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AJ Lucas Corporate Update

AJ Lucas Group Limited (ASX: AJL) provides the following update on operations in the UK and Australia.

Cuadrilla Resources to recommence hydraulic fracturing at Preston New Road

In the UK, Cuadrilla Resources announced today plans, as operator of the Preston New Road (PNR) site, to recommence hydraulic fracturing.

A copy of Cuadrilla Resources media release is attached to this announcement.

AJ Lucas, as a shareholder in Cuadrilla and a 23.75% Joint Venture partner in the Bowland license, supports this program as the next step in determining the commercial value of the resource.

Phil Arnall, Chairman of AJ Lucas and Non-executive Director of Cuadrilla, said:

"We support Cuadrilla's comments and the direction set out in the announcement as the next logical step in the commercialisation of our UK interests. The proposed program follows a robust review of all options available to the JV and is considered to provide the best approach under the present conditions. The hydraulic fracturing operation of PNR 2 will build upon the learnings from both the earlier well at PNR 1 as well as US current practices."

Update on Lucas Drilling

AJ Lucas' domestic drilling business continues to perform very well and is expected to report a growth in earnings for the June 2019 year (FY19). Importantly FY20 and beyond is forecast to continue this strong trend due to the rollover of a material contract and the securing of other new, long term, business.

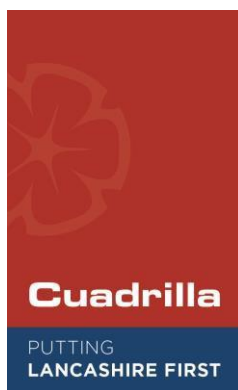
AJ Lucas Financing

The Company continues its efforts to secure a refinancing of the OCP debt in accordance with the obligations outlined in earlier announcements. This should provide a more stable balance sheet from which AJ Lucas can plan our financial commitments for the Cuadrilla program in the latter part of this year and beyond into 2020"

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CUADRILLA CONFIRMS PLAN FOR FURTHER TESTING AT PRESTON NEW ROAD

Leading onshore shale exploration operator Cuadrilla today confirmed that it will return to hydraulic fracturing and flow testing of natural gas at its flagship Lancashire site in Preston New Road, near Blackpool.

The company, which is based just outside Preston, will remobilise hydraulic fracturing and testing equipment in the third quarter of 2019 and, subject to all required regulatory approvals, complete the work programme by the end of November this year.

Francis Egan, Chief Executive Officer, said that the Cuadrilla team and the UK onshore shale exploration industry as a whole remained excited about the prospect of the Bowland Shale formation – estimated by the British Geological Survey to contain around 1,300 trillion cubic feet of natural gas.

The upcoming work programme at Preston New Road is the latest step in demonstrating the huge commercial opportunity of natural gas from UK shale. It will also ensure that more data is provided to Government and Regulators to justify an expert technical review of the current exceedingly low limit on induced seismicity, allowing for this to be brought into line with other UK industries such as quarrying, construction and geothermal.

Francis explained: “We look forward to returning to operations at Preston New Road which will further prove the flow of high quality natural gas from the Bowland Shale. Work to date on what is probably the most highly monitored onshore oil and gas site in the world has proved that this is an entirely safe, well run and well-regulated operation – and there is no doubt that the opportunity for the UK is huge.

“This work programme builds on Cuadrilla’s unique experience and expertise as the leading onshore shale exploration operator in the UK. We have learnt a lot during the hydraulic fracture programme for the PNR-1z horizontal in 2018 and this expertise forms the basis for the new hydraulic fracture plan for our second horizontal well, PNR2. The new hydraulic fracture plan will operate in line with the existing traffic light system for induced seismicity. However one of the key differences will be a more viscous fracturing fluid which has been reviewed and approved by the Environment Agency as non-hazardous to ground water and which we expect will improve operational performance under the uniquely challenging micro-seismic regulations.”

Francis added: “It is no secret that we have asked for an expert technical review of the uniquely low micro-seismic operating limit of just 0.5ML on the Richter scale. It remains the case that we are the only UK Operator currently able to move forward and provide more data to support an expert review of this threshold – and we intend to do so. I am looking forward to demonstrating over coming months that this remains an entirely safe and hugely exciting opportunity for the UK.”

Francis explained: “We are also working to demonstrate that natural gas produced from UK shale is likely to be the most environmentally sensible and economically beneficial long term feedstock for hydrogen generation, essential if the UK is to hit net zero CO2 emissions by 2050.

“Forecasts set out in the Committee on Climate Change Net Zero report show that the UK demand for natural gas in 2050 will be about 70 per cent of what we’re using today. That is because natural gas converted to hydrogen is the key ingredient for decarbonising UK domestic and commercial heat. It is shocking that most of this gas might be imported, from the US, Middle East, North Africa or Russia, producing about double the methane emissions and none of the economic benefit of a well-run, well-regulated domestic gas supply from UK shale.”

In February, Cuadrilla announced results from flow-testing of the UK’s first ever horizontal shale gas exploration well which confirmed a reservoir of recoverable high quality natural gas.

The initial exploration programme also confirmed that the Bowland Shale formation fractures in a way that is typical of an excellent shale gas reservoir. A complex fracture network was generated in the shale and sand injected into the fractures stayed in place during flow back.

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