Cuadrilla Resources Limited

Annual report and financial statements

Registered number 6472493

For the year ended 31 December 2019

Contents

Strategic report

During the year, the Company's subsidiaries have continued their exploration programmes at a number of sites in the UK. Significant progress was made on the work programme at Preston New Road in Lancashire where to date, exploration undertaken includes the acquisition of approximately 100 km^2 of 3 dimensional seismic and the drilling of five shale exploration wells, including the first two horizontal wells drilled into UK shale rock at the Preston New Road (PNR) site near Blackpool.

Both of the horizontal PNR wells have been partially hydraulically fractured, with fracturing operations in each case being suspended early following reports of induced seismicity being felt locally at surface. Each of the two PNR wells was flow tested, and in each case, very high-quality natural gas, flowed to surface. This confirmed the presence of a significant, quality natural gas resource. In both cases however the limited fracturing completed, pre the suspension of operations, meant that a sustainable flow rate could not be measured. Gas recovery potential therefore remains to be determined.

On 2nd November 2019, shortly ahead of the 2019 British General Election, the UK Govt. announced a moratorium on hydraulic fracturing operations in England. The reason given was that the UK Oil and Gas regulatory authority (OGA) considered, based on an analysis of induced seismicity at the Cuadrilla operated Preston New Road 1 (PNR1) well, that it was not currently possible to accurately predict the probability or magnitude of sub-surface tremors linked to fracking operations

Induced seismicity is not a new phenomenon in shale or in other operations where fluid is injected at high pressure underground, e.g. geothermal or waste-water disposal wells. Cases have been reported from fracturing operations in the US, Canada and China, however the number of cases has been very low in relation to the large numbers of wells drilled and hydraulically fractured. To date the UK is the only jurisdiction to impose a moratorium citing fracturing induced seismicity as the reason.

Following on from the moratorium the Company and its subsidiaries have continued to work with other shale gas operators in the UK and with recognised experts in the field of induced seismicity. This work includes assessing potential techniques for improving the predictability and mitigation of seismicity induced by hydraulic fracturing and accurately predicting maximum potential ground vibrations from seismic events. In the case of the largest induced seismic event at PNR (2.9 ML event) the measured level of ground vibrations, whilst briefly felt, remained below the levels allowed for in other UK industries such as quarrying or geothermal wells.

Other regions (notably the US and Canada) experiencing induced seismicity have enabled fracturing operations and natural gas recovery to continue with appropriate safety measures in place. The Company's subsidiaries and other shale gas operators in the UK are drawing on these international experiences, as well as the uniquely detailed micro-seismic data-set from the UK PNR operations, to address the concerns which led to the UK moratorium. The very low regulatory thresholds on induces seismicity applied to hydraulic fracturing in the UK make this a particular challenge. As such, it is not possible to say when exactly a solution that meets current UK regulatory expectations may be arrived at.

In common with other countries and in recognition of the challenges posed by climate change, the UK has set out an ambitious goal to achieve "net-zero" CO2 emissions by 2050. This goal has been enshrined in legislation. The Govt and its expert advisors, including the Committee on Climate Change, have recognised that natural gas will be a key component of achieving "net-zero". A major role for natural gas is envisaged out to 2050 and beyond. Natural gas, coupled with carbon capture and storage, will likely be used as the most cost-effective feedstock for hydrogen to heat homes and businesses and as the most efficient and effective back-up for renewable electricity generation.

Strategic report *(continued)*

At present the UK continues to import approximately half of its natural gas requirements. This percentage is forecast to significantly increase as indigenous North Sea gas production declines. The likely pace of that decline has been heightened by the severe business impacts of the COVID-19 virus on UK oil and gas investment. Whilst global gas prices and the cost of imports currently remain low, the impact of huge reductions in global exploration and capital spend by the oil and gas sector will likely be felt within the next few years. Tightening supply, rising gas prices and increasing recognition of the environmental benefit of domestic gas production compared to long distance imports by pipeline or ship, could individually or collectively therefore cause a re-think on the value and benefits of domestic UK exploration and production. This may in turn lead to further appraisal and production of a significant, high-quality shale gas resource in the UK.

The Company and its subsidiaries have for several years been leading the exploration for U.K. shale gas. It acquired the first licences, drilled the first vertical and horizontal wells, completed the first hydraulic fracturing operations and produced the first natural gas from UK shale. Importantly in doing so it complied with the world's toughest regulatory and environmental monitoring requirements.

