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AJ Lucas Statement Regarding the Announced UK Government's Moratorium on Hydraulic Fracturing

AJ Lucas Group Limited (ASX: AJL) notes that, based on an interim analysis of induced seismicity at the Preston New Road site by the Oil and Gas Authority (OGA), the UK Government has introduced a moratorium on hydraulic fracturing in England.

On 2nd November, the OGA released its interim summary report on seismicity at Preston New Road (PNR) as well as four other consultant studies on this subject. This work was based on the data provided by Cuadrilla from its PNR1 well. In its report the OGA recommends that

“data from the Preston New Road 2 well (PNR2) should now be used to test and improve all four studies with work on maximum magnitude prediction given high priority”

The OGA also notes that the current reports should be treated as interim, which can be viewed on the OGA website on <https://www.ogauthority.co.uk/>.

AJ Lucas, through Cuadrilla Resources (the operator of PNR) will now review these interim reports in detail and will continue to work with the OGA to provide further detailed data (including data from the PNR2 well) to address the OGA's concerns on seismicity so that the moratorium can be lifted and the highly prospective Bowland gas resource further appraised and developed.

The British Geological Survey has estimated that the Bowland shale in the north of England contains significant gas-in-place to meet the needs of the UK for many decades. Cuadrilla has shown that the quality of natural gas at its PNR site, both in the Lower and Upper Bowland, is of extremely high quality. Cuadrilla has stated that given the high calorific value of natural gas in the Upper Bowland shale it considers that the gas could flow directly into the UK's extensive gas network without requiring additional treatment or processing, other than water separation.

Natural gas plays an important role in providing energy to the UK and will continue to do so for many decades in the future. At present, natural gas accounts for over a third of primary energy demand in the United Kingdom, with approximately 85% of homes using gas for heating and cooking and half of the country's electricity being generated from gas.

The UK Committee on Climate Change (CCC), in its 2019 report, foresees the UK continuing to consume significant quantities of gas out to 2050 and beyond, even in a carbon-neutral scenario. Gas will therefore remain a key constituent of the UK's energy mix in the future; and domestic gas is therefore even more important from an energy security perspective. The CCC also reiterated that it is essential that the UK does not simply offshore its emissions and environmental responsibilities to other countries, that may be less well regulated. At present 50% of the UK's gas supply is imported and this figure is expected to increase to more than 70% by 2035 unless the UK takes advantage of new sources of domestic gas such as the Bowland shale.



Commenting on the UK Government's decision, Phil Arnall, Chairman of AJ Lucas

"The UK Government's moratorium is disappointing, however we appreciate that the Regulator requires increased certainty in forecasting and mitigating any seismicity induced during hydraulic fracture operations. Cuadrilla will continue to work with the OGA to provide the Government with the confidence to lift the moratorium so the significant high quality natural gas resources in the Bowland Basin can be commercialised. The size of the prize is clear, both in terms of benefits to the economy and the environment, given domestically produced shale gas has a far lower carbon footprint compared to imported gas. It is therefore of paramount importance for all parties that the UK shale industry be developed in a safe and responsible manner.

"While recognising that the moratorium will mean a reduction of activity at PNR in 2020, we look forward to further news from Cuadrilla in respect of the ongoing flow testing of the six stages that have been hydraulically fractured at PNR-2 and any review of further prospective sites in our UK licences.

"AJ Lucas will continue to provide Cuadrilla its full support, recognising that there will be unavoidable delays in operations and that continued, albeit significantly reduced, funding of Cuadrilla's operations will be required.

"In Australia, our operations continue to perform well. We are pleased to announce that in the 3 months to 30 September 2019, our Drilling Services Division reported \$9.3 million of EBITDA on \$38.5 million of revenues¹. This compares to \$6.8 million of EBITDA on \$39.0 million of revenues for the same period last year."

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¹ Based on unaudited management accounts