

# **AJ Lucas Group Limited**

**(ABN 12 060 309 104)**

## **Notice of Extraordinary General Meeting and Explanatory Statement**

**Extraordinary General Meeting of the Company  
to be held on**

**22 December 2011 at 10.00 am**

**Hyundai Building, 3<sup>rd</sup> Floor  
394 Lane Cove Road,  
Macquarie Park NSW 2113**



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# Letter from the Lead Independent Director

18 November 2011

Dear Shareholder

## **Background and details of the Recapitalisation Proposal**

On 19 September 2011, AJ Lucas Group Limited (**Lucas** or the **Company**) announced to the ASX that it had entered into a series of fund-raising agreements with Kerogen Investments No.1 (HK) Limited (formerly known as Kentix Limited) (**Kerogen**), an entity managed by Kerogen Capital Limited (**Kerogen Capital**). These agreements were subject to FIRB approval, which has since been obtained.

On 17 November 2011, the Company announced to the ASX that it had amended the fund-raising agreements with Kerogen by increasing the size of each of the Mezzanine Facility and the proposed Rights Issue.

For the agreements to be implemented in full, shareholder approval is requested for each of Resolutions 1, 2 and 3 set out in the attached Notice of Meeting and Explanatory Statement. In order for you to consider properly the importance of Resolutions 1, 2 and 3, which are all inter-related and presented as a 'package', I have set out below some necessary background and context. You will be aware that Lucas has been experiencing financial and operating difficulties for some years. The combination of difficult trading conditions and the legacy of the funding structure implemented to effect the acquisition of Mitchell Drilling in 2008 have left the Company over leveraged. Poor trading conditions squeezed cash flows in the last two financial years and, since, December 2009, Lucas has been in technical default on its RCPS due, in part, to Lucas failing to declare and pay the RCPS dividend in the period ending December 2009. This has led to the re-classification of the RCPS as a current liability by the auditors and placed further strain on the Company's balance sheet. Another consequence of these events is that the Company has been obliged to accrue interest at default rates on the RCPS, resulting in a further weakening of the balance sheet. Finally, the financial difficulties have resulted in the Company being unable to participate in or pursue some opportunities in its operating businesses, particularly over the past year.

The Board and management has recognised the urgent need to repair the Company's balance sheet and, therefore, over the last year has given active consideration to asset sales and a range of recapitalisation and balance sheet restructuring possibilities, including equity and debt solutions. Over the past several months, the Company has received, considered and investigated several proposals, mostly highly conditional, for raising new equity or debt, and combinations of these.

The Board and management have also worked diligently to keep the Company's creditors and customers informed about the processes and outcomes of these investigations. The Board would like to acknowledge the co-operative and constructive support provided by its creditors and customers during this unsettling period.

These investigations have taken place during a period of turbulent, unsettled financial markets and a decline in share markets worldwide. In all of its investigations, the Company has sought a solution which minimises any cost or dilution to shareholders while seeking the most complete solution to repay or replace its liabilities.

Following the conclusion of this process, the Company has now identified a hybrid solution involving both debt and equity, which will provide strength to the Company's balance sheet, while at the same time minimising dilution for shareholders. The Company's lenders have indicated their support for the proposal.

Importantly this solution has introduced funds from Kerogen as a new substantial shareholder in the Company. Kerogen Capital is supportive of the Company and its management and has a world class investments team and advisory board that will be able to assist the Company in delivering on the full potential of its operations.

Consequently, the Company has entered into a number of financial arrangements to raise approximately \$151 million (the **Recapitalisation Proposal**), structured, following the amended fund-raising agreements dated 17 November 2011, on the following basis:

- (a) \$13.3 million, through a placement 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, to reduce debt and to provide working capital; and
- (c) a 1 for 2 Rights Issue to raise approximately \$51.3 million, to repay the ATO, reduce debt and to provide working capital, which is to be partly sub-underwritten by Kerogen. Kerogen has informed the Company that it intends to take up its full entitlement under the Rights Issue.

If it is approved, this financing package will result in a stronger balance sheet for Lucas, by providing a lower cost of funding, lower leverage and removing the uncertainty created by the re-classification of the RCPS as a current liability. As a consequence, Lucas will be placed in a healthier position, better able to take advantage of the opportunities offered by the current strength of the sectors in which it is operating and better positioned to assure its clients that its financial capacity will not limit the Company's ability to provide operating solutions to their needs.

The Board and management believe that further steps will be necessary to manage its remaining debt and to sustain its investment in its energy investment portfolio. The Board may continue to pursue other funding alternatives to manage risk, further strengthen the balance sheet and improve shareholder returns

If the Recapitalisation Proposal is approved by shareholders, it is anticipated Lucas will be able to apply for the lifting of the suspension of its shares from trading on ASX. Reinstatement is, however, entirely subject to ASX discretion and the Company has no control over whether it will be granted or the timing for the grant of any approval.

In order for that to happen, the Company will issue a Prospectus to shareholders before the EGM. Among other things, the Prospectus will update shareholders on the Company's operations and current financial status and will set out information on the Company's energy investment portfolio, including its direct ownership of exploration permits in the UK, its shareholding in Cuadrilla and its investment in Monument Prospect, East Texas. As a result, shareholders will be able to make a more informed decision about the benefits of the Recapitalisation Proposal and, if it is approved, their possible participation in the subsequent Rights Issue.

## **Trading update**

While the Company's business has faced increased challenges in light of the uncertainty around its financial position, all of the Company's operating businesses continue to win contracts and are operating in markets with a favourable outlook. Both the Drilling and BC&I divisions have a stronger order book than at this time last year and operating margins to date are higher than in the previous year.

With a strengthened balance sheet and the uncertainty surrounding the Company reduced, continued improvement across all businesses is expected.

## EGM resolutions

The purpose of this EGM is to consider four separate resolutions in connection with the Recapitalisation Proposal.

It is important to note each of **Resolutions 1, 2 and 3** are interlinked and require shareholders to approve all three before any of them is binding on the Company.

If any of **Resolutions 1, 2 or 3** are not approved by shareholders, the Recapitalisation Proposal cannot proceed.

**Resolution 4** is not linked to or conditional on the passing of any other resolution.

This Notice of Meeting and attached Explanatory Statement contains further detail on the background and rationale to the resolutions. You should read the Notice of Meeting and the Explanatory Statement in its entirety and consider its contents carefully.

## Voting intentions of Kerogen and Andial as substantial holders on resolutions

The Company has been advised by each of Kerogen and Andial Holdings Pty Limited (**Andial**), each substantial holders of Shares, that:

- each intends to vote all of its Shares in favour of each of **Resolution 1**;
- Andial intends to vote all of its Shares in favour of **Resolutions 2 and 3**; and
- Kerogen intends to vote all of its Shares in favour of **Resolution 4**.

## Independent Directors' recommendation on Resolutions

The Independent Directors unanimously recommend that shareholders, in the absence of a Superior Proposal being received by the Company prior to the vote, vote in favour of each of **Resolutions 1, 2, 3 and 4**.

On behalf of the Independent Directors, I thank you for your continued support.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Martin Green', with a stylized flourish at the end.

**Martin Green**

Lead Independent Director

# AJ LUCAS GROUP LIMITED

(ABN 12 060 309 104)

(Company)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

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Notice is given that the Extraordinary General Meeting (**EGM**) of the Company is to be held as set out below.

### DETAILS OF MEETING

**Date:** 22 December 2011

**Time:** 10:00 am

**Address:** Hyundai Building,  
3<sup>rd</sup> Floor  
394 Lane Cove Road,  
Macquarie Park NSW 2113

### BUSINESS

#### **Resolution 1: Selective Buy Back of Redeemable Convertible Preference Shares**

To consider and, if thought fit, pass the following resolution as a **special resolution**:

*"That the Company approve the selective share buy back of 450,000 redeemable convertible preference shares (**RCPS**) at the Conversion Amount (calculated in accordance with clause 4.4(b) of the RCPS Terms) per RCPS in accordance with section 257D(1) of the Corporations Act 2001 (Cth) and the terms of issue of the RCPS (**RCPS Terms**), conditional on Resolutions 2 and 3 being passed by the requisite majority."*

#### **Resolution 2: Approval of issue of options to the Fund**

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

*"That the issue by the Company of a total of 1,000,000 options over ordinary shares in the Company (**Fund Options**) for an issue price of \$0.01 and with an exercise price for each Share of \$2.13, to certain funds (or custodians for the trustee of the funds) managed by Goldman Sachs & Partners Australia PIA (Management) Pty Limited (**Fund**) (or their nominees) be approved for the purposes of ASX Listing Rule 7.1, conditional on Resolutions 1 and 3 being passed by the requisite majority."*

#### **Resolution 3: Approval of issue of options to Kerogen**

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

*"That the issue by the Company to Kerogen Investments No.1 (HK) Limited (**Kerogen**) of 18,566,763 options over unissued ordinary shares in the Company (**Kerogen Options**) at an exercise price per Share of the lower of 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 \$1.70, but subject to a minimum price of \$1.35 per Share, be approved for the purposes of ASX Listing Rule 7.1, conditional on Resolutions 1 and 2 being passed by the requisite majority."*



**Resolution 4: Approval for Andial to sub-underwrite the Rights Issue**

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

*“That the subscription for shares by Andial Holding Pty Limited (**Andial**), and participation of Andial as a sub-underwriter of the Rights Issue, be approved for all purposes.”*

**ACCOMPANYING DOCUMENTS - IMPORTANT**

The following documents accompany this notice:

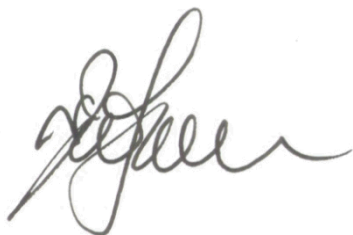
- (a) Explanatory Statement in relation to the resolutions to be considered;
- (b) the Glossary (**Annexure A**);
- (c) a summary of the terms of the Mezzanine Facility (**Annexure B**);
- (d) the terms of the Fund Options (**Annexure C**);
- (e) the terms of the Kerogen Options (**Annexure D**);
- (f) a summary of the key terms and conditions of the Underwriting Agreement (**Annexure E**);
- (g) a summary of the key terms and conditions of the Sub-underwriting Agreement (**Annexure F**);
- (h) the Pro-Forma Balance Sheet (**Annexure G**); and
- (i) a Proxy Form.

The Explanatory Statement and annexed terms of the Fund Options and the Kerogen Options form part of this Notice of Meeting.

The background and reasons behind the resolutions to be considered are more fully set out in the Explanatory Statement. Members should read the Explanatory Statement and the outline of the terms of the Fund Options and the Kerogen Options in full and carefully consider their contents.

Each document referred to in these resolutions is available for inspection by members on request to the Company.

By Order of the Board



**Nicholas J W Swan**  
**Company Secretary**

**Date:** 18 November 2011

**Notes:**

- 1 A member entitled to attend and vote at a meeting of members may appoint:
  - (a) a person ("person" can be an individual or a body corporate); or
  - (b) if the member is entitled to cast two or more votes at the meeting, two persons, as the member's proxy or proxies to attend and vote for the member at the meeting. A proxy need not be a member.
- 2 If the member appoints two proxies and the instrument does not specify the proportion or number of the member's votes, each proxy may exercise half of the votes.
- 3 The Company must receive at least 48 hours before the meeting:
  - (a) the proxy's appointment; and
  - (b) if signed by the appointor's attorney, the authority under which the appointment was signed or a certified copy of the authority.
- 4 The proxy's appointment and, if applicable, the authority appointing an attorney, must be sent by post or fax to the Company's registered office or to the address or fax number of the Company's Registry, set out below:
  - (a) **By mail** to: Share Registry – Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne, VIC 3001 Australia;
  - (b) **By facsimile** to: 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
  - (c) **Vote online**: Shareholders can also cast their votes online at [www.investorvote.com.au](http://www.investorvote.com.au) and follow the prompts. To use this facility you will need your holder number (SRN or HIN), postcode and control number as shown on the Proxy Form. You will have been taken to have signed the Proxy Form if you lodge it in accordance with the instructions on the website; and
  - (d) **Custodian voting**: for Intermediary Online subscribers only (custodians), please visit [www.intermediaryonline.com](http://www.intermediaryonline.com) to submit your voting intentions.
- 5 For the purposes of determining entitlement to vote at the meeting, an entity or person will be recognised as a shareholder at close of business on 20 December 2011 (**Entitlement Time**). All registered holders of ordinary shares in the Company as at the Entitlement Time are entitled to attend and vote at the meeting.
- 6 The Board determined that all of the shares that are quoted securities at close of business on the Entitlement Time will be taken, for the purposes of the meeting, to be held by the persons who held them at that time.

(a) **Resolution 1 (RCPS Buy Back)**

The Company will disregard any votes cast in favour of **Resolution 1** by:

- (i) any person who may participate in the buy-back of the RCPS; or
- (ii) any associate of any such person.

(b) **Resolution 2 (Approval of issue of options to the Fund)**

The Company will disregard any votes cast in respect of **Resolution 2** by:

- (i) the Fund;
- (ii) Kerogen;
- (iii) any other person who may participate in the proposed issue and any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and
- (iv) any associate of any such persons.

(c) **Resolution 3 (Approval of issue of options to Kerogen)**

The Company will disregard any votes cast in respect of **Resolution 3** by:

- (i) the Fund;
- (ii) Kerogen;
- (iii) any other person who may participate in the proposed issue and any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and
- (iv) any associate of any such persons.

(d) **Resolution 4 (Approval for Andial to sub-underwrite the Rights Issue)**

The Company will disregard any votes cast in respect of **Resolution 4** by:

- (i) Andial; and
- (ii) any associate of Andial.

However, the Company need not disregard a vote in respect of any of these resolutions if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

# Important Notices

## Important Information

This Notice of Meeting and Explanatory Statement have been issued by AJ Lucas Group Limited (the **Company**) in relation to the Extraordinary General Meeting to be held on 22 December 2011 at 10.00 am at Hyundai Building, 3rd Floor, 394 Lane Cove Road, Macquarie Park NSW 2113.

This Notice of Meeting and Explanatory Statement is important and requires your immediate attention. It is important that you read this Notice of Meeting and Explanatory Statement.

This Notice of Meeting and Explanatory Statement have been issued in relation to the EGM to consider ordinary and special resolutions as set out in this Notice of Meeting and explained in the Explanatory Statement which are necessary to give effect to the recapitalisation plans of the Company (the **Recapitalisation Proposal**).

This Notice of Meeting and Explanatory Statement 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 businesses.

## Definitions and Abbreviations

Unless otherwise stated, defined terms and abbreviations used in this document are outlined in the Glossary.

## Disclaimer

No representation or warranty, express or implied is made as to the fairness, accuracy, completeness or correctness or any information, opinions and conclusions contained in this Notice of Meeting and Explanatory Statement, to the maximum extent permitted by law. Except as required by law, and only to the extent so required, neither the Company nor any of its directors, officers, employees, intermediaries or advisers accepts any liability for any loss arising in connection with it, including, without limitation, any liability arising from fault or negligence on their part.

Except as required by law, and only to the extent so required, neither the Company nor its Independent Directors, officers, employees or any other person warrants the future performance of the Company or any return on any investment in the Company. The pro forma financial information provided in the Explanatory Statement is not a forecast of operating results of the Company to be expected in future periods.

Except as may be required by law or the ASX Listing Rules, neither the Company or its directors, officers,

employees or any other person accepts any responsibility to update or revise any of the information in this Notice of Meeting or the Explanatory Statement, including any forward looking information.

## No Investment Advice

In preparing this Notice of Meeting and Explanatory Statement, no account has been taken of the investment objectives, financial situation and particular needs of any particular party and nothing in this Notice of Meeting and Explanatory Statement should be interpreted or construed as tax or legal advice or a recommendation in relation to an investment in the Company.

In making a decision in relation to an investment in the Company, the Company understands that Shareholders have engaged their own professional advisors to provide independent legal, tax and accounting advice on the merits and risks associated with implementation of the Recapitalisation Proposal, the resolutions to be considered at the EGM and an investment generally in the Company.

## Rights Issue

This Notice of Meeting and Explanatory Statement refers to a proposed Rights Issue of new ordinary shares by the Company. However, this Notice of Meeting and Explanatory Statement does not contain all of the information relevant to the proposed Rights Issue.

A Prospectus will be made available in relation to the Rights Issue and will be lodged with ASIC and ASX, and will be available from the Company's registered office, prior to the EGM.

Eligible Shareholders should consider the Prospectus in deciding whether to acquire shares under the Rights Issue and, if they wish to acquire shares, will need to complete the application form accompanying the Prospectus.

## Governing Law

This Notice of Meeting and Explanatory Statement are governed by the laws of New South Wales, Australia.

## Key Dates for Proposed Rights Issue

Action	Finish
Appendix 3B lodged with ASX	18-Nov-11
EGM notice - lodged with ASX	18-Nov-11
Prospectus, Entitlement and Acceptance Forms expected to be lodged with ASX	By 10am 9-Dec-11
Proxy Deadline	20-Dec-11
EGM	22 Dec-11
RCPS Buy Back completes	22-Dec-11
*Record Date for Rights Issue	6-Jan-12
*Rights Issue Opening Date	10-Jan-12
*Rights Issue Closing Date	27-Jan-12
*Settlement of sub-underwriting	2-Feb-12
*Rights Issue Allotment Date	6 Feb-12
*Rights Issue Quotation Date	7-Feb-12

\* Subject to relevant approvals at EGM

### Dates may change

These dates are indicative only and may change. The Company may elect to postpone the Meeting Date or to withdraw the Recapitalisation Proposal (or any part of it) at any time before the Meeting Date. Any variations to these dates may be subject to ASX approval. Any variations to the Rights Issue timetable may require the approval of the Underwriter and Kerogen.

### Voting entitlement information

As determined by the Board, all of the Shares that are quoted securities at 7.00pm AEDT on the EGM Proxy Deadline date will be taken, for the purposes of the EGM, to be held by the persons who were registered holders of those securities at that time and will be entitled to attend and vote at the EGM.

