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26 November 2020 – AJ Lucas Group Limited AGM

Chairman's Address – Andrew Purcell

I am sure it will come as no surprise for you to learn that the COVID-19 pandemic has presented your company with some unique and unforeseen challenges since the last time we all met. We hope that you and those close to you have not been too adversely affected.

At the height of the uncertainty, your company moved quickly to implement several key initiatives intended to give us the best chance of being able to continue to service the needs of our clients despite not knowing what restrictions might be introduced to limit the spread of the virus. Some of these proved to be so successful that several of our clients adopted the same protocols to minimise the risk that their fly-in fly-out employees posed to their operations. Lucas has a proud history of adding value to its clients' operations, as we heard in the video. Thinking about the job at hand and considering where to add value is what we do, which perhaps partly explains why we have enjoyed such long relationships with many of our clients.

Following some additional disruption, as things turned out, so far at least, the impact on our clients' businesses (and the demand for their products from their customers) appears much less than feared. This allowed our drilling business to report a strong increase in its financial performance for the third year in row. Brett will speak more to this shortly, but on behalf of the Board I want to congratulate and thank him and his team for their early identification of the new types of risks the pandemic was likely to throw up and the rapid and well-executed implementation of the chosen mitigation strategies.

I would similarly like to acknowledge the tremendous efforts of Francis and his team in the UK to manage not only the same pandemic related complications to their operations, but also to appropriately resize our business there following the UK Government's introduction of a moratorium on hydraulic fracturing shortly ahead of the general election in December 2019. As a result of this downsizing of operations, our expenditure in the UK was significantly and quickly reduced and is forecast to remain so for the year ahead. In this period we will continue to work with other Operators and with the UK regulator to allow for the lifting of the moratorium and allow for the implementation of new and workable conditions for the extraction of shale gas from our licence areas. To be able to operate under the same rules and regulations as other UK industries that also induce seismicity or felt ground vibrations (e.g., quarrying, geothermal energy production, transportation) would be a significant improvement and, we believe, a not unreasonable objective.

Ultimately, we believe the UK will wish to develop the secure, clean and likely extensive gas resources that our work has shown exists within the shale deposits in our licence areas. The UK Government has a legislated goal to become a net zero emitter of greenhouse gases by 2050 and the UK Committee on Climate Change has recognised the important role gas must play in meeting this target. Alternative sources of supply exist, but they would seem less suited to supporting a long term strategy such as this (supply from the North Sea has been in steady decline for more than 20 years and importing gas would not only be less secure but likely more carbon intensive).

We were therefore keen to take advantage of the opportunity to increase our interest in our subsidiary, Cuadrilla Resources, from 48% to 96% for only nominal upfront consideration when the opportunity presented itself earlier this year. Cuadrilla has more than 2,500 km2 of onshore licence area prospective for hydrocarbons (or about 2% of the area of England).

Finally, I would like to speak to some of the changes in personnel we have announced recently.

Brett has been appointed Group CEO and joins the board of directors. This underlines the importance of the Australian drilling operations to our overall business and the increased focus it is expected to receive going forward.

Similarly, Francis, our UK CEO, has also joined the board of directors. This was a logical and positive development following our gaining almost total control of Cuadrilla Resources and allows the board to have a more direct and timely understanding of our UK interests.

During the year Austen Perrin retired as CFO but we were able to retain access to his experience and ability when he agreed to join the board of directors. We thank Austen for his very capable execution of the role of CFO over many years but also for providing us with such a capable and experienced successor in David Ekster; a tireless worker with many years' experience in our company whom we look forward to working with more closely as our new CFO.

I'm sure Brett, Francis and Austen all appreciate the strong support they have received from our shareholders for their election at today's meeting.

Departing directors include John O'Neill, who has recently stepped down after five years of service, and Phil Arnall, whose retirement as Chairman was a great loss to your company. Fortunately, many of us, myself included, had many years working under Phil and were therefore direct beneficiaries of his experience, insights and work ethic in what were sometimes trying circumstances. This motivates me and your other directors to use the solid platform he left for us to face the challenges ahead with confidence and to continue to strive to unlock the considerable latent value in our company's assets for the benefit of our patient and supportive shareholders.

I would now like to pass to Brett Tredinnick ion our Brisbane Office, Executive Director and CEO and invite him to speak to the meeting. After Brett concludes his presentation, he will pass over to Francis Egan our Cuadrilla Managing Director who will also briefly address the meeting

Group CEO Address – Brett Tredinnick

Good day ladies and gentlemen, thank-you all for continuing to support our business and attending today.

The A J Lucas Group today has two principle assets, one operating business unit being our drilling contracting business and one substantial investment in the UK a large shale gas acreage, presenting significant potential value if realised.

When we talk about our Drilling business, we refer to ourselves as the “driller of choice”. We are an industry leading drilling contracting business that prides ourselves on delivering intelligent, practical solutions to Australia’s East Coast coal mining sector. Our customers are some of the largest suppliers of metallurgical coal, which is of course used for steel making.

With regards to our investment in UK, I will pass to Francis Egan, our UK CEO at the end of my presentation for an update on the events of the past year and what we see going forward.

The financial year ending 30 June 2020 was certainly a year never to forget, in fact a year that will probably change the way we go about our daily lives forever. COVID19 presented numerous challenges to our business, not least of which was dealing with a 350 strong Fly in fly out workforce.

I am extremely proud of the leadership our management team showed and the commitment to the process’s all Lucas employees gave during this difficult period. All things considered our Drilling business performed very well; with zero COVID cases, zero incidents during the period, while remaining profitable. I thank all the staff, specifically those that relocated their residence closer to our customers sites during that period.

My condolences go out to all those families and businesses that have been impacted by this dreaded virus in some way, shape or form.

During the last financial year, our drilling operations turned out $27.9m of underlying EBITDA, up 14.6% on prior year. On a Group basis we delivered an underlying EBITDA of $24.5m. This was up 20% on prior year. This result reflects tight cost management of corporate overhead and relentless focus on increasing drilling efficiency across the drilling business as well as the impact of adopting of the new lease accounting standard AASB16.

Yet again due to many years of investment in our people and process, developing their safety leadership and our tuning our safety systems we once again had zero lost time injuries for a record 7 years in a row.

Our industries standard safety measure is the “total recordable injury frequency rate”, commonly called “TRIFR”. This is a frequency measure of injuries requiring a doctor’s attention versus man hours worked.

In the year ending June 30 our Drilling business TRIFR measured 3.67 which is less than half the industry average. Sadly, however we had 3 minor injuries for the year, all minor in nature and all realising their full potential. This overall positive safety performance is extremely important in attracting the industries best people and further providing a safe place to work for our employees.

The year just gone we drilled close to 600,000 metres utilising less than 40 rigs. Our approach, which has held us in good stead through market up's and downs, is to ensure every rig is high-performing and highly utilised, rather than to invest in large number of low margin yielding rigs.

Overall, I am very pleased with our drilling business. it is performing very strongly under the circumstances of the COVID19 pandemic and the associated global economic downturn.

We are currently on track for yet another year of similar or improved performance in our Drilling business.

Recognising the quality of our drilling business and its strong earnings were two new lending parties that provided us $80m of Australian dollar denominated debt. These funds were used to repay our previous finance facility provided by OCP, and come at a lower cost of capital while also reducing our foreign currency exposure.

During the year we had some board and executive movements.

Andrew Purcell as you know is the newly appointed chairman, replacing Phil Arnall who retired.

I have been appointed Group CEO and as an executive Director to the board, an appointment I am very proud of after having worked for and supported the Company for over 20 years.

As Andrew has already noted in his address, Austen Perrin (Ex CFO) and Francis Egan (UK CEO) have also been appointed to the board, and most recently John O Neil resigned from the Board.

And of course, David Ekster sitting here next to me has replaced Austen to become our new Group CFO. My congratulations to David who is a tireless worker, knows the business more intimately than possibly anyone else, and takes his new responsibility very seriously and humbly.

I'd also like to extend my personal thanks to Phil and John for their contribution and counsel and wish them all the best into the future.

Our drilling business's financial performance over the last three financial years has been extremely positive. Year on year revenue and underlying EBITDA has grown strongly.

We must remember the first half of the decade experienced the largest global downturn since World War 2 and suffice to say, the post COVID world economy is poised for growth.

Drillings strong performance has been mainly due to management's focus on operational excellence and our growing market share in the Directional Drilling market. Our fleet of 4 extended reach surface to inseam drilling rigs undoubtably lead the market in efficiency, technology and innovation.

During the year we added an additional Directional Drilling rig to the fleet, a rig that will soon embark on some of the world's longest ever coal mine gas drainage boreholes. Such an important operational task that paves the way for safe mining while allowing for the utilisation of the unwanted methane gas.

I will note that had the pandemic not occurred and had a key customer of ours not had a fairly significant issue impacting its operations then the result of our Drilling business would have been even stronger and probably the best ever.

The world continues to consume about 1.7bn tonne of steel a year.

Metallurgical or coking coal as it is known, is coal used for Steelmaking. It is transformed to coke at high temperatures then used as a critical fuel and reducing agent in the smelting of liquid iron and thereafter steel. The steel making process requires about 1bn tonne of steelmaking coal annually.

Our key customers are producing some of the world's highest quality hard coking coal. All of our customers are predominantly major tier 1 mining houses which sit low on the production cost curve and are world leaders in mining innovation and efficiency.

Our drilling services business has a very experienced management team. In fact, our management team has over 180 people years of industry experience and 100+ people years of commitment to Lucas. It is a well-balanced team of professionals, technical experts and experienced drilling personnel, many of whom have risen through the ranks during their time at Lucas. Having such an experienced, loyal team brings long-term customers relationships and experiences. Many of our team have experienced past challenges and economic cycles, and know too well what to expect, how to react, what to be aware of and most importantly what our customers forward drilling scope and specification requirements are.

As I already mentioned, during the last financial year we re-financed or existing $US denominated OCP loan facility with two new $AU denominated facilities provided by two mainstream international financiers. This has already been reported on numerous occasions and so I will not rehash all the intimate details. However, I would like to point out the following:

1. Being $AU denominated the new facilities significantly reduce the Company's exposure to movements in the US AU exchange rate.
2. The new facilities are at a significantly lower cost than the previous facility with the junior facility having built in scheduled repayments.
3. The Senior facility is a 3 year revolving asset backed loan maturing in Oct 2022
4. The Junior facility is a 3.5 year facility maturing in April 2023.

I will now pass over to Francis who will discuss the UK further.

Managing Director of Cuadrilla Address – Francis Egan

This financial year commenced with the fracturing and flow testing of the second of our two horizontal Bowland shale exploration wells (PNR2 well). Operating under the world's most stringent regulatory regime for induced seismicity we were unfortunately only able to complete 7 of the planned 45 HF injection stages, before an induced seismic event, registering 2.9 on the Richter Scale, caused the fracturing operations to be suspended. Subsequent flow testing of the partially fractured well confirmed again the presence of a high-quality shale gas resource (as per the PNR1 well). The limited fracturing completed meant however that a sustainable / representative flow rate could not be achieved.

On 2nd November 2019, shortly ahead of the December General Election, the UK Govt. announced a moratorium on hydraulic fracturing in England. Since then Cuadrilla has wound down the PNR site and very significantly reduced its operating and overhead costs. AJLs budgeted UK costs for FY21 are some 90% less than spent in FY20. Despite inevitable staff reduction accompanying the reduced activity, we have maintained access to technical capability and of course retain our unique Bowland shale dataset.

We continue to work with other Industry players to address Regulatory concerns. This has been a slow process given the other unique challenges the UK Government has been forced to address this year. Recent Government focus in the UK energy sector has been on how to achieve Net Zero CO2 by 2050. A number of initiatives have been announced including expanding offshore wind and nuclear power. Alongside these there is nonetheless wide-spread recognition that natural gas (likely coupled with CCS) will have a key role to play out to 2050 and beyond.

We also continue to progress a number of conventional opportunities across our UK licences.

In early 2020 AJL completed the acquisition of the Riverstone holding in Cuadrilla for nominal up-front consideration. This takes AJL to 96% ownership interest and provides effective control.

In July Spirit Energy notified its intent to withdraw from the Lancashire JV and return its 25% stake to existing JV partners Cuadrilla and AJL. This is part of a broader exit by Centrica (Spirits Parent) from upstream oil and gas as it refocuses on downstream supply of energy to business and domestic customers.

In conclusion it has been a very challenging year for UK shale gas and the moratorium on HF announced in November 2019 continues. The quality and potential scale of the discovered Bowland shale gas resource remains a valuable and strategic resource for the UK and particularly given consensus forecasts predict continuing UK gas demand and declining indigenous production. AJL remains well positioned therefore to respond as and when the economic, environmental and security benefits of indigenous shale are appropriately considered and recognised.

Thank you ladies and Gentleman, I will now pass back to Andrew.

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