AJ Lucas Group Limited

2011 Annual General Meeting

Chairman's Address 30 November 2011

2011 Financial Result

As you all know, last year was a difficult and disappointing year for the Company. A number of circumstances combined – almost a perfect storm – to impact on the Company's performance, including: project delays, residual integration issues resulting from the Mitchell Drilling acquisition (even though we had completed this two years previously), changes in the market place, lack of financial liquidity and most particularly, wet weather.

The resulting losses, together with unexpected increased expenditure commitments to develop our European shale gas portfolio, placed additional strain on our cash flow and balance sheet. The consequent loss of market confidence led to a reduced order book in the Building, Construction & Infrastructure (BC&I) division, which further compounded our operating difficulties.

On the other hand, the deteriorating trading conditions forced us to re-examine our strategy and restructure and rationalise the business. During 2010 and 2011, despite the difficult trading conditions, Lucas restructured its business, reorganised management and, in some cases, repositioned the Group to respond to anticipated changes in the market place.

This is reflected in a substantial improvement in the operating results in the second half of FY11, despite the difficult trading environment. We decided to re-focus our Drilling division activities on surface drilling and sold our underground inseam drilling business in March for $25.5 million. We restructured the remaining drilling operations; closing several remote depots and consolidating our maintenance facilities within the core mining centres of Moranbah and Muswellbrook, removing a layer of management and structuring the business based on core competencies.

A similar restructuring was done in the BC&I division, although we did invest a significant amount in skilled personnel and enhanced systems to develop our capability in water and waste water management, asset management and increased project management capability.

The impact of these initiatives was to see a significant improvement in the second half's results. The reported EBITDA went from less than $3 million in the first half to $26.5 million in the second half. Net profit after tax improved from a loss of nearly $18 million in the first half to a profit of over $6 million in the second half.

The improvement in operating performance of each of the principal operating activities as a result of the restructuring is also very evident. The underlying EBITDA margin in Drilling improved to 13.9% in the second half from just 7.0% in the first half. There has been continued EBITDA margin improvement in the current year.

The BC&I EBITDA margin improved in the second half to 4.6% from 0.8% in the first half. Still unsatisfactory but a clear sign that the restructuring initiatives are having a positive effect.

Recent History

Lucas listed on the ASX in August 1999 as a small specialist, infrastructure services contracting business. Turnover has grown from $25 million p.a. to a present annualised turnover of approximately $650 million. Net assets have grown from $8.7 million to $263.7 million (assuming full write back of East Texas).

Our strategy has remained the same throughout. This is to supply specialist, niche, engineering and infrastructure related services to four core key sectors of the Australian economy: energy, water and waste water, resources (specifically coal) and public infrastructure. Underpinning this is the application of proprietary engineering techniques, specialised skills and expertise and detailed practical knowledge of the work and of our clients' requirements. From this base of superior intellectual horsepower, we can leverage our position to identify and apply science in the unconventional hydrocarbon sector to acquire selected acreage, prove the science, and demonstrate the potential for hydrocarbon (oil and gas) commercialisation; relying in part on cash flow from the Lucas industrial operating activities. By this measure, we expect to leverage shareholder returns for not a lot of additional financial risk.

We have enjoyed considerable success with this strategy. Our interests in the Gloucester Basin PEL285 turned a total investment of $26 million managed over six years into a return of $370 million, equivalent to an internal rate of return of 126% in which Lucas held 70%. Our investment in ATP651 in the Surat Basin, turned an investment of $5.1 million into $98.6 million seven years later, an internal rate of return of 148%.

From its creation in 1995, Lucas enjoyed 13 years of continued growth and success – principally organic. However, at the end of 2008 / beginning of 2009 things changed... and we have had three years of continued struggle and challenge. The acquisition of Mitchell Drilling during the second half of 2008 proved a step too far. Mitchell was not what we thought it was, Lucas management systems were not sufficient to digest the acquisition quickly, two serious safety incidents inside Mitchell in 2009, the impact of the Global Financial Crisis, poor choice of BC&I leadership and two years of unprecedented wet weather: all occurred simultaneously and Lucas has been dealing with the consequences ever since.

The sale of our investments in Gloucester Basin (December 2008) and ATP651 (March 2010) allowed us to pay down much of the bank debt taken on in the Mitchell acquisition and to further develop our investment strategy by acquiring overseas E&P unconventional assets where we viewed the prospects of a higher return to be much greater than by staying within Australia. These investments take time to mature and have required more capital than originally planned. We are running approximately one year behind schedule in monetising the first of these assets, which has only added to the cash flow demands on the Company.

