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Chairman's address to shareholders

The performance of our businesses for 2017 is covered in our results announcements and the Annual Report sent to shareholders. Whilst the year was a difficult one for the Australian operating businesses, which delivered disappointing results, significant progress was nevertheless made in relation to our UK investments, bringing us closer to unlocking the value we believe these assets hold. I shall cover off on some the highlights and challenges of the past year and try to set the scene for the business as it now stands and the prospects ahead.

First, I would like to say a few words on safety. AJ Lucas has an ongoing commitment to employee health and safety and it is pleasing to note that our Australian operations have continued to lead the industry as demonstrated by the slide behind me. This is through excellent HSE systems and management devoting a significant time to reinforce our "injury free every day" mantra across the company.

Turning to our investment in shale gas exploration in the UK. The development of our sites in Lancashire has been a key focus for the company and is of major interest to our shareholders. The Bowland licence, at over 1,000km² and with 100 km² of 3D seismic having been shot and processed, comprises the largest and most advanced licence in the UK. After several years of submission of planning applications by Cuadrilla, followed initially by the rejection from Lancashire County Council and then a lengthy and exhaustive public inquiry, development consent was finally received from the Secretary of State for Communities and Local Government in October of 2016. This approval is for Cuadrilla, as operator, to drill and hydraulically stimulate 4 wells at Preston New Road, and potentially to drill and hydraulically stimulate a further 4 wells at Roseacre Wood, subject to Cuadrilla addressing certain traffic control issues. This will be the subject of a planning hearing set down for April 2018. We expect the Cuadrilla team to put forward a strong case for approval. With respect to the Preston New Road site there remains an appeal against the High Court's dismissal of earlier judicial challenges against the planning consent. This has been heard by the Court of Appeal during a 2 day hearing in August and a judgement is expected very shortly. We remain confident that the High Court's finding will be upheld by the Court of Appeal



Notwithstanding the litany of challenges and appeals and acting on consent from the Secretary of State, site preparation at Preston New Road began in early 2017 and the site was completed over the northern summer. Drilling of two of the four wells at Preston New Road then commenced in August 2017. These will be the first two horizontal wells to be drilled in UK shale rock and will be the first to be hydraulically stimulated and flow tested. The photo behind me demonstrates the progress made on site readiness and early drilling activity. While I will leave it to Francis to provide a more detailed update on these activities by way of a pre-recorded video after my address, I would like to provide some update on activities at site.

The top sections of the first two wells have been drilled to approximately 1,300 meters. Cuadrilla is now drilling ahead with the pilot well and will be coring the Bowland Shale over the coming weeks. This will help us determine where best to land the horizontal wells. Two lateral wells will then be drilled and hydraulically stimulated to test the flow of gas. The first two horizontal wells will be 1km in length and Cuadrilla will use up to 46 frack stages each up to 100ft in length to stimulate the shale. We expect to get an indication of gas flows by mid calendar year 2018. The joint venture has recently decided to test the flow of gas for a period up to six months before connecting the wells to the national grid and drilling the 3rd and 4th wells. Limited operational and geological details of the wells are expected to be released to the public until completion of the wells. However, within the constraints of the ASX requirements we will advise the market of material progress that may follow from coring and the flow of gas following hydraulic stimulation.

Cuadrilla and AJ Lucas remain committed to, maintaining high standards of safety and environmental responsibility in its operations and Cuadrilla has implemented a comprehensive site environmental monitoring programme at Preston New Road. Cuadrilla has also launched an ePortal on its website to enable the public to track various elements of its environmental site monitoring. Cuadrilla is the first UK operator to provide this level of transparency. Communication and engagement with the local community remains a priority and this year Cuadrilla has begun a programme of providing live streamed site visits on the internet, accessible on the media section of Cuadrilla's website ¹, to enable Cuadrilla to share with as wide an audience as possible what is happening on site. The first of these was aired in October and the second was aired last week and

¹ <https://cuadrillaresources.com/media-resources/video-gallery/>



posted on the Cuadrilla website yesterday. Again, this is another first for the UK shale industry. Francis will expand on these initiatives in his video.