The Company's subsidiaries have interests in various other UK onshore exploration licences in Yorkshire totalling approximately 1,274 km^2, many of which target the same Bowland-Hodder shale formations being drilled and tested in Lancashire.

In addition to its shale gas portfolio the Company and its subsidiaries have also identified and are participating in a number of conventional oil and gas opportunities onshore UK. These include flow-testing of the Balcombe well, drilled by Cuadrilla in 2013 and now operated by Angus Energy with Cuadrilla and AJL retaining a collective 75% working interest. Angus is currently seeking planning permission to complete that flow test. Other potential conventional exploration opportunities are also being assessed with existing UK operators.

Now under AJ Lucas ownership the Company has very significantly reduced its operating costs and, whilst currently largely non-operational, has retained its extensive technical data-base, corporate knowledge and access to technical and operational capability. It remains therefore well positioned to respond to what is considered a likely future re-evaluation of the value of UK indigenous natural gas.

Post balance sheet event - change of ultimate parent company

The Company is a subsidiary of Cuadrilla Resources Holdings Limited ("CRHL"). In February 2020, AJ Lucas Group Limited ('AJL') increased its shareholding in CRHL from 48% to 96% following the acquisition of the Riverstone shareholding for a nominal sum. As such, the Company is a subsidiary of AJL at the date of this report.

Strategic report *(continued)*

Principal risks and uncertainties

As a 100% subsidiary of AJL, the principal risks and uncertainties of the Company are integrated with the principal risks and uncertainties of AJL. The AJL Board has established policies on risk management. The AJL Board and the Audit and Risk Committee monitor risk exposure and ensure that the risk management system is operating effectively. A copy of the risk statement is available in the shareholder information section of AJL's website - www.lucas.com.au.

The principal risks and uncertainties of the Company are summarised as follows:

- Exploration and appraisal risk - The assessment of resources and reserves is inherently uncertain and AJL manages this risk by forming joint operating agreements with partners who have extensive expertise and experience. Through the collection and extensive analysis of geological and seismic data, geomechanical studies, physical and chemical laboratory analyses and reservoir engineering data, the exposure to geological uncertainties in the exploration and appraisal phase is mitigated.
- Regulatory risk – Through its drilling, hydraulic fracture stimulation and well testing operations, there is exposure to planning, licensing, regulatory, environmental and other legislative risks. Although a very robust legislative and regulatory framework is in place in the UK, the challenge is in ensuring the co-ordination between all regulators for timely and efficient decision making. The announcement by the Govt. of a Moratorium on hydraulic fracturing in England from November 2019 is an example of how this risk may be manifested in practice. The Board places considerable importance on maintaining the highest standards of regulatory compliance and developing successful working relationships with local communities and local and national government authorities.
- Currency, interest rate and credit risks are not considered to be significant at this stage.

Key Performance Indicators ("KPIs")

The directors of AJL manage the group's operations on a combined basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding losses of £38,563,000 for the year and net liabilities of £45,044,000, which the directors believe to be appropriate for the following reasons:

The loss in the year arises primarily due to impairment charges on loans receivable from subsidiary companies and the net liability position is primarily due to the difference between amounts owed to and receivable from fellow group companies. The Company's parent, AJL, has provided a letter of support to the Company indicating that for at least 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

The directors of the Company acknowledge that there are material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern due to the considerations which have been assessed by AJL, as set out in the AJL Group Annual Report for the year ended 30 June 2020. The directors are of the view that these do not have any impact on AJL's ability to provide the financial support to the Company as set out in the support letter and these financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

Strategic report *(continued)*

The directors have also considered the potential impact of the global pandemic relating to the Covid-19 virus announced in March 2020 on the Company. Due to the Company and its subsidiaries being largely non-operational as a consequence of the moratorium on hydraulic fracturing in England, the directors consider that the current COVID-19 outbreak has no significant operational, financial or accounting impact on the business.

The financial support commitment obtained from the Company's parent will ensure that the Company has sufficient resources available at the signing date of the financial statements to pay at least 12 months of forecast liabilities. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By order of the board

Francis Egan
Director

13 November 2020

Cuadrilla House
Unit 6 Sceptre Court
Sceptre Way
Bamber Bridge
Preston
PR5 6AW

Directors' report

The directors of Cuadrilla Resources Limited (the "Company") present their strategic report, directors' report and financial statements for the year ended 31 December 2019.

