

Cuadrilla Bowland Limited

Annual report and financial statements

Registered number 8340918

For the year ended 30 June 2021



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Strategic report

Business Review

Cuadrilla Bowland Limited (“the Company”) has a 51.25% share of UK Onshore licence PEDL 165, which covers an area of approximately 1,000 km² in Lancashire. To date, exploration undertaken includes the acquisition of approximately 100 km² of 3 dimensional seismic and the drilling of five shale exploration wells, including the first two horizontal wells drilled and hydraulically fractured into UK shale rock at the Preston New Road (PNR) site near Blackpool. Both of the PNR wells flowed high quality natural gas from the Bowland shale back to surface. However, the exceedingly stringent requirements of the seismic “traffic light” system requiring fracturing operations to be halted if a seismic event greater than 0.5 on the Richter Scale was recorded, meant that only a handful of the 45 plus fracturing stages in each well could be fractured. A sustained flow rate and test could not consequently be delivered for either well.

On 2 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. Cuadrilla continues to work with other Operators, the NSTA and UK industry to resolve concerns on hydraulic fracturing and support domestic gas production consistent with the UK goal of Net Zero CO₂ by 2050.

The Government’s Energy White Paper and the Committee on Climate Change recognise that there will be a continuing need for gas for both energy and power needs in the net zero 2050 scenarios. This will be a declining and reduced dependence on gas, and there will be a need to couple with Carbon Capture Utilisation and Storage technologies (CCUS), but a significant secure supply need for natural gas will remain out to 2050 and beyond. Shale gas can play an important role in domestic gas supply as a more secure, cost effective, economically beneficial and environmentally preferable option to long distance gas imports. This can include acting as feedstock in petrochemical applications and potentially in the increased production of hydrogen coupled with CCUS.

As at the balance sheet date, the Company has intangible exploration assets in respect of its interest in PEDL165 of £46,212,000 (30 June 2020: £46,284,000). 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 significantly differ to the amounts stated in the Balance Sheet.

In July 2020, the Company received notice from Spirit North Sea Gas Limited (“Spirit”), a Joint Venture Partner in the PEDL 165 Bowland exploration licence, that it intends to exit the licence and transfer its 25% interest to AJ Lucas Group Limited (“AJL”) for a nominal sum.

Post balance sheet events

In March 2022 the NSTA wrote to Cuadrilla withdrawing the plug and abandonment (P&A) notices that it had previously issued in respect of the two wells at Preston New Road (Wells PNR1z and PNR2). The NSTA accepted a request by Cuadrilla that both wells be moved to a Suspended Status until end June 2023.

In April 2022 in response to growing calls from MPs, business leaders and the media, the Secretary of State at BEIS (SoS) 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 has been asked to complete its review and report to the SoS by the end of June 2022. Cuadrilla has provided written input to the review and offered its full co-operation to the BGS.

In June 2022 Centrica subsidiary Spirit Energy and Cuadrilla signed an agreement under which Spirit withdrew the notice that it had exercised in July 2020 notifying its intention to exit the PEDL 165 Bowland exploration licence. Spirit is now retaining its 25% interest in the PEDL 165 licence.

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 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:

- **Government moratorium** - In November 2019 the UK Government introduced a moratorium which paused hydraulic fracturing in England "unless and until further evidence is provided that it can be carried out safely in the UK." Cuadrilla continues to work with other Operators, the NSTA and UK industry to resolve concerns on hydraulic fracturing and support the UK goal of Net Zero CO₂ by 2050.
- **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, geomechanical studies, physical and chemical laboratory analyses and reservoir engineering data.
- **Climate Change** - The UK Government has a legal obligation to meet a target of Net Zero CO₂ by 2050. This will lead to a reduction in gas consumption and a requirement to capture and/or offset the CO₂ emissions from burning gas. Notwithstanding 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 CO₂ 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** – Cuadrilla Bowland Limited 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 intends to 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 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.

Strategic report *(continued)*

Going concern

The financial statements have been prepared on the going concern basis 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 2023. 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 2023. The letter indicates that subject to successful refinancing by AJL, 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 consider that this constitutes a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern.

The directors of the Company also acknowledge that AJL has set out in the AJL Group Interim Report for the half year ended 31 December 2021 a number of events and conditions which raise doubt about AJL's ability to continue as a going concern, including the ability to refinance existing facilities which mature in the going concern assessment period. The directors are of the view that, other than the refinancing, 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 was unable to continue as a going concern.

The directors have considered the impact of the global COVID-19 pandemic on the Company. The Company has taken all recommended and necessary precautions to protect our employees and other stakeholders with whom we regularly interact. As our exploration sites have been largely non-operational, as a consequence of the moratorium on hydraulic fracturing in England, the directors consider that the COVID-19 pandemic impact on the business has been materially less than otherwise might have been the case.

By order of the board



Francis Egan
Director

23 June 2022

Directors' report

The directors of the Company present their strategic report, directors' report and financial statements for the year ended 30 June 2021.

Results and dividends

Due to the moratorium on hydraulic fracturing and the resulting decrease in activity, operating costs for the year have decreased to £64,000 (*six month period ended 30 June 2020: £386,000*). The Company recognised a corporation tax credit in the period of £1,325,000 (*2020: £500,000*). The result for the year ended 30 June 2021 is a profit of £1,261,000 (*six month period ended 30 June 2020: profit £114,000*). The Directors do not recommend the payment of a dividend.

Principal activities

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

Change of accounting year end

In the previous period, the Company shortened the accounting period to end on 30 June 2020 in order to align with the accounting year end of the AJL group. As such, the Income Statement is for the year ended 30 June 2021 whilst comparatives reflect the six month period ended 30 June 2020.

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)

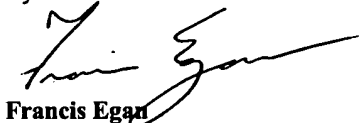
Disclosure of information to auditor

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

3000 Aviator Way
Wythenshawe
Manchester
M22 5TG

23 June 2022

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 ('IFRSs') in conformity with the Companies Act 