part of the Rights Issue so that an Optionholder can freely sell or transfer the Shares on issue	5.3
Governing Law	New South Wales	6.4
Variation	<p>(a) The Company may vary these terms and change the Optionholder's rights and liabilities, to the extent necessary to comply with the ASX Listing Rules applying to reorganisations of capital at the time of the reorganisation. The Company must notify each Optionholder of any such variation within 10 Business Days of the date of the variation.</p> <p>(b) Otherwise, subject to the ASX Listing Rules, the Company and an Optionholder may vary the terms applicable to any Options of which the Optionholder is registered holder by agreement.</p>	6.5
Duties and Taxes	The Company is not responsible for any duties or taxes that may become payable in connection with the issue of Securities following exercise of, or in connection with any other dealing with, the Options.	7





AJ LUCAS GROUP LIMITED
REGISTERED OFFICE
394 Lane Cove Road
Macquarie Park NSW 2113
Australia