### Proxy votes and appointing an attorney or corporate representative

Proxy votes and any authority appointing an attorney or corporate representative will only be accepted prior to 10.00 am on the EGM Proxy Deadline date. A Proxy Form accompanies this Notice of Meeting and Explanatory Statement. You can also obtain a copy of this Notice of Meeting and the Explanatory Statement on the Company website [www.lucas.com.au](http://www.lucas.com.au) or arrange for a copy of this Notice of Meeting, the Explanatory Statement and a Proxy Form to be sent to you by calling, within Australia, 1300 556 161 and, outside of Australia, +61 3 9415 4000 between the hours of 8.30 am and 5.30 pm.

## EXPLANATORY STATEMENT

This Explanatory Statement forms part of the Notice of Meeting convening the Extraordinary General Meeting of shareholders of the Company to be held on 22 December 2011 and is to assist shareholders in understanding the background to the resolutions.

### 1 INTRODUCTION

The four resolutions (**Resolutions 1 to 4**) moved as the business before the EGM are for the purpose of:

- (a) approving the selective buy back of 450,000 redeemable convertible preference shares (**RCPS**) held by the constituent entities of the Goldman Sachs Trans-Tasman Private Equity Fund 2007 (the **Fund**) at the Conversion Price (as calculated pursuant to the RCPS Terms, including accrued dividends) (**RCPS Buy Back**);
- (b) approving the issues of options to the Fund as part of the agreement to redeem the RCPS (**Fund Options**);
- (c) approving the issues of options to Kerogen Investments No. 1 (HK) Limited (**Kerogen**) as part of the Mezzanine Facility to be provided by Kerogen to the Company (**Kerogen Options**); and
- (d) approving the participation of Andial Holdings Pty Limited (**Andial**), a related party of the Company, in the Sub-underwriting of a 1 for 2 non-renounceable rights issue proposed to be conducted by the Company to raise approximately \$51.3 million (**Rights Issue**). The Rights Issue is to be fully underwritten (subject to conditions) by Gleneagle Securities (Aust) Pty Ltd (**Underwriter**) and will also have Kerogen as a participating sub-underwriter.

See the information below for more specific detail on the background, purpose and the consequences of the individual resolutions.

### 2 BACKGROUND

#### 2.1 Recapitalisation Proposal

As announced to the market on 23 May 2011, 25 May 2011, 27 May 2011, 1 July 2011, 31 August 2011 and 19 September 2011, the Company has been engaged in exploring several proposals, mostly highly conditional, to recapitalise and restructure its balance sheet. This has involved detailed discussions with the Company's bankers and the Fund, as well as prospective alternative financiers and potential bidders for certain assets of the Company.

As announced to the market on 19 September 2011 and 17 November 2011, the Company has entered into a number of financial arrangements with Kerogen (comprising the Recapitalisation Proposal), which, subject to receiving all necessary approvals, will result in a significant recapitalisation of the Company. The Recapitalisation Proposal will advance the Company's objectives to strengthen its balance sheet and improve liquidity.

In aggregate, the funds to be raised under the Recapitalisation Proposal (provided that the necessary shareholder approvals are obtained), including the Placement, will be approximately \$151 million, structured as follows:

- (a) a Placement of 9,917,650 new ordinary shares to Kerogen, being 15% of the Company's issued ordinary shares, at \$1.35 per share to raise a total of \$13,388,827 to fund the US\$9.9 million Cuadrilla Cash Call and working capital requirements. The Placement was conducted on 30 September 2011;
- (b) a \$86.5 million Mezzanine Facility, to be provided by Kerogen, which will be used to fund the payments to the Fund for the RCPS Buy Back, to reduce debt and to provide working capital; and
- (c) the 1 for 2 Rights Issue to raise approximately \$51.3 million to reduce debt and to provide working capital, which is to be partly sub-underwritten by Kerogen.

Following completion of the Placement, the Company has subscribed US\$9.9 million for new equity in Cuadrilla thereby maintaining its equity holding in parity with funds managed by Riverstone. The Company now holds 42% of Cuadrilla's A and B shares.

Further to the Recapitalisation Proposal, the Company may continue to pursue other funding alternatives to reduce debt and further strengthen the balance sheet.

## **2.2 Why is the Company conducting the RCPS Buy Back?**

### **(a) Issue of RCPS**

On 8 December 2008, as part of a financing package for the acquisition by the Company of the Mitchell Drilling business, the Fund subscribed \$45 million for the RCPS. The Company prepared the RCPS Prospectus for the issue of the RCPS, with the terms of the RCPS approved by Shareholders.

### **(b) Conversion and redemption rights of the RCPS**

In the period ended December 2009, (as announced in the Appendix 4D filed on 26 February 2010), one or more Trigger Events (as defined in the RCPS Terms) occurred as a consequence of, amongst other things, the Company failing to declare and pay the RCPS Dividend. These Trigger Events persist and, as a result:

- (i) the Fund has the right to require the early redemption of the RCPS at any time by issuing a Holder Redemption Notice;
- (ii) except in limited circumstances, the Company is now required to obtain the consent of the Fund (not to be unreasonably withheld) before the Company can obtain additional finance; and
- (iii) the dividend rate applying to the RCPS has stepped up to a higher rate.

To enable it to meet the redemption commitments, during this time the Company considered various options to restructure its debt and/or to introduce new equity into the Company to enable a payment of debt and other obligations, including the redemption. In February 2010, the Company requested the consent of the Fund to the Company taking on certain additional financial indebtedness.

In the March Letter, the Fund consented to the Company taking on certain additional financial indebtedness on the condition that the Company pay to the Fund an on-going consent fee which accrued on and from 11 March 2010. It was a condition of payment of the fee that the Company's senior financier provide its consent to that payment. Such consent has been provided.

Since March 2010, the Company has engaged in various discussions with the Fund from time to time and has considered various options to restructure its debt and/or to introduce new equity into the Company to enable a payment of debt and other obligations, including the redemption of the RCPS.

(c) **RCPS Redemption Agreement**

The Fund and the Company have come to an arrangement concerning a timetable and process for the orderly redemption of the RCPS by executing the RCPS Redemption Agreement, as outlined in section 4.2. This arrangement is reliant on the Recapitalisation Proposal proceeding.

The ANZ, as senior financier, has provided its consent to the Recapitalisation Proposal.

(d) **Fund Options**

The Fund has only agreed to provide a Holder Redemption Notice to effect the RCPS Buy Back if (amongst other things) Shareholders approve the grant of the Fund Options to the Fund and the RCPS Buy Back.

The terms of the shareholder approval sought to the grant of the Fund Options is set out in **Resolution 2**.

If the grant of the Fund Options is not approved by Shareholders, then the Company will not be able to proceed with the RCPS Buy Back and the Recapitalisation Proposal.

The terms of the Fund Options are set out in **Annexure C**.

(e) **Consequences of failure to approve RCPS Buy Back**

The Company believes that, if each of **Resolutions 1 to 3**, and in particular the RCPS Buy Back resolution set out in **Resolution 1** and the grant of the Fund Options resolution set out in **Resolution 2** are not approved at this time, then the following is most likely to occur:

- (i) the Fund will be likely to issue a Holder Redemption Notice;
- (ii) having received a Holder Redemption Notice, the Company would be obliged to redeem the RCPS within 90 days of receipt of the notice;
- (iii) if issued, the Company would need to find alternative funding sources to meet the payment obligations; and
- (iv) if the Company does not redeem the RCPS within the 90 day period, the Fund may require the Company to conduct a rights issue at whatever discount as is necessary to raise sufficient equity capital to allow the Company to redeem the RCPS, which could result in material dilution for all Shareholders.



## 2.3 Kerogen Recapitalisation Proposal

### (a) About Kerogen

Kerogen (formerly known as Kentix Limited) is an indirect wholly owned subsidiary of Kerogen General Partner Limited (**Kerogen GP**), which is the general partner to the Kerogen Energy Fund L.P. (**Kerogen Fund**), an independent private equity fund that focuses in providing growth and development capital to small and medium-sized companies in the energy and energy-related sectors. Kerogen Fund is managed by Kerogen Capital Limited (**Kerogen Capital**), which has appointed Kerogen Capital (Asia) Limited as its advisor. Kerogen Capital (Asia) Limited is a regulated entity in Hong Kong.

None of Kerogen, Kerogen Capital, the Kerogen Fund, Kerogen GP or Kerogen Capital (Asia) Limited are related parties of Andial or the Company and none of those persons held any legal or beneficial interest in Shares in the Company prior to the issue of the Shares under the Placement. Following the Placement, Kerogen, Kerogen Capital, the Kerogen Fund, Kerogen GP and Kerogen Capital (Asia) Limited's only relevant interest in Shares is the 13.04% held by Kerogen.

Kerogen Capital is supportive of the Company and its management and has a world class investments team and advisory board that will be able to assist the Company in delivering on the full potential of its operations.

Kerogen Capital is targeting to raise a fund of US\$1.5 billion by the end of 2011, with US\$875 million having been committed to date. The Fund leverages the proven technical, strategic and financial expertise of its executive team to assist companies in developing and expanding their assets, and maintains active strategic, financial and operating involvement in its portfolio companies.

Kerogen Capital, which manages the Kerogen Fund, leverages the proven technical, strategic and financial expertise of its executive team to assist companies in developing and expanding their assets.

The strength of the executive team is reinforced by the network and operational expertise of a world class advisory board, which includes:

- Dr Alan Parsley (former Chairman of Shell Australia)
- Roy Franklin OBE (Chairman of Keller Group, Director of Santos and Director of Statoil)
- Saad Al-Shuwaib (former CEO of Kuwait Petroleum Corporation)
- Lord Malloch-Brown (former Deputy Secretary General of the United Nations and former Minister in the Foreign Office of the British Government)
- Phillip Jackson (former Chief Executive of JP Morgan Asset Management's \$860 million Asian Infrastructure and Related Resources Opportunity Fund)
- Dr Natasha Tsukanova (Co-founder of Xenon Capital, former head of JP Morgan Russia / CIS Investment Banking)

The Kerogen group of companies are led by Ivor Orchard and Jason Cheng. Ivor Orchard was formerly Head of the Energy & Natural Resources Group in Asia Pacific for JP Morgan from 2002 to 2007 and before that was Head of Energy & Natural Resources at JP Morgan Australia. Jason Cheng was previously a Managing Director of Jade International Capital Partners which focused on investments and joint venture advisory assignments in China. Prior to that, Jason was with JP Morgan Australia focused on Energy & Natural Resources.

(b) **FIRB Approval**

On 23 September 2011, Kerogen GP, as general partner of the Kerogen Fund was granted the FIRB Approval that enabled it, through its wholly owned subsidiary Kerogen, to make the proposed investment in the Company, including the Placement, the proposed participation in and Sub-underwriting of the Rights Issue, provision of the Mezzanine Facility and receipt of the Kerogen Options.

(c) **Subscription Agreement - Placement and Rights Issue**

As announced to the market on 19 September 2011 and 17 November 2011, Kerogen and the Company executed a Subscription Agreement dated 18 September 2011 with respect to the Placement and Sub-underwriting of the Rights Issue.

(i) **Placement**

Under the Placement, Kerogen has subscribed for 9,917,650 Shares at \$1.35 per Share (**Placement Shares**) for a total payment of \$13,388,827. The Placement was completed on 30 September 2011.

The Company has now used its existing 15% placement capacity under Listing Rule 7.1 by making the Placement to Kerogen.

US\$9.9 million of the proceeds of the Placement were used by the Company to pay the Cuadrilla Capital Call by 30 September 2011.

The remainder of the proceeds of the Placement will be used for working capital purposes.

(ii) **Rights Issue**

The Rights Issue will be conducted at \$1.35 per Share commencing after the EGM has been held.

Kerogen has agreed to take up its entitlements under, and to Sub-underwrite, the Rights Issue.

(iii) **Kerogen Board nominee**

The Subscription Agreement gives Kerogen the right, should it choose to exercise it, to nominate a director for appointment to the Board provided that Kerogen holds at least 15% of the capital of the Company.

Kerogen has indicated that there is currently no intention to exercise that right if its shareholding exceeds 15%, but that it reserves the right to do so.

(d) **Mezzanine Facility and Kerogen Options**

As announced to the market on 19 September 2011 and 17 November 2011, the Company has also signed an amended term sheet dated 17 November 2011 with Kerogen with respect to the \$86.5 million Mezzanine Facility, which is the proposed source of funding for the payment under the RCPS Buy Back.

(i) **Mezzanine Facility**

The proposed terms of the Mezzanine Facility are outlined in sections 4.5 and 4.6.

A summary of the Mezzanine Facility term sheet is set out in **Annexure B**.

(ii) **Kerogen Options**

As noted in section 3, the provision of the Mezzanine Facility is conditional (amongst other things) on Shareholders approving the grant of the Kerogen Options to Kerogen.

The terms of the shareholder approval sought to the grant of the Kerogen Options is set out in **Resolution 3**.

If the grant of the Kerogen Options is not approved by Shareholders, then the Company will not be able to drawdown on the Mezzanine Facility and will, therefore, not be able to proceed with the RCPS Buy Back.

The terms of the Kerogen Options are summarised in **Annexure D**.

(e) **Sale of Drilling Division**

As announced to the market on 31 August 2011, the Company engaged financial advisers to conduct a competitive sales process to sell the whole or part of the Company's drilling division.

Following consideration of various indicative bids received to date, the Board has decided not to pursue the sales process at this time.

## **2.4 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, then there is a substantial risk that Lucas Cuadrilla may be forced to sell its shares in Cuadrilla to Riverstone.

If a Change of Control occurs with respect to Lucas Cuadrilla, then Lucas Cuadrilla must:

- (a) promptly notify Riverstone and the Cuadrilla Board of the Change of Control;
- (b) promptly provide such information in relation to the New Controller as Riverstone and the Cuadrilla Board reasonably requests to enable the Cuadrilla Board to determine (acting reasonably, in the best interests of the Company and in accordance with the criteria set out in the definition of Qualifying Transferee) if the New Controller is a Qualifying Transferee; and
- (c) not attend or participate in any discussions on or vote on any resolutions in respect of (and must procure that any Lucas Cuadrilla Director, or any Lucas Cuadrilla Observer or other director nominated by it does not attend or participate in or vote on any resolutions in respect of) the determination of the New Controller as a Qualifying Transferee, whether at a Cuadrilla Board meeting, shareholders meeting or otherwise,

Provided that Lucas Cuadrilla has supplied all information reasonably requested by Riverstone and the Cuadrilla Board on or before that date (if not, the period will be extended to such later date as may be considered by the Cuadrilla Board to be appropriate, acting reasonably), within 15 Business Days after the relevant Change of Control Notification Date (the **Determination Period**), the Cuadrilla Board must confirm to Cuadrilla Lucas in writing giving reasons for its decision (with a copy to Riverstone), that (in its discretion, acting reasonably) either:

- (a) the New Controller is a Qualifying Transferee; or
- (b) the New Controller is a not Qualifying Transferee,

and, if the Cuadrilla Board fails to make a confirmation prior to the expiry of the Determination Period, the Cuadrilla Board is deemed to have confirmed that the New Controller is a Qualifying Transferee.

If the New Controller is a Qualifying Transferee, then Lucas Cuadrilla is entitled to maintain its Cuadrilla Shares.

If the New Controller is not a Qualifying Transferee, then Lucas Cuadrilla is deemed to have given an irrevocable transfer notice on the other parties on the relevant date in respect of all Cuadrilla Shares held by it and a sale process is commenced where the Cuadrilla Shares are offered to the remaining Shareholders in Cuadrilla at a market price.

### **3 INTER-RELATIONSHIP BETWEEN RESOLUTIONS 1, 2 AND 3**

#### **3.1 Elements of Recapitalisation Proposal are interlinked**

The Company has negotiated each of the elements of the Recapitalisation Proposal as a single package having tested the equity, senior debt and mezzanine debt markets exhaustively for combinations that were available to the Company on terms that would be acceptable to Shareholders.

As set out in section 3.2, the Company will not proceed with the Recapitalisation Proposal unless each of the elements in **Resolutions 1, 2 and 3** are approved by Shareholders.

There are several reasons for this:

- (a) as the Company has triggered a right for the Fund to require the redemption of the RCPS prior to their maturity date, the Company has to find a way to do this in a manner that satisfies the Fund, or the Fund will likely seek to exercise rights to require a capital raising be undertaken at whatever discount as is necessary to raise sufficient equity capital to allow the Company to redeem the RCPS, which could result in material dilution for all Shareholders. The ability to redeem the RCPS is dependent on, amongst other things, the Company having sufficient funds to pay each of the RCPS Redemption Amount and the RCPS Accrued Fee, which together total approximately \$59.2 million (see section 4.4). The Mezzanine Facility, with an interest rate of 8% plus gross up for withholding tax for the first 12 months, is the most competitive debt package that the Company has been able to source and is one that no other provider has been willing either to provide or match, other than at a significantly higher cost to the Company;
- (b) the Fund agreed to redeem the RCPS on the terms of the RCPS Redemption Agreement contemporaneously with the Company issuing the Fund Options to the Fund. The terms of the Fund Options are substantially equivalent to the terms of the Kerogen Options, other than as to exercise price. If the Fund Options are not granted, then the Fund will likely issue Holder Redemption Notices to enable the Company to redeem the RCPS; and
- (c) the Mezzanine Facility will only be available to the Company if the Company issues the Kerogen Options to Kerogen. The number and terms of the Kerogen Options are consistent with market practice, in that they are equivalent to what other potential lenders required for similar sized debt positions.

It is for these reasons that each of **Resolutions 1, 2 and 3** are interlinked and that Shareholders are required to approve each of the resolutions before any of them is binding on the Company.

#### **3.2 Consequences of not passing any one of Resolutions 1, 2 or 3**

##### **(a) Failure of Recapitalisation Proposal**

If any one of **Resolutions 1, 2 or 3** is not approved by Shareholders, the Recapitalisation Proposal, including the Rights Issue, cannot proceed as Kerogen will not provide the Mezzanine Facility and the Underwriter will not proceed to underwrite the Rights Issue, with the result that:

- (i) the continued support of the senior financier to the Company may not be forthcoming and the Company may be required to seek alternative senior finance;
- (ii) the Company will not be able to redeem the RCPS without first:
  - (A) identifying and securing from alternative funding sources the appropriate levels of finance on terms that are acceptable to the Company; and
  - (B) negotiating a deal with the Fund for the redemption of the RCPS, which may be on materially worse terms for the Company;
- (iii) if the Company is unable to source the funding, or cannot source it in a time frame that is acceptable to the Fund, the Fund may exercise rights to require a capital raising be undertaken at whatever discount as is necessary to raise sufficient equity capital to allow the Company to redeem the RCPS, which could result in material dilution for all Shareholders and may trigger a Cuadrilla Change of Control Event (see section 2.4); and
- (iv) the Company would be subject to the continued impediment of requiring the Fund consent to additional financing.

