AJ Lucas Group Limited
ABN: 12 060 309 104
1 Elizabeth Plaza
North Sydney NSW 2060
PO Box 538
North Sydney NSW 2060
T (02) 9490 4000
F (02) 9490 4200
www.lucas.com.au

18 November 2019

Letter to Eligible Retail Shareholders re: Entitlement Offer

Dear Shareholder,

You will have recently received the Retail Offer Booklet dated 14 November 2019 (***Retail Offer Booklet***) that invites you to participate in our current Entitlement Offer to raise capital. It contains information necessary to help you make a decision on participating in the Entitlement Offer and outlines the opportunity to further increase your holding via the retail over-allocation facility, should you desire.

The purpose of this note is not to replace the Retail Offer Booklet but to bring to your attention specific elements of this opportunity that could help you in your decision:

Key features of the Entitlement Offer

All shareholders have the opportunity to exercise their entitlement to purchase additional shares at a price of 6.5 cents on the basis of 19 new shares for every 20 shares currently held. In addition, as a retail shareholder, you are entitled to apply for additional new shares at the same price equal to three times your pro rata entitlement. We believe this to be a compelling opportunity to increase your shareholding in our company at what is an historically attractive price.

Purpose of the Raising

The company recently successfully arranged two new debt facilities, led by Investec and HSBC. These have principally been used to pay out our existing secured debt and to provide some additional working capital for Lucas Drilling Services (LDS) operations. The new facilities are expected to result in interest cost savings of around $5 million over the next twelve months. However, the facilities have not provided funding for ongoing activities in the UK. The company therefore has commenced the Entitlement Offer to meet these requirements, which include the ongoing costs associated with the testing of the PNR-2 well and the funding of future commitments. We note, however, that such costs are expected to be significantly lower compared to prior periods as work at the PNR site is expected to be limited in 2020.

UK Shale Gas Investment

Recent events in the UK relating to the Government's imposition of a moratorium on hydraulic fracturing across the shale gas industry and the timing of an election has created some concern amongst industry observers. With respect to the moratorium, it has been made clear by the current Government that the resumption of activities is dependent upon certain regulatory bodies being satisfied that this activity can be undertaken safely and with minimum impact on the public. The Joint Venture operator (Cuadrilla) and our industry partners in the UK believe that a resolution to this is achievable. In the meantime, Cuadrilla has a workplan in place to complete testing and analyse the flow test data from the partially fractured PNR-2 well and, during the 2020 calendar year, to assist the UK regulators in their deliberations.

It is expected that Cuadrilla will engage in limited analysis of prospective areas of their licences during the period of the moratorium in preparation for activity in the event this is lifted. What has been clearly demonstrated is that the gas from the Bowland shale is recoverable and is of the highest quality. The UK Government has stated consistently that gas is an important component of the UK Government's target to become carbon neutral by 2050. The potential for shale gas to be a new and significant energy resource is clear.

Lucas Drilling Services (LDS) Business

The outstanding performance of and prospects for Lucas Drilling operations are outlined in the Retail Offer Booklet. Unaudited EBITDA for the first quarter of this financial year was $9.3 million. This represents an outperformance compared to the equivalent period in the previous financial year, which itself represented a strong improvement over that of the year earlier. The prospects of LDS are bright given the number of new and longer-term contracts that it has been securing. Coupled with the support of our new lenders and a strong customer base, this division remains the backbone of AJ Lucas Group.

Q and A

Below are a number of questions with responses that may help to clarify some aspects of the Entitlement Offer:

1. What is the impact of AJ Lucas's new debt facilities?

In October, AJ Lucas refinanced its existing Loan Note Facility through new facilities led by two large global banking institutions. The refinancing has both lowered the company's cost of financing (with an estimated saving of circa A$5 million expected in the first year) and substantially reduced the Group's foreign exchange risk as the new facilities are denominated in Australian dollars (rather than US dollars under the previous senior facility).

The refinancing was made possible through the excellent performance of Lucas Drilling over the last two years, and the expectation of continued operational success supported by a buoyant coal market. The servicing and amortisation of these new facilities, along with LDS's CAPEX requirements, will be met from LDS cash flows.

2. Why is the Entitlement Offer being conducted so soon after the announcement of a moratorium on hydraulic fracturing in the UK?