Nevertheless, the recapitalisation plan, which I will talk about in more detail shortly, substantially restores the strength of the Group's balance sheet and significantly reduces its funding costs. These measures, together with a generally improved outlook for the business, place the Group on a firmer financial footing to secure additional work, restore its margins, and in due course, realise our E&P investments.

Recapitalisation Plan

We announced in September a recapitalisation of the Group in conjunction with Kerogen, a Hong Kong based private equity fund specialising in providing capital to small and medium sized companies in the energy and energy related sectors. This included a placement of 15% of the Company's equity at $1.35 per share, (the same price at which the Company's shares were trading when they were suspended from trading on the ASX in May 2011), provision of a mezzanine finance loan of $66.5 million and, part sub-underwriting of a rights issue of $35 million.

Earlier this month, we announced that agreement had been reached with Kerogen to increase the mezzanine facility by $20 million to $86.5 million and an increase in the rights issue to $51.3 million, again partially sub-underwritten by Kerogen.

Shareholder approval is required for various components of the recapitalisation plan to be implemented and, as you will be aware, a shareholder meeting has been called for 22 December to seek these approvals. We had originally hoped that the recapitalisation resolutions could have been tabled today, thereby avoiding the need for two separate meetings, but we were not able to achieve this due to delays in obtaining consent from all the relevant financial and regulatory bodies.

The recapitalisation plan has many attractive features:

- It allows repayment in full of the Redeemable Convertible Preference Shares, or RCPS, issued in 2008 as part funding for the acquisition of Mitchell Drilling;
- It allows payment of monies owing to the ATO;
- The rights issue at $1.35 per share is at the same price at which the shares were trading prior to their suspension from trading minimising any shareholder dilution if they do not subscribe for their full entitlement;
- It restores the balance sheet working capital to a net surplus position;
- The funding cost of the mezzanine loan for the first year is low at 8% (compares with rates of between 13% and 15% on the borrowings being repaid); and
- It introduces a specialist oil and gas investor to the register with a detailed knowledge of hydrocarbons and business strategy.

We are pursuing some other alternatives regarding the Group's assets which, if successful, will further enhance Lucas' balance sheet position and further position Lucas to take advantage of market developments.

It is this combination of a recapitalisation involving a hybrid debt and equity option together with further corporate restructuring that both management and the Board view as a superior outcome for shareholders than the alternatives of straight debt, straight equity or a sale of the Drilling business in current market conditions.

We believe that the recapitalisation plan is an excellent outcome for shareholders and urge all of you to vote for the resolutions at the upcoming EGM on 22 December, 2011.

It is important that shareholders fully understand the proposals contained in the Notice of Extraordinary General Meeting and that the full implementation of the Recapitalisation is dependent upon all resolutions being passed.

Assuming the resolutions are successfully passed at the EGM, we will make application to the ASX for the suspension of trading in the Company's shares to be lifted so as to allow the shares to be traded during the period that the rights issue is open. In this regard, we expect the prospectus for the rights issue to be sent to shareholders in about mid-December, which will allow shareholders to be fully informed prior to the EGM.

Safety

A few years ago Lucas embarked upon a major overhaul of its safety management systems and the introduction of the Lucas Safety Leaders Forum. This exercise became particularly relevant after the two safety incidents inside Mitchell Drilling in 2009.

Two years later much has been achieved and it is a credit to Lucas management that so much can be achieved in such a short time. It requires the right value system within the Company as well as appropriate systems and procedures. It also requires the right culture. Lucas has the best safety record in the coal seam gas fields and a safety culture that not only few can match but is the envy of its peers. In summary, Lucas has achieved the following safety milestones during the past two years:

- The establishment of the Safety Leaders Forum which meets every quarter.
- The installation of detailed policies and systems throughout the Company.
- The installation of comprehensive and detailed procedures for each drilling rig.
- The creation of a plan for a safety and management/drilling personnel training facility in Queensland.
- A reduction in TRIFR across the Company to 10.1.

Investments

The Lucas E&P portfolio has been constructed with a view to maximising return on capital invested across a number of potential assets and, at the same time, have regard to the very real factors involved in risk management. Hence the nature of the Cuadrilla asset portfolio and the acreage in East Texas. These assets, by their nature, are potentially high reward and therefore high risk and, given that Lucas proposes merely to act as a "developer": proving the science and demonstrating that the resource is commercial (as opposed to acting as a pure E&P company), these assets take some time to come to fruition – particularly where the “developer” is attempting to spend as little money as possible.

This is the same strategy that we successfully employed with respect to our Australian E&P assets.