Results and dividends

The Company has carried out a review of the recoverability of intercompany loans due to the Company from its subsidiaries resulting in an exceptional impairment charge of £37,601,000 which is recognised as a loss in these financial statements (see note 5). The loss principally relates to amounts advanced to Cuadrilla Well Services Limited, a company whose principal activity is the provision of equipment services to oil and gas companies, which completed the sale of certain items of equipment in 2020.

The result for the year is a loss of £38,563,000 *(2018: loss £99,000)* and the directors do not recommend the payment of a dividend.

Principal activities

The principal activity of the Company is the provision of management services to its subsidiary companies who are involved in the exploration of onshore oil and gas.

Directors

The directors who held office in the period to the date of this report were as follows:

Francis Egan	
Julian Ball	(appointed 1 September 2020)
Mark Lappin	(resigned 28 February 2019)

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, Ernst Young LLP will be deemed to be reappointed and will therefore continue in office.

By order of the board

Francis Egan
Director

13 November 2020

Cuadrilla House
Unit 6 Sceptre Court
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Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA RESOURCES LIMITED

Opinion

We have audited the financial statements of Cuadrilla Resources Limited for the year ended 31 December 2019 which comprise of the Income Statement and Comprehensive Income, Balance Sheet, Cashflow Statement, Statement of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which describes that the Company relies upon support from the parent company, AJ Lucas Group Limited, which has disclosed a material uncertainty in its latest financial statements. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA RESOURCES LIMITED *(continued)*

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on [page 5], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA RESOURCES LIMITED *(continued)*

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

13 November 2020

Income statement and comprehensive income
for the year ended 31 December 2019

	Note	***2019*** ***£000***	*2018* *£000*
Revenue	*2*	***3,115***	*1,571*
Operating expenses		**-**	*(124)*
Administrative expenses		***(4,316)***	*(1,655)*
Impairment of intercompany receivables		***(37,601)***	*(29)*
Operating loss	*5*	***(38,802)***	*(237)*
Finance income	*6*	***5***	*-*
Finance expenses	*6*	***(4)***	
Loss before tax		***(38,801)***	*(237)*
Taxation	*7*	***238***	*138*
Loss for the year		***(38,563)***	*(99)*

The results above relate to continuing operations.

The Company has no other income or expenses recognised in the year, other than those shown in the 'Income Statement and Comprehensive Income' above.

The accompanying notes on pages 14 to 27 form an integral part of these financial statements.

Balance sheet
at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	8	-	-
Intangible assets	9	75	80
Right of use assets	10	72	-
Investments in subsidiaries	11	1	1
		148	81
Current assets			
Trade and other receivables	12	65,066	91,710
Cash		845	735
		65,911	92,445
Total assets		66,059	92,526
Current liabilities			
Trade and other payables	13	(111,029)	(99,007)
Lease liabilities	10	(74)	-
Total liabilities		(111,103)	(99,007)
Net liabilities		(45,044)	(6,481)
Equity attributable to equity holders of the parent			
Share capital	14	-	-
Retained losses	14	(45,044)	(6,481)
Total equity		(45,044)	(6,481)

These financial statements were approved by the board of directors on 13 November 2020 and were signed on its behalf by:

Francis Egan
Director

Company registered number: 6472493

The accompanying notes on pages 14 to 27 form an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Loss before tax for the year	(38,801)	(237)
Adjustments for:		
*Depreciation and amortisation**	79	5
Loss on disposal of tangible and intangible assets	-	191
Foreign exchange losses	195	88
Impairment of loans to subsidiaries	37,601	29
Finance income	(5)	-
Finance expenses	4	-
Increase in trade and other receivables	(10,857)	(12,398)
Increase in trade and other payables	12,022	12,290
	238	(32)
Tax received	138	169
Net cash inflow from operating activities	376	137
Cash flows from investing activities		
Purchases of intangible assets	(6)	-
Finance income	5	-
Net cash outflow from investing activities	(1)	-
Cash flows from financing activities		
Repayment of principal portion of lease liability	(66)	-
Interest paid	(4)	-
Net cash outflow from investing activities	(70)	-
Net increase in cash	305	137
Cash at start of year	735	686
Effect of exchange rate fluctuations on cash held	(195)	(88)
Cash at 31 December	845	735

