



4th July 2013

Dear Resident,

Cuadrilla's Lancashire Exploration Programme

We have recently announced that Centrica Energy has joined Cuadrilla as an investment partner in our Lancashire shale gas exploration licence. Centrica Energy has significant technical expertise in gas exploration and production, and brings to the project a strong track record in safe and transparent project development. In the North West, it employs around 400 people across both on and offshore operations in Barrow, Heysham and the Morecambe Bay gas fields, which have been producing enough gas to meet around 8% of gas supply from the UK continental shelf since the 1980s.

We have also announced the appointment of engineering and environmental consultancy Arup to carry out detailed Environmental Impact Assessments (EIAs) as part of our planning applications for exploration well sites. It is the context of the second announcement that prompts this letter. I would like to give you an overview of Cuadrilla's planned exploration activities in Lancashire over the next 12 to 18 months, so that you have an understanding of what we plan, why, and what you can expect.

Exploring for natural gas

We were granted a licence to explore for natural gas in Lancashire by the Government in 2007. We are trying to arrive at an accurate assessment of not only the amount of gas trapped in the shale rock deep beneath the surface, but also how much of that gas can be extracted.

We began by drilling vertically, analysing the shale rock samples from three exploration wells to better understand the geology of the different rock types. We discovered a uniquely thick layer of gas-bearing shale about a mile beneath the surface, extending throughout the 1,100 km² exploration licence. We partially fractured and flow-tested one of those wells, demonstrating that the gas will flow from the shale to the surface. We have also conducted a three-dimensional (3D) survey of the underground rock, covering around 100 km² of the Fylde, and have

studied the data extensively. Together with information from historic drilling activity, we now know that there is a substantial amount of natural gas stored in the shale.

Next steps

Where the 3D survey was carried out, we have an incredibly detailed picture of the subsurface geology. It is within this survey area that we now intend, subject to all necessary planning and permitting consents, to drill exploration wells horizontally into the most promising layers of shale at up to six new sites. We would then hydraulically fracture the sections of shale penetrated by these horizontal wells, and test the flow of gas. As part of the process of selecting and applying for new exploration well sites, Arup will undertake EIAs where we plan to fracture and flow-test wells.

The precise locations of the new sites and the order in which they might be drilled are yet to be determined. We also plan to hydraulically fracture and test the shale at our existing exploration site at Grange Hill, near Singleton. A decision on drilling and testing at the existing Anna's Road site will be deferred until later in the programme. As part of the EIA process, Arup will fully assess, explain and, as appropriate, mitigate any implications for the local environment or communities. Arup is working closely with Lancashire County Council to ensure a high quality of public consultation and there will be a number of opportunities for the community to take part in the process.

We have also applied for planning permission to perform well testing at our existing exploration well site at Beconsall. We plan to apply to drill up to three further vertical exploration wells at sites located outside the area covered by the 3D survey. These wells will not be drilled horizontally or hydraulically fractured. They will allow us to take additional rock samples and further improve our knowledge of the subsurface geology. These operations will be discrete from the proposed exploratory works detailed above.

The final stage in confirming our assessment of the gas reserves would be to test gas flow from some of our hydraulically fractured exploration wells over an extended period. The purpose of all our exploratory work is to demonstrate that natural gas can be produced in commercial quantities.

Regulation

There are comprehensive regulations associated with the environmental permits and planning consents required from a number of bodies, including Lancashire County Council, the Department for Energy and Climate Change, the Environment Agency and the Health and Safety Executive. We are working with these bodies to ensure that we meet their detailed requirements; only when all permits and consents, appropriate environmental measures and safety controls are in place will



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exploration work commence on our sites. Compliance with regulations, industry standards and best practice for all aspects of our work is of paramount importance for us.

The Bowland shale is a deep and very thick resource containing a lot of natural gas. However, exploration is a process, not a single event, and we are currently in the midst of that process. I hope this letter gives you a picture of how we see that exploration proceeding in a careful and thorough manner.

The UK increasingly depends on imports for its supplies of gas. Gas is vital in heating our homes and businesses, supplying our industry and, along with other fuels and renewables, generating our electricity. According to a recent report by the Institute of Directors, natural gas from Lancashire could lead to thousands of new jobs, higher revenues and lower emissions. We remain at the exploration phase of assessing the possibility, and together with our new partners at Centrica Energy, we are committed to doing this transparently, safely and sensibly.

Yours sincerely,



Francis Egan
Chief Executive



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