(b) **Potential impacts of alternative funding sources**

The capital markets have experienced considerable volatility in recent times, and the general ability of companies to raise equity and debt capital is much reduced.

In that context, the Company believes that its available alternative funding sources (and the potential ramifications of using those alternative sources) include:

(i) **Issue of Shares**

***Issue at a deep discount***

Notwithstanding recent market conditions as at the date of this Explanatory Statement, the Company expects that it may be able to raise equity capital, albeit most likely at a significant discount to its last trading price.

Given that the Shares have been suspended from quotation since 25 May 2011 and, given the extreme market volatility since then, it is not possible to predict with any certainty what the trading price of the Shares in the Company would be.

Prior to suspension, the last trading price for the Shares was \$1.35. The Underwriter has agreed to underwrite the 1 for 2 Rights Issue amount of \$51,323,837 at an issue price of \$1.35 per Share only on the basis that the Mezzanine Facility was available to the Company.

However, if a capital raising of a size necessary to fully redeem the RCPS and pay the associated fees and pay other debts were to be conducted as the sole mean of raising the funds necessary to redeem the RCPS, the Company does not anticipate that it could obtain underwriting support at the \$1.35 level.

Rather, it would also be reasonable to expect that the rights issue price would be significantly lower than \$1.35 on account of the increase in the number of Shares on issue and the fact that any equity raising of this significant size will require a deep discount to find sufficient support.

#### ***Dilution and control effects***

An equity issue of significantly increased size would involve substantially increased dilution of existing Shareholders and could have a significant impact on the control of the Company.

If it were to result in a change of control of the Company, senior financier approval would first be required to complete the Rights Issue. A failure to get that approval would constitute a default under the ANZ Facility. In addition, a change of control may trigger a Cuadrilla Change of Control Event which may result in the Company losing its shareholding in Cuadrilla (see section 2.4 for details of when this would occur).

As a result, the Company considers that this alternative would be significantly more disadvantageous to the Company than the Recapitalisation Proposal, including the Mezzanine Facility, the Kerogen Options and the more limited Rights Issue.

#### **(ii) Issue of mezzanine debt finance**

The Company considers that it may, with difficulty, be able to raise alternative mezzanine finance ranking after the existing secured ANZ Facility. The Company has received alternative but conditional proposals which are on terms that are less favourable than those offered by the Recapitalisation Proposal.

#### ***Security***

This mezzanine finance, if it were available, would need to be secured behind the senior financier and would be likely to include equity conversion rights or profit sharing mechanisms which would be at least equivalent to those offered to Kerogen but at a significantly higher cost to the Company, and would need to be supported by an intercreditor deed with the senior financier.

#### ***Interest rate***

The extent of any equity conversion rights and the prevailing credit market conditions will determine the amount of the interest rate.

In the absence of any equity conversion rights, based on market conditions as at the date of this Explanatory Statement, the Company expects that the interest rate would be in the order of 15.0% above BBSY or 20.0% per annum. However, this rate may vary depending upon the timing of any issue and market conditions at that time.

By comparison, under the Mezzanine Facility the rate is 8% plus gross up for withholding tax for the first 12 months.

### ***Impact on financing and dilution***

An issue of non-convertible mezzanine finance of that kind would need to comply with senior debt covenants. The anticipated equity conversion rights or profit sharing mechanisms would result in either actual dilution or dilution in value to the Shareholders.

### ***Shareholder and ANZ approval still required***

An redemption of the RCPS can only be financed out of debt funding of this kind if the redemption is carried out by way of either a selective share buy-back or a capital reduction, each of which require shareholder approval.

If the RCPS Buy Back in **Resolution 1** is not approved, the Company will have to seek a further approval from Shareholders and may be compelled by the Fund, in the meantime, to conduct a deeply discounted rights issue. It will also have to obtain the consent of the ANZ.

#### **(iii) Issue of senior debt**

The Company does not expect that its senior debt lenders would be prepared to extend any further senior debt facility to the Company except on more onerous terms than are currently provided.

#### **(iv) Sale of assets**

The Company may seek bids for some or all of its operational businesses or its investment assets.

However, in the current market conditions, it may be difficult to attract bids at an acceptable value.

The Company engaged financial advisers to conduct a competitive sales process to sell the whole or part of the Company's drilling division, and following consideration of various indicative bids received to date, decided not to pursue the sales process at this time.



## **4 RESOLUTION 1 - SELECTIVE BUY BACK OF RCPS**

### **4.1 Purpose of Resolution 1**

The purpose of **Resolution 1** is to approve the RCPS Buy Back for all purposes, including in accordance with the RCPS Terms and the requirements of section 257D(1) of the Corporations Act.

### **4.2 RCPS Redemption Agreement**

The Company and the Fund have agreed on the terms of an orderly redemption of the RCPS, as set out in the RCPS Redemption Agreement.

Under the RCPS Redemption Agreement:

- (a) the Fund agree that, if **Resolutions 1, 2 and 3** are passed by the requisite majorities at the EGM, the Fund will give the Company Holder Redemption Notices in respect of all of the RCPS contemporaneously with receipt by the Fund from the Company of the Fund Options and the payment by the Company of the RCPS Redemption Amount and the RCPS Accrued Fee; and
- (b) the Company agrees to implement the RCPS Redemption as soon as possible and, in any event, within 2 Business Days after the date on which the Company receives the Holder Redemption Notices from the Fund.

In the meantime, so long as the Company has issued this Notice of Meeting, the Fund will not give the Company any Holder Redemption Notices until the earlier of 22 December 2011 or the date the Company cancels the EGM or withdraws any of **Resolutions 1, 2 or 3**.

### **4.3 Summary of amounts payable on the RCPS Redemption**

The various payments and other consideration that the Company is required to make and provide to complete the RCPS Redemption are summarised Table 4.3.1 as follows:

**Table 4.3.1**

<b>Term</b>	<b>Per RCPS</b>	<b>Total</b>
<b>RCPS Redemption Amount as at the Proposed RCPS Redemption Date</b>	\$127.03	\$57,165,236.03
<b>RCPS Accrued Fee</b>	\$1,994,237.83 (in total) calculated as at 22 December 2011, to be paid to the Fund	
<b><i>Total cash payment (RCPS Redemption Amount and RCPS Accrued Fee) as at the Proposed RCPS Redemption Date</i></b>	<b>\$59,159,473.86</b>	

Term	Per RCPS	Total
<b>Fund Options</b>	1,000,000 options (in total) with an exercise price of \$2.13 per option, to be issued as directed by the Fund  The terms of the Fund Options are outlined in section 5.6 and annexed as <b>Annexure C</b>	

\*Unpaid amounts continue to accrue at a rate of 15% per annum from 22 December 2011.

#### 4.4 Calculation of RCPS Redemption Amount payable

The RCPS Redemption Amount payable for each RCPS, for the purposes of the RCPS Redemption, is the amount equal to the RCPS Issue Price plus any RCPS Dividend Roll-Up Amount and any RCPS Unpaid Dividends outstanding, as at the RCPS Redemption Date.

As at the Proposed RCPS Redemption Date, RCPS Redemption Amount per RCPS can be calculated as follows:

<i><b>RCPS Issue Price</b></i>	<b>\$100</b>
<i><b>RCPS Dividend Roll-Up Amount (if any)</b></i>	<b>\$Nil</b>
<i><b>RCPS Unpaid Dividends</b></i>	<b>\$27.03</b>
<i><b>RCPS Redemption Amount per RCPS</b></i>	<b>\$127.03</b>

Upon payment of the aggregate RCPS Redemption Amount for all of the RCPS, all other rights conferred or restrictions imposed by those RCPS under the RCPS Terms will no longer have effect. The RCPS that are redeemed will be cancelled immediately upon completion of their redemption.

#### 4.5 Funding of RCPS Buy Back – the Mezzanine Facility

The Company intends to fund its obligations to pay the RCPS Redemption Amount and the RCPS Accrued Fee by drawing down on the Mezzanine Facility, subject to the satisfaction of a number of conditions precedent under the Mezzanine Facility.

The remaining conditions precedent to drawdown include:

- (a) full documentation (to be completed prior to the EGM);
- (b) obtaining all necessary shareholder approvals for the entry into and performance of the Transaction Documents, including for the RCPS Buy Back and the issue of the Kerogen Options;
- (c) the Fund providing to the Company an irrevocable undertaking by way of redemption notice, a buy-back notice or other notice in respect of the RCPS Buy Back. This has been agreed to be provided by the Fund as part of the RCPS Redemption Agreement (see section 4.2);
- (d) all conditions precedent to the Rights Issue under the Equity Documents (outlined in section 8.2) having been satisfied or, if not satisfied, Kerogen has evidence reasonably satisfactory to it that those conditions will be satisfied; and

- (e) evidence that the ANZ has provided its consent to the Recapitalisation Proposal, including the provision of the Mezzanine Facility and payment of the RCPS Accrued Fee.

FIRB Approval was granted to Kerogen providing the Mezzanine Facility on 23 September 2011, and ANZ provided its consent to the Recapitalisation Proposal on 17 November 2011.

The key features of the Mezzanine Facility are outlined in section 4.6.

#### 4.6 Terms of the Mezzanine Facility

Key features of the Mezzanine Facility are set out below.

**Table 4.6.1**

<b>Feature</b>	
<b>Lender</b>	Kerogen
<b>Total Commitment</b>	\$86.5 million in a single drawdown.
<b>Availability Period</b>	The Total Commitment must be utilised no later than 31 December 2011.
<b>Maturity Date</b>	24 months after drawdown.
<b>Interest Rate</b>	8.00% per annum for the first 12 months after drawdown. BBSY +5.00% per annum for the period 12 months to 18 months after drawdown. BBSY +6.50% per annum for the period 18 months to 24 months after drawdown. Interest to be grossed up by the Company for interest withholding tax. Default interest is payable at the rate of the Interest Rate plus 2% per annum.
<b>Payment of Interest</b>	Interest accrued in the first 12 months from drawdown will be capitalised and must be paid in full at the end of that 12 month period Thereafter, interest must be paid in cash on a quarterly basis in arrears
<b>Repayment schedule</b>	25% of the Total Commitment is repayable on or before the date 12 months from drawdown, an additional 25% is repayable on the date that is on or before 18 months from drawdown while the balance must be repaid no later than the Maturity Date
<b>Security</b>	To be provided by the Company and each Material Subsidiary in a form that covers the same assets and entities (and on substantially the same terms) as the security provided by the Company to ANZ Provision of the security by the Company is subject to prior shareholder approval under Listing Rule 10.1 (the giving of assistance by a related party) and Part 2.3J of the Corporations Act (financial assistance)

Feature	
	<p>The security will be second ranking, subject to the ANZ Security remaining in place from the drawdown date. If the ANZ Security is discharged, the security will be first ranking.</p> <p>Subject to shareholder approvals referred to above, by 13 July 2012, the Company must ensure that each of its Material Subsidiaries (other than Lucas Cuadrilla) accedes to the Mezzanine Facility documentation and provides security and guarantees in favour of Kerogen</p>
<b>Fees</b>	\$1.5 million commitment fee to be paid on first drawdown of the Mezzanine Facility
<b>Issue of Kerogen Options</b>	<p>On the date of drawdown, the Company will issue the 18,566,763 Kerogen Options to Kerogen</p> <p>Please see section 6.6 for the terms of the Kerogen Options</p>
<b>Cancellation of Kerogen Options in the case of early repayment</b>	<p>A portion on the Kerogen Options will be automatically cancelled if, prior to 31 August 2012 and subsequent to the Rights Issue, the Company repays at least \$30 million.</p> <p>If the Company repays:</p> <ul style="list-style-type: none"> <li>(a) \$30 million and up to \$35 million - 3,014,085 Kerogen Options will be cancelled;</li> <li>(b) more than \$35 million and up to \$40 million – 4,470,328 Kerogen Options will be cancelled</li> <li>(c) more than \$40 million and up to \$45 million – 5,894,211 Kerogen Options will be cancelled</li> <li>(d) more than \$45 million – 7,286,799 Kerogen Options will be cancelled.</li> </ul>
<b>Mandatory repayments</b>	<p>The Company will be required to mandatorily repay some or all of the Total Commitment in the following circumstances:</p> <ul style="list-style-type: none"> <li>(a) the exploration drilling division is sold, the building, construction and infrastructure division is sold or any assets held by those divisions are sold (up to 65% of the proceeds paid to Kerogen) provided the net proceeds are greater than \$15 million over a 12 month period;</li> <li>(b) a sale of the Company's interests in Lucas Cuadrilla, its indirect and direct interests in the Bowland Licence or the East Texas Interest (100% of the proceeds to be paid to Kerogen, subject to some qualifications); and</li> <li>(c) any subsequent equity capital raising, other than the Placement or the Rights Issue (100% to be paid to Kerogen).</li> </ul> <p>There are also mandatory repayments which may be triggered if the Company elects to refinance with an alternative financier.</p>

Feature	
<b>Right of first offer</b>	If the Company or any member of its corporate group offers to sell its shares in Lucas Cuadrilla, its direct or indirect interests in the Bowland Licence or the East Texas Interest, Kerogen will be entitled to make the first offer for the relevant asset. The Company may seek higher alternative bids to Kerogen's offer if it is in the interests of the Shareholders to do so, but may not accept an offer that is lower than the offer made by Kerogen.
<b>Representations, warranties and general and finance covenants</b>	Representations, warranties and covenants that are usual for a facility of this nature.  The financial covenants limit any additional indebtedness additional indebtedness to no more than \$20 million in aggregate until the Maturity Date (asset finance leases are dealt with separately).
<b>Capex</b>	Capex in a financial year is not to exceed the Agreed Capex for that financial year by greater than 20%.

#### 4.7 Interlinking of Resolution 1 to Resolutions 2 and 3

Please see section 3.

#### 4.8 Details required by section 257D(1) of the Corporations Act for the RCPS Buy Back

The following details are provided for members of the Company to provide information on the RCPS Buy Back in accordance with the requirements of section 257D(1) of the Corporations Act.

(a) **Legal basis for the RCPS Buy Back**

It is intended to propose **Resolution 1** to approve the RCPS Buy Back by the Company in accordance with Division 2 of Part 2J.1 of the Corporations Act.

(b) **Additional particulars of the offer**

There are no further particulars of the offer that are not specified in this section 4.

(c) **Terms**

The terms of the RCPS Buy Back are set out in sections 4.3 and 4.4.

(d) **Takeover aspects**

The RCPS Redemption will cause the RCPS to be cancelled, without the RCPS conversion rights being exercised.

However, the Recapitalisation Proposal, which will enable the RCPS to be redeemed, includes the issue of the Kerogen Options as a condition of Kerogen providing the Mezzanine Facility.

When combined with Kerogen's existing, as at the date of this Explanatory Statement, 13.04% stake in the Company as a result of the Placement and its proposed Sub-underwriting of the Rights Issue and any other purchases of Shares, Kerogen may come to hold more than 20% of the shares of the Company. However, to the extent that Kerogen holds a stake in excess of 20%, the Kerogen Options may only be exercised within the limits of applicable exceptions to the 20% threshold under section 611 of the Corporations Act, including the 3% 'creep' exception every six months.

(e) **Changes to proportional interests**

The RCPS cancellation of itself will not otherwise change the proportional interests of holders of issued Shares.

However, as noted above, the Mezzanine Facility forms part of the Recapitalisation Proposal which includes the Placement, the Rights Issue, the Sub-underwriting and the issue of the Fund Options and the Kerogen Options, which together will result in a change to the proportional interests in the ordinary share capital of the Company as outlined in section 7.

(f) **RCPS Buy Back consideration**

The Company intends to satisfy the Buy Back consideration by:

- (i) paying the RCPS Redemption Amount of \$57,165,236.03 and the RCPS Accrued Fee by issuing a draw down notice under the Mezzanine Facility; and
- (ii) seeking the approval of Shareholders to the issue of the grants of the Fund Options and the Kerogen Options.

(g) **Effect on control**

The Independent Directors consider that there will be no effect on the control of the Company as a result of the RCPS Buy Back, of itself.

However, the overall Recapitalisation Proposal will potentially allow Kerogen, a substantial shareholder with a 13.04% stake as at the date of this Explanatory Statement, to increase its stake in excess of 20% within applicable exceptions to the 20% threshold under section 611 of the Corporations Act. Please see sections 4.8(d) and 8 for further detail.

(h) **Other information**

There is no other information known to any of the Independent Directors of the Company which is material to the decision whether or not to vote in favour of **Resolution 1**.

## **4.9 Consequences if Resolution 1 is approved**

### **(a) Impact on balance sheet**

An unaudited pro forma historical balance sheet and notes for the Company and its controlled entities, as at 30 June 2011, showing and describing the impact of the RCPS Buy Back and the grant of the Fund Options and the Kerogen Options is attached at **Annexure G**.

The RCPS were recognised as a non-derivative liability. Accordingly, the RCPS were classified in their entirety as a “liability”, with no amount included in equity prior to conversion. The RCPS Buy Back will remove this liability in its entirety from the balance sheet.

The Mezzanine Facility is a liability that has been classified in the pro-forma balance sheet partly as a current liability and partly as a non-current liability.

### **(b) Impact on earnings**

The Company currently does not pay dividends on its Shares.

If the RCPS are redeemed, the obligation of the Company to pay a cumulative 15% per annum cost on the RCPS (which includes the RCPS Accrued Fee) will immediately cease.

The Mezzanine Facility will require the Company for the first 12 months to pay an interest rate of 8% plus gross up for withholding tax.

Accordingly, due to the lower interest cost, the taking up of the Mezzanine Facility will increase subsequent retained earnings that may become available for payment of dividends on Shares, but more Shares will be on issue together with options.

### **(c) Tax treatment for the Company**

The RCPS were treated as debt for income tax purposes, and Company believes that the dividends payable on the RCPS are tax deductible to the Company. Redemption of the RCPS should not have an adverse tax impact on the Company.

The Company believes that the interest payable, and any gross-up payment, on the Mezzanine Facility will be deductible by the Company for income tax purposes.