We believe there is potential for significant economic benefits and jobs from the responsible development of a shale gas industry in the UK. There are those who remain sceptical at this early stage of exploration and sadly a small minority are choosing to make their protest unlawfully. Cuadrilla works closely with the Lancashire Police Force to ensure its operations are not impeded and, as importantly, that any adverse impact on the daily routines of local people affected is minimised.

Whilst the Bowland licence is our largest licence in the UK, of course we should not overlook the interest in other licences which include PEDL 244, also referred as the Balcombe licence, located in the south of England. In addition, Cuadrilla was awarded 18 new exploration blocks which have been organised into 8 licences in the 14th licencing round. These onshore oil and gas exploration licences stretch across the Cleveland Basin in East Yorkshire and Gainsborough Trough in South Yorkshire as shown in the presentation. Together, the licences cover approximately 1,274km² in area. Work has now begun on desktop studies to better understand more about the geology under this new exploration acreage. We believe together these have the potential to deliver real value to Cuadrilla.

The year ahead will be an exciting one for Cuadrilla. Being the leading UK company in this space, assessing the commercial viability of UK shale gas production is a challenging responsibility. Reliance on imported gas to heat homes, fuel industry and generate electricity continues to rapidly grow. With the testing of the first two wells, followed hopefully by drilling of the 3rd and 4th wells and connection to the grid, this coming year looks to be a pivotal year to finally turn the potential for UK shale gas into a reality.

In terms of our Australian businesses, 2017 was a difficult period as I foreshadowed at last year's AGM. Our Engineering and Construction business initiated a separation from its long-term contacting partner SpieCapag for major cross country pipeline projects in an endeavour to be more flexible in project quoting and to select fit for purpose partners for specific projects. We have met with some success in this financial year in partnering to win an HDD contract in New Zealand and a



similar contract with a local partner in Indonesia. The results for these ventures will be reflected in the 2018 results. The 2017 financial year however was tough. The principal contributor to the Engineering and Construction division's poor result was the VNIE pipeline contract, the last partnership deal alongside SpieCapag. A number of unfortunate events impacted the results, which have been covered in detail in our results announcement and our annual report. The outlook for our Engineering and Construction division will be affected by the lack of major cross country pipeline opportunities and we have restructured the business to focus on smaller projects within our capacity and larger projects with bespoke partners such as our success with the New Zealand and Indonesian tenders.

The Drilling division's results were also a disappointment with low rig utilisation and two specific contracts that destroyed value. These have been resolved and will not affect this financial year. On a positive note the 2018 year has started well with an increase in rig utilisation flowing from a material improvement in the East Coast Coal market. Our key customer relationships have enabled rig deployment of 30 rigs in service compared to an average of 21 for last year. This will be translated into an improved financial result for the 2018 year.

In terms of balance sheet, we completed the debt restructuring originally announced in June 2016. In November 2016, we drew down the second tranche of the senior secured OCP loan following consent to drill received from the UK Government. We then completed an entitlement offer in June 2017 which raised \$53.2 million and led to the repayment of \$37.2 million of the Kerogen debt facility, satisfying a condition of the June 2016 re-financing. Moving forward, while approximately £20.8 million of the Centrica carry remained at the end of June, the Board continues to monitor Cuadrilla's planned activities to ensure that they are adequately funded. Successful testing of gas from the first two wells at Preston New Road is the prerequisite test for the second carry of £46.7 million from Centrica.

I would like to express my gratitude to my fellow directors who have contributed their time and skills in a year that has required extra effort from them. Of course the Board's thanks must go to senior management who have likewise applied themselves to their tasks in a challenging year.

Finally, on behalf of the board and management I would like to thank shareholders for their commitment and patience and assure you that your interests are our interests.