26 November 2003

AJ Lucas Group Limited
Chairman's Address
AGM 2004

INTRODUCTION

The Company is now well into the next phase of its development, being a phase which concentrates on creating a higher quality and more maintainable earning stream. This strategy was set out in some detail in our announcement of our preliminary results to the stock exchange on 31 August 2004.

Essentially, Lucas aims to be a niche, focused, vertically integrated infrastructure business with an emphasis on the oil and gas, water and waste water, mining, property and construction sectors. We are broadening our range of activities to create more reliable and consistent cash flows, as well as securing more substantial projects in each of our core businesses, to produce a more substantial and consistent forward order book.

We intend to execute this strategy through a combination of organic growth and selective acquisitions. Stuart was the first of these acquisitions and we have now agreed terms for a small acquisition in facilities management which will be a very good adjunct to Lucas Stuart's facilities management business. This will be concluded following completion of documentation.

Implementation of the strategy is going well and we have spent much of this year organising ourselves and positioning the Company to achieve a greater range of projects and higher quality revenue in engineering and consultancy services related activities.

The 2005 calendar year should see a lot of these efforts bear fruit.

ACTIVITIES

At the beginning of the year, we targeted 9 projects of significance that we wished to win in each of the pipeline, HDD and coal seam gas sectors. Thus far, we have won 5, lost 1 and are down to the remaining few on 3. The two most substantial projects, the Trans Territory Pipeline Project in the Northern Territory and the Sai Noi Ring Main Project in Bangkok have slipped in timing and will not be decided until the New Year.

1. Pipelines

The SEA Gas pipeline has now been completed and handed over to the client. This was a most successful project and it was a fortunate coincidence that the Moomba plant had an explosion on New Year's Day and that our pipeline was immediately available to meet the gas shortfall and prevent a major energy crisis in Adelaide.

We are currently involved in the engineering/tendering/planning of 4 pipeline projects totalling capital expenditure in excess of $1.5 billion. The most significant is the Trans Territory Pipeline; a Build Own Operate proposal for which tenders are required to be submitted in February 2005. Our bidding group comprises Amec Spie Lucas as the EPC contractor, ANZ Infrastructure Services and Australian Pipeline Trust as the equity, Australian Pipeline Trust as the operator and ABN Amro as the Financial Advisor – otherwise known as the "A Team".

The prospects for pipelines during the next few years are particularly strong. We have a carefully considered plan in relation to the pipeline projects that we wish to become involved in (including the Kangaroo Paw Project, discussed later) and we remain cautiously optimistic about securing the projects that we have targeted.

2. *Horizontal Directional Drilling*

The Company has never been busier in HDD work than at present. We are currently executing projects in 3 states in Australia, in Hawaii, Hong Kong and China: twice as much work than we have ever had before. In addition, we are working with clients on prospective projects which, if successful, would see the HDD division fully utilised until at least the middle of calendar 2006.

We have spent a great deal of time in the engineering and tendering of the Sai Noi Ring Main project in Bangkok. We are down to the last two tenderers and expect to hear shortly whether or not we have been successful. Of a total project of US$125 million, the Lucas portion (which comprises HDD and Pipeline) totals approximately US$40 million. The project is scheduled for award in January 2005 and would see the HDD division fully stretched throughout 2005.

Our principal challenge in HDD is people – at both project management level and field staff – finding and retaining appropriately qualified and experienced personnel. Fortunately, Lucas' strong reputation is assisting us to attract people but we are mindful of the downside that can occur with rapid growth and poor attention to detail. The Lucas emphasis on engineering and problem solving is one of the big drivers in our success in this business; not only are there more projects which can now be solved by the use of HDD technology, there are also more applications in which this technology can be used. We are pushing the boundaries of this continually and Mr Lukas will address the meeting on some of these initiatives following my address.

3. *Coal Seam Gas*

This business has grown 450% during the past 2 years and is expected to double this financial year.

Lucas is now the largest in-seam driller for degasification in Australia, one of the world leaders in surface to seam drilling, and the only company operating in Australia offering a comprehensive vertically integrated degasification service from the surface.

The success of the Coal Seam Gas division is emulating that of HDD. The Lucas drilling techniques:- the capability of drilling up to 2 kilometres within the seam and with our steering capabilities of intersecting vertical wells this far out, further allows us to offer a service which substantially decreases the cost of gas extraction and increases production volumes. We continue to work with the CRC for Mining Technology and Equipment, as well as with our clients, to develop new drilling techniques and methodologies which we believe will be essential to users as the coal seam gas industry continues to mature.