However, as Kerogen is a foreign entity and the interest will be paid out of Australia, under the terms of the Mezzanine Facility, the Company:

- (i) will be liable to withhold and remit to the Australian Taxation Office interest withholding tax at the rate of 10% of the interest earned; and
- (ii) is required to gross the interest payment up by the amount of the interest withholding tax withheld to ensure that Kerogen receives the full amount of the interest at the rate agreed under the Mezzanine Facility.

Accordingly, the interest rate and withholding tax gross up payable by the Company for the Mezzanine Facility is an additional cost over and above the nominal interest rate.

#### **4.10 Consequences if Resolution 1 is not approved**

Please see section 3.2.

#### **4.11 Statement of voting intentions of Andial and Kerogen**

The Company has been advised by each of Andial and Kerogen that each intends to vote all of its shares in favour of **Resolution 1**. However, the Company has no voting arrangement or agreement in place with either of those holders.

#### **4.12 Independent Directors' recommendations**

The Independent Directors recommend that Shareholders, in the absence of a Superior Proposal being received by the Company prior to the vote, vote in favour of **Resolution 1**.



## **5 RESOLUTION 2 – GRANT OF FUND OPTIONS**

### **5.1 Purpose of Resolution 2**

The purpose of **Resolution 2** is to approve the issue of 1,000,000 Fund Options on the terms as outlined below and as set out in full in **Annexure C**. Approval is sought for the purpose of ASX Listing Rule 7.1, including the issue of Shares on conversion of the Fund Options.

If **Resolution 2** is approved, this will mean that, upon exercise of the Fund Options, the Shares issued by the Company will not absorb part of the Company's 15% placement capacity under Listing Rule 7.1 and may be issued without further shareholder approval under the Listing Rules.

### **5.2 Background of Resolution 2**

As set out in section 4.2, under the RCPS Redemption Agreement in relation to orderly conduct of the RCPS Buy Back, the Fund will redeem the RCPS contemporaneously with the issue 1,000,000 Fund Options to the Fund (or their nominees).

### **5.3 Interlinking of Resolution 2 to Resolutions 1 and 3**

The approval of **Resolution 2** is linked to the approval of each of **Resolutions 1** and **3** as set out in section 3.

### **5.4 Issue of Fund Options**

Subject to shareholder approval of each of **Resolutions 1, 2** and **3**, the Fund Options will be issued and allotted simultaneously with the completion of the RCPS Buy Back and in any event within 3 months from the date of the EGM, subject to any direction from the ASX.

### **5.5 Prospectus**

The issue of the Fund Options, subject to shareholder approval, is to the Fund (or their nominees). Neither the Fund or its nominees are related parties of the Company.

The Fund Options will be offered and issued under the Prospectus to be issued by the Company as part of the Rights Issue (see section 8.2). The Prospectus will incorporate the necessary disclosure to enable the Fund Options to be transferable and any Shares that are issued on the exercise of the Fund Options to be tradeable without restriction under section 707 of the Corporations Act from the date that the Prospectus is released.

It is currently anticipated that the Prospectus will be issued before the EGM.

### **5.6 Terms of Fund Options**

The full terms of issue of the Fund Options are set out in **Annexure C** to this Explanatory Statement and will be available at the meeting.

Key features of the Fund Options are set out in Table 5.5.1 below. Clause references in this Table refer to the detailed terms of issue of the Fund Options set out in **Annexure C** to this Explanatory Statement.

**Table 5.5.1**

<b>Feature</b>		<b>Clause ref.</b>
<b>Number of issue</b>	1,000,000	n/a
<b>Issue price</b>	\$0.01 per Fund Option, being \$10,000 in aggregate.	2.1(a)
<b>Exercise price</b>	\$2.13 per Fund Option	2.1(b)
<b>Exercise period</b>	At any time in the 5 years from the date of issue	3.2
<b>Expiry Date</b>	5.00pm on the date that is 5 years after the date of issue.	2.4
<b>Entitlement on Exercise</b>	Each Option entitles the Optionholder to the issue of 1 Ordinary Share in the Company, subject to adjustment upon a bonus issue or reorganisation of capital as set out in the Option Terms.	2.1(c)
<b>Right to dividends</b>	The Options do not confer any right to dividends, prior to Exercise.	2.3
<b>Interest in Shares and voting rights</b>	The Options do not confer an interest in or voting entitlements in respect of Shares the subject of the Options until exercise of the Fund Options in accordance with the Option terms.	2.5
<b>Transferability</b>	Subject to the law, and the ASX Rules, freely transferable without requiring the prior written consent of the Company, at any time after redemption of all of the RCPS.	2.2
<b>Ranking of Shares on exercise</b>	Pari passu in all respects with other Shares on issue at the date of the allotment.	5.5
<b>Quotation of Shares</b>	The Company must apply for quotation of Shares issued on exercise of the Fund Options promptly after issue.	5.2
<b>Changes to terms if required</b>	If, before the expiry of the Fund Options, the Company implements a reorganisation of its capital, the terms of the Fund Options will be amended to the extent required to comply with the Listing Rules	4.3

## **5.7 Effect of the issue of the Fund Options on the capital structure of the Company**

Please see section 7 which sets out the impact of the issue of the Fund Options on the capital structure of the Company.

## **5.8 Consequences if Resolution 2 is passed**

### **(a) Use of funds**

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

The proceeds of issue and 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 **Resolution 2** is passed:

- (i) the Company will issue the Fund Options;
- (ii) following the issue of the Prospectus, 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;
- (iii) 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
- (iv) 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.

## **5.9 Consequences if Resolution 2 is not passed**

Please see section 3.2.

## **5.10 Statement of voting intentions of Andial**

The Company has been advised by Andial that it intends to vote all of its shares in favour of **Resolution 2**. However, the Company has no voting arrangement or agreement in place with Andial.

## **5.11 Independent Directors' recommendations**

The Independent Directors recommend that Shareholders, in the absence of a Superior Proposal being received by the Company prior to the vote, vote in favour of **Resolution 2**.

## **6 RESOLUTION 3 – GRANT OF KEROGEN OPTIONS**

### **6.1 Purpose of Resolution 3**

The purpose of **Resolution 3** is to approve the issue of the Kerogen Options on the terms as summarised below and as set out in full in **Annexure D**. Approval is sought for the purpose of ASX Listing Rule 7.1, including the issue of Shares on conversion of the Kerogen Options.

The issue of the Kerogen Options is subject to shareholder approval.

### **6.2 Background of Resolution 3**

The grant of the Kerogen Options is a condition to the provision of the Mezzanine Facility by Kerogen to the Company.

### **6.3 Interlinking of Resolution 3 to Resolutions 1 and 2**

The approval of **Resolution 3** is linked to the approval of each of **Resolutions 1** and **2** as set out in section 3.

### **6.4 Issue of Kerogen Options**

Subject to shareholder approval of each of **Resolutions 1, 2 and 3**, the Kerogen Options will be issued and allotted simultaneously with the drawdown of the Mezzanine Facility to satisfy the Company's obligations under the RCPS Buy Back and, in any event, within 3 months from the date of the EGM, subject to any direction from the ASX.

### **6.5 Prospectus**

The issue of the Kerogen Options, subject to shareholder approval, is to Kerogen.

The Kerogen Options will be offered and issued under the Prospectus to be issued by the Company as part of the Rights Issue (see section 8.2). The Prospectus will incorporate the necessary disclosure to enable the Kerogen Options to be transferable (subject to certain restrictions) and any Shares that are issued on the exercise of the Kerogen Options to be tradeable without restriction under section 707 of the Corporations Act from the date of the Prospectus.

It is currently anticipated that the Prospectus will be issued before the EGM.

### **6.6 Terms of the Kerogen Options**

The proposed terms of the Kerogen Options include an agreement that the Company can cancel an agreed maximum number of Kerogen Options for no consideration if the Mezzanine Facility is repaid by any amount in excess of \$30 million up to a maximum amount of \$45 million on or before 31 August 2012. The cancellation will occur on 31 August 2012. This cancellation right is in place to minimise shareholder dilution in circumstances where the amounts outstanding under the Mezzanine Facility are substantially reduced in the short term.

The number of Kerogen Options that will be cancelled under the formula is set out in Table 6.5.1 below.

**Table 6.5.1:**

Amount Repaid before 30 June 2012	Kerogen Options cancelled*	Residual number of Kerogen Options	Kerogen Options as percent of fully diluted issued share capital
more than \$30m to \$35m	3,014,085	15,552,678	12%
more than \$35m to \$40m	4,470,328	14,096,435	11%
more than \$40m to \$45m	5,894,211	12,672,552	10%
in excess of \$45m	7,286,799	11,279,964	9%

A summary of the Kerogen Options is set out below in Table 6.5.2. The full terms of issue of the Kerogen Options are set out in **Annexure D** and will be available at the meeting.

**Table 6.5.2**

Feature	Detail
<b>Number of Kerogen Options</b>	Options in respect of 18,566,763 unissued ordinary shares in the Borrower, assuming a Rights Issue size of approximately \$51.3 million at a price of \$1.35 per share
<b>Issue Price</b>	Nil
<b>Cancellation of some Kerogen Options if early repayment</b>	<p>If prior to 31 August 2012 and subsequent to the Rights Issue, the Mezzanine Facility is partially repaid (<b>Ratchet Period</b>), then a portion of the Kerogen Options, assuming a Rights Issue size of approximately \$51.3 million at a price of \$1.35 per share, will be cancelled as follows:</p> <ul style="list-style-type: none"> <li>(a) where the Facility is repaid by an amount at or in excess of \$30 million up to \$35 million: cancellation of Kerogen Options in respect of 3,014,085 unissued ordinary shares in the Company;</li> <li>(b) where the Facility is repaid by an amount in excess of \$35 million up to \$40 million: cancellation of Kerogen Options in respect of 4,470,328 unissued ordinary shares in the Company;</li> <li>(c) where the Facility is repaid by an amount in excess of \$40 million up to \$45 million: cancellation of Kerogen Options in respect of 5,894,211 unissued ordinary shares in the Company; and</li> <li>(d) where the Facility is repaid by an amount in excess of \$45 million: cancellation of Kerogen Options in respect of 7,286,799 unissued ordinary shares in the Company.</li> </ul>

Feature	Detail
<b>Exercise price</b>	<p>An amount equal to the lower of:</p> <p>(a) 20% premium to the five day volume weighted average price (VWAP) of the Company's 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</p> <p>(b) \$1.70 per Share,</p> <p>provided that the exercise price will not be less than \$1.35 in any circumstance.</p>
<b>Satisfaction of exercise price:</b>	<p>Kerogen under the Mezzanine Facility may elect to:</p> <p>(a) pay the exercise price in cash; or</p> <p>(b) subscribe for Shares through the exercise of the Kerogen Options by a permanent cancellation of an amount outstanding under the Mezzanine Facility equivalent to the product of the amount of the Shares to be subscribed for and the exercise price of the Kerogen Options. Any amounts cancelled will be applied towards permanent cancellation of the scheduled payments in the order of maturity under the Mezzanine Facility.</p>
<b>Option Term</b>	4 years from the date of issue of the Kerogen Options
<b>Exercise period</b>	<p>Subject to the limitation set out below, the Kerogen Options may be exercised at any time on or after the date which is the earlier of:</p> <p>(a) the day following completion of the Rights Issue; and</p> <p>(b) 3 months from the date of drawdown of the Mezzanine Facility</p> <p>The Kerogen Options are exercisable at the sole discretion of the holder in whole or in part at any time during the Options Term</p>
<b>Partial limitation on exercise</b>	<p>Prior to 31 August 2012, the holders of the Kerogen Options irrevocably undertake not to exercise or transfer 7,286,799 Kerogen Options and, if the Borrower is entitled to cancel any Kerogen Options as referred to above at the end of that period, not to exercise or transfer that number of Kerogen Options that will be cancelled to enable the Company to cancel them.</p> <p>For the avoidance of doubt, following a cancellation referred to above, the outstanding Kerogen Options would, were they to be exercised, represent a minimum of 9% of the Company's total issued share capital on an as converted basis having regard to the total share capital of the Company immediately following the Rights Issue</p>
<b>Expiry</b>	Any Kerogen Options not exercised prior to the expiry date automatically lapse
<b>Voting rights</b>	No voting rights prior to exercise
<b>Ranking of Kerogen Options on exercise</b>	Rank pari passu in all respects with other Shares on issue at the date of the allotment of Shares on exercise of the Kerogen Options

Feature	Detail
<b>Other option holder protections</b>	<p>Kerogen Options shall have no voting rights prior to exercise and will contain standard option holder protection provision, including:</p> <ul style="list-style-type: none"> <li>(a) the Kerogen Option terms will be subject to adjustment in accordance with ASX Listing Rules in the event of a reorganisation of capital or a pro-rata issue (under ASX Listing Rule 6.22.2);</li> <li>(b) no right to participate in a new issue unless exercised;</li> <li>(c) no modification of constitution or rights attaching to the Kerogen Options other than the extent modification is required by law or required under the ASX Listing Rules or with the consent of Kerogen under the Mezzanine Facility (which cannot be unreasonably withheld or subject to conditions); and</li> <li>(d) notice in respect of takeovers and schemes and new issues (in sufficient time to permit the holder to exercise the Kerogen Options in full (if it so chooses)</li> </ul>
<b>Changes to terms if required</b>	<p>If, before the expiry of the Kerogen Options, the Company implements a reorganisation of its capital, the terms of the Kerogen Options will be amended to the extent required to comply with the Listing Rules</p>

## 6.7 Effect of the issue of the Kerogen Options on the capital structure of the Company

Please see section 7 which sets out the impact of the issue of the Kerogen Options on the capital structure of the Company and Kerogen's potential shareholding levels in the Company.

## 6.8 Consequences if Resolution 3 is passed

### (a) Use of funds

The proceeds of exercise of the Kerogen Options will be used for reduction of debt and working capital.

### (b) Impact on placement capacity

If **Resolution 3** is passed:

- (i) the Company will be able to issue the Kerogen Options;
- (ii) following the issue of the Prospectus, 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;
- (iii) 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
- (iv) 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.

## **6.9 Consequences if Resolution 3 is not passed**

Please see section 3.2.

## **6.10 Statement of voting intentions of Andial**

The Company has been advised by Andial that it intends to vote all of its shares in favour of **Resolution 3**. However, the Company has no voting arrangement or agreement in place with Andial.

## **6.11 Independent Directors' recommendations**

The Independent Directors recommend that Shareholders, in the absence of a Superior Proposal being received by the Company prior to the vote, vote in favour of **Resolution 3**.



## 7 EFFECT OF THE PLACEMENT, THE RIGHTS ISSUE AND THE ISSUE OF KEROGEN OPTIONS AND FUND OPTIONS ON THE CAPITAL STRUCTURE OF THE COMPANY

### 7.1 Background

This section outlines the impact of the issue of each of the Fund Options and the Kerogen Options on the capital structure of the Company.

### 7.2 Structure before Placement and Rights Issue

The Company's capital structure before the Placement, the Rights Issue or the issue of the Kerogen Options or the Fund Options was as set out in Table 7.2.1 below.

**Table 7.2.1**

Securities	Number
Shares	66,117,664
Existing Options and Rights	1,338,175

The percentage of issued Shares held by substantial holders prior to 30 September 2011 (i.e. before the Placement, the Rights Issue or the issue of the Kerogen Options or the Fund Options) was as set out in Table 7.2.2.

**Table 7.2.2**

Substantial holding	Number	%
Andial	17,490,000	26.45%
Amalgamated Dairies Group	4,230,348	6.40%
Remaining Shareholders	44,397,316	67.15%
<b>TOTAL</b>	<b>66,117,664</b>	<b>100.00%</b>

The Existing Options and Rights as at the date of this Explanatory Statement are as set out in Table 7.2.3.

**Table 7.2.3**

Recipient	No. of Options	No. of Rights	Grant Date	Vesting Date	Expiry Date	Exercise Price
Allan Campbell	250,000	110,000 144,787 93,861	24/11/06 31/08/07 26/11/08 26/11/08	24/11/09 23/12/07 30/06/10 30/06/11	23/11/11 23/11/12 30/06/12 30/06/13	\$1.10 \$2.11 \$0.00 \$0.00
Andrew Lukas	150,000	70,000	24/11/06 31/08/07	24/11/09 23/12/07	23/11/11 23/11/12	\$1.10 \$2.11

Recipient	No. of Options	No. of Rights	Grant Date	Vesting Date	Expiry Date	Exercise Price
Ian Stuart-Robertson	150,000	70,000	24/11/06 31/08/07	24/11/09 23/12/07	23/11/11 23/11/12	\$1.10 \$2.11
Management Rights		299,527	31/08/07	Various	31/08/12	\$0.00
<b>TOTAL</b>	<b>550,000</b>	<b>788,175</b>				

### 7.3 Structure following Placement but before Rights Issue

The Company's capital structure following the Placement but before the Rights Issue or the issue of the Kerogen Options or the Fund Options is as set out in Table 7.3.1 below.

**Table 7.3.1**

Securities	Number
Shares	76,035,314
Existing Options and Rights	1,338,175

The percentage of issued Shares held by substantial holders following the Placement but before the Rights Issue or the issue of the Kerogen Options or the Fund Options is as set out in Table 7.3.2.

**Table 7.3.2**

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%
<b>TOTAL</b>	<b>76,035,314</b>	<b>100.00%</b>

\* Assuming no on-market acquisitions by substantial holders. Substantial holders can acquire shares on market provided their voting power in the Company does not exceed 20%

### 7.4 Structure following Placement and Rights Issue and issue of Fund Options and Kerogen Options

The Company's capital structure following the Placement and the Rights Issue and after the issue of the Fund Options and the Kerogen Options will be as set out in Table 7.4.1 below.

**Table 7.4.1**

<b>Securities</b>	<b>Number</b>
Shares	114,052,971
Existing Options and Rights	1,338,175
Fund Options	1,000,000
Kerogen Options	18,566,763

Following the Placement and the Rights Issue and after the issue of the Fund Options and the Kerogen Options, assuming that none of the Existing Options or Rights, the Kerogen Options and the Fund Options are exercised, and assuming the substantial Shareholders (other than Amalgamated Dairies Group for the purposes of the 'maximum' scenario) take up all of their rights under the Rights Issue (other than through the exercise of options), the range of holdings of the Shareholders will be as set out in Table 7.4.2 below.