*Depreciation and amortisation includes £68,000 relating to right-of-use assets

The accompanying notes on pages 14 to 27 form an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £000	***Retained losses £000***	***Total Equity £000***
Balance at 1 Jan 2018	-	*(6,382)*	*(6,382)*
Total recognised income and expense	-	*(99)*	*(99)*
Balance at 31 December 2018	-	*(6,481)*	*(6,481)*
Balance at 1 Jan 2019	-	*(6,481)*	*(6,481)*
Total recognised income and expense	-	*(38,563)*	*(38,563)*
Balance at 31 December 2019	**-**	***(45,044)***	***(45,044)***

The accompanying notes on pages 14 to 27 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Cuadrilla Resources Limited (the "Company") is a company incorporated in and domiciled in the United Kingdom.

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and applied in accordance with the provisions of the Companies Act 2006.

The Company has taken the exemption from presenting consolidated accounts as, at the date of this report, group accounts are prepared by AJ Lucas Group Limited, the ultimate parent company.

Measurement convention

The financial statements are prepared on the historical cost basis. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding losses of £38,563,000 for the year and net liabilities of £45,044,000, which the directors believe to be appropriate for the following reasons:

The loss in the year arises primarily due to impairment charges on loans receivable from subsidiary companies and the net liability position is primarily due to the difference between amounts owed to and receivable from fellow group companies. The Company's parent, AJL, has provided a letter of support to the Company indicating that for at least 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

The directors of the Company acknowledge that there are material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern due to the considerations which have been assessed by AJL, as set out in the AJL Group Annual Report for the year ended 30 June 2020. The directors are of the view that these do not have any impact on AJL's ability to provide the financial support to the Company as set out in the support letter and these financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

The directors have also considered the potential impact of the global pandemic relating to the Covid-19 virus announced in March 2020 on the Company. Due to the Company and its subsidiaries being Company being largely non-operational as a consequence of the moratorium on hydraulic fracturing in England, the directors consider that the current COVID-19 outbreak has no significant operational, financial or accounting impact on the business.

The financial support commitment obtained from the Company's parent will ensure that the Company has sufficient resources available at the signing date of the financial statements to pay at least 12 months of forecast liabilities. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currency

Transactions in foreign currencies are translated to the functional currencies of Company at the foreign exchange rate issued by the Bank of England at the beginning of the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis within administrative costs.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Investments in subsidiaries are stated at cost less impairment.

Non derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables and trade and other payables.

Trade and other receivables are recognised initially at fair value, less any impairment losses.

IFRS 9 'Financial Instruments' requires an expected credit loss model. Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Expected credit losses are discounted at the effective interest rate of the financial asset.

Under IFRS 9, loss allowances are measured on either expected credit losses that result from possible default events within 12 months after the reporting date or lifetime expected credit losses that result from all possible default events over the life of a financial instrument.

Lifetime expected credit loss measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition. Lifetime expected credit loss measurement also applies to financial assets recognised at amortised cost, which includes trade receivables and contract assets.

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Property, plant and equipment

Tangible fixed assets are classified as property, plant and equipment. These assets, which are not subject to depletion, are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives of items of fixtures, fittings and equipment is 4 years.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets – computer software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the expected useful economic life of 4 years.

Revenue

Revenue is recognised at the fair value of the consideration received or receivable from subsidiaries in respect of management services supplied during the period once the risks and rewards of the supply have been transferred.

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

IFRS adopted and applied in the year – IFRS 16 – Leases

The Company has changed its accounting policy for leases and has elected to adopt IFRS 16 – Leases with effect from 1 January 2019 under the modified retrospective approach and as such comparatives have not been restated.

Previously, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company were classified as operating leases. Payments made under operating leases were recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received were recognised in the income statement as an integral part of lease expenses.

The new policy requires the recognition of a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The impact of the change in policy is described in notes 10 and 16 and the new policy is as follows:

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, any initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Notes *(continued)*

1 Accounting policies *(continued)*

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term, calculated using the Group's incremental borrowing rate at the commencement of the lease if the interest rate implicit in the lease is not readily determinable. The lease payments include fixed payments less any lease incentives receivables.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Adopted IFRS not yet applied

At the date of the approval of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue, but not yet effective:

- IAS1 and IAS8 Definition of Material
- IFRS3 Definition of a Business – Amendments to IFRS3
- The Conceptual Framework for Financial Reporting

The directors anticipate that adoption of all Standards and Interpretations, as listed above, will not have a material impact on the financial statements of the Company in future periods.