Lucas believes that significant capital expenditure (in excess of $1 billion) will be spent in this sector within Australia during the next 5 years. We are therefore positioning Lucas to be one of the leading services providers to the coal seam gas industry – to the coal mine owners as well as the CSM gas producers. We believe that our foresight some years ago when we founded this business has been proved to be correct and we expect that the next two years will demonstrate that our thinking is still leading edge and positions us as the leading service provider within this new and rapidly growing business sector.

4. *Gloucester Basin*

Lucas has a 75% of PEL285 in the Gloucester Basin, situated approximately 100 km north west of Newcastle, NSW. The quality of the coals as far as gas production is concerned, its proximity to existing industrial and domestic loads and its proximity to existing pipeline infrastructure, make this property a very interesting potential resource.

The Gloucester Basin permit provides a great research laboratory for Lucas to test its new drilling techniques and methodology. The logic behind this initiative was that successful initial development would not only create a reliable and recurring future earnings stream (by the development of new drilling technologies) to be offered to the market place in general but, would create at the same time a valuable asset by proving the Gloucester Basin permit as a significant gas resource. Thus far our logic has proved correct.

Phase I is nearing completion and it is fair to say that the resource exceeds our expectations. While the geology is certainly not straight forward, the Gloucester Basin permit lends itself to Lucas' TRD and MRD drilling technologies. The permeability of the coals are some of the best in Australia but we will not know the full extent of the resource until further work is undertaken. The Gloucester Basin permit is roughly the same size as the Australian Capital Territory with 32 coal seams, 7 of which provide particular interest. Its location sits well to provide gas to both the Hunter and Newcastle regions as well as the Sydney market.

We are currently undertaking a great deal of engineering and detailed thought as to the next steps to take in developing the Gloucester Basin permit. It should be noted that, while Lucas sees itself as a catalyst in these sorts of situations, the policy of the Board is that Lucas is an infrastructure services business, not a gas producer.

COMMERCIAL MATTERS

For a company such as Lucas to grow as rapidly as we have during the past five years on a minimal capital base, it is hardly surprising that some commercial issues raise their head from time to time. We have several of these as reported in the 2004 Accounts.

1. Nerdlihc Company Inc.

We have had an involvement with Nerdlihc Company Inc for some 5 years in connection with its interests in the Canning Basin in Western Australia. Nerdlihc is a private US corporation with nuclear magnetic resonance imaging technology used to discover hydrocarbon deposits. Nerdlihc holds substantial acreage in Western Australia which can be compared in size to approximately that of the whole of Texas!

Lucas is naturally an entrepreneurial company and forms alliances and partnerships with clients to expedite achievement of objectives. This philosophy has proven to be very successful in the past. The Nerdlihc involvement is one of these. Nerdlihc has drilled one deep well in the Canning Basin, the results of which are sufficiently encouraging to justifiy a much larger exploration programme. In this connection, Nerdlihc has spent some time raising substantial capital to fast track a drilling and infrastructure programme. We are now informed that this raising will close shortly and allow Nerdlihc to proceed once again. While the project may be considered highly speculative, Lucas has a strategic alliance with Nerdlihc to install the required infrastructure if it is successful in this next phase of development. The project is potentially huge, in the magnitude of A$ billions and, given the up side that exists and the relationship that Lucas has with Nerdlihc, we believe justifies the effort expended.

As at the date hereof, substantial amounts are owed by Nerdlihc, which are due to be paid from its recapitalisation and refinancing. We have taken steps to secure the monies owed and have every expectation that these amounts are recoverable. In the process we believe that Lucas is well placed within one of the most substantial potential projects in Australian infrastructure.

2. DrillTec

It can be recalled that we took at 42,5% shareholding in a German HDD company known as DrillTec. We found the German partners to be extremely un-cooperative and difficult to deal with and therefore sold our stake within 15 months. Nevertheless, during that time, we asked DrillTec to join us in undertaking the CLP project, which had been awarded to Lucas in the middle of 2000.

