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Australian Securities Exchange Limited
Via Electronic Lodgement

AJ Lucas acquires Mitchell Drilling, enhancing its position in Coal Seam Gas drilling

- *AJ Lucas acquires leading drilling and speciality services provider to the natural resource sector Mitchell Drilling Corporation ("**Mitchell Drilling**") for \$150 million*
- *The acquisition consolidates AJ Lucas position in providing exploration and production drilling services to the Coal Seam Gas ("**CSG**") and coal industries*
- *The business is ideally positioned to capitalise on the expected rapid growth in demand for CSG as technological advances make it an increasingly attractive energy source, particularly against a backdrop of historically high oil and liquefied natural gas ("**LNG**") prices*
- *Increasing demand for CSG will translate into substantial increases in exploration and extraction activities and AJ Lucas is the key provider of these services in the Australian market*
 - *Mitchell Drilling has complementary assets and expertise to AJ Lucas*
 - *AJ Lucas will have one of the leading management teams in the industry, with Nathan Mitchell to take up a senior management role within AJ Lucas*
 - *Limited overlap between the Mitchell Drilling and AJ Lucas client bases, is expected to provide greater client diversity for the combined entity*
- *The acquisition is expected to be EPS accretive for AJ Lucas in FY09*
- *AJ Lucas trading update for 2008 and 2009 Financial Years - Strong performance and outlook in all aspects of the business. Although financial year 2008 audit not yet completed, normalised EBITDA in FY2008 and FY2009 expected to be \$42.8m and \$80.0m respectively (including the Mitchell Drilling acquisition for FY2009)*

AJ Lucas has entered into an unconditional agreement to acquire Mitchell Drilling Corporation, a leading drilling and specialty services provider to the natural resource sector.

The acquisition consolidates AJ Lucas' market position as a provider of exploration and production drilling services to the Coal Seam Gas ("**CSG**") and coal industries and leaves it ideally placed to capitalise on the expected growth in these sectors.

"The combination of AJ Lucas drilling and Mitchell Drilling is highly strategic for AJ Lucas, and brings together two highly complementary businesses. This acquisition consolidates AJ Lucas position as the premier CSG service provider in Australia. The combined business will have the highly capable personnel, expertise, assets and scale to support the CSG industry which is experiencing strong growth, which we believe will continue into the foreseeable future" AJ Lucas Chairman and Chief Executive Officer Allan Campbell said.

Mitchell Drilling is a Queensland based family company which has been operating in the drilling sector for almost 40 years and is a leading drilling and specialty services provider to the natural resources industry. Mitchell Drilling has 31 rigs in Australia. CSG is a key focus for Mitchell Drilling and is recognised as an industry leader with its expertise and capabilities reflected in its blue chip customer base.

Mitchell Drilling is headquartered in Brisbane, employs over 300 people and is expected to generate revenue of \$95.2m and EBITDA of \$21.5m for the year ended 30 June 2008. Mitchell Drilling CEO, Nathan Mitchell will take up a senior management role within AJ Lucas and is taking a significant proportion of the acquisition consideration in AJ Lucas scrip.

The purchase price for Mitchell Drilling of \$150 million represents a 5.6x FY09E EBITDA multiple. The acquisition is expected to be EPS accretive for AJ Lucas in FY09.

Acquisition and transaction costs will be funded by:

- \$105m Senior Bank Debt: 3-year term, with a combination of an amortising and bullet tranche
- \$45m Redeemable Convertible Preference Shares ("**Preference Shares**") to be held by Goldman Sachs JBWere Principal Investment Area
- \$15m Equity Placement to the vendor (escrowed for 12 months)
- \$25m underwritten Equity Placement to institutional investors

Surplus funds raised will be applied to service AJ Lucas' working capital requirements.

Goldman Sachs JBWere Principal Investment Area will hold the Preference Shares. They are convertible into ordinary equity at a conversion price of \$7.20, a 24.4% premium to the closing price at 22 July 2008. Issue of the Preference Shares will be subject to shareholder approval at an EGM to be held in September 2008. Allan Campbell intends to vote any shareholding in AJ Lucas that he owns or controls in favour of all resolutions relating to the issue.

AJ Lucas also wishes to update the market on its financial year 2008 performance and outlook for financial year 2009. While the audit for the year ended June 2008 has not been completed, AJ Lucas expects to report EBITDA of A\$37.6m. This will be impacted by non-recurring legal expenses of \$5.2m. Normalised EBITDA for the year ended 30 June 2008 is expected to be A\$42.8m. In relation to the 2009 financial year, AJ Lucas expects continued organic growth in addition to the impact of the Mitchell acquisition, with forecast financial year 2009 EBITDA of \$80.0m

Commenting on the expected result, Mr Campbell said "Our underlying result in 2008 is very positive, driven by strong growth in the drilling services division. We continue to see ongoing growth in CSG exploration which leads us to expect further significant growth in 2009. The acquisition of Mitchell will assist us in capitalising on that growth."

AJ Lucas' energy division, Lucas Energy continues to invest to prove up the reserves in its CSG assets. As previously foreshadowed, the company intends to restructure the ownership of these assets over the next 6 to 12 months.

Further details regarding the acquisition of Mitchell, the associated financing and AJ Lucas trading update are included in a presentation lodged with the Australian Securities Exchange together with this announcement.

Goldman Sachs JBWere and ABN AMRO Morgans are joint lead managers and underwriters for the equity placement. Goldman Sachs JBWere is sole bookrunner.

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About AJ Lucas Group Limited

AJ Lucas is a leading provider of both specialist infrastructure 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.

AJ Lucas also has a significant coal seam gas portfolio with a 70% interest in PEL285 in the Gloucester Basin, a 16% shareholding in Sydney Gas Limited, 15% of ATP651 in the Surat Basin and a 60% shareholding in Arawn Energy Limited, which is currently drilling in British Columbia in Canada.