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CUADRILLA TO PLUG SHALE GAS WELLS AT PRESTON NEW ROAD (PNR) LANCASHIRE SITE

AJ Lucas Group Limited today announced that it intends, through its UK subsidiary Cuadrilla Resources Holdings Limited (Cuadrilla), to plug and abandon the two shale gas exploration wells drilled at its PNR Lancashire site, thereby complying with Oil & Gas Authority (OGA) regulations. Cuadrilla expects shortly to mobilise a rig to commence the process of plugging the wells and removing the associated surface pipework and valves from the site.

The two wells are the only horizontal wells drilled and hydraulically fractured into UK shale rock. The wells were drilled into the Bowland Shale to vertical depths of approximately 2.25km and onwards horizontally for a further 0.75km each through the shale.

Fracturing and flow testing of each well confirmed the presence of a very high-quality natural gas resource, which flowed to surface from the underlying shale. However, seismicity induced during the fracturing process, above just 0.5 on the Richter scale meant that operations had to be paused under UK Regulations and neither well could be fully fractured, or flow-tested, to properly assess how much gas might be commercially produced.

The Moratorium on hydraulic fracturing in England announced by the Government in November 2019 has meant that no further operations have taken place since then on the PNR site.

Spirit Energy, a Joint Venture Partner with Cuadrilla, will provide funding towards the cost of plugging and abandoning the two PNR wells and the nearby suspended Elswick conventional gas production well (shut-in since 2013) as part of an agreement related to Spirit Energy's planned exit from the Lancashire Shale Licences.

AJ Lucas Chairman Andrew Purcell said "We are proud of the pioneering role played by AJ Lucas and its subsidiary Cuadrilla in validating the presence of a very high-quality natural gas resource in the Bowland shale. It is widely acknowledged that natural gas will continue to play a key role in UK energy supply for many decades to come, even as the country transitions to a Net Zero CO₂ economy. We remain convinced that the Bowland shale gas resource has the potential to be a very significant contributor to UK energy supply and in particular a source of cost-effective fuel for heating UK homes and businesses.

We are disappointed that UK Government and regulatory requirements mean that the PNR exploration wells have not been properly tested. However, the gas resource that they have discovered remains in-situ and available to be further appraised and produced. Given the rapid decline in indigenous North Sea gas production and the ongoing UK gas price and supply crises we consider that the billions of pounds being spent annually on importing expensive gas from the Middle East, Russia and the US might be better directed, in part at least, on developing what is a considered a substantial shale gas resource. That would help provide energy security for the UK, create a significant number of new jobs in the North of England and provide substantial tax revenues for the UK.

Recent announcement of significant Government funding for two Carbon Capture and Storage Hubs, one offshore North-West and the other offshore North-East England, could and should be combined with a joined-up plan to explore and exploit the adjacent onshore shale gas resources. If not, the UK's ongoing gas needs will increasingly be supplied by long distance imports on ships.

The high price, lack of security and higher CO₂ emissions of these gas imports have all been amply demonstrated and are being felt by consumers in the ongoing gas price crisis".

Whilst today's announcement means that the PNR site will not be moving into a gas production phase (at least for the time being), the underlying gas resource operated by Cuadrilla covering much of Lancashire remains intact. The PNR site itself, at just 0.01km² in area, represents just a tiny fraction of the 100km² exploration licence area and other potential sites can also be evaluated as and when the Moratorium is lifted.

AJ Lucas plans to retain its Lancashire and other UK shale exploration licences and will continue to engage with industry peers, the Regulator, and the Government to find a way of ending the Moratorium and safely exploring and, in time, producing UK shale gas. In parallel, AJ Lucas is exploring other possible options, including electricity storage by battery, for the potential re-use of the PNR site post the abandonment of the existing wells.

This announcement has been approved by the Board of AJ Lucas Group Limited.

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