2 Revenue, business and geographical segments

The Company has a single class of business which is the provision of management services to its subsidiary companies who are involved in the exploration of oil and gas in the UK. All revenue is management charges to subsidiaries.

3 Staff numbers and costs

The average number of persons (including executive directors) employed by the Company during the year was:

	Number of employees	
	Company	
	2019	*2018*
Management and operational support	***24***	*26*

The aggregate payroll costs of these persons were as follows:

	2019	*2018*
	£000	*£000*
Wages and salaries	***2,686***	*2,780*
Social security costs	***341***	*367*
Contributions to defined contribution plans	***153***	*134*
	3,180	*3,281*

Notes *(continued)*

4 Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	633	680

The aggregate emoluments during the year of the highest paid director were £601,000 *(2018: £480,000).*

Company contributions made to directors' money purchase pension plans total £nil *(2018: none).* No retirement benefits are accruing under defined benefit pension schemes.

5 Operating loss

Included in operating loss for the year are the following:

	2019 £000	2018 £000
Impairment of loans to subsidiaries	37,601	29
Loss on disposal of tangible fixed assets	-	112
Loss on disposal of intangible assets	-	79
Amortisation of intangible assets	11	5
Operating lease charges – land and buildings	-	46
Operating lease charges – motor vehicles	-	10
Operating lease charges - equipment	-	24
Foreign exchange losses	195	88

Audit fees are borne by the parent company.

The Company has increased its provision against the recoverability of amounts due from subsidiary companies by £37,601,000 *(2018: £29,000).* Of this amount, £36,230,000 relates to the impairment of loans due from Cuadrilla Well Services Limited, whose principal activity is the provision of equipment services to oil and gas companies, following the sale of certain items of equipment in January 2020.

Notes *(continued)*

6 Finance income and expenses

	2019 £000	2018 £000
Finance income		
Interest received on cash balances	5	-

	2019 £000	2018 £000
Finance expenses		
Finance charge on lease liability for assets-in-use	4	-

7 Taxation

Recognised in the income statement

	2019 £000	2018 £000
Current tax income	238	138
Deferred tax expense	-	-
Total tax income	238	138

Reconciliation of effective tax rate

	2019 £000	2018 £000
Loss before tax for the year	(38,801)	(237)
Tax using the UK corporation tax rate of 19%	7,372	45
Depreciation in excess of capital allowances for which no deferred tax asset is recognised	-	(21)
Non-deductible expenses	(7,160)	(16)
Current year losses for which no deferred tax asset is recognised	26	130
Total tax income	238	138

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. At Budget 2020, the Government announced that the UK corporation tax rate would remain at 19% for the years starting 1 April 2020 and 2021.

No provision for tax has been made as the Company has estimated accumulated tax losses of £nil *(2018: £39,000)* which are available for offset against future taxable income. A deferred tax asset has not been recognised as it is uncertain when the Company will be able to utilise the losses. The Company also has an unrecognised deferred tax asset in respect of property, plant and equipment of £106,000 *(2018: £26,000).*

Notes *(continued)*

8 Property, plant and equipment

	Fixtures, fittings & equipment	Under construction	Total
	£000	£000	£000
Cost			
Balance at 1 January 2018	43	112	155
Disposals	-	(112)	(112)
Balance at 31 December 2018	43	-	43
Balance at 1 January 2019 and 31 December 2019	43	-	43
Depreciation			
Balance at 1 January 2018 and 31 December 2018	(43)	-	(43)
Balance at 1 January 2019 and 31 December 2019	(43)	-	(43)
Net book value			
At 1 January 2018	-	112	112
At 31 December 2018 and 1 January 2019	-	-	-
At 31 December 2019	-	-	-

Notes *(continued)*

9 Intangible assets

	Software
Cost	***£000***
At 1 January 2018	*395*
Disposals	*(79)*
Balance at 31 December 2018	*316*
At 1 January 2019	*316*
Additions	*6*
Balance at 31 December 2019	***322***
Amortisation	
At 1 January 2018	*(231)*
Amortisation charge for the year	*(5)*
Balance at 31 December 2018	*(236)*
At 1 January 2019	*(236)*
Amortisation charge for the year	*(11)*
Balance at 31 December 2019	***(247)***
Net book value	
At 1 January 2018	*164*
At 31 December 2018 and 1 January 2019	*80*
At 31 December 2019	*75*

The amortisation charge is recognised within administrative costs for the year *(2018: same).*

Notes *(continued)*

10 Right-of-use assets and lease liabilities

The Company adopted IFRS16 – Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for periods commencing after 1 January 2019. On adoption of IFRS16, the Company recognised lease liabilities in relation to leases which were previously classified as operating leases under the provisions of IAS 17 Leases.

