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16 November 2017

Transcript of interview with Francis Egan CEO of Cuadrilla

Interviewer, Mark Tattersall (INT)
Francis Egan, CEO of Cuadrilla, (FE)

Int: Francis, we're here at Cuadrilla's Preston New Road site in Lancashire in the Northwest of England, a lot has happened since you last addressed the A J Lucas AGM about a year ago now. Just fill us in what's happened, a lot I imagine.

FE: Well a lot indeed, it's been a very exciting year for us. We started construction of this site here in January of this year. This is now the largest onshore exploration site in the UK. We've completed the instruction of the site as you can see, that was completed in June of this year. We then started work on the wells which you can see the drilling rig behind me here. We started that in June, setting the conductors. The drilling rig itself arrived in July and we started drilling in August and we are now very well advanced on the drilling. So it's been a very exciting six or seven months here in Lancashire.

Int: It's hard not to notice that big structure behind you, that's the drill of course, it looks incredibly impressive. How's drilling going?

FE: It's going really well. As I said we started the drilling of the first two wells, we have approval to drill four wells but our plan is to drill initially two horizontal wells. We started both of those wells in August of this year. We've drilled what we call the top-hole section, the upper hole of both the wells, down to about a little over 1km down beneath our feet here towards the shale. And now on the first well have started drilling into the shale. So, we are down to about 1.5km on the first well and we're just getting ready to drill into the shale behind me and start taking core samples. So again, very exciting. We expect to have completed the drilling of the vertical and horizontal wells by the end of this year, or very early next year, and then of course it's onto fracking.

Int: And you mentioned there, core samples. Why is that important, what are you looking for there?

FE: Well when we get into the shale it's a very thick section of shale here and that's one of the unique features of Lancashire is that the shale is well over 1.5km thick unlike anything anyone has seen in the US. So one of the high class problems, so to speak, is where in that very quick section are you going to drill the horizontal wells. So, the geologists like to take samples of the rock and then they study those at great length so we can decide where we want to drill the horizontal wells.

Int: And horizontally, you're going to drill horizontally. That sounds quite special.



FE: Well it is quite special and people think, of course, you come down and you drill at a right angle but it's not like that. What happens is that you start from much higher up and you slowly build angle until you're horizontal and then you carry on horizontally. And you can drill horizontally for great lengths. These wells we'll drill horizontals for 1km and then frack and test them.

Int: So at what stage are we going to know quite how much shale gas is actually down there in all this drilling that is going on?

FE: Well we should be fracturing the wells in the first quarter of next year and then we will be testing the flow of gas towards the end of the first quarter and through into the second quarter of next year. So initially that gas will go to flare and we'll see what flow rates we get, and then later on we expect to be tying the gas into the local gas grid which is sitting just a few hundred metres from where we are standing here, and then it actually goes to heating local homes. It goes direct to heating houses and industries so it will be Lancashire gas for Lancashire businesses.

Int: What about the shale gas exploration fund that is due to the community?

FE: We were the first operator in the UK to pay out £100,000 for the first well we started drilling in the Summer – this was paid into a Community Benefit Fund which is being independently managed for spend on local projects. Going further than the industry best practice we also are going to pay another £100,000 for each of the remaining three wells that we drill and frack. The local community were consulted and they have decided they would like that money to be shared amongst households near to the site and we are in the process of making those first payments now.

Int: There are plenty of developments, exciting developments, happening on site. But it's fair to say you've also got a lot going on. The local area is benefiting already from this, aren't they, even though you're not producing yet?

FE: Well indeed. Cuadrilla of course moved its headquarters, we moved from Lichfield in the Midlands, here in the UK, to Lancashire and since January of this year we've created 50 jobs in Lancashire between the office and the site and suppliers and we've invested almost £5 million now in the last nine months in the Lancashire economy alone, and that's just drilling the two exploration wells. Of course, we hope that this will be successful, we are confident it will be successful, and we look forwards to creating a lot more jobs, investing a lot more money here as we move forward.

Int: How's the community benefiting from the shale gas exploration fund?

FE: Well the shale gas exploration fund was agreed with the Government, there was to be £100k per exploration site, as I've said on this site we plan to drill four exploration wells and Cuadrilla has taken a decision that we contribute £400k, £100k per well that is drilled, to the community. For the first two wells here it will be £200k and we just announced this week that £100k of that will be going...the local community were balloted and they decided they would like that in the form of cash payments, so that's what we will be doing. So they'll see the benefit of that. The other things we are doing with the community: this site is probably the most monitored site in Europe, we're



measuring air quality, water quality, we're measuring noise, we're measuring traffic, we're measuring emissions and we'll measure seismicity in due course and all of that is reported online on our ePortal, which is a first for the industry worldwide I think.

Int: The work onsite and offsite here, it's fair to say, is incredibly important to you guys. How well is the industry doing as a result of the work that is going on?

FE: Well, we see of course here a fantastic acceleration of development over the last nine months, but across the UK now it's interesting there is a marked pick-up in activity. Third Energy, another company, they're going to be fracturing a well in Yorkshire very soon in fact, perhaps as early as this week, we know that iGas, who are another UK operator, have approval to drill two vertical wells in the Midlands in the UK and they'll be starting that probably the beginning of next year and Ineos, who are a big player now in UK shale, have plans to drill wells also. Cuadrilla leading the way here in Lancashire, of course we also have licences in the Midlands and in Yorkshire, so we are very much rooting for their success because their success will be our success and vice versa.

And of course, it's been a year now since we spoke at the AGM and I would like to say how appreciative we are of A J Lucas both as an investor in Cuadrilla and, of course, as a shareholder in Lancashire in their own right. They've been a very supportive and a very patient investor, and hopefully they can now see over the course of the last month we have accelerated progress and when we come back in a year's time they will see that their investment is reaping rewards and that we are flowing gas from these wells into the pipeline.