The Board believes that conducting the entitlement offer is in shareholders' best interest despite the current regulatory headwinds. It was always the intention of the company to undertake an Entitlement Offer after the completion of the debt refinancing process. As noted above, cash flows from LDS will be used within the business and to service and pay down the new debt facilities. Accordingly, the majority of cash proceeds from the Entitlement Offer will allow the Company to meet its funding commitment to Cuadrilla and strategically position AJ Lucas for rapid operational delivery in the event the moratorium is lifted.

LUCAS

3. What is Cuadrilla's work plan while the moratorium is in effect?

Cuadrilla has recently completed the flow test of the six fractured stages of the PNR-2 well which recovered extremely high-quality gas. Operations will now progress to focus on the pressure response of the shale reservoir over the next few months which, along with other analyses, will provide further insight into the productivity of the reservoir.

For so long as the moratorium continues, Cuadrilla intends to undertake studies required by the Oil and Gas Authority (OGA) to assess whether hydraulic fracturing operations can re-commence in a safe and sustainable manner and to otherwise assist the UK regulators with their deliberations regarding hydraulic fracturing.

Finally, the company plans to utilise its extensive data set to review and assess the prospectivity of other sites on its UK-wide acreage to determine how best to progress the development of its UK assets in the event that the moratorium in the UK is lifted.

4. What has been the response of other UK shale gas operators to the moratorium?

United Kingdom Onshore Oil and Gas (UKOOG), a trade association which represents onshore oil and gas operators in the UK, released a statement noting that it was "fully committed to working closely with the OGA and other relevant regulators" to demonstrate that shale gas operations could be carried out in a safe and environmentally responsible way. IGas, which recently completed a successful shale gas exploration well at Springs Road in Nottinghamshire, also confirmed its intention "to work closely with the relevant regulators" and noted its decades-long track record of operating safely onshore across circa 100 conventional oil & gas sites. The main focus of the UK industry is how to work towards a technical solution with the OGA to allow fracturing operations to re-commence safely.

5. What is the impact of the Entitlement Offer on Kerogen's equity interest in the company?

Kerogen has agreed to take up its pro rata entitlement of $24.7 million (equivalent to 379.9 million new shares), the proceeds of which will be applied to reduce outstanding debt owing to Kerogen under the Kerogen subordinated debt facility. The $24.7 million reduction in the Kerogen debt, as a result of Kerogen's participation in the Entitlement Offer, will result in a saving to the company of approximately $4.5 million per annum in interest. It should be noted that Kerogen is unable to participate in the over-allocation facility available to eligible retail shareholders (i.e. the ability to subscribe for additional shares of up to 300% of one's entitlement). Kerogen's shareholding in AJ Lucas following the Entitlement Offer will depend upon the take up by other shareholders.

Yours faithfully,

Phil Arnall
Chairman

For further information, please contact:

AJ Lucas Group Limited	+61 (0)2 9490 4000
Phil Arnall	Chairman
Marcin Swierkowski	Company Secretary
Citadel-MAGNUS	+61 (0)448 881 174
James Strong	jstrong@citadelmagnus.com

Disclaimer

An investment in shares is subject to investment and other known and unknown risks, some of which are beyond the control of AJ Lucas, including possible loss of income and capital invested. AJ Lucas does not guarantee any particular rate of return or the performance of AJ Lucas nor does it guarantee the repayment of capital from AJ Lucas or any particular tax treatment. Persons should have regard to the Investor Presentation released to ASX on 7 November 2019 and the Retail Offer Booklet released to ASX on 14 November 2019 and the important notices and risk section contained in those documents. This document should also be read in conjunction with AJ Lucas' past disclosures on ASX. Past performance should not be relied upon as (and is not) an indication of future performance. Unless defined, capitalised terms used in this document have the meaning as set out in the Retail Offer Booklet. This document is not financial product or investment advice, a recommendation to acquire new shares or accounting, legal or tax advice. It does not constitute an invitation or offer to apply for new shares. It has been prepared without taking into account the objectives, financial or tax situation or needs of individuals. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial and tax situation and needs and seek legal and taxation advice appropriate for their jurisdiction. AJ Lucas is not licensed to provide financial product advice in respect of an investment in shares.

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

This document has been prepared for publication in Australia and may not be released or distributed in the United States. This document does not constitute an offer to sell, or the solicitation of an offer to buy, securities in the United States. The securities described in this document have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the U.S. Securities Act) or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and other applicable U.S. state securities laws.