The Company leases property and office equipment. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Until 31 December 2018, leases of property and other equipment were classified as operating leases. Following adoption of IFRS 16, from 1 January 2019, these leases are recognised as a right-of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

In accordance with the transition provisions in IFRS 16, the modified retrospective approach has been adopted with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

	31 Dec 2019	*1 January 2019*
	£000	*£000*
Lease liabilities		
Current	*74*	*66*
Non-current	-	*74*
	74	*140*

	31 Dec 2019	*1 January 2019*
	£000	*£000*
Right-of-use assets		
Property	***44***	*88*
Other equipment	***28***	*52*
	72	*140*

There were no additions to the right-of-use assets during the 2019 financial year and depreciation of the assets was £68,000.

The income statement includes the following amounts relating to leases:

	31 Dec 2019	*31 Dec 2018*
	£000	*£000*
Depreciation charge of right-of-use assets		
Property	***44***	-
Other equipment	***24***	-
	68	-
Interest expense (included in finance cost)	***4***	-

During the year ended 31 December 2019, the Company had a total cash outflow of £70,000 on qualifying leases

Notes *(continued)*

11 Investments in subsidiaries

	Shares in subsidiary undertakings *£000*
Cost	
At 1 January 2019 and 31 December 2019	*54*
Provision for impairment	
At 1 January 2019 and 31 December 2019	*(53)*
Net book value	
At 1 January 2019 and 31 December 2019	***1***

During the year two subsidiary companies incorporated in the Netherlands - Cuadrilla Brabant BV and Cuadrilla Hardenberg BV were liquidated.

All of the Company's subsidiaries at 31 December 2019 have a registered office address at Cuadrilla House, Sceptre Court, Sceptre Way, Bamber Bridge, Lancs PR5 6AW. The details of the subsidiaries are as follows:

	Country of Incorporation	*Nature of business*	*Class of shares held*	*Ownership*
Cuadrilla Bowland Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Elswick Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Balcombe Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Weald Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Elswick (No.2) Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla North Cleveland Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla South Cleveland Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Gainsborough Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Well Services Limited	*UK*	*Services for oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Services Limited	*UK*	*Not trading*	*Ordinary*	*100%*

12 Trade and other receivables

	2019 ***£000***	*2018* *£000*
Current		
Trade receivables due from related parties (note 17)	***63,830***	*90,323*
Prepayments	***33***	*108*
Other receivables	***1,203***	*1,279*
	65,066	*91,710*

The Company applies the expected credit loss approach to establish an allowance for impairment that represents its estimate of expected credit loss in respect of trade and other receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. The trade receivables of the Company are all due from related parties within the AJL Group. To measure expected credit losses trade receivables have been grouped based on shared credit characteristics. The loss allowance for the current and prior year has been based on the credit risk of AJL and adjusted upwards where required.

Notes *(continued)*

13 Trade and other payables

	2019 £000	2018 £000
Current		
Trade payables	***238***	*241*
Amounts due to immediate parent company (note 17)	***109,992***	*98,027*
Social security and other taxes	***270***	*93*
Accrued expenses	***529***	*646*
	111,029	*99,007*

Amounts due to the immediate parent company – Cuadrilla Resources Holdings Limited bear no interest and are repayable on demand. Cuadrilla Resources Holdings Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available.

