



AJ Lucas Group Limited

2011 Extraordinary General Meeting

Chairman's Address

22 December 2011

Ladies and Gentlemen,

Welcome to this Extraordinary General Meeting of AJ Lucas Group. My name is Allan Campbell and I am the Executive Chairman of Lucas.

First of all, thank you for attending and special thanks to those who also attended our AGM only three weeks ago. We did try to include the resolutions being considered today at the AGM but this did not prove possible.

The resolutions to be put to the meeting today all concern the re-financing and recapitalisation proposals were first announced on 19 September, and amended on 19th November.

Last week, Lucas lodged with ASIC the prospectus for the various securities which will be issued as part of the recapitalisation proposal. These include options for the funds which hold the RCPS, options which form part of proposed mezzanine funding from Kerogen, and of course, the shares to be issued under the rights issue. I urge you to read to read the prospectus carefully.

I don't want to repeat what I have already said or written, but with your indulgence let me say:

- Twelve months or so ago, Lucas was in a difficult place. Much of our drilling fleet in Queensland was unable to operate, surrounded by water.
- We were in the middle of difficult negotiations with our preference shareholders and our lenders, our BC&I business was failing to win new business largely because of adverse perceptions about the strength of our balance sheet, and we were looking for further financing.
- To turn the business operations around, we engaged professional third party advisors and re-examined the businesses from the ground up. On their advice, we have reorganised and restructured both the BC&I and Drilling divisions.

- The effects of this restructuring were already starting to show in our second half results and they have continued into this financial year.
- We had however to do more than turn our operations around. As you all know, we also needed to recapitalise. We had too much debt, and far too much of it was current.
- Our search for capital has been long and thorough. We have examined many offers of debt, equity, asset sales and combinations thereof. The recapitalisation we have decided on is I believe the strongest alternative because:
 - It meets the basic goals of repaying the Redeemable Convertible Preference Share, and the ATO
 - We have not had to sell the family jewels – I refer to the drilling business which has also allowed us to develop expertise necessary to make the upstream investments that sets our Company apart from other services businesses.
 - It allows shareholders to participate in the recapitalisation (via the entitlement offer), should they choose do so, thereby minimising dilution.
 - In Kerogen, it introduces a specialist oil and gas investor to the register with a detailed knowledge of global hydrocarbons and business strategy.
- Putting this plan together took many months, during which time we were forced to suspend our shares from trading because we believed that the market was uninformed about what we were doing and what our prospects were and we were not in a position to make any announcements with the certainty and clarity required.
- The effect of the recapitalisation plan on our balance sheet, assuming the resolutions are passed, means that we will be able to reduce our gearing ratio on a pro-forma basis from 51.1% to 38.2%. Our average cost of funding is also significantly reduced.
- However, our recapitalisation work is on-going and we expect to announce further corporate initiatives during calendar year 2012.

So, we commence calendar year 2012 with a much brighter outlook than that which we have had at any time over the past three years. Our forward order books are stronger than they have ever been. Our order backlog now exceeds \$735m across Drilling and BCI. The lack of customer confidence I referred to has waned and we have seen a surge of new orders from top tier companies like Xstrata. We hope to make announcements of the award of further significant additional work in the not too distant future.

Our energy portfolio has also matured to the stage where we can start examining how best to crystallise some of the embedded value. We have announced Cuadrilla management's estimate of 200Tcf of gas in place at the Bowland prospect. Lucas has an effective 56% interest in this prospect held 25% directly and the rest through our 42% shareholding in Cuadrilla. There are still hurdles to overcome to commercialise this prospect, but I am very excited about the potential of this world class asset.

We are also reviewing our approach inside Cuadrilla and our plans for further work on the Bowland asset. Having now drilled three holes, our plan is to flow these wells and formulate a plan from there. Capital spend is therefore likely to be significantly diminished during the first half of calendar 2012.

The recapitalisation allows us to plan ahead, undistracted by urgent balance sheet issues. We will be able to invest in our businesses again, especially in drilling where the economic outlook is very bright and opportunities for growth abound.

Before moving finally to the resolutions, I would like to acknowledge the very substantial contribution of our employees over the past twelve months during a time of great uncertainty.

Just as important has been the support of the non-executive members of the Lucas Board which has met countless times over the past 12 months, participated in an untold number teleconference calls, and individual members have also participated in innumerable planning meetings, negotiation meetings and due diligence meetings. On all of these occasions, they have represented the interests of our shareholders with great care and diligence. From myself, and on your behalf, I extend my gratitude for their professional response to the events of the past year.