



13 November 2014

## CHAIRMAN'S ADDRESS AT AGM

2014 was undoubtedly a year of transition for AJ Lucas. In response to continuing challenging market conditions, significant changes have been made at both the Board and operating levels to align the Company with the business environment and prepare it to respond to future market opportunities.

It is our belief that these initiatives are transforming the Company, especially the Australian operations. The 2014 performance was disappointing and reflected an inappropriate cost base both at the operating and corporate levels. Our focus therefore has been to right size the business. This has required significant saving and productivity initiatives that Russell Eggers, the Company's new CEO since early June, will refer to in his address.

Concurrent with these initiatives, we have added new depth and business experience to the Board. Each of the Company's new directors brings vital skills and industry knowledge to the Board. Russell Eggers has considerable knowledge of business improvement as well as relevant experience in the drilling industry. Ian Meares has many years of experience in the infrastructure, mining and energy industries. And, Andrew Purcell brings an in depth knowledge of finance and capital markets. All are already making a substantial contribution to the turnaround and improvement of the business.

The restructuring initiatives that Russell will describe have unfortunately resulted in a reduction in personnel, although without compromising our delivery on performance and safety. This was however, very necessary in order to right size the business in the current environment.

The focus of mining companies on reducing costs is well known and consequently, we have had to adjust our cost base in order to remain competitive. Fortunately, the Company enjoys a strong reputation for drilling expertise and high health and safety standards and as a result, has been able to maintain its market share and indeed win new work in the face of stiff competition.

Our Engineering and Construction activities, mainly focused on pipeline works, also faces challenging market conditions. It is therefore with some pride that we recently announced the successful award of the Eastern Goldfields pipeline project. This success was achieved in conjunction with our long term partner, Spicapag, the leading French engineering company. We are very pleased to have this strong and enduring relationship with Spicapag and are working in close co-operation with them in seeking to capture more work in the pipeline market in Australia.

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Our investment in European Shale Gas, held mainly through our shareholding in Cuadrilla, is also progressing; though slower than we would wish. The most advanced prospect in our portfolio is in the Bowland shale and we are optimistic that drilling and fracking of two new test wells on this acreage will commence during 2015. The British Environment Agency has just advised that it will likely approve the environmental permits for these sites, a vital step in the application process. In turn, consideration by the Lancashire County Council of Cuadrilla's applications to drill at these sites is now expected in January. Assuming a favourable outcome, Cuadrilla expects to be drilling there shortly thereafter.

The Bowland Shale is widely considered to offer the best prospects in Western Europe for the commercialisation of shale gas. Hopefully this will be confirmed over the next year after drilling commences.

Reflecting Cuadrilla's confidence in the prospects for shale gas commercialisation in the UK, Cuadrilla has recently tendered for additional acreage in the DECC 14<sup>th</sup> Round with the outcome of the tender expected during the first half of calendar 2015. Importantly, the successful award of any acreage would not be expected to require any cash from Cuadrilla until 2016-17 but will substantially enhance Cuadrilla's optionality over shale gas prospects in the UK.

In closing, I reiterate that much has been achieved by the Company over the last year to restructure the business and position it for the future. Consequently, assuming no deterioration in the Australian business environment, we are cautiously optimistic of an improved performance in 2014.