14 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	*Retained losses £000*	*Total Equity £000*
Balance at 1 January 2018	-	*(6,382)*	*(6,382)*
Total recognised income and expense	-	*(99)*	*(99)*
Balance at 31 December 2018	-	*(6,481)*	*(6,481)*
Balance at 1 Jan 2019	-	*(6,481)*	*(6,481)*
Total recognised income and expense	-	*(38,563)*	*(38,563)*
Balance at 31 December 2019	**-**	***(45,044)***	***(45,044)***

Share capital

	2019 number	*2018 number*
Ordinary shares		
On issue at 31 December – fully paid	***100***	*100*

	2019 £	*2018 £*
Allotted, called up and fully paid		
Ordinary shares of US$1.50 each	***113***	*113*

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes *(continued)*

15 Financial instruments

15(a) Fair value of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Fair values

The fair values of financial assets and liabilities are considered to be the same as the carrying amounts.

15(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

As at 31 December 2019, all trade receivables are due from fellow group companies. The Company applies the expected credit loss approach to establish an allowance for impairment that represents its estimate of expected credit loss in respect of trade and other receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure expected credit losses trade receivables have been grouped based on shared credit characteristics. The loss allowance for the current and prior year has been based on the credit risk of AJL and adjusted upwards where required.

15(c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's most significant creditor is an intercompany balance with its parent company, which although it is repayable on demand, the parent company has indicated that for at least 12 months from the date of approval of these financial statements, it not seek repayment of the amounts currently made available.

The Company's ultimate parent, AJL, has provided a letter of support to the Company indicating that for at least 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

15(d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Exposure to interest rate risks arise in the normal course of the Company's business. The Company's exposure to foreign currency risk is not considered significant.

15(e) Capital management

Management have reviewed the forecast cash requirements of the Company for the following 12 months and have satisfied themselves that the Company will be able to meet its external liabilities as they fall due for payment.

Notes *(continued)*

16 Operating lease commitments

The Company leases land and buildings and office equipment under a number of operating leases. From 1 January 2019, the Company has recognised right-of-use assets for these leases. See note 10 for further information. During the year £nil *(2018: £80,000)* was recognised as an expense in the income statement in respect of operating leases.

Non-cancellable operating lease rentals are as follows:

	2019	*2018*
	£000	*£000*
Less than one year	-	*97*
Between two and five years	-	*27*
	-	*124*

17 Related parties

Key management personnel

The key management personnel are considered to be the directors of the Company. The compensation of the directors is given in note 4.

Management fees

The Company has recognised income of £3,115,000 in respect of management fees *(2018: £1,571,000)*. Management fees are charges for operational and administrative services provided by the Company to subsidiary companies. The management fees are agreed by both parties and are recorded at a value equivalent to the cost to the Company.

Other related party transactions

	Receivables outstanding		***Payables outstanding***	
	2019	*2018*	***2019***	*2018*
	£000	*£000*	***£000***	*£000*
Immediate parent company	-	-	***109,992***	*98,027*
Subsidiaries	***63,830***	*90,294*	-	-
AJ Lucas Group Limited (see note 19)	-	*29*	-	-
	63,830	*90,323*	***109,992***	*98,027*

All intercompany accounts are current.

Notes *(continued)*

18 Post balance sheet events

In February 2020, Lucas Cuadrilla PTY Limited increased its shareholding in Cuadrilla Resources Holdings Limited from 48% to 96% following the acquisition of the Riverstone shareholding for a nominal sum.

In March 2020 a global pandemic was declared by the World Health Organisation relating to the Covid-19 Virus. Due to the Company and its subsidiaries being largely non-operational as a consequence of the moratorium on hydraulic fracturing in England, the directors consider that the current COVID-19 outbreak has no significant operational, financial or accounting impact on the business. The Company has obtained financial support from AJL for the period of at least 12 months from the signing date of the financial statements to ensure that the Company has sufficient resources to pay its liabilities as they fall due.

19 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Cuadrilla Resources Holdings Limited, a company incorporated in the United Kingdom. As at 31 December 2019, Cuadrilla Resources Holdings Limited was jointly controlled by its shareholders: Lucas Cuadrilla PTY Limited (48%), Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP (45%) and employees and former employees (7%).

In February 2020, Lucas Cuadrilla PTY Limited increased its shareholding in Cuadrilla Resources Holdings Limited from 48% to 96%. The remaining 4% being owned by employees and former employees. As at the date of this report, the Company is a subsidiary of AJ Lucas Group Limited and the largest and smallest consolidated financial statements into which the results of the Company are consolidated are those of the ultimate parent company and controlling party, AJ Lucas Group Limited, a company registered in Australia. Copies of the consolidated financial statements are available from Level 22, 167 Eagle Street, Brisbane, QLD 4000, Australia.