AJ Lucas Group Limited

2010 Annual General Meeting

Chairman's Address 4 November 2010

After an extremely disappointing 2009/10 result, shareholders will be looking for signs that we have turned the corner and can look forward to an improved performance. We have provided a full explanation of recent events in the Annual Report and it is recommended that shareholders refer to this document.

Notwithstanding difficult and tough trading conditions and a market place that is not as rosy as some commentators suggest, I do think the business has turned and the outlook has much improved. Continued strong growth in Asia, particularly China, has set a bed rock for the Company's core services despite the patchy recovery in developed countries from the GFC.

The market remains very demanding at present; with increasing levels of competition. Even with strong demand for mining services, a new paradigm has emerged since the GFC with vastly increased client expectations. No longer is price the principal determining factor in the award of projects. Additional factors such as exceptional safety practices, innovative work methods to minimise the environmental impact and outstanding reporting procedures are also relevant.

Lucas has planned for this with restructuring of its operations, recruitment of senior experienced management and significant investment in its systems and procedures.

2010 Financial Result

The 2010 result was disappointing. We never expected that it would be a good year but nobody could have predicted all of the events which impacted our performance. Unduly heavy rain, political uncertainty (resulting in the postponement of various Federal expenditure initiatives particularly in water management), as well as economic uncertainty, most particularly following the announcement of the proposed Resource Super Profits Tax, all conspired to interrupt or slow down the award of new work.

Yet the hiatus has allowed us to plan for the future and to build a sounder and more resilient organisation. A management and corporate restructuring in July sets a platform for our future growth. This together with improved safety and risk management procedures, not to mention the Oracle based Enterprise Resource Planning (ERP) system, expected to go live from 1 July next year, places us in a superior position.

The recent award to Lucas of the Federal Safety accreditation (awarded to only a few companies in our sector in Australia), is indicative of the improvement in our systems, procedures and safety practices. The award to Lucas of the 9th Annual Sustainable Infrastructure Company of the Year Award, granted principally on account of our Horizontal Directional Drilling capability in minimising the environmental impact of our infrastructure works, is further acknowledgement of our innovative work practices and leading edge technology.

The Safety Award for 2010 at the Australian Pipeline Industry Association bears further testament to our better performance. We believe that these attributes will play an increasingly important part in the award of contracts in the future.

While not a 'Tier 1' size contractor, we certainly undertake that level of work – with none of the bureaucracy, providing personal service and self-performed by professionals. The twin pillars of Lucas are competence and integrity.

Energy Investments

Lucas' strategy includes making investments in selected energy projects to leverage shareholder returns from our operating activities.

Lucas' current energy investments comprise a balanced portfolio split between unconventional hydrocarbons in Europe held through our shareholding in Cuadrilla Resources and our interest in two UK prospects, and liquid hydrocarbons through our investment at Monument County in East Texas.

The total amount invested in these prospects amounts to nearly $150 million; split between $60 million in Cuadrilla and $87.5 million in Monument.

Lucas has long prided itself on recognising emerging energy sources. We were early stage investors in the coal seam gas prospects at Gloucester Basin and ATP651 in the Surat, where we made significant profits on their exit. Management then considered that opportunities were going to be better offshore – providing a better risk reward relationship.

Europe was the most energy deficient region yet, despite the success of shale gas in the US, relatively little exploration effort had gone into this resource in Europe. We created Cuadrilla with core management and proceeded to acquire the largest aggregation of land in Europe outside of the majors; long before anybody else realised that this was a potential play.

In the US, the energy deficiency was in liquids or oil and we therefore had no interest in pursuing gas opportunities in North America. However, the prospect at Monument County, while the primary focus is liquids, offers the insurance policy of large amounts of gas; being located in the Austin Chalk approximately mid-way between the Eagle Ford and Haynesville shale deposits.

Cuadrilla is presently drilling Preese Hall in the Bowland shale prospect however, no firm indication of the resource prospectivity will be available until at least Q1 2011, following results of fraccing and testing of Preese Hall and the next well, Grange Hill.

The Company's investment in East Texas is not understood by the market - a factor we attribute to accounting standards obliging us to impair its entire cost. Were the investment structured differently as an equity investment, the Company would not have been required to impair its carrying value. We believe that our strategy is correct although, E&P is taking longer to achieve than originally planned. This asset has significant prospectivity and is now in a position where Lucas can realise upon its investment. Much activity is taking place in this area of Texas, with interest from a number of parties.