\*The minimum holdings noted in the table disregards any potential increase in their holdings that may occur following the Rights Issue, either as a result of participation as a sub-underwriter or taking up over-subscriptions in connection with the Rights Issue or by acquiring Shares on market.

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

**Table 7.4.2**

<b>Substantial holding</b>	<b>Minimum Number*</b>	<b>Maximum Number**</b>	<b>% range</b>
Andial	26,235,000	38,391,916	23.00% to 33.66%
Kerogen	14,876,475	27,033,391	13.04% to 23.70%
Amalgamated Dairies Group	6,345,522	4,230,348	5.56% to 3.71%
Remaining Shareholders	66,595,974	44,397,316	58.39% to 38.93%
<b>TOTAL</b>	<b>114,052,971</b>	<b>114,052,971</b>	

## **7.5 Structure following exercise of the Fund Options only**

The Company's capital structure following the Placement and the Rights Issue 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 7.5.1 below.

**Table 7.5.1**

<b>Securities</b>	<b>Number</b>
Shares	115,052,971
Existing Options and Rights	1,338,175
Fund Options	0
Kerogen Options	18,566,763

Following the Placement and the Rights Issue 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 and assuming all of the Fund Options are exercised and the substantial Shareholders (other than Amalgamated Dairies Group for the purposes of the 'maximum' scenario) take up all of their rights under the Rights Issue (other than through the exercise of options), the range of holdings of the Shareholders will be as set out in Table 7.5.2 below.

\*The minimum holdings related in the table disregards any potential increase in their holdings that may occur following the Rights Issue, either as a result of participation as a sub-underwriter or taking up over-subscriptions in connection with the Rights Issue or by acquiring shares on market.

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

**Table 7.5.2**

<b>Substantial holding</b>	<b>Minimum Number*</b>	<b>Maximum Number**</b>	<b>% range</b>
Andial	26,235,000	38,391,916	22.80% to 33.37%
Kerogen	14,876,475	27,033,391	12.93% to 23.50%
Amalgamated Dairies Group	6,345,522	4,230,348	5.52% to 3.68%
Remaining Shareholders	67,595,974	45,397,316	58.75% to 39.46%
<b>TOTAL</b>	<b>115,052,971</b>	<b>115,052,971</b>	

## **7.6 Structure following exercise of the Kerogen Options only**

The Company's capital structure following the Placement and the Rights Issue 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 7.6.1 below.

**Table 7.6.1**

<b>Securities</b>	<b>Number</b>
Shares	132,619,734
Existing Options and Rights	1,338,175
Fund Options	1,000,000
Kerogen Options	0

Following the Placement and the Rights Issue 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 and assuming all of the Kerogen Options are exercised and the substantial Shareholders (other than Amalgamated Dairies Group for the purposes of the 'maximum' scenario) take up all of their rights under the Rights Issue (other than through the exercise of options), the range of holdings of the Shareholders will be as set out in Table 7.6.2 below.

\*The minimum holdings related in the table disregards any potential increase in their holdings that may occur following the Rights Issue, either as a result of participation as a sub-underwriter or taking up over-subscriptions in connection with the Rights Issue or by acquiring shares on market.

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

**Table 7.6.2**

<b>Substantial holding</b>	<b>Minimum Number*</b>	<b>Maximum Number**</b>	<b>% range</b>
Andial	26,235,000	38,391,916	19.78% to 28.95%
Kerogen	33,443,238	45,600,154	25.22% to 34.38%
Amalgamated Dairies Group	6,345,522	4,230,348	4.78% to 3.19%
Remaining Shareholders	66,595,974	44,397,316	50.22% to 33.48%
<b>TOTAL</b>	<b>132,619,734</b>	<b>132,619,734</b>	

## **7.7 Structure following exercise of the Fund Options and the Kerogen Options**

The Company's capital structure following the Placement and the Rights Issue 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 7.7.1 below.

**Table 7.7.1**

<b>Securities</b>	<b>Number</b>
Shares	133,619,734
Existing Options and Rights	1,338,175
Fund Options	0
Kerogen Options	0

Following the Placement and the Rights Issue and after the issue of the Fund Options and the Kerogen Options, assuming none of the Existing Options and Rights are exercised and assuming that all of the Fund Options and the Kerogen Options are exercised and the substantial Shareholders (other than Amalgamated Dairies Group for the purposes of the 'maximum' scenario) take up all of their rights under the Rights Issue (other than through the exercise of options), the range of holdings of the Shareholders will be as set out in Table 7.7.2 below.

\*The minimum holdings related in the table disregards any potential increase in their holdings that may occur following the Rights Issue, either as a result of participation as a sub-underwriter or taking up over-subscriptions in connection with the Rights Issue or by acquiring shares on market.

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

**Table 7.7.2**

<b>Substantial holding</b>	<b>Minimum Number*</b>	<b>Maximum Number**</b>	<b>% range</b>
Andial	26,235,000	38,391,916	19.63% to 28.73%
Kerogen	33,443,238	45,600,154	25.03% to 34.13%
Amalgamated Dairies Group	6,345,522	4,230,348	4.75% to 3.17%
Remaining Shareholders	67,595,974	45,397,316	50.59% to 33.98%
<b>TOTAL</b>	<b>133,619,734</b>	<b>133,619,734</b>	

## 8 **RESOLUTION 4 – APPROVAL FOR ANDIAL TO PARTICIPATE IN THE SUB-UNDERWRITING OF THE RIGHTS ISSUE**

### 8.1 **Purpose of Resolution 4**

The purpose of **Resolution 4** is to approve the issue by the Company of Shares to Andial, as a Sub-underwriter of the Rights Issue.

Shareholder approval is not formally being sought for the purposes of the ASX Listing Rules or the Corporations Act.

However, the Independent Directors consider that it is appropriate that Shareholders be asked to vote on whether Andial should be offered the opportunity to participate in the Rights Issue as a Sub-underwriter. This is because Andial is a company controlled by Allan Campbell, a director of the Company and, accordingly, Andial is a related party of the Company.

Approval of the issue by the Company of Shares to Andial as a Sub-underwriter of the Rights Issue is not strictly required under the ASX Listing Rules or the Corporations Act, notwithstanding that Andial is a related party of the Company, because:

- (a) there is an exception under the ASX Listing Rules for sub-underwriting of a pro rata offer by a related party that is disclosed in a prospectus; and
- (b) there is an exception to the related party provisions of the Corporations Act for arms' length transactions.

Andial is being appointed on terms equivalent to, or less favourable than, other Sub-underwriters on terms negotiated with the Underwriter (a non-related party) and approved by the Independent Directors.

### 8.2 **Rights Issue**

To further strengthen the Company's balance sheet, the Company intends to conduct a 1 for 2 Rights Issue to raise approximately \$51.3 million.

The Rights Issue will only proceed if each of **Resolutions 1, 2 and 3** are passed by shareholders. If **Resolution 4** is not passed by shareholders, but each of **Resolutions 1, 2 and 3** are passed by shareholders, the Rights Issue will proceed.

The Rights Issue will be non-renounceable, but will include an over-subscription provision for eligible Shareholders wishing to take up additional Shares (subject to any applicable limits under the Corporations Act or the *Foreign Acquisitions And Takeovers Act 1975* (Cth)). The over-subscription will be available in respect of any Shares over which shareholders fail to exercise their entitlements to acquire Shares under the Rights Issue. The over-subscription provision will not increase the size of the Rights Issue. Prior to the allocation of any Shortfall to the Sub-underwriters (see sections 8.3 and 8.4), the Company, in its discretion, has the right to allocate some or all of those Shares to shareholders who have exercised the option to request an over-subscription.

The proceeds raised from the Rights Issue will be used to repay debt and for working capital.

It is intended that the Rights Issue will be launched following the EGM.

Under the Equity Documents, the conditions precedent to the Rights Issue are:

- (a) satisfaction or waiver of the conditions to the making of the Placement; and
- (b) if required, the Company obtaining any necessary shareholder approvals for the Sub-underwriting of the Rights Issue by the relevant Sub-underwriters prior to the launch date for the Rights Issue.

The first condition has been satisfied. **Resolution 4** seeks approval for the purposes of the second condition.

The Company has been advised by each of Andial and Kerogen that they intend to take up all of their entitlements under the Rights Issue.

Further details of the Rights Issue will be determined and released in the Prospectus, which is proposed to be lodged before the EGM is held.

### 8.3 Underwriting of Rights Issue

The Rights Issue will be fully underwritten (subject to conditions) by Gleneagle Securities (Aust) Pty Limited, the Underwriter. 38,017,657 New Shares will be issued under the Rights Issue, which is on a 1 for 2 basis at a fixed price of \$1.35 per Share and will raise approximately \$51.3 million.

On 17 November 2011, the Company and the Underwriter entered into the Underwriting Agreement, under which the Underwriter agreed to fully underwrite \$51,323,837 of the Rights Issue for a fee and on the terms and conditions of the Underwriting Agreement.

The Underwriting Agreement includes a number of conditions precedent and termination rights. The termination rights include (amongst other things):

- (a) non-receipt by the Underwriter by 1 Business Day before settlement date of sub-underwriting commitments of at least 100% of the Underwritten Amount;
- (b) the non-approval of either the Mezzanine Facility or the Kerogen Options;
- (c) the non-approval of RCPS Buy Back; or
- (d) 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 Rights Issue (including any Sub-underwriting) will not proceed and the Recapitalisation Proposal will not be available.

A summary of the terms of the Underwriting Agreement are set out in **Annexure E** and will be available at the meeting.

### 8.4 Sub-underwriting of Rights Issue

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

Sub-underwriters will include Kerogen and, subject to shareholder approval, Andial.



Each of Kerogen and Andial (if approved by shareholders) have committed to sub-underwrite on a firm relief basis up to 50% of the underwritten amount and subject to a 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 Rights Issue (**Equivalent Allocation**). No Sub-underwriting fee is payable to Kerogen or Andial.

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 (if shareholders approve Andial as a sub-underwriter) Andial and allocate that scale back to those Sub-underwriters, subject to Kerogen and (if shareholders approve Andial as a sub-underwriter) 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 Rights Issue price of \$1.35 per Share, subject to the aggregate interests of Kerogen in the Shares not exceeding 40%.

Kerogen has executed a Sub-underwriting Agreement with the Underwriter dated 17 November 2011.

## **8.5 Terms of Sub-underwriting by Andial**

Andial has executed a Sub-underwriting Agreement with the Underwriter dated 17 November 2011, which is conditional on shareholder approval of Andial as a sub-underwriter.

The terms of the Sub-underwriting Agreement 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. Andial has accepted the Sub-underwriting Agreement in the form put forward by the Underwriter after discussion with the Company, being a form that is no more favourable than the form offered to other Sub-underwriters.

A summary of the principal terms the Sub-underwriting Agreement is set out in **Annexure F** and will be available at the meeting.

## **8.6 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 Rights Issue 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 Rights Issue, the extent of over-subscriptions under the Rights Issue 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:

Andial's relevant interest before the Rights Issue	Andial's maximum relevant interest after the Rights Issue
23.00%	33.66%

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.

## 8.7 Consequences if Resolution 4 is passed

If **Resolution 4** is passed:

- (a) Andial will Sub-underwrite on the terms of the Sub-underwriting Agreement set out in **Annexure F**;
- (b) Andial will not be permitted to participate in any over-subscription (other than as a Sub-underwriter) as it is a related party of the Company and holds a relevant interest in excess of 20%;
- (c) Andial will not be paid a sub-underwriting fee. However, other Sub-underwriters (excluding Kerogen) may be paid a Sub-underwriting fee;
- (d) depending on the level of participation in the Rights Issue and the size of the resulting Shortfall, the Underwriter may, in its discretion, determine to place part of that Shortfall with Andial;
- (e) Andial, as a Sub-underwriter, will be obliged to subscribe for the Shares placed with it by the Underwriter at the Rights Issue price of \$1.35 per Share, above its pro rata entitlement; and
- (f) consequently, the overall level of Andial's percentage interest in the Company will increase (see section 8.6).

## 8.8 Consequences if Resolution 4 is not passed

If **Resolution 4** is not passed, Andial will not sub-underwrite the Rights Issue.

However, the Rights Issue 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 the full amount of approximately \$51.3 million in the Rights Issue.

#### **8.9 Statement of voting intentions of Kerogen**

The Company has been advised by Kerogen that it intends to vote all of its shares in favour of **Resolution 4**. However, the Company has no voting arrangement or agreement in place with Kerogen

#### **8.10 Independent Directors' recommendations**

The Independent Directors recommend that Shareholders, in the absence of a Superior Proposal being received by the Company prior to the vote, vote in favour of **Resolution 4**.

**BY ORDER OF THE BOARD**

## ANNEXURE A – GLOSSARY

Term	Meaning
<b>Agreed Capex</b>	A figure to be agreed as part of definitive documentation (actual covenant thresholds to be set based on 25% headroom to the financial forecasts included in the agreed projected 3-way financial model).
<b>Andial</b>	Andial Holdings Pty Limited (ACN 087 777 660) or a corporate entity that is an associate of Andial Holdings Pty Limited whose identity is notified to the Underwriter
<b>Alternative Asset Sale</b>	A proposal pursuant to which the Company agrees with a person other than Kerogen to sell all or some of its material assets
<b>Alternative Capital Raising</b>	A proposal pursuant to which the Company agrees with a person other than Kerogen to undertake or conduct any form of capital raising other than as contemplated in the Subscription Agreement, including by way of issue of Shares, other securities or debt instruments
<b>Alternative Financing</b>	A proposal pursuant to which the Company will receive financial accommodation from a person other than Kerogen under the terms of the Mezzanine Facility
<b>ANZ</b>	Australia and New Zealand Banking Group Limited and, if applicable, its related bodies corporate
<b>ANZ Facility</b>	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
<b>ASIC</b>	The Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited (ACN 008 624 691)
<b>Bowland Licence</b>	The United Kingdom Onshore Petroleum Exploration Licence number PEDL:165 effective as of 1 July 2008
<b>Change of Control</b>	<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"> <li>(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</li> <li>(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,</li> </ul> <p>provided that the Company retains the ultimate Control of Lucas</p>
<b>Company</b>	AJ Lucas Group Limited (ACN 060 309 104)

<b>Term</b>	<b>Meaning</b>
<b>Control</b>	<p>Of a company by a person means:</p> <ul style="list-style-type: none"> <li>(a) the ability to determine the composition of the board of directors of the company or has the capacity to do so;</li> <li>(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"> <li>(i) that the person holds or owns (alone or with its associates or related bodies corporate):</li> <li>(ii) the majority of the issued shares of the company;</li> <li>(iii) the majority of the issued shares of the ultimate holding company of the company; or</li> <li>(iv) 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</li> </ul> </li> </ul>
<b>Corporations Act</b>	Corporations Act 2001 (Cth)
<b>Cuadrilla</b>	Cuadrilla Resources Holdings Limited, a company incorporated in England and Wales (registered no. 7147040), whose registered office is at c/o Peachey & Co LLP, 95 Aldwych, London, WC2B 4JF
<b>Cuadrilla Board</b>	The board of directors of Cuadrilla
<b>Cuadrilla Capital Call</b>	US\$9.9 million due and payable by the Company to Cuadrilla by 30 September 2011
<b>Cuadrilla Change of Control Event</b>	A Change of Control that is not a Lucas Parent Change of Control, where the New Controller is not a Qualifying Transferee
<b>Cuadrilla Shareholder Agreement</b>	The Shareholder Agreement between Lucas Cuadrilla, Riverstone and others dated 15 February 2010
<b>Cuadrilla Shares</b>	The shares in Cuadrilla held by Lucas Cuadrilla
<b>East Texas Interest</b>	A contractual right to 10% of a net profit interest in the East Texas exploration area held by Thomas Knowlton
<b>Equity Document</b>	<p>Each of:</p> <ul style="list-style-type: none"> <li>(a) the Subscription Agreement;</li> <li>(b) the Underwriting Agreement;</li> <li>(c) the Sub-underwriting Agreements; and</li> <li>(d) any other document agreed between Kerogen and the Company to be an Equity Document</li> </ul>

<b>Term</b>	<b>Meaning</b>
<b>Equivalent Allocation</b>	A term of the relevant Sub-underwriting Agreement with Kerogen and Andial whereby each of Kerogen and Andial commit 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 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 Rights Issue
<b>Existing Options and Rights</b>	The options and management rights issued by the Company to management at the date of this Explanatory Statement
<b>Finance Document</b>	Each of: (a) Mezzanine Facility Agreement; (b) each Security Document; (c) Security Trust Deed; (d) Intercreditor Deed; (e) each accession deed; (f) any other document designated in writing as a Finance Document by Kerogen and the Company; and (g) any document entered into under any of the above
<b>FIRB Approval</b>	A notice by the Foreign Investment Review Board issued to Kerogen General Partner Limited as general partner of the Kerogen Energy Fund L.P. dated 23 September 2011 approving the acquisition by Kerogen of up to 40% of the Shares in the Company
<b>Fund</b>	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 & Partners Australia PIA (Management) Pty Limited (ACN 006 865 710) acting on behalf of the relevant constituent entities of the Fund
<b>Fund Options</b>	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 <b>Annexure C</b>
<b>Group</b>	The Company and its subsidiaries
<b>Holder Redemption Notice</b>	A notice given in accordance with clause 6.2 of the RCPS Terms, by the Fund, requesting Redemption of some or all of the RCPS
<b>Independent Directors</b>	For the purposes of each of the Resolutions, each director of the Company other than Allan Campbell
<b>Intercreditor deed</b>	The deed so entitled between the ANZ, the Company and Kerogen to be entered into on or prior to the Mezzanine Facility in respect of the ANZ Facility and the proceeds of the Mezzanine Facility