The Cuadrilla asset portfolio has matured significantly during the past two years and work on the Bowland shale asset has progressed. Unfortunately, the latter is consuming many more dollars than originally planned and, taking a lot longer. Lucas’ streak of bad luck continued with the fraccing of the first well, Preese Hall #1, fraccing into a fault and contributing to minor seismic activity, following which it was decided to voluntarily suspend fraccing operations. A seismic study conducted by a group of independent experts has examined these events in detail and a report has been prepared, a copy of which has been provided to the Department of Environment and Climate Change. Fraccing has not taken place since the middle of the year but we are hopeful that fraccing will be resumed towards the beginning of 2012. The potential resource of the Bowland Shale is huge: we need to determine flow rates and commercialisation parameters.

The Company notes the debate in the press regarding unconventional hydrocarbons and, in particular, confusion regarding the impact of hydraulic fracturing of rock. Having been involved with the science and engineering of these processes for some 15 years, Lucas is very much of the view that, properly engineered and implemented and constructed according to Government regulations, it is virtually impossible to contaminate the water table and/or cause environmental damage of any consequence.

We believe that the debate should focus on the co-existence and establishment of mutually beneficial relationships that can and should be established between the coal seam gas companies and those on whose land they are producing the gas; the farmers and other land owners.

The Lucas investment in the Monument Prospect East Texas is considered by some to be too risky. On the other hand, others believe that it may prove to be prescient. It is principally an oil play. The fact is that during the next 12-18 months we should know as drilling is about to commence, with the operator currently mobilising rigs and people.

The Monument Prospect was selected based on analysis derived from a combination of conventional geological/geophysical techniques as well as proprietary gravity survey nuclear magnetic resonance imaging (NMR) technology. The team involved in this play include highly experienced geologists, seismologists, engineers, land men and attorneys. The lead geologist is Mr

Charles Meeks, who is world renowned for his discoveries of the Jay and Black Jack Creek fields in the lower 48.

The principal objective within the Monument Prospect area of mutual interest (AMI) are the Buda Limestone and other formations above a depth of 10,000 feet and the Cotton Valley Lime/Sand Sections and the Jurassic Smackover at a total depth of 18,750 to 21,500 feet as well as at least one promising deep “through the salt” well location. Recent shallower discoveries made in nearby areas on the same trend (outside of the Monument Prospect AMI) in the Eagle Ford Shale (+7,600’) and Austin Chalk (+7,450’) may provide additional objectives and has generated significant leasing activity in the area.

Outlook

Turning to the outlook, AJ Lucas is well positioned for growth in all its markets. Coal production and exports are forecast to increase substantially over the next decade, with massive expenditure on infrastructure to support this growth. Expenditure is also rapidly ramping up on the Queensland CSG export projects, with demand for drilling services as well as related infrastructure expected to be significant in the next few years.

Reflecting this growth, the Company is tendering on record amounts of work. Since year end, the BC&I division has won $220 million in new contracts lifting the order book to nearly 70% of this year’s budget. Other contracts under negotiation, if awarded, would lift the order book to 92% of budgeted revenue.

We are also pleased to announce today the award of a major contract from Xstrata for gas drainage at their Newlands and Oaky Creek mines amounting to approximately $240 million. This increases the drilling division order backlog to in excess of $500 million, another record level for the Company and underpinning several years of operations. It is another clear indication of the market leading position of our Drilling division and the high regard in which it is held.

On the assumption that the recapitalisation plan is successfully implemented, this is expected to restore market confidence in the financial stability of the Company, which is expected to facilitate the award of further work.

We would hope that during calendar 2012, we will be able to commence to realise some of the value locked in our European E&P portfolio however, this is dependent on a number of factors including recommencement of fraccing.

The main challenge now facing the Company is the availability of skilled labour and good project managers skilled in pipeline and HDD work. The Company has already implemented various strategies to attract, develop and retain appropriately committed and competent persons. These include our Emerging Leaders Program with a comprehensive sponsored training and management development program. We also have a labour agreement to permit the recruitment of overseas labour. In addition, the Company has recently committed to participate in the Australian Employment Covenant, an industry driven initiative aimed at securing jobs for indigenous people.

The fact that we have lost very few employees throughout the last year, despite the financial difficulties, is indicative of the strong corporate culture of our employees and a major reason why we are held in such high regard by our customers.

In summary, the outlook is much brighter than it has been for some time and providing the recapitalisation is approved and implemented, and no unseasonal wet weather, we expect the underlying EBITDA for this financial year to improve to in excess of $50 million.

In closing, I would like to thank all our employees, suppliers and customers for their patience in sticking with us over the last year through extremely trying times. The commitment of our people is what makes Lucas such a great place to work and the industry/sectors that we work in such an enjoyable place in which to labour. I thank all of them and you, as shareholders, for your continued support.