Balance Sheet

There is no doubt that the Group's poor operational performance has had a major impact on Group liquidity. The resulting reduction in operating cash flow, together with significant amounts invested in our investment activities, resulted in a breach of our banking covenants during the financial year and a deficiency of net current assets.

The banking covenants were reset prior to balance date resulting in our resumed compliance which has been maintained. However, the working capital deficiency continues on account of all the tax liabilities and the Redeemable Convertible Preference Shares being categorised as current liabilities despite them not being technically payable for up to several years and, the value of our East Texas investment being written off.

Strengthening of our balance sheet is the key priority for the Company. A sale of our interest in Monument County, tighter cash flow management, collection and resolution of long standing contracts as well as restructuring debt remain our preferred means of achieving this. It should be noted that the Group now has minimal conventional senior debt, significant under-gearing in lease finance, and new facilities that have been negotiated with other lenders in recent months.

Outlook

The core sectors in which the Company operates; oil and gas, water and wastewater, resources and public infrastructure, all show positive outlooks.

Coal in particular has a very strong outlook, as strongly increasing demand from China and India for energy underpins coals demand. Increases in export capacity, through expenditure on rail and port infrastructure, will feed through to increased coal production. Lucas' drilling division, most of whose revenue is from coal clients, stands to be a major beneficiary of this growth.

The other activity of the drilling division is for coal seam gas. Growth here has been hampered by the many delays to the commercialisation of the proposed CSG export prospects whether caused by lack of reserves, lack of customers, Federal Government environmental approval or concerns about the availability and cost of the relevant infrastructure. However, the recent decision by BG to approve its LNG export project and the likely approval by others to their projects suggests that contracts for drilling and infrastructure services for these projects are finally likely to emerge.

These include drilling services as well as infrastructure services to gather the gas and deliver it to the LNG plant. Again, Lucas is capable of providing and delivering all of these services in a cost effective manner. In particular, Lucas' joint venture with Xtreme Drilling Corp allows it to drill and complete a hole within 2 days giving Lucas a substantial competitive advantage in the delivery of completed wells.

Lucas' strong engineering and project management capability also places us in a good position to win work in water management. Despite the recent heavy rainfall in Australia's eastern states, drought proofing of Australia remains a Federal government priority initiative, in particular in connection with the rehabilitation of the Murray Darling river basin. Lucas' experience in water is of value here particularly with respect to minimising water loss through evaporation and seepage.

Lucas recognises the need to remain at the forefront of technology to deliver the most cost effective and fit for purpose solutions. While Lucas considers that it is a market leader in certain aspects of drilling, particularly Horizontal Directional Drilling, and other engineering services, Lucas has partnered with leading technology companies around the world to retain its technological advantage. These include Groupe Marais SA for the installation of conduits, Xtreme Drilling Corp for continuous coil drilling and alliance partners for pipeline and operations maintenance services. Lucas believes that these partnerships and alliances will have particular benefit as the broadband rollout continues, utility owners continue to outsource their operations and infrastructure requirements become technically more complex.

Notwithstanding the increasingly favourable outlook for the Lucas Group, there is often a considerable lead time following the award of contracts. It is unlikely that the current financial year result will benefit from the award of any major contracts although we expect to benefit from the events described above.

We expect calendar 2011 to be a lot more positive than 2010. The first half of this financial year has already been impacted by the unseasonably high rainfall occurring in NSW and QLD (due to the La Nina weather pattern) and the delay in expenditure on a number of our larger construction projects. The second half of this financial year is looking much brighter but the result will largely depend upon the severity of the wet in Q1 next year and the timing of new projects coming on stream.

In terms of current operating performance, drilling is performing well (apart from the rain) and BC&I is operating profitably, although we need more work. The full impact in terms of the whole year result has yet to be determined however, at this stage, we expect the second half of FY11 to be much stronger than the first half.

In summary, the Group faces another challenging year but with much improved prospects. This is expected to endure reflecting the improved maturity of AJ Lucas, its new and improved quality systems, the recruitment of quality experienced personnel and the quality and competitive advantage of Australia's energy and mineral resources.