

**Cuadrilla Elswick (No.2) Limited**

**Annual report and financial statements**

Registered number 7153115  
For the year ended 30 June 2022

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## Strategic report

The directors present their strategic report for the year ended 30 June 2022.

### Business review

Cuadrilla Elswick (No.2) Limited (“the Company”) has a 7.3125% interest in UK onshore licence EXL269 which covers an area in Elswick, Lancashire where exploration and appraisal works for onshore oil and gas in the licence area continue.

On the 2<sup>nd</sup> November 2019, the UK Government imposed a moratorium on further hydraulic fracturing in England and the North Sea Transition Authority (NSTA) advised onshore shale gas explorers that new scientific evidence would be required to demonstrate that hydraulic fracturing can be conducted safely before it recommends lifting the moratorium.

In April 2022 the Secretary of State (SoS) at the Department for Business, Energy and Industrial Strategy (BEIS) wrote to the British Geological Survey (BGS) initiating a review of the “geological science of shale gas fracturing and the modelling of seismic activity in shale rocks in the UK.”

The BGS report was published by the Government in September 2022. It concluded that the limited number of hydraulic fracturing operations in the UK (only 3 exploratory wells) “*made it impossible to determine with statistical significance the rates of occurrence of induced seismicity from hydraulic fracturing operations in the UK*”.

In response to the above scientific conclusion from the BGS the Government announced, on the 22<sup>nd</sup> of September 2022, that “*it was clear that we need more sites drilled in order to gather better data and improve the evidence base*” and that it was lifting the moratorium on hydraulic fracturing to allow wells to be drilled and fracked and the required data to be gathered.

Some five weeks later, on the 27<sup>th</sup> of October 2022, following a change of Prime Minister and with no new scientific advice having been requested or produced, the Government announced that it was reimposing the moratorium on hydraulic fracturing “*until compelling new evidence is provided which addresses the concerns around the prediction and management of induced seismicity*”.

The Company consequently finds itself trapped in a “Catch-22” position where the Government accepts, based on advice from its leading scientific advisory body, that more wells must be drilled and fractured in order to gather the necessary scientific evidence, whilst at the same time requiring that no new wells be fractured until the necessary scientific evidence has been gathered. We continue to engage with the Government, regulators and other industry players to try and resolve this conundrum and continue to advocate for much needed domestic gas production consistent with the UK goal of Net Zero CO<sub>2</sub> by 2050.

### Post balance sheet event

In light of the decision to lift and reimpose the moratorium within a five-week period, the ongoing political churn and policy changes experienced in the UK and the lack of discernible political will within the governing Conservative Party to progress onshore shale gas exploration in the foreseeable future, AJ Lucas Group Limited (AJL) undertook a review of the carrying value of its investment in exploration assets. Following this review, AJL concluded that it is appropriate to recognise an impairment in the carrying value of its onshore shale gas exploration assets to comply with relevant applicable accounting standards as at 31 December 2022.

As at the balance sheet date, the Company has intangible exploration assets in respect of its interest in EXL269 of £165,000. This information is disclosed as a non-adjusting post balance sheet event and subsequently no change has been made to the financials as at 30 June 2022.

## Strategic report (continued)

### Principal risks and uncertainties

As a 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 AJL 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](http://www.lucas.com.au).

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

- **Government moratorium** - In response to a scientific assessment and report which it had commissioned from the British Geological Survey, the Government announced, on the 22<sup>nd</sup> of September 2022, that *"it was clear that we need more sites drilled in order to gather better data and improve the evidence base"* and that it was lifting the moratorium on hydraulic fracturing to allow wells to be drilled and fracked and the required data to be gathered.  
  
Some five weeks later, on the 27<sup>th</sup> of October 2022, following a change of Prime Minister and with no new scientific advice having been requested or produced, the Government announced that it was reimposing the moratorium on hydraulic fracturing *"until compelling new evidence is provided which addresses the concerns around the prediction and management of induced seismicity"*.  
  
A return to the Government position, as enunciated on 22<sup>nd</sup> September 2022, would be required to progress appraisal and development of onshore shale gas licences. The Company continues to engage with other operators, regulators and the Government on this issue.
- **Exploration and appraisal risk** - The assessment of resources and reserves is inherently uncertain. The Company manages the risk of geological uncertainties in the exploration and appraisal phase by forming joint operating agreements with partners who have extensive expertise and experience and through the collection and extensive analysis of geological and seismic data, geo-mechanical studies, physical and chemical laboratory analyses and reservoir engineering data.
- **Climate Change** - The Government has a legal obligation to meet a target of Net Zero CO<sub>2</sub> by 2050. This will lead to a reduction in gas consumption and a requirement to capture and/or offset the CO<sub>2</sub> emissions from burning gas. Notwithstanding this, the Government and Climate Change Committee forecast a continuing and significant role for natural gas in the UK energy supply mix out to 2050 and beyond. Domestic shale gas has the potential to replace more expensive and higher CO<sub>2</sub> generating imported gas in meeting that gas demand.
- **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 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.
- **Financial risk** - The Company is currently a pre-production exploration company with no sustainable income stream. It is therefore reliant on the financial support of its parent company AJL to continue to operate. AJL has provided this support since the formation of the Company and has advised that it will continue to do so for 12 months from the date of approval of these financial statements.
- **Currency, interest rate and credit risks** are not considered to be significant at the current time.

## Strategic report *(continued)*

### Key Performance Indicators (“KPIs”)

In the current year, the directors focused on three key priorities as follows:

- Maintaining active dialogue with the Government, regulators, industry peers, media, politicians, and the public on the pressing need for, and potential benefits of, exploration, appraisal and production of the extensive shale gas resource stretching across the North of England and for the urgent requirement to lift the moratorium on hydraulic fracturing.
- Assessing alternative uses for existing shale gas exploration sites and shale exploration licenses. These could include repurposing wells for geothermal, using existing sites to site electricity battery storage and/or solar generation installations and assessing / developing conventional gas prospects on existing licenses that could be developed/produced without the need for hydraulic fracturing.
- Maintaining existing exploration licences and facilities in good working order whilst keeping overhead and operating costs to manageable levels.

### Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £18,000 which the directors believe to be appropriate for the following reasons.

The directors have prepared cashflow forecasts for the 12-month period to 30 June 2024. The Company’s parent, AJL, has provided a letter of support to the Company indicating that for 12 months from the date of approval of these financial statements i.e., to 30 June 2024, AJL 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 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 Interim Report for the half year ended 31 December 2022. 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 therefore continue to adopt the going concern basis in preparing these financial statements. These financial statements do not contain the adjustments that would result if the Company were unable to continue as a going concern.

The financial support commitment obtained from AJL will ensure that the Company has sufficient resources available at the signing date of the financial statements to pay 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

5 June 2023

## Directors' report

The directors of the Company present their directors' report and financial statements for the year ended 30 June 2022.

### Results and dividends

The Company made neither a profit nor a loss in the year (*year ended 30 June 2021: £nil*). The directors do not recommend the payment of a dividend.

### Principal activities

The principal activity of the Company is the exploration and appraisal of oil and gas projects in the United Kingdom.

### Directors

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

Francis Egan  
Julian Ball

### 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

During the period MHA was appointed as auditor of the Company.

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

Following a rebranding exercise on 15 May 2023 the trading name of the company's independent auditor changed from MHA MacIntyre Hudson to MHA. A resolution to reappoint MHA as independent auditor will be proposed at the next board meeting.

By order of the board



Francis Egan  
Director

3000 Aviator Way  
Wythenshawe  
Manchester  
M22 5TG

5 June 2023

## **Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK adopted International Financial Reporting Standards ("IFRSs") and with the Companies Act 2006, as applicable to companies reporting under international accounting standards. 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 year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 to enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA ELSWICK (No.2) LIMITED**

### **Opinion**

We have audited the financial statements of Cuadrilla Elswick (No.2) Limited (the 'Company') for the year ended 30 June 2022, which comprise: the Income Statement and Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity, and the related Notes 1 to 12, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Financial Reporting Standards ("UK adopted IFRS") and, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its result for the year then ended;
- have been properly prepared in accordance with UK adopted International Financial Reporting Standards (IFRSs); 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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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.

### **Emphasis of matter – UK moratorium on hydraulic fracturing and exploration and evaluation assets**

We draw attention to Note 6 of the financial statements, which describes the uncertainties the Company is facing as a result of the UK moratorium on hydraulic fracturing. Management has considered the recoverability of the exploration and evaluation assets and they have been valued on the basis that this moratorium will be lifted in the future, but there is uncertainty around this outcome and should the moratorium not be lifted the carrying value would become impaired. Our opinion is not modified in respect of this matter.

### **Material uncertainty related to going concern**

We draw your attention to Note 1 in the financial statements which states that the Company relies on support from the parent Company, AJ Lucas Group Limited (AJL), which has disclosed material uncertainties in its latest financial statements. We note that in April 2023, AJL successfully refinanced its debt obligations, these now mature in 2025. Whilst AJL has provided a letter of support that it will continue to provide the necessary financial support to enable the Company to trade and meet any liabilities as they fall due, this is not a legally binding document and therefore there is a material uncertainty on whether the required financial support will be provided.

The uncertainty of this together with other matters set out in the note, 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. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA ELSWICK (No.2) LIMITED *(continued)***

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

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinion 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 the 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 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA ELSWICK (No.2) LIMITED *(continued)***

### **Auditor 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

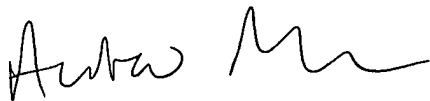
- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's Report.

### **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.



Andrew Moyser FCA FCCA (Senior Statutory Auditor)  
**for and on behalf of MHA, Statutory Auditor**  
London, United Kingdom  
5 June 2023

MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership in England and Wales (registered number OC312313)

**Income statement and comprehensive income**  
*for the year ended 30 June 2022*

	<i>Note</i>	<i>Year ended 30 June 2022</i>	<i>Year ended 30 June 2021</i>
		<b>£000</b>	<b>£000</b>
<i>Administrative expenses</i>		-	-
		<hr/>	<hr/>
<b><i>Operating loss</i></b>		-	-
<i>Taxation</i>	5	-	-
		<hr/>	<hr/>
<b><i>Loss for the year</i></b>		-	-
		<hr/> <hr/>	<hr/> <hr/>

The results above relate to continuing operations.

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

The accompanying notes on pages 13 to 20 form an integral part of these financial statements.

**Balance sheet**  
**at 30 June 2022**

	Note	2022 £000	2021 £000
<b>Non-current assets</b>			
Intangible exploration & evaluation assets	6	265	265
		<hr/>	<hr/>
<b>Total assets</b>		<b>265</b>	<b>265</b>
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	7	(283)	(283)
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>(283)</b>	<b>(283)</b>
		<hr/>	<hr/>
<b>Net liabilities</b>		<b>(18)</b>	<b>(18)</b>
		<hr/>	<hr/>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	8	-	-
Retained losses	8	(18)	(18)
		<hr/>	<hr/>
<b>Total deficit</b>		<b>(18)</b>	<b>(18)</b>
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 5 June 2023 and were signed on its behalf by:



**Francis Egan**  
Director

Company registered number: 7153115

The accompanying notes on pages 13 to 20 form an integral part of these financial statements.

**Cash flow statement**  
*for the year ended 30 June 2022*

	<i>Year ended 30 June 2022 £000</i>	<i>Year ended 30 June 2021 £000</i>
<i>Cash flows from operating activities</i>		
<i>Profit / (Loss) before tax for the year</i>	-	-
	<hr/>	<hr/>
<i>Net cash inflow/(outflow) from operating activities</i>	-	-
	<hr/>	<hr/>
<i>Cash at start of year</i>	-	-
	<hr/>	<hr/>
<i>Cash at end of year</i>	-	-
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes on pages 13 to 20 form an integral part of these financial statements.

**Statement of changes in equity**  
*for the year ended 30 June 2022*

	<i>Share capital £000</i>	<i>Retained losses £000</i>	<i>Total Equity £000</i>
<i>Balance at 1 July 2020</i>	-	(18)	(18)
<i>Loss for the year</i>	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2021</i>	-	(18)	(18)
	<hr/>	<hr/>	<hr/>
<i>Balance at 1 July 2021</i>	-	(18)	(18)
<i>Loss for the year</i>	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2022</i>	-	(18)	(18)
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 13 to 20 form an integral part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The Company is incorporated as a private limited company, limited by shares, registered in England.

#### ***Basis of Preparation***

The financial statements have been prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRSs") adopted for use in the United Kingdom ("UK adopted IFRS") and with the Companies Act 2006, as applicable to companies reporting under international accounting standards.

The financial statements are presented in Pound Sterling (£), the Company's functional currency, and all values are rounded to the nearest thousand except where otherwise indicated.

The functional currency is determined as the currency of the primary economic environment in which it operates. The majority of the Company's operating activities are conducted in Pound Sterling.

#### ***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 Company's business activities, together with the factors likely to affect its future developments, performance and position are set out in the Strategic Report on page 1.

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £18,000 which the directors believe to be appropriate for the following reasons.

The directors have prepared cashflow forecasts for the 12-month period to 30 June 2024. The Company's parent, AJL, has provided a letter of support to the Company indicating that for 12 months from the date of approval of these financial statements i.e., to 30 June 2024, AJL 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 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 Interim Report for the half year ended 31 December 2022. 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 therefore continue to adopt the going concern basis in preparing these financial statements. These financial statements do not contain the adjustments that would result if the Company were unable to continue as a going concern.

The financial support commitment obtained from AJL will ensure that the Company has sufficient resources available at the signing date of the financial statements to pay 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *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. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*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.

#### *Exploration and evaluation expenses*

The Company applies the successful efforts method of accounting for exploration and evaluation expenses having regard to IFRS 6, "Exploration for and Evaluation of Mineral Resources".

Pre-licence costs and costs incurred prior to a determination process are expensed directly to the income statement as incurred.

Subsequent exploration and evaluation costs directly associated with an identifiable exploration project area are capitalised as an intangible asset until the project has been evaluated. If hydrocarbons are found and, subject to further appraisal, the project is likely to be capable of commercial development, the costs continue to be carried as an asset.

The costs of unsuccessful projects are written off to the income statement: this is in accordance with the successful efforts accounting policy but is also compatible with IAS 36, "Impairment of Assets", on the basis that the asset is impaired.

Once appraisal is complete and commercial reserves are established then the relevant cost is transferred (following an impairment review as described below) from intangible exploration and evaluation assets to development and production assets within tangible assets. Expenditures incurred after the commerciality of the field has been established are capitalised within development and production assets.

Exploration and evaluation assets are amortised over their estimated economic useful life from the date they are first available for use.

#### *Impairment test*

Exploration and evaluation expenditures which are held under IFRS 6 are reviewed at each reporting date for indicators of impairment. Such circumstances include, but are not limited to:

- i. Expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- ii. Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- iii. Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.



## Notes (continued)

### 1 Accounting policies (continued)

#### *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:

- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- IFRS 17 Insurance Contracts
- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- Amendments to IAS 8 Definition of Accounting Estimate
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

#### *Use of estimates and judgements*

The preparation of the financial statements in conformity with the IFRS's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 – Carrying value of exploration assets

### 2 Business and geographical segments

The Company has a single class of business which is oil and gas exploration. The Company operates in one geographical area – the UK.

### 3 Staff costs and directors remuneration

The Company had no employees during the current year and the prior period. No directors received any remuneration in respect of services to the Company.

### 4 Audit fees

Audit fees are borne by the immediate parent company, Cuadrilla Resources Limited.

## Notes (continued)

### 5 Taxation

#### Recognised in the income statement

	<i>Year ended 30 June 2022 £000</i>	<i>Year ended 30 June 2021 £000</i>
<i>Current tax expense</i>	-	-
<i>Deferred tax expense</i>	-	-
	<hr/>	<hr/>
<i>Total tax expense</i>	-	-
	<hr/>	<hr/>

#### Reconciliation of effective tax rate

	<i>2022 £000</i>	<i>2021 £000</i>
<i>Loss before tax for the year</i>	-	-
	<hr/>	<hr/>
<i>Tax using the UK Ring-fence corporation tax rate of 40%</i>	-	-
<i>Non-deductible expenses</i>	-	-
	<hr/>	<hr/>
<i>Total tax expense</i>	-	-
	<hr/>	<hr/>

The ring fence corporation tax rate of 40% comprises the main rate of corporation tax on ring fence profits of 30% and an additional supplementary charge of 10%. On 26th May 2022 the Government announced the introduction of the Energy Profits Levy (EPL) representing a 25% additional tax on profits. On 17th November 2022, the Government increased the EPL from 25% to 35% from 1 January 2023. An onshore allowance may also be available to reduce the supplementary charge and this will reduce the Company's tax charge accordingly.

## Notes (continued)

### 6 Intangible exploration and evaluation assets

*Exploration and  
Evaluation costs  
£000*

*Cost and net book value*

*Balance at 1 July 2020, 30 June 2021 and 30 June 2022*

*265*

The Company has a 7.3125% interest in UK onshore licence EXL269. The exploration and evaluation asset represents the consideration paid for the purchase of a 3.3125% share of the EXL269 onshore exploration licence in 2018.

#### **Recovery of exploration and evaluation expenditure and UK Moratorium on Hydraulic Fracturing**

The recoverability of the capitalised exploration and evaluation expenditure recognised as a non-current asset is dependent upon the exploration, development or alternatively sale of the tenements which comprise the assets.

On 2 November 2019, the UK Government imposed a moratorium on hydraulic fracturing in England, stating that lifting of the moratorium would require technical assurances that hydraulic fracturing would meet Government policy aims of ensuring it is safe, sustainable and of minimal disturbance to those living and working nearby. Cuadrilla and other UK shale gas operators are now working together and with the UK regulator to address these technical issues, so that the moratorium can be lifted.

As a result of the current moratorium, exploration activities have been impacted and significantly reduced until such time that the moratorium is lifted. The recoverability of exploration and evaluation assets has been assessed on the basis that the moratorium would be lifted in the future. In the event the moratorium is not lifted, and hydraulic fracturing is not allowed to recommence the recoverable amount of exploration assets will be fully impaired.

## Notes (continued)

### 7 Trade and other payables

	30 June 2022 £000	30 June 2021 £000
<b>Current</b>		
Amounts due to immediate parent company	283	283
Deferred consideration	-	-
	<u>283</u>	<u>283</u>

Amounts due to the parent company relate to the settlement of liabilities on behalf of the Company. The amounts bear no interest and are repayable on demand. See Note 1 relating to the parent company's ongoing financial support.

### 8 Capital and reserves

#### Reconciliation of movement in capital and reserves

	Share capital £000	Retained losses £000	Total Equity £000
At 1 July 2020	-	(18)	(18)
Total recognised income and expense for the year	-	-	-
	<u>-</u>	<u>(18)</u>	<u>(18)</u>
Balance at 30 June 2021	-	(18)	(18)
	<u>-</u>	<u>(18)</u>	<u>(18)</u>
At 1 July 2021	-	(18)	(18)
Total recognised income and expense for the year	-	-	-
	<u>-</u>	<u>(18)</u>	<u>(18)</u>
Balance at 30 June 2022	-	(18)	(18)
	<u>-</u>	<u>(18)</u>	<u>(18)</u>

#### Share capital - Ordinary Shares

	30 June 2022 Number	30 June 2021 Number
On issue at 30 June – fully paid	100	100
	<u>100</u>	<u>100</u>
	30 June 2022	30 June 2021
	£	£
Allotted, called up and fully paid		
Ordinary shares of US\$1 each	75	75
	<u>75</u>	<u>75</u>

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)

### 9 Financial instruments

	<i>30 June 2022</i>	<i>30 June 2021</i>
	<i>£000</i>	<i>£000</i>
Financial liabilities at amortised cost	283	283

#### **9(a) Fair value of financial instruments**

##### *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.

#### **9(b) 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 only creditor is an intercompany balance with its parent company, which although it is documented as repayable on demand, the parent company has indicated that for 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.

The Company's ultimate parent, AJL, has provided a letter of support to the Company indicating that for 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.

#### **9(c) 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. Exposure to foreign currency risk is not considered significant.

#### **9(d) Capital management**

The Company is dependent for its working capital on funds provided to it by Cuadrilla Resources Limited, the Company's parent. Management have reviewed the forecast cash requirements of the group for the following 12 months and have satisfied themselves that the group will be able to meet its external liabilities as they fall due for payment.

## Notes (continued)

### 10 Related parties

The following related party transactions took place:

	<i>Payables outstanding</i>	
	<i>30 June 2022</i>	<i>30 June 2021</i>
	<i>£000</i>	<i>£000</i>
<i>Immediate parent undertaking – Cuadrilla Resources Limited</i>	<i>283</i>	<i>283</i>
	<hr/>	<hr/>

### 11 Post balance sheet event

In light of the decision to lift and reimpose the moratorium within a five-week period, the ongoing political churn and policy changes experienced in the UK and the lack of discernible political will within the governing Conservative Party to progress onshore shale gas exploration in the foreseeable future, AJL undertook a review of the carrying value of its investment in exploration assets. Following this review, AJL concluded that it is appropriate to recognise an impairment in the carrying value of its onshore shale gas exploration assets to comply with relevant applicable accounting standards as at 31 December 2022.

As at the balance sheet date, the Company has intangible exploration assets in respect of its interest in EXL269 of £165,000. This information is disclosed as a non-adjusting post balance sheet event and subsequently no change has been made to the financials as at 30 June 2022.

### 12 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Cuadrilla Resources Limited, a company incorporated in the United Kingdom. The parent company of Cuadrilla Resources Limited is Cuadrilla Resources Holdings Limited which is controlled by its shareholders:

- Lucas Cuadrilla PTY Limited (96%);
- Employees and former employees (4%).

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.