While the project itself was very successful and helped consolidate Lucas as one of the world leaders in HDD technology, our relationship with DrillTec was fractured and unsatisfactory. This relationship culminated in court proceedings in Germany in which we did not submit to the jurisdiction, nor were we allowed to tender evidence. We have received advice that the German Courts erred in their deliberations and have consequently sought leave from the Federal Court in Germany to appeal the decision of the lower courts.

In previous Accounts, the issue with DrillTec had been disclosed as a contingent liability. We reviewed this treatment this year and, after consultation with our auditors, we have agreed that the best accounting practice would be to fully provide for the whole amount in our accounts. This follows an ASIC guidance note, issued in September 2004, of how a company should account for legal judgements in certain circumstances. The timing of the release of the ASIC clarification right before filing our annual results with the ASX and the need to clearly understand the reporting obligations resulted in a late filing of accounts by one day.

3. Minerva

In the latter half of 2002 to September 2003, Lucas was subcontracted to McConnell Dowell, in connection with the HDD and installation of a gas pipeline and services pipeline to bring the Minerva gas onshore at Port Campbell in Victoria. McConnell Dowell was contracted to BHP Billiton in regard to the larger project, which involved including bringing gas from the Minerva field, piping it to a gas plant onshore and constructing that gas plant. Our work is an integral part of the whole project and is being used for the purpose for which it was designed. Lucas delivered the work, fit for purpose and in specification. Unfortunately, Lucas was contracted to the wrong party!

McConnell Dowell's contract was terminated by BHP Billiton and McConnell Dowell and BHP are involved in a long, protracted legal dispute. Due to this legal dispute, McConnell Dowell have not paid Lucas any money due under our subcontract. McConnell Dowell has informed Lucas that any legal proceedings against them will automatically be joined into the BHP Billiton legal dispute, likely to cost more than what Lucas is owed! As we believe this will be a lengthy and costly exercise, we have a very definite preference not to waste money on legal fees. We have indicated to McConnell Dowell that its behaviour is totally unacceptable however, there is little we can do in the short term.

It is interesting to note that McConnell Dowell has recognised in its claim against BHP Billiton an amount of $14 million for the Lucas HDD portion of its works. This amount is comparable with an assessment by an independent consultant retained by Lucas, who has certified claims totalling $14.6 million under the Lucas subcontract. We believe that both McConnell Dowell and BHP Billiton have both a legal and moral responsibility to see Lucas made good for its work on the Minerva project and, now that the project has been completed, we would expect some progress on this matter can be made during 2005.

OUTLOOK

The macro economic drivers operating in Lucas' sectors are very positive. The Lucas strategy appears to be working and, we believe, is soundly based. In growing a company however, regard must be had to the medium to long term nature of such an exercise and not become preoccupied with quarterly reports and "get rich quick" type mentality. Phase III of the Lucas growth strategy will take another two years. The aim is to create a vertically integrated quality revenue stream which is maintainable in the future. The amount of resources available to create this earning stream are finite and will grow as the Company develops however, in the interim, the Company will be subject to ebbs and flows dictated principally by the amount of people that we have available to us and the amount of time available each day.

The 2004 calendar year has largely been spent positioning ourselves for the next growth phase. Therefore, the result for the first half of the 2005 financial year is expected to provide no reflection of the result for the second half of the year nor, of the profit for calendar 2005 year. We are unconcerned about this as we are more focused on creating an enduring company with a high quality earning stream. The prospects for calendar year 2005 are simply quite the best they have ever been. Successful implementation of the current strategy will see Lucas' earnings less fluctuating and more predictable, as well as more evenly spread during the year .

The Company believes that it has never been better positioned. The projects on which we are working and the prospects for each of the divisions are excellent. The benefits are expected to become apparent during the next two years. In the meantime, management will be gauging success not just by profitability alone but also by the achievement of milestones: milestones regarding specific projects, milestones regarding organic growth and milestones regarding the creation of new revenue streams.

CONCLUSION

I would like to take this opportunity to publicly acclaim the dedicated and hard working staff of Lucas at all levels throughout the organisation, from the Board, to the office and to the field. The father of democracy, Pericles, said that "no man loves his State because it is great, but because it is his". I can think of no better description than this to be applied to the Lucas people. We may have our own Peloponnesian Wars but, like Athens, we will become a great State. "Lucas crowns its sons."

We are proud of our people and they are proud of their Company. We look forward to the next two years with much optimism as well as expectation.

Thank you for your continuing support.

Allan S Campbell
Chairman
AJ Lucas Group Limited