



AJ Lucas Group Limited

2013 Annual General Meeting

Chairman's Address

29 November 2013

Introduction

This year has been another frustrating one with so much expected only to be continuously thwarted either by economic circumstances, legislative red tape or just plain misfortune. Some of you may be weary at what appears to be excuses but there is no denying that we operate in extraordinary challenging markets with no different issues from those faced by everybody else in the space in which we operate.

Despite these challenges, we have achieved considerable success in recapitalising our balance sheet. This time last year, we faced an uncertain future with a leveraged balance sheet and lack of liquidity. This caused its own issues and certainly impacted on winning work. However, following completion of the entitlement offer undertaken in June and July a few months ago, we now have considerable working capital and a substantially stronger balance sheet.

The greatest source of frustration remains the continued delays in the commercialisation of our oil and gas prospects in the UK. In the wake of the successful farm in by Centrica into the Bowland Prospect announced in June 2013, we had high hopes that exploratory activities would accelerate. Instead, uncoordinated and, in some cases, unclear regulatory and permitting requirements, both red and green tape, have served to slow the next stage development even more. We will eventually meet all of the necessary permitting requirements but the protracted delays are a great irritation.

2013 Financial Result

Turning to last year's financial result, I won't shy away from saying that we weren't disappointed with the result. We knew we had a tough year ahead of us, but I don't think anybody expected the severity of the contraction in the coal industry. The sudden

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and aggressive action taken by the coal miners to reduce their costs obviously had a significant impact on all service providers to this industry; most particularly drilling services. We responded to this in turn by aggressively restructuring our business, closing various regional facilities, outsourcing maintenance activities wherever possible, parking selected rigs and rationalising our overhead.

The extent of the reduced demand for our drilling services is reflected in the 14% decline in revenue from this activity during the financial year to \$163 million. Yet, despite this decline, because of our restructuring initiatives, underlying EBITDA actually increased by over \$8 million to \$23.5 million. We are obviously very pleased with this result given the extremely challenging market circumstances.

It was in our Engineering & Construction division however, that we experienced our most disappointing result.

Our work on the Perth desalination plant was satisfactorily undertaken and is now substantially complete. However, our foray into other water infrastructure based activities, commenced a couple of years ago, was not successful and resulted in substantial losses. These poor results together with the lack of award of new work resulted in revenue in this division falling by nearly 60% to \$131 million and an underlying EBITDA loss of over \$14 million. Needless to say, we have now exited general contracting work and are instead focusing on our core specialist engineering activities; specifically pipelines and related infrastructure, gathering systems, horizontal directional drilling and similar activities where we have a long track record of successful delivery.

Cuadrilla / Bowland

Of course, what shareholders are most interested in is the progress on the development and commercialisation of our UK oil and gas interests held through our shareholding in Cuadrilla Resources and directly in the Bowland and Bolney prospects.

We were pleased to welcome a company of the stature of Centrica PLC as a farm-in partner into the Bowland Prospect during the year. Not only were the terms of the farm-in a clear demonstration of the potential value we think exists in the Bowland

basin, we hoped that having Britain's largest gas utility as a partner would assist in accelerating the progress of Bowland's commercialisation.

If shale gas in the UK is to become a viable alternative energy source, there is no doubt that changes in legislation and current regulation are required. This impetus has to come from the top. This is recognised by Britain's Prime Minister, David Cameron, who is on record as saying that legislative change is required to simplify the permitting system to accelerate the fracking approval process. It is pleasing to have this support but so far, we have seen no actual evidence of such change.

Some shareholders may have seen the essay in the Lucas Annual Report regarding the suggestion of a public industrial education exercise under the title "Whose Gas is it Anyway... A Fracking Conversation."

We commend people to read this article. It should be read and understood by authorities in both the UK and Australia.

The point being that there exists a vacuum when it comes to the facts and that vacuum is being filled by misinformation or nonsense; generally by self proclaimed public commentators who have made little or no attempt to come to grips with the scientific facts relating to pipelines, drilling, extraction methods and, yes, ultimately stimulation of the resource using hydraulic fracturing techniques, to increase hydrocarbon yields.

We are advocating "A Big Conversation"; so that the facts can be placed on the table and let people reach an informed opinion. We do not advocate that everybody agree – we merely advocate that people have an opportunity to make up their own minds, having regard to facts and opinions rooted in fact ... as well as the science.

We cannot afford that a democratic process in a civilised society is hijacked by emotional uninformed comment designed to sell newspapers, increase ratings or push a personal philosophic agenda. Australia deserves better than that.

Ultimately, this is about framing sensible, workable laws and regulations and having a common sense civil service to administer these regulations. For and on behalf of those of us who comprise the general population.

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At least there is evidence of growing support from the UK populace for shale gas and the development of an alternative low cost domestic energy source. We are therefore confident that, in time, there will be a shale gas industry emerge in the UK; it is just going to take longer than we first expected.

Outlook

There is no doubt that business conditions in the Australian engineering and contracting sector are extremely challenging at the moment.

Cost pressures, high wage rates, governmental interference, business confidence (or lack thereof), competition and productivity challenges all combine to make it very difficult to produce acceptable margins. As a small/medium business, we have to be nimble, aggressive and lean – without interfering with core competencies.

The market is unlikely to show signs of recovery until the second half of 2014 – and we are structuring the Company accordingly.

We have returned to core strengths: HDD, pipelines, directional drilling – with a strong emphasis on engineering and project management. We are rebuilding our team. There is no doubt that the Lucas brand and what it stands for: professional, safe, easy to work with, innovation and performance; remains intact. We now need to build revenue and plans are in hand to achieve that objective.

While tough, the market is not impossible. Cut costs and build revenue. That is our objective. The outlook for energy remains positive and the more established companies still have to ship coal. Through innovation and engineering, Lucas believes it can help its clients deliver cheaper outcomes, on time and to a higher standard.

We are also tendering for a record amount of new work and given the renewed confidence in our engineering capability, and existing contractor status on some of these contract opportunities, are hopeful of securing more work here. In aggregate, we would expect our engineering revenues to increase by some 25% over last year's although this is still dependent in some part on our tender success.

Within drilling, we expect that the coal industry will remain tough for some years as Australia is no longer a low cost producer. Regardless however, Australia's coal exports are at record levels. This will in time require the coal industry to resume drilling to delineate new coal reserves and to facilitate production. Lucas' premier directional drilling capability in Australia gives us a vital competitive edge and underpins the demand for our drilling services. Nevertheless, we expect drilling revenue to fall by up to 40% from last year although with only a modest reduction in its underlying EBITDA given the substantial rationalisation initiatives we have already implemented.

Strategic Options /Corporate Restructuring

The Board is acutely aware that the price placed by the stock market on the Company's shares and the Company's views as to the value of its assets are wildly disproportionate. While the Board recognises that the financial performance of the industrial businesses during the past three years has been extremely disappointing, it must be recognised that the E&P assets have huge potential and that the Bowland asset value has been independently assessed in the market place at very substantial value. Unfortunately, the value is not recognised in the stock price.

Accordingly, an exercise is being undertaken to examine the best ways in which existing shareholder value can be maximised with no future dilution to existing shareholders. This exercise is being conducted within the capital requirements for the Group during the next 2-3 years as well as repayment of the Kerogen and ATO debt obligations.

While there is no necessity to undertake a corporate restructuring at the present time, it is considered sensible to examine the strategic options and make a plan for a structure which more fully reflects asset value and the Company's potential in the share price. Given that this is best achieved by operating performance, this remains management's priority.

Board Changes

As indicated in the corporate reconstruction in June this year, we have reviewed the Board and decided to separate the roles of Chairman and CEO. I will remain as CEO and, at the conclusion of this meeting, Phil Arnall will assume the Chairman's role.

Mr Phil Arnall, who was appointed a non-executive director of the Company a little over three years ago, has agreed to become Chairman. Phil has considerable experience as a public company director including as Chairman of several companies. Since his appointment to the Lucas Board, Phil has acquired a considerable knowledge of the Company and its operations. He also has a deep knowledge of the mining services industry acquired during his employment in industry and from his other directorships. He is therefore very well qualified to become Chairman and I thank him for agreeing to take on this role.

I would like to take this opportunity to thank Lucas staff, senior management and the Board for their hard work and support of the Company during what has been a very tiring and challenging year. We would hope that the worst is behind us and that their reward is much improved performance by the Company during the coming 2-3 years.