



AJ Lucas Group Limited
ABN: 12 060 309 104
1 Elizabeth Plaza
North Sydney NSW 2060
PO Box 538
North Sydney NSW 2060
T (02) 9490 4000
F (02) 9490 4200
www.lucas.com.au

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Francis Egan, CEO of Cuadrilla address to AJ Lucas shareholders

A lot has happened over the last twelve months since I last recorded a message for the AJ Lucas AGM and I am delighted to say that it has culminated in Cuadrilla starting the first hydraulic fracturing operations since 2011 into UK shale at our Preston New Road exploration site in the North West of England.

In January, we completed drilling a vertical pilot well through the Upper and Lower Bowland shale rock intervals at Preston New Road. From this well recovered some 375 feet of core samples and a series of wireline logs, and this represents the most comprehensive data set recovered to date from any shale well drilled in the UK. I am delighted to say that the quality of this unique data set is truly excellent including gas content.

We then started drilling the first horizontal wells into UK shale, and became the first UK operator to be granted permission to hydraulically fracture horizontal shale. During the summer months, we completed the second horizontal well and were granted hydraulic fracturing consent for this well in September. The site then underwent a transformation with the drilling rig being demobilised and hydraulic fracturing equipment installed. Cuadrilla started Hydraulic fracturing in mid October.

We are now focused on moving ahead with the operations. We have had some issues, operating within what is an extraordinary rigorous micro-seismic operating limit of just 0.5 on the Richter scale. However, we are very encouraged by how well the shale rock is fracturing and by the fact that natural gas has already begun to flow. This is indicative of a very productive shale. We expect to have completed our initial fracturing operations by the end of this year. We will then test the flow rates of natural with initial results expected in the first quarter of 2019.

The UK Oil and Gas Authority has already stated in guidance published on its website, that the 0.5 threshold on micro-seismic events maybe adjusted upwards with actual experience, shows that this can be done without compromising the effectiveness of controls. We believe that the data which we and the regulators are gathering from these initial fracturing operations should be sufficient to demonstrate that an increase in threshold can be safely made. We are very confident that the comprehensive site monitoring programs planned and implemented by



ourselves and by UK regulators, conclusively demonstrate safe and environmentally responsible operation.

In the last 12 months, we have also made progress on our Putting Lancashire First commitments, with over 70 jobs created in the county. Between Cuadrilla and our local suppliers we've invested over £11 million into the Lancashire economy from just these first two exploration wells.

With regards to our other proposed shale gas exploration site at Roseacre Wood in Lancashire, a new planning inquiry, focused on highways issues only, took place in April. The Planning Inspector submitted his report to the government in September and we expect a decision from the Secretary of State on our appeal in the New Year. We have also completed the restoration works at two of our former exploration sites at Beconsall and Grange Hill in Lancashire.

In respects to our PEDL 244 licence near Balcombe in South East England, we announced in January that Angus Energy was to join the Cuadrilla/Lucas partnership through the acquisition of a 25% stake. Angus took over the operatorship, and in the autumn they safely finished a seven day well test of the horizontal well there. We are encouraged by the results from the two initial tests. Further analysis of the data collected will be carried out, and potentially further testing may be required, to finally determine the commercial potential for the site.

The year ahead will be a very exciting one for Cuadrilla. I would like to say how grateful we are for the support of AJ Lucas, both as an investor in Cuadrilla, and of course, as a shareholder in the Lancashire licence in their own right. We are very pleased that we can now start to make production of UK shale gas a reality and I look forward to sharing an update with you of our exploration progress next year.