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Australian Stock Exchange Limited
Via Electronic Lodgement

AJ Lucas and Sydney Gas to develop jointly the Sydney Basin

AJ Lucas Group Limited (ASX Code: AJL) has agreed with Sydney Gas Limited (ASX Code: SGL) to enter into a joint arrangement for the further exploration and commercialisation of Sydney Gas' assets in the Sydney Basin. The arrangements include various components comprising:

1. a placement by Sydney Gas to Lucas of 15% of its issued share capital amounting to 52,505,665 ordinary shares at a price of 38 cents per share;
2. a Technical Services Agreement (**TSA**) under which Lucas agrees to provide geological, petrophysical and other services to Sydney Gas for a period of three years; and
3. a Drilling Services Agreement (**DSA**) under which Lucas agrees to supply not less than two fully operated drill rigs to Sydney Gas for not less than two years at commercial market rates.

In addition, subject to the approval of Sydney Gas shareholders, Lucas will be granted two tranches of options, each equal to 5% of the enlarged issued share capital of Sydney Gas after the placement. The options will be exercisable at the following prices:

Tranche	Exercise Price per Sydney Gas Share
1	60 cents
2	75 cents

The options will be exercisable at the earlier of:

- (a) the following dates:

Tranche	Exercise Date
1	after 24 months
2	after 36 months

- (b) the achievement of performance hurdles of a minimum increase in Probable Reserves (2P) as follows:

Tranche	Required minimum increase in 2P Reserves (SGL 50% share)	Required minimum increase in 2P Reserves (100% of resource)
1	75 PJ	150 PJ
2	150 PJ	300 PJ

- (c) the Sydney Gas share price being as follows:

Tranche	Share price
1	60 cents
2	75 cents



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In recognition of the close operating relationship between Lucas and Sydney Gas, it has been agreed that Mr Andrew Lukas will resign from his Executive Director, Engineering and Technical position at Lucas and will join Sydney Gas as Chief Executive Officer and that Mr Allan Campbell, Chairman and CEO of Lucas, will join the Sydney Gas Board as a non-executive director. Mr Lukas will become a non-executive Director of Lucas.

Allan Campbell said: "As a foundation investor in Sydney Gas, we have long believed in its potential and further believed that Lucas' directional drilling technology and coal seam gas expertise would provide the solution to unlock the undoubtedly huge potential of the coal seam gas in the Sydney Basin."

"We are delighted to strengthen our ties with Sydney Gas and to assist further in the commercialisation of its coal seam gas. We are already drilling at Camden where we have increased gas production by some 300% since we commenced our involvement. We believe that our participation in the Hunter Project can add further significant value."

"We look forward to working with Sydney Gas in the further exploration and development of the Sydney Basin."

Dr John Saunders, the Executive Chairman of Sydney Gas, said "Today's agreements are key steps in the development of Sydney Gas. We have potentially great resources in Camden and the Hunter and the involvement of Lucas, which has an outstanding record in coal seam gas, will provide the expertise and support that we need to make our joint venture with AGL the success that it deserves to be".

Lucas is at the forefront of the commercialisation of coal seam gas prospects. It has 52 rigs and is a leading innovator in the development of new drilling techniques, most particularly directional drilling, to assist in the recovery of coal seam gas. The placement to Lucas will cost approximately \$20 million and will be funded out of its internal resources together with a special purpose facility provided by its bankers.

As a pioneer in this industry in Australia, Lucas has been involved in the development of Australia's coal seam gas resources for over ten years and has owned acreage for over six years. The Company has a detailed plan regarding this sector, both as a service provider and as an investor. Lucas, however, recognises that at some stage in the future it will be appropriate to alter its current strategy, having regard to the requirements for capital, specialist personnel and other commercial matters.

With assets in the Sydney basin, the Gloucester basin, the Surat Basin and British Columbia in Canada, the extent of Lucas' asset portfolio has now broadened substantially. In addition, Lucas is currently examining other opportunities outside Australia where our expertise is relevant. Lucas therefore intends to review its business plan with a view to, not only creating additional value, but at the same time unlocking value; as well as examining the consequences as far as capital requirements are concerned.

For further information, please contact Allan Campbell on 02 9809 6866.



Allan Campbell
Chairman & Chief Executive Officer

About AJ Lucas Group Limited

AJ Lucas is a leading provider of both specialist infrastructure services and mining services. It is the leading supplier of drilling services to Australia's coal and coal seam gas industries. It is also Australia's largest builder of long distance gas pipelines. Other divisions provide gas management services to the coal and coal seam gas industry, construction, civil and property services.