<b>Term</b>	<b>Meaning</b>
<b>Kerogen</b>	Kerogen Investments No. 1 (HK) Limited, a wholly owned subsidiary of Kerogen GP
<b>Kerogen Capital</b>	Kerogen Capital Limited
<b>Kerogen Fund</b>	Kerogen Energy Fund L.P.
<b>Kerogen GP</b>	Kerogen General Partner Limited, the general partner of the Kerogen Fund
<b>Kerogen Options</b>	18,566,763 options to subscribe for Shares at the Kerogen Option Exercise Price per Share, to be issued by the Company to Kerogen on the terms as set out in <b>Annexure D</b>
<b>Listing Rules</b>	The ASX Listing Rules published by the ASX
<b>Lucas Cuadrilla</b>	Lucas Cuadrilla Pty Limited (ACN 138 750 722)
<b>Lucas Parent Change of Control</b>	A Change of Control that occurs as a result of a public takeover of the Company
<b>March Letter</b>	Letter from the Fund to the Company dated 11 March 2010
<b>Material Subsidiary</b>	Each of the following: (a) those entities identified as either “Operating Companies” or “Investing Companies” in the organisational chart of the Group provided to Kerogen on or prior to the date of the Mezzanine Facility; and (b) following the date of the Mezzanine Facility: (i) any other additional entity identified as either “Operating Companies” or “Investing Companies” in any revised organisational chart of the Group provided to Kerogen as provided in accordance with the terms of the Facility; and (ii) any other non-dormant entity within the Group which owns plant, material, equipment or investments
<b>Meeting Date</b>	22 December 2011, being the proposed date of the EGM
<b>Mezzanine Facility</b>	\$86.5 million mezzanine loan facility
<b>Mezzanine Facility Agreement</b>	The agreement so entitled to be entered into between, amongst others, Kerogen and the Company incorporating, amongst other things, the provisions of the Mezzanine Facility
<b>New Controller</b>	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

<b>Term</b>	<b>Meaning</b>
<b>Obligor</b>	The Company and each Material Subsidiary which has acceded to the Mezzanine Facility (and each other Finance Document as required) and provided Security and / or a guarantee in respect of the Mezzanine Facility
<b>Placement</b>	The subscription by Kerogen for the Placement Shares to raise of the Placement Amount
<b>Placement Amount</b>	\$13,388,827
<b>Placement Shares</b>	9,917,650 Shares at \$1.35 per Share
<b>Proposed RCPS Redemption Date</b>	22 December 2011
<b>Prospectus</b>	The Prospectus to be released by the Company in connection with the Rights Issue, prior to the EGM
<b>Qualifying Transferee</b>	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 <i>US Foreign Corrupt Practices Act 1977</i> in respect of such transferee and such other matters as it considers appropriate, acting reasonably
<b>Recapitalisation Proposal</b>	The package of financial arrangements that the Company has entered into with Kerogen consisting of the Placement, the Mezzanine Facility, the Rights Issue and the granting of the Kerogen Options; the conduct of the RCPS Buy Back and the grant of the Fund Options from and to the Fund; and the participation by Kerogen in the sub-underwriting of the Rights Issue
<b>RCPS</b>	450,000 redeemable convertible preference shares in the capital of the Company issued on the terms set out in the RCPS Prospectus on 8 December 2008
<b>RCPS Accrued Fee</b>	\$1,994,237.83, being the cumulative amount of the consent fee provided for in the March Letter (as subsequently adjusted) and other fees subsequently accrued in consideration for the Fund not exercising certain rights under the RCPS Terms
<b>RCPS Buy Back</b>	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
<b>RCPS Dividend</b>	The dividend payable on the RCPS as calculated under the RCPS Terms
<b>RCPS Dividend Roll-Up Amount</b>	An election by the Fund to roll over the due date for payment of any RCPS Dividend under the RCPS Terms
<b>RCPS Issue Price</b>	\$100 per RCPS, totalling \$45,000,000



<b>Term</b>	<b>Meaning</b>
<b>RCPS Prospectus</b>	A Prospectus dated on or 8 December 2008 for an offer of the 450,000 RCPS at \$100.00 each issued by the Company
<b>RCPS Redemption</b>	The redemption of the RCPS in accordance with the RCPS Terms
<b>RCPS Redemption Agreement</b>	The letter agreement between the Company and the Fund detailing the terms on which the Company will redeem the RCPS, pay the RCPS Redemption Amount and the RCPS Accrued Fee and issue the Fund Options
<b>RCPS Redemption Amount</b>	\$57,165,236.03, being the Conversion Amount calculated in accordance with clause 4.4(b) of the RCPS Terms as the amount equal to the sum of: (a) the RCPS Issue Price; and (b) the RCPS Unpaid Dividend
<b>RCPS Redemption Date</b>	The date of the RCPS Redemption, which will involve the payment of the RCPS Redemption Amount by the Company to the Fund, and the date for the RCPS Buy Back, subject to shareholder approval for the RCPS Buy Back - scheduled for 22 December 2011
<b>RCPS Terms</b>	The terms and conditions that the RCPS were issued under, being the Terms and Conditions contained in the Appendix 1 of the RCPS Prospectus
<b>RCPS Unpaid Dividend</b>	\$12,163,500.00, or \$27.03 per RCPS, being the amount of the RCPS Dividend that remains unpaid at the Proposed RCPS Redemption Date
<b>Remuneration Report</b>	The Remuneration Report set out on pages 14 to 19 of the 2011 Annual Report and financial statements
<b>Rights Issue</b>	A non-renounceable pro-rata fully underwritten 1 for 2 rights issue for Shares at \$1.35 to raise approximately \$51.3 million
<b>Riverstone</b>	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
<b>Security</b>	Each security provided by an Obligor as security for the Mezzanine Facility including any mortgage, charge, share or equity interest pledges, cross guarantees and mortgage of contractual rights
<b>Security Document</b>	A document entered into in respect of each Security and designated as a "Security Document"

<b>Term</b>	<b>Meaning</b>
<b>Security Trust Deed</b>	Any security trust deed provided in connection with the Mezzanine Facility
<b>Share</b>	A fully paid ordinary share in the capital of the Company
<b>Shareholder</b>	A holder of Shares from time to time
<b>Shortfall</b>	Any entitlements to acquire Shares not taken up by Shareholders in the Rights Issue
<b>Subscription Agreement</b>	The Subscription Agreement between Kerogen and the Company dated 18 September 2011
<b>Sub-underwriter</b>	Each sub-underwriter to the Rights Issue appointed by the Underwriter, including Kerogen and, subject to shareholder approval, Andial
<b>Sub-underwriting</b>	The sub-underwriting of the Rights Issue
<b>Sub-underwriting Agreements</b>	Each sub-underwriting agreement between the Underwriter and a Sub-underwriter
<b>Superior Proposal</b>	<p>A written bona fide proposal for Alternative Financing or an Alternative Capital Raising or an Alternative Asset Sale which the Board, acting in good faith and after having first obtained written advice from the Company's legal advisers and, if appropriate, the Company's financial advisers determines is:</p> <ul style="list-style-type: none"> <li>(a) reasonably capable of being completed, taking into account all aspects of the proposal for Alternative Financing or Alternative Capital Raising (as appropriate); and</li> <li>(b) more favourable to Shareholders than the Transaction, taking into account all terms and conditions of the Transaction</li> </ul>
<b>Transaction</b>	The transaction contemplated by the Subscription Agreement including the Placement, the Mezzanine Facility, the Rights Issue (including the proposed Sub-underwriting by Kerogen) and the issue of the Kerogen Options
<b>Transaction Documents</b>	Each Equity Document and Finance Document
<b>Underwriter</b>	Gleneagle Securities (Aust) Pty Limited (ACN 136 930 526)
<b>Underwriting</b>	The underwriting of the Rights Issue
<b>Underwriting Agreement</b>	The Underwriting Agreement between the Underwriter and the Company dated 17 November 2011

## ANNEXURE B – Mezzanine Facility Term Sheet

### Terms and Conditions

Summary of terms and conditions	
<b>Borrower:</b>	AJ Lucas Group Limited ABN 12 060 309 104 (the “ <b>Borrower</b> ”)
<b>Lender:</b>	Kerogen Investments No.1 (HK) Limited, a wholly owned Hong Kong incorporated subsidiary of Kerogen Investments No. 1 Limited (the “ <b>Lender</b> ”)
<b>Security following drawdown</b>	<p>As a condition subsequent to be satisfied within the period commencing on the date of the Facility and ending on 13 July 2012 (<b>Unsecured Period</b>), the Borrower must, and must procure that each of its Material Subsidiaries, other than Lucas Cuadrilla Pty Ltd ACN 138 750 722, accede to the Facility and each other Finance Document as required and provide security and guarantees in favour of the Lender as security of the Facility, on terms reasonably satisfactory to the Lender (<b>Kerogen Security</b>). The Kerogen Security must also cover the same assets and entities (and on substantially the same terms) as the security and guarantees provided to ANZ in respect of the ANZ Facility.</p> <p>Subject to the ANZ Security remaining in place, the Kerogen Security will be provided on a second ranking basis. In the event that the ANZ Security is discharged, the Kerogen Security will be first ranking.</p> <p>The Borrower must procure that each relevant Group member must complete its Whitewash requirements (if any) in respect of the Kerogen Security and that shareholders of the Borrower provide their consent to the provision of the security under Listing Rule 10.1 by no later than the end of the Unsecured Period.</p> <p>Security Trustee details to be agreed subsequent to the date of these Terms and Conditions.</p>
<b>Facility:</b>	Mezzanine facility (the “ <b>Facility</b> ”)
<b>Total Commitment:</b>	<p>\$86.5 million</p> <p>Total Commitment to be provided in a single drawdown.</p>
<b>Availability Period:</b>	To be agreed subsequent to the date of these Terms and Conditions however Total Commitment must be utilised by no later than 31 December 2011.
<b>Use of Proceeds:</b>	<p>Towards any of the following:</p> <ol style="list-style-type: none"> <li>1. to fund redemption payment by way of redemption or selective share buy back of the RCPS</li> <li>2. payment of Commitment Fee</li> <li>3. balance to fund working capital</li> <li>4. any other purpose approved by the Lender.</li> </ol>
<b>Maturity Date:</b>	24 months after drawdown
<b>Interest Rate:</b>	<p>8.00% per annum for the first 12 months after drawdown.</p> <p>BBSY + 5.00% per annum for the period 12 months to 18 months after drawdown.</p> <p>BBSY + 6.50% per annum for the period 18 months to 24 months after drawdown.</p> <p>Lender to have full gross up protections for withholding tax.</p>

<b>Payment of interest:</b>	<p>Interest to be capitalised for the period commencing on the date of drawdown and ending on the date which is 12 months of drawdown (such date being the "<b>First Interest Payment Date</b>"). All interest accrued during this 12 month period must be paid in full on the First Interest Payment Date.</p> <p>Thereafter, interest to be paid in cash on a quarterly basis in arrears.</p>
<b>Default interest:</b>	The Interest Rate plus 2% per annum upon all overdue amounts.
<b>Repayment Schedule:</b>	<p>25% of Total Commitment repayable on or before the date which is 12 months from drawdown ("<b>First Repayment Date</b>").</p> <p>25% of Total Commitment repayable on or before the date which is 18 months from drawdown ("<b>Second Repayment Date</b>").</p> <p>All amounts outstanding under the Facility must be repaid by no later than the Maturity Date.</p> <p>Any prepayments (voluntary or mandatory) must be applied towards permanent repayment of the scheduled payments in order of maturity (i.e. first in full against the payment due on the First Repayment Date; then the payment due on the Second Repayment Date; and then the payments due on the Maturity Date).</p>
<b>Commitment Fee:</b>	\$1.5 million (such fee shall be paid to the Lender on the date of first drawdown of the Facility).
<b>Options:</b>	<p>Options in respect of 18,566,763 unissued ordinary shares in the Borrower assuming a Rights Issue size of AUD 51.3 million at a price of \$1.35 per share. For the avoidance of doubt, the parties acknowledge that the Options will be exercisable over a fixed number of shares and will not be exercisable over a percentage of the Borrowers share capital.</p> <p>The Options are to be issued to the Lender on the drawdown date.</p> <p>If prior to 31 August 2012 and subsequent to the Rights Issue, the Facility is partially repaid then a portion of the Options, assuming a 1 for 2 Rights Issue size of AUD 51.3 million at a price of \$1.35 per share, will be cancelled as follows:</p> <ul style="list-style-type: none"> <li>▪ where the Facility is repaid by an amount in excess of AUD 30 million to AUD 35 million: cancellation of Options in respect of 3,014,085 unissued ordinary shares in the Borrower;</li> <li>▪ where the Facility is repaid by an amount in excess of AUD 35 million to AUD 40 million: cancellation of Options in respect of 4,470,328 unissued ordinary shares in the Borrower;</li> <li>▪ where the Facility is repaid by an amount in excess of AUD 40 million to AUD 45 million: cancellation of Options in respect of 5,894,211 unissued ordinary shares in the Borrower; and</li> <li>▪ where the Facility is repaid by an amount in excess of AUD 45 million: cancellation of Options in respect of 7,286,799 unissued ordinary shares in the Borrower.</li> </ul> <p>Prior to 31 August 2012, the Holders irrevocably undertake not to exercise or transfer 7,286,799 Options and, if the Borrower is entitled to cancel any Options as referred to above at the end of that period, not to exercise that number of Options that will be cancelled to enable the Borrower to cancel them.</p> <p>Options will be detached and transferable (subject to the transfer restriction above other than to a related party of the Lender in the period to 31 August 2012) and have a tenor of four years from issuance date of the Options (the "<b>Options Term</b>").</p>

	<p>During the Options Term, Options may be exercised at any time on or after the date which is the earlier of:</p> <ul style="list-style-type: none"> <li>(i) the day following completion of the Rights Issue; and</li> <li>(ii) 3 months from the date of drawdown of the Facility.</li> </ul> <p>The exercise price for each Option is the amount equal to the lower of:</p> <ul style="list-style-type: none"> <li>(i) an amount equal to 120% of the five day volume weighted average price (VWAP) of the Borrower's shares on the ASX to be calculated on the date (and based only on days which the Borrower's shares are actually traded on the ASX) which immediately precedes the date on which the notice to exercise the Options is issued; and</li> <li>(ii) AUD 1.70 per share, adjusted in a reorganisation or pro-rata rights issue,</li> </ul> <p>provided that the exercise price will not be less than AUD 1.35 in any circumstance.</p> <p>Options are exercisable at the sole discretion of the Lender in whole or in part at any time during the Options Term.</p> <p>The terms of the Options will be in accordance with the options in the draft options terms provided to the Fund and discussed with the ASX.</p> <p>Options shall have no voting rights prior to exercise and will contain standard option holder protection provision, including:</p> <ol style="list-style-type: none"> <li>1. Option terms will be subject to adjustment in accordance with ASX Listing Rules in the event of a reorganisation of capital or a pro-rata issue.</li> <li>2. Options will have no right to participate in a new issue unless exercised.</li> <li>3. No modification of constitution or rights attaching to the Options other than the extent modification is required by law or required under the ASX Listing Rules or with the consent of the Lender (which cannot be unreasonably withheld or subject to conditions); and</li> <li>4. Notice in respect of takeovers and schemes and new issues (in sufficient time to permit the Holder to exercise the Options in full if it so chooses).</li> </ol> <p>The Lender may elect to subscribe for such shares through the exercise of the Options by permanent cancellation of an amount outstanding under the Facility equivalent to the product of the amount of shares to be subscribed for and the exercise price. Any amounts cancelled will be applied towards permanent cancellation of the scheduled payments in the order of maturity provided in the section entitled "Repayment Schedule", above.</p> <p>The Lender acknowledges that the Option terms will be subject to the ASX review and approval and agrees to make such changes to the terms of the Options as are required by ASX in order to obtain ASX approval.</p>
<b>Voluntary Prepayment:</b>	<p>Minimum prepayment amount of \$5 million.</p> <p>Minimum notice period of 5 Business Days prior to prepayment date.</p> <p>Any prepayment shall be made with accrued interest (up to prepayment date) on the amount prepaid but without premium or penalty.</p> <p>Any amount prepaid may not be redrawn.</p>
<b>Mandatory Prepayments:</b>	<p>Subject to the Intercreditor Deed, the Borrower will be required to prepay the Lender if any of the following events occur:</p> <ol style="list-style-type: none"> <li>1. A minimum of 65% of the Net Proceeds from the sale of any Material Australian Assets where the Net Proceeds are in aggregate over a 12</li> </ol>

	<p>month period greater than AUD 15M in aggregate. If the amount outstanding on the Facility is less than 65% of the Net Proceeds, only the amount outstanding is required to be paid.</p> <ol style="list-style-type: none"> <li>On the sale of all or any part of any Material International Asset (other than the Bowland Indirect Interest), 100% of those Net Proceeds to the extent required to fully repay the Facility outstanding (and associated costs). If the Material International Asset is the Bowland Indirect Interest, the Borrower will use all reasonable endeavours to procure that the Cuadrilla Board resolves to and does distribute to the Borrower an amount sufficient to fully repay the Facility outstanding (and associated costs).</li> <li>From the proceeds of any subsequent equity capital raising or debt issue other than (i) the Placement and the Rights Issue; and (ii) such incremental debt as permitted by the Financial Covenants (including the ANZ Facility).</li> </ol> <p>The Borrower may at any time obtain alternative finance from any financier (<b>Alternative Financier</b>) for the purpose of refinancing the Facility (<b>Refinancing</b>).</p> <p>The proceeds of the Refinancing must be used to prepay the Facility. The minimum portion of the Facility the subject of the Refinancing must be no less than 50% of the Facility outstanding at the relevant time.</p> <p>If the proceeds of any proposed Refinancing will not result in the whole of the amount outstanding under the Facility being repaid:</p> <ol style="list-style-type: none"> <li>the maturity date or final repayment date (however so defined) under the terms of the Refinancing must be date which falls no earlier than the Maturity Date; and</li> <li>the Borrower, Alternative Financier and Lender will enter into an intercreditor deed which will include provisions providing that the Kerogen Security will rank ahead of any security in respect of the Refinancing.</li> </ol> <p>If the Refinancing results in the whole of the amount outstanding under the Facility being irrevocably repaid in full, then the Security Trustee must discharge the Security as soon as reasonably practicable.</p>
<b>Review Event</b>	<p>The occurrence of a Change of Control of the Borrower will constitute a "Review Event" under the Facility. Each party's obligations following a Review Event are set out as follows:</p> <ol style="list-style-type: none"> <li>if a Review Event is continuing the Lender may give notice to the Borrower following which the Borrower and the Lender agree to negotiate in good faith, amendments to the Finance Documents, a refinancing or restructuring plan or any other matters which they determine (in good faith) are appropriate in light of the Review Event.</li> <li>If the Borrower and the Lender cannot in good faith reach agreement on such amendments, refinancing or restructuring plan or other relevant matters within 30 days of the date when the Lender gave notice as contemplated in paragraph (a), above, the Lender may give a further notice to the Borrower ("<b>Further Notice</b>") that all amounts outstanding under the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents are immediately due and payable on the date which is 90 days after the date on which the Further Notice is given.</li> </ol>
<b>Right of First Offer:</b>	<p>The Lender will have a Right of First Offer over any Material International Assets in the event of any sale by the Borrower or relevant Group member. Where the Lender exercises a Right of First Offer, the Borrower has no obligation to sell the Material International Asset to the Lender if the Borrower, acting reasonably, determines that it is in the interests of shareholders of the Borrower to seek a higher alternative bid. In this circumstance, the agreed sale</p>

	price of the relevant Material International Asset must not be less than the price offered by the Lender.
<b>Conditions Precedent</b>	<p>Conditions precedent customary and appropriate for a facility of this nature, including but not limited to, the following (each in form and substance satisfactory to the Lender):</p> <ol style="list-style-type: none"> <li>1. Satisfactory updating of prior commercial, legal and technical due diligence of the Group.</li> <li>2. All necessary shareholder approvals for the entry into and performance of the Transaction Documents, including for redemption or buy back of Redeemable Convertible Preference Shares have been obtained.</li> <li>3. The Placement has been completed.</li> <li>4. The Fund has provided to the Borrower an irrevocable undertaking by way of redemption or buy-back notice or other notice in respect of the redemption or the buy back of the Redeemable Convertible Preference Shares.</li> <li>5. FIRB approval.</li> <li>6. All conditions precedent to the Rights Issue under the Equity Documents have been satisfied, or if not satisfied the Lender has evidence reasonably satisfactory to it that those conditions will be satisfied.</li> <li>7. Executed copies of each Equity Document.</li> <li>8. Evidence that ANZ has provided its consent to the Borrower and each Material Subsidiary entering into the Transaction Documents on terms satisfactory to the Lender.</li> <li>9. An executed original of each Finance Document, including the Intercreditor Deed (if required), duly executed by all of the parties to it.</li> <li>10. Evidence to the reasonable satisfaction of the Lender that there has been no material adverse change in the business or prospects of the Group since the date of these Terms and Conditions.</li> <li>11. A legal opinion of Allen &amp; Overy.</li> <li>12. Evidence that the fees, costs and expenses then due from the Borrower under the Finance Documents have been paid or will be paid by the first drawdown date.</li> <li>13. No Event of Default or Potential Event of Default subsists.</li> <li>14. Receipt of all information required by the Lender to satisfy its "know your customer" requirements.</li> </ol>
<b>Representations and Warranties:</b>	<p>Each Obligor will give representations and warranties customary and appropriate for a facility of this nature, but subject to materiality thresholds and such other qualifiers to be agreed, including but not limited to, the following:</p> <ol style="list-style-type: none"> <li>1. Due incorporation.</li> <li>2. Powers and authority.</li> <li>3. Legal validity of the obligations under each Transaction Document.</li> <li>4. Non-conflict with any laws, constituent documentation or any other documentation.</li> <li>5. No Default.</li> <li>6. All Authorisations required or desirable in respect of each Transaction Document to which it is a party have been obtained or effected and are in full force and effect.</li> <li>7. No misleading information.</li> <li>8. Not a trustee.</li> <li>9. No adverse tax liabilities.</li> <li>10. Solvency and immunity from suit.</li> <li>11. Commercial benefit.</li> </ol>

	12. Security Documents effective from the date on which each Security is provided.
<b>General Covenants:</b>	<p>Each Obligor will give general covenants customary and appropriate for a facility of this nature, but subject to materiality thresholds and such other qualifiers to be agreed, including but not limited to, the following:</p> <ol style="list-style-type: none"> <li>1. Authorisations and compliance with laws.</li> <li>2. Negative pledge over present and future assets of the Borrower and each other Material Subsidiary, subject to permitted security interests</li> <li>3. Provision of information customary for a facility of this nature, including but not limited to, financial statements, management reports, business plans, budgets, Group organisational chart and any updated Group organisational chart, information by way of Independent Directors' presentations, notices dispatched to ASX, shareholders and creditors, details of any litigation, arbitration or administrative proceedings and any other such information as agreed between the parties.</li> <li>4. No further financial indebtedness subject to agreed baskets.</li> <li>5. No disposals of assets, other than permitted disposals.</li> <li>6. No distributions other than permitted distributions.</li> <li>7. No change of business.</li> <li>8. No mergers.</li> <li>9. No acquisitions of any business, shares or other ownership interests in any other person, except with the consent of the Lender.</li> <li>10. Insurance of business and assets.</li> <li>11. Maintain material assets, intellectual property and licences.</li> <li>12. Payment of all taxes.</li> <li>13. Maintain corporate existence, obtain all consents required for its business and comply with all laws and directives applicable to its business.</li> <li>14. Maintenance of Secured Property from the date on which each Security is provided.</li> </ol> <p>The Borrower undertakes that for a period of 12 months from the date of issue of shares under the Placement that it will not seek a resolution of members for the purposes of ASX Listing Rules 7.1, 7.1.5(a) or 10.11.</p>
<b>Financial Covenants:</b>	<p>To be discussed and agreed, including, but not limited to:</p> <p>Additional incremental indebtedness of no more than AUD 20M in aggregate until the Maturity Date.</p> <p>In addition, the Borrower may incur financial indebtedness in respect of new asset finance leases of no more than AUD 25M in aggregate until the Maturity Date and such indebtedness must only be secured against the relevant asset the subject of the relevant finance lease.</p> <p>Capex in a financial year not exceed the Agreed Capex for that financial year by greater than 20%. <b>Agreed Capex</b> means a figure to be agreed as part of definitive documentation (actual covenant thresholds to be set based on 25% headroom to the financial forecasts included in the agreed projected 3-way financial model).</p>
<b>Event of Default:</b>	<p>Events of Default customary and appropriate for a facility of this nature, but subject to materiality thresholds and such other qualifiers to be agreed, including but not limited to, the following:</p> <ol style="list-style-type: none"> <li>1. Non payment of any amount due under any Finance Document.</li> <li>2. Breach of other obligations under any Finance Document, unless such breach is capable of remedy and is remedied within an agreed cure period.</li> <li>3. Misrepresentation.</li> </ol>



	<ol style="list-style-type: none"> <li>4. Breach of financial covenant.</li> <li>5. Cross-default.</li> <li>6. Insolvency and insolvency proceedings.</li> <li>7. Creditors' process.</li> <li>8. Cessation of business.</li> <li>9. Suspension of the shares of the Borrower on the ASX for more than an agreed period of time commencing on a period to be agreed and not including any period prior to the date of the Facility.</li> <li>10. Finance Documents no longer effective.</li> <li>11. Without the prior consent of the Lender, an Obligor (other than the Borrower) is not or ceases to be a subsidiary of the Borrower.</li> </ol>
<b>Costs and expenses</b>	<p><b>Initial costs:</b> each of the Borrower and Lender will pay its own legal fees, costs and expenses incurred by it in connection with the negotiation, preparation and entry into these Terms and Conditions.</p> <p><b>Subsequent costs:</b> the Borrower must pay the Lender all legal fees, costs and expenses reasonably incurred by it in connection with:</p> <ol style="list-style-type: none"> <li>(a) the negotiation, preparation and entry into of any Finance Document and the Option Deed entered into after the date of these Terms and Conditions; and</li> <li>(b) any amendment, waiver or consent requested by or on behalf of an Obligor or specifically permitted by a Finance Document or the Option Deed.</li> </ol> <p><b>Enforcement costs:</b> the Borrower must pay the Lender all legal fees, costs and expenses incurred by it in connection with:</p> <ol style="list-style-type: none"> <li>(a) the enforcement of, or the preservation of any rights under, any Finance Documents or the Option Deed; and</li> <li>(b) any proceedings instituted by or against the Lender as a consequence of it entering into a Finance Document or the Option Deed.</li> </ol>
<b>Miscellaneous Provisions:</b>	The Facility will contain provisions relating to, among other things, tax gross up, indemnities, set-off and administration.
<b>Finance Documents:</b>	To include but not limited to a mezzanine debt facility agreement, security documentation, guarantee and intercreditor deed if so required from time to time.
<b>GST:</b>	Any amounts payable to the Lender (in any capacity) under or in connection with these Terms and Conditions or any fee letter is exclusive of GST.
<b>Assignment:</b>	<p>Subject to the provisions below, the Lender may only assign or otherwise transfer its participation in the Facility with the consent of the Borrower, such consent not to be unreasonably withheld or delayed (or subject to any unusual or onerous conditions).</p> <p>Consent will be deemed to have been provided by the Borrower if the Borrower does not respond to a consent request within 10 Business Days.</p> <p>Transfers to any of the following persons are permitted without consultation, consent or notice:-</p> <ol style="list-style-type: none"> <li>(a) a related body corporate or affiliate of the Lender;</li> <li>(b) limited partners of the Lender, their respective related body corporate or affiliate; or</li> </ol>

	<p>(c) general partners or manager of the Lender and their respective related body corporate or affiliate.</p> <p>Sub-participations and securitisation are permitted without consultation, consent or notice provided the Lender remains the Lender of record. Transfers whilst an Event of Default subsists or where the Lender is required to transfer its participation in the Facility for legal or compliance reasons may also be made without consultation, consent or notice.</p> <p>No Obligor will be permitted to transfer any of its rights or obligations in respect of a Facility without the consent of the Lender.</p>
<b>Increased Costs, Illegality &amp; Yield Protection:</b>	<p>If it becomes illegal for the Lender to continue to provide all or part of the Facilities, the Lender may cancel its commitment under any relevant Facility and/or require prepayment of the relevant utilisations.</p> <p>Any increase costs or decrease in effective return arising from a change in law or the interpretation of any law unknown at the date of the Finance Documents will be compensated by the Borrower within ten days of notice (subject to usual exceptions).</p>
<b>Stamp Duty:</b>	Stamp duty on Security will be for the account of the Borrower.
<b>Governing Law:</b>	New South Wales law and courts.
<b>Confidentiality:</b>	These Terms and Conditions and its content are intended for the exclusive use of the Borrower and must not be disclosed by the Borrower to any person other than the Borrower's legal and financial advisers for the purposes of the proposed transaction unless the prior written consent of the Lender is obtained.
<b>Defined Terms</b>	<p><b>ANZ</b> means Australia and New Zealand Banking Group Limited and, if applicable, its related bodies corporate.</p> <p><b>ANZ Facility</b> means the facilities provided by ANZ to the Borrower in accordance with the document entitled "Facilities Agreement" dated on or about 21 August 2008 as amended from time to time.</p> <p><b>ANZ Security</b> means the security provided by the Borrower and certain of its subsidiaries in favour of ANZ as security for the ANZ Facility.</p> <p><b>Authorisation</b> means:</p> <p>(a) an authorisation, consent, approval, permit, resolution, licence, exemption, filing, lodgement or registration required by any Authority or any law; or</p> <p>(b) in relation to anything which will be fully or partly prohibited or restricted by law if an Authority intervenes or acts in any way within a specified period after lodgement filing, registration or notification, the expiry of that period without intervention or action, or notice of intended intervention or action.</p> <p><b>BBSY</b> means for each interest period, the average bid rate displayed at or about 10.30 am on the first day of that period on the Reuters screen BBSY page for a 3 month term.</p> <p><b>Bowland Direct Interest</b> means the 25% participating interest in the Bowland Licence held by Lucas Energy (UK) Limited.</p> <p><b>Bowland Indirect Interest</b> means the interest the Borrower has as a shareholder in Cuadrilla in a 75% participating interest in the Bowland Licence held by Bowland Resources Limited, a subsidiary of Cuadrilla.</p> <p><b>Bowland Licence</b> means the United Kingdom Onshore Petroleum Exploration Licence number PEDL:165 effective as of 1 July 2008.</p> <p><b>Business Day</b> means a week day excluding gazetted public holidays in Sydney.</p>

**Change of Control** means any person or group of persons acting in concert gaining control of the Borrower. For the purposes of this definition:

- a. control of the Borrower means:
  - i. the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:
    - 1. cast, or control the casting of, more than 50% of the maximum number of votes that can be cast at a general meeting of the Borrower;
    - 2. appoint or remove all, or the majority, of the Independent Directors or other equivalent officers of the Borrower; and
    - 3. give directions with respect to the operating and financial policies of the Borrower; and/or
  - ii. the holding beneficially of more than 50% of the issued share capital of the Borrower (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital); and
- b. "acting in concert" means, pursuant to an agreement or understanding (whether formal or informal), actively co operating, through the acquisition of shares by any of the persons involved, either directly or indirectly, to obtain or consolidate control of the Borrower.

**Corporations Act** means Corporations Act 2001 (Cth).

**Cuadrilla** means Cuadrilla Resources Holdings Ltd.

**Cuadrilla Board** means the board of Independent Directors of Cuadrilla.

**Cuadrilla Shares** means the shares in Cuadrilla held by Lucas Cuadrilla Pty Ltd ACN 138 750 722.

**Exploration Drilling Division** means the exploration drilling business owned by the Group which is engaged in providing services to the coal seam gas and coal industries (other than the Production Drilling Division).

**East Texas NPI** means a contractual right to 10% of a net profit interest in the East Texas exploration area held by Thomas Knowlton in the 'Monument Prospect Area of Mutual interest' located in Trinity County, Texas, USA.

**Equity Document** means:

- (a) Subscription Agreement;
- (b) Option Deed;
- (c) Underwriting Agreement;
- (d) Sub-underwriting Agreement; and
- (e) any other document agreed between the Lender and Borrower to be an Equity Document.

**Finance Document** means:

- (a) Mezzanine Facility Agreement;
- (b) each Security Document;
- (c) Security Trust Deed;
- (d) Intercreditor Deed;
- (e) each accession deed;
- (f) any other document designated in writing as a Finance Document by the Lender and the Company; and
- (g) any document entered into under any of the above.

**Holder** means the relevant holder of the Options in accordance with Option Deed.

**Group** means the Borrower and its Subsidiaries.

**Intercreditor Deed** means the deed so entitled between ANZ, the Lender and the Borrower to be entered into on or prior to the Facility in respect of the ANZ Facility and the proceeds of this Facility.

**Material Australian Assets means:**

- (a) the Exploration Drilling Division;
- (b) the Building, Construction & Infrastructure (“**BC&I**”) Division; and
- (c) any assets held or operated by any of the Divisions described in (a) to (c), above.

**Material International Assets means:**

- (a) the Cuadrilla Shares;
- (b) the Bowland Direct Interest;
- (c) the Bowland Indirect Interest; and
- (d) the East Texas NPI.

**Material Subsidiaries means:**

- (a) those entities identified as either “Operating Companies” or “Investing Companies” in the organisational chart of the Group provided to the Lender on or prior to the date of these Terms and Conditions; and
- (b) following the date of these Terms and Conditions, (i) any other additional entity identified as either “Operating Companies” or “Investing Companies” in any revised organisational chart of the Group provided to the Lender as provided in accordance with the terms of the Facility; and (ii) any other non-dormant entity within the Group which owns plant, material, equipment or investments.

**Mezzanine Facility Agreement** means the agreement so entitled between, amongst others, the Lender and the Borrower incorporating, amongst other things, the provisions of the Terms and Conditions.

**Net Proceeds** means the gross proceeds from the disposal of any asset less all applicable sales costs, including commission and legal fees and any payment required to be made at any time to the Australian Taxation Office in respect of the disposal.

**Obligor** means the Borrower and each Material Subsidiary which has acceded to the Facility (and each other Finance Document as required) and provided Security and / or a guarantee in respect of the Facility.

**Placement** means the placement of shares in the Borrower to the Lender under the Equity Documents.

**Potential Event of Default** means any event or circumstance which, with the giving of notice, lapse of time or fulfilment of any condition, would become an Event of Default.

**Production Drilling Division** means a fleet of six rigs and associated assets and staff that undertake coal seam gas production drilling but are not used in any of coal mine methane degasification, well services or horizontal drilling.

**Rights Issue** means the rights issue to be made by the Borrower under the Equity Documents.

**Secured Property** means the property the subject of a Security.

	<p><b>Security</b> means each security provided by an Obligor as security for the Facility including any mortgage, charge, share or equity interest pledges, cross guarantees and mortgage of contractual rights.</p> <p><b>Security Document</b> means a document entered into in respect of each Security and designated as a "Security Document".</p> <p><b>Subsidiary</b> has the same meaning as it does in Part 1.2 Division 6 of the Corporations Act but as if body corporate includes any entity. It also includes an entity required by current accounting practice to be included in the consolidated annual financial statements of that entity or would be required if that entity were a corporation.</p> <p><b>Transaction Documents</b> means each Equity Document and Finance Document.</p> <p><b>Whitewash</b> means a financial assistance whitewash undertaken in accordance with Part 2J.3 of the Corporations Act.</p>
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## ANNEXURE C –Terms of 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
<b>ASIC</b>	the Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited ACN 008 624 691.
<b>ASX Listing Rules</b>	the ASX Listing Rules published by the ASX.
<b>ASX Operating Rules</b>	the ASX Operating Rules published by the ASX.
<b>Company</b>	AJ Lucas Group Limited ACN 060 309 104.
<b>Corporations Act</b>	the Corporations Act 2001 (Cth).
<b>Exchange's Rules</b>	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.
<b>Exercise Notice</b>	a notice in the form attached, or in such other form as the board of the Company approves from time-to-time.
<b>Exercise Price</b>	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.
<b>Expiry Date</b>	the date specified in clause 2.4.
<b>Option</b>	a right to subscribe for one Share on these terms, subject to adjustment in accordance with clause 4.
<b>Optionholder</b>	a person registered from time-to-time on the Company's register of option holders as a holder of Options.
<b>New Issue</b>	any issue of Securities in the Company that is not a Bonus Issue or a Pro-Rata Issue
<b>Pricing Period</b>	the 5 Trading Days ending on (and including) the Trading Day immediately preceding the day on which the Optionholder exercises the relevant Options.
<b>RCPS</b>	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.

<b>Share</b>	a fully paid ordinary share in the capital of the Company.
<b>Trading Day</b>	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.

# Attachment 1

## Exercise Notice

To: AJ Lucas Group Limited  
394 Lane Cove Road  
North Ryde NSW 2113

### 1 GENERAL

Any term used in this Exercise Notice which is defined in the Option Terms has the same meaning as in those Option Terms.

### 2 EXERCISE

Under clause 3 of the Option Terms, the Optionholder gives notice that it exercises [specify number] Options.

### 3 [APPOINTMENT OF NOMINEE]

The Optionholder nominates [specify name and address] to receive the Shares to be issued by the Company on exercise of the Options.]\*

*\*Delete if not nominating another person to receive Shares.*

## Optionholder

date \_\_\_\_\_

sign here ► \_\_\_\_\_

print name \_\_\_\_\_

## Nominee

date \_\_\_\_\_

sign here ► \_\_\_\_\_

print name \_\_\_\_\_

## ANNEXURE D– Terms of Kerogen Options

Defined terms (clause 1.1)

Term	Meaning
<b>ASX</b>	ASX Limited ACN 008 624 691.
<b>ASX Listing Rules</b>	the ASX Listing Rules published by the ASX.
<b>ASX Operating Rules</b>	the ASX Operating Rules published by the ASX.
<b>Company</b>	AJ Lucas Group Limited ACN 060 309 104.
<b>Corporations Act</b>	the <i>Corporations Act</i> 2001 (Cth).
<b>Equity Documents</b>	has the meaning given under the Facility
<b>Exchange's Rules</b>	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.
<b>Exercise Notice</b>	a notice in the form attached, or in such other form as the board of the Company approves from time-to-time.
<b>Exercise Price</b>	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.
<b>Expiry Date</b>	the date specified in clause 2,4.
<b>Facility</b>	the mezzanine facility of \$86.5 million provided by Kerogen to the Company.
<b>New Issue</b>	any issue of Securities in the Company that is not a Bonus Issue or a Pro-Rata Issue
<b>Option</b>	a right to subscribe for one Share on these terms, subject to adjustment in accordance with clause 4.
<b>Optionholder</b>	a person registered from time-to-time on the Company's register of option holders as a holder of Options.
<b>Related Body Corporate</b>	has the meaning given to that term in the Corporations Act.
<b>Rights Issue</b>	the rights issue to be made by the Company under the Equity Documents.
<b>Share</b>	a fully paid ordinary share in the capital of the Company.
<b>Trading Day</b>	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"><li>1 any transaction defined in the ASX Operating Rules as ‘special’;</li><li>2 any crossings before commencement of normal trading;</li><li>3 crossings during the closing phase and the after hours adjust phase;</li><li>4 overseas trades;</li><li>5 trades on exercise of options over Shares;</li><li>6 overnight crossings; and</li><li>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.</li></ol> <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: <b>Bonus Issue, Business Day, Ordinary Security, Pro Rata Issue, Record Date, Security, Trading Day and Underlying Security.</b></p> <p>For the avoidance of doubt, <b>Bonus Issue</b> does not include any issue of equity securities under an employee or executive share, option or incentive plan.</p>	1.2
Option issue fee	\$NIL per Option	2.1(a)
Exercise price	<p>an amount equal to the lower of:</p> <p>(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 the Options is issued; and</p> <p>(b) \$1.70 per Share,</p> <p>provided that the exercise price will not be lower than \$1.35 per Share</p>	2.1(b)
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

Feature		Clause ref.
<b>Transfer</b>	<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
<b>Cancellation of options</b>	Options may be cancelled for no consideration only where separately agreed with the registered Optionholder.	
<b>Exercise period</b>	<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
<b>How options are exercised</b>	<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 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>	3.3
<b>Issue of Shares on exercise</b>	<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</p>	3.5



Feature		Clause ref.
	Optionholder of the admission and delivery of those Shares (including any documents issued by ASX)..	
<b>Pro Rata Issues</b>	<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><b>O'</b> is the new Exercise Price of the Option</p> <p><b>O</b> is the old Exercise Price of the Option</p> <p><b>E</b> is the number of Underlying Securities over which the Option is exercisable</p> <p><b>P</b> 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</p> <p><b>S</b> is the subscription price for a Security under the Pro Rata Issue</p> <p><b>D</b> the dividend due but not yet paid on existing Underlying Securities (except those to be issued under the Pro Rata Issue)</p> <p><b>N</b> is the number of Securities with rights or entitlements that must be held to receive a right to 1 new Security</p>	4.1
<b>Bonus Issues</b>	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
<b>New Issues</b>	An Optionholder has no right to participate in a New Issue without exercising the Option.	

<b>Feature</b>		<b>Clause ref.</b>
<b>Reorganisation</b>	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
<b>Interest in Shares</b>	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	
<b>Ranking of Shares on exercise</b>	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
<b>Quotation of Options</b>	The Company will not apply for quotation of the Options	
<b>Quotation of Shares</b>	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 of the ASX).	5.2
<b>Disclosure Document</b>	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
<b>Governing Law</b>	New South Wales	6.4
<b>Variation</b>	(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.	6.5
<b>Duties and Taxes</b>	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

## ANNEXURE E – Summary of key terms and conditions of Underwriting Agreement

Feature	
<b>Underwriting and Management Fee</b>	The Underwriter will receive an underwriting fee equal to 2% of the Underwritten Amount ( <b>Underwriting Fee</b> ) and a management fee equal to 3% of the Underwritten Amount ( <b>Management Fee</b> ) from the Company.
<b>Costs and expenses</b>	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 Rights Issue, and any taxes payable in respect of the Underwriting Agreement or the Rights Issue.
<b>Termination Fee</b>	<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"> <li>(a) 50% of the Underwriting Fee;</li> <li>(b) 50% of the Management Fee; and</li> <li>(c) all reasonable expenses incurred by the Underwriter incurred up to the date of termination.</li> </ul>
<b>Conditions Precedent</b>	<p>The Underwriter's obligations are conditional upon satisfaction or waiver of certain conditions precedent including:</p> <ul style="list-style-type: none"> <li>(a) completion of Prospectus due diligence, approval by the Underwriter of the Prospectus, and lodgment of the Prospectus by 9 December 2011;</li> <li>(b) 100% sub-underwriting of the Rights Issue (taking into account any FIRB limits on any sub-underwriter's participation); and</li> <li>(c) completion of the RCPS Buy-back by 22 December 2011.</li> </ul>
<b>Termination events</b>	<p>The Underwriter can terminate the Underwriting Agreement if certain specified events occur, including:</p> <ul style="list-style-type: none"> <li>(a) <b>(listing approvals)</b>: 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 Rights Issue, or approval is subsequently withdrawn or qualified;</li> <li>(b) <b>(change in management)</b>: there is a material change in the senior management or in the board of directors of the Company;</li> <li>(c) <b>(insolvency)</b>: a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other similar official is appointed to the Company or in relation to any property of the Company;</li> <li>(d) <b>(capital structure)</b>: the Company alters its capital structure without the prior written consent of the Underwriter, other than: <ul style="list-style-type: none"> <li>(i) as disclosed in accordance to the ASX prior to the date of the Underwriting Agreement;</li> <li>(ii) in accordance with the Underwriting Agreement or in</li> </ul> </li> </ul>

Feature	
	<p>connection with the Rights Issue; or</p> <p>(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> <p>(e) <b>(suspension)</b> trading in the shares of the Company is suspended during any period between the opening date of the Rights Issue and the allotment date of the Rights Issue;</p> <p>(f) <b>(Prospectus defect)</b>: 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) <b>(investigation)</b>: ASIC issues, or threatens to issue, proceedings in relation to the Rights Issue, the Prospectus or the Company or any of its officers, or commences or threatens to commence an inquiry or investigation in relation to the Rights Issue, 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 Rights Issue;</p> <p>(h) <b>(Court Order)</b>: An order is made in connection with the Prospectus or the Rights Issue, including under sections 1324 and 1325 of the Corporations Act;</p> <p>(i) <b>(consent withdrawal)</b>: 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) <b>(ASIC Stop Order)</b>: 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 Day after it is made or 10.00am on the settlement date for the Rights Issue;</p> <p>(k) <b>(Takeovers Panel)</b> the Takeovers Panel makes an order of unacceptable circumstances with respect to the Rights Issue or the Prospectus, and makes an order restraining settlement of the Rights Issue; or</p> <p>(l) <b>(withdrawal of Prospectus)</b>: The Prospectus is withdrawn by the Company at any time prior to the settlement date for the Rights Issue.</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 <b>Resolutions 1, 2 and 3</b> only relating to the Recapitalisation Proposal are not approved at the EGM on 22 December 2011.</p>

Feature	
	<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"> <li>• renders it impracticable to effect acceptances of valid applications for the Rights Issue; or</li> <li>• could be expected to give rise to a material liability for the Underwriter under the Corporations Act or any other applicable law; or</li> <li>• is likely to have a material adverse effect on the financial position or prospects of the Company or the success of the Rights Issue or market price of the Shares.</li> </ul> <p>(a) <b>(compliance with regulatory requirements)</b> there is a contravention by the Company of the Corporations Act or the constitution;</p> <p>(b) <b>(breach)</b> the Company fails to perform or observe any of its obligations under the Underwriting Agreement;</p> <p>(c) <b>(warranties)</b>: 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) <b>(other events)</b>: there is a suspension or material limitation in trading in securities generally on ASX occurring after the opening date of the Rights Issue and continuing as at the closing date for the Rights Issue;</p> <p>(e) <b>(director)</b>: a director of the Company:</p> <ul style="list-style-type: none"> <li>(i) is charged with an indictable offence relating to any financial or corporate matter in his or her capacity as director of the Company; or</li> <li>(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</li> <li>(iii) is disqualified from managing a corporation under section 206B, 206C, 206D, 206E, 206F or 206G of the Corporations Act;</li> </ul> <p>(f) <b>(timetable)</b> 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) <b>(no certificate)</b> 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) <b>(business)</b>: except as previously disclosed to the ASX or in writing to the Underwriter, the Company or any of its related parties:</p> <ul style="list-style-type: none"> <li>(i) disposes or agrees to dispose of the whole or a substantial part of its business or property; or</li> <li>(ii) ceases or threatens to carry on business</li> </ul> <p>in either case, without the prior written consent of the Underwriter which</p>

Feature	
	<p>is not to be unreasonably withheld;</p> <p>(i) <b>(material adverse change)</b> 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) <b>(agreements)</b> 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>
<b>Indemnity</b>	<p>The Company has provided an indemnity to the Underwriter and its officers, employees, advisers and related bodies corporate (together the <b>Indemnified Parties</b>) in connection with Rights Issue, 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> <p>(a) any fraud, recklessness, willful misconduct, willful default or gross negligence of that Indemnified Party;</p> <p>(b) any penalty or fine which that Indemnified Party is required to pay for any contravention by it of any applicable law; or</p> <p>(c) any amount in respect of which this indemnity would be illegal, void or unenforceable under any law.</p>
<b>Representations and warranties</b>	<p>The Company gives various customary representations and warranties to the Underwriter in relation to the Prospectus, the Rights Issue, its compliance with applicable laws and the information provided by the Company to the Underwriter.</p>
<b>Undertakings</b>	<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 Rights Issue, public statements, management support and access in the event of litigation.</p>

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

Feature	
<b>Appointment</b>	<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 <b>Resolution 4</b>) together with other potential sub-underwriters (collectively, the <b>Sub-underwriters</b>) to Sub-underwrite the Sub-underwritten amount under individual Sub-underwriting agreements, on substantially equivalent terms (except as indicated below).</p>
<b>Sub-underwritten amount</b>	<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>
<b>Equivalent Allocation</b>	<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 Rights Issue.</p> <p>The Underwriter has a 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>
<b>Shortfall</b>	<p>Each Sub-underwriter will be allocated a certain number of shares from any shortfall arising under the Rights Issue, 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>
<b>Commitment of Sub-underwriters</b>	<p>The Sub-underwriters have committed to:</p> <ul style="list-style-type: none"> <li>(a) subscribe for the entirety of the shares allocated to them by the Underwriter; and</li> <li>(b) take up their full pro rata entitlements (if any) under the Rights Issue, if the Sub-underwriter is an existing Shareholder.</li> </ul> <p>Shares subscribed for as part of a Sub-underwriter's pro rata entitlement under the Rights Issue 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>

Feature	
<b>Sub-underwriting fees</b>	<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>
<b>Rights of termination</b>	<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>
<b>Termination of Underwriting Agreement</b>	<p>If the Underwriter terminates the Underwriting Agreement, or if the Rights Issue 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>
<b>Representations and warranties</b>	<p>The Sub-underwriters give various customary representations and warranties to the Underwriter.</p>



## ANNEXURE G – Pro Forma Balance Sheet

### Pro forma historical statement of financial position

#### 1. Introduction and basis of preparation

This annexure sets out the 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**). The Pro Forma Historical Statement of Financial Position is 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](http://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, 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 this Explanatory Statement. 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 Group's current assets exceed its current liabilities by \$3.5 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:

- the Group 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 partial repayment of the Mezzanine Facility, as required;
- the Director's views in respect of the reasonableness of the profit and cash flow forecasts of the Group, 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;
- the Director's views in respect of the progress being made towards commercialising the Group's investment in Monument Prospect, East Texas; and
- the Director's views in respect of the value of the Group's investment in Cuadrilla and the direct equity interest in the Bowland Basin and Bolney 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.

## **2. Pro Forma Historical Statement of Financial Position**

The Pro Forma Historical Statement of Financial Position is set out in Table 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 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 this Explanatory Statement, and prior to the impact of the Rights Issue (and subsequent ATO and ANZ term debt repayments) that will be the subject of the Prospectus.

Table 2.1. Pro Forma Historical Statement of Financial Position as at 30 June 2011

	Statutory 30 June 2011 \$'000	Kerogen Placement \$'000	Cuadrilla equity subscription \$'000	Kerogen mezzanine loan facility \$'000	RCPS buy back \$'000	Proforma 2011 \$'000	Rights issue \$'000	Repay ATO & ANZ \$'000	Proforma 2011 \$'000
<b>Current assets</b>									
Cash and cash equivalents	1,348	13,389	(10,108)	85,000	(59,159)	30,469	49,812	(70,066)	10,214
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
<b>Total current assets</b>	<b>128,458</b>	<b>13,389</b>	<b>(10,108)</b>	<b>85,000</b>	<b>(59,159)</b>	<b>157,579</b>	<b>49,812</b>	<b>(70,066)</b>	<b>137,324</b>
<b>Non-current assets</b>									
Property, plant and equipment	136,896	—	—	—	—	136,896	—	—	136,896
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
<b>Total non-current assets</b>	<b>310,459</b>	<b>—</b>	<b>10,108</b>	<b>—</b>	<b>—</b>	<b>320,567</b>	<b>—</b>	<b>—</b>	<b>320,567</b>
<b>Total assets</b>	<b>438,917</b>	<b>13,389</b>	<b>—</b>	<b>85,000</b>	<b>(59,159)</b>	<b>478,146</b>	<b>49,812</b>	<b>(70,066)</b>	<b>457,892</b>
<b>Current liabilities</b>									
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)	0
Employee benefits	7,031	—	—	—	—	7,031	—	—	7,031
<b>Total current liabilities</b>	<b>243,110</b>	<b>—</b>	<b>—</b>	<b>14,704</b>	<b>(53,925)</b>	<b>203,888</b>	<b>—</b>	<b>(70,066)</b>	<b>133,822</b>
<b>Non-current liabilities</b>									
Interest-bearing loans and borrowings	12,718	—	—	61,045	—	73,763	—	—	73,763
Derivative liability	—	—	—	9,252	—	9,252	—	—	9,252
Deferred tax liabilities	5,677	—	—	—	—	5,677	(454)	—	5,223
Employee benefits	1,529	—	—	—	—	1,529	—	—	1,529
<b>Total non-current liabilities</b>	<b>19,924</b>	<b>—</b>	<b>—</b>	<b>70,296</b>	<b>—</b>	<b>90,220</b>	<b>(454)</b>	<b>—</b>	<b>89,767</b>
<b>Total liabilities</b>	<b>263,034</b>	<b>—</b>	<b>—</b>	<b>85,000</b>	<b>(53,925)</b>	<b>294,109</b>	<b>(454)</b>	<b>(70,066)</b>	<b>223,589</b>
<b>Net assets</b>	<b>175,883</b>	<b>13,389</b>	<b>—</b>	<b>—</b>	<b>(5,234)</b>	<b>184,038</b>	<b>50,265</b>	<b>—</b>	<b>234,303</b>
<b>Equity</b>									
Share capital	91,935	13,389	—	—	—	105,324	50,265	—	155,589
Reserves	(810)	—	—	—	637	(173)	—	—	(173)
Retained earnings	84,758	—	—	—	(5,871)	78,887	—	—	78,887
<b>Total equity</b>	<b>175,883</b>	<b>13,389</b>	<b>—</b>	<b>—</b>	<b>(5,234)</b>	<b>184,038</b>	<b>50,265</b>	<b>—</b>	<b>234,303</b>

### 3. Pro form 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 9,917,650 ordinary shares at \$1.35 per share to Kerogen (refer to section 2.3(c)(i) for key terms).

(b) **Cuadrilla Capital 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 Capital Call (refer to section 2.3(c)(i)).

(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.

At the same time as entering into the Mezzanine Facility, the Company will issue, subject to shareholder approval, 18,566,763 Kerogen Options to Kerogen for nil consideration. For the purposes of the Pro Forma Historical Statement of Financial Position, the Kerogen Options has 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 6.

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). \$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:

- \$45.0 million buy-back of the RCPS principal amount;

- \$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;
- \$0.8 million consent fee which has been recognised in retained earnings; and
- \$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 derecognition of the RCPS.

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 5.

**(e) Rights Issue**

Under the Prospectus, the Company will assume the receipt of net proceeds of approximately \$49.8 million from the issue of approximately 38 million New Shares through the Rights Issue (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 \$1.5 million, recognised as a reduction to contributed equity net of tax effects.

**(f) Repayment of amounts owing to the ATO**

As at 30 June 2011, the Company owed \$61.8 million to the ATO, comprised 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 repaid out of the proceeds of the Mezzanine Facility and Rights Issue.

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 repay this incremental GIC from the proceeds of the Rights Issue. This amount is not estimated to be material and 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 Rights Issue. Although this term debt matures at 30 November 2011 (under the ANZ Facilities Agreement), the Company is in discussions with ANZ to extend repayment terms until the receipt of proceeds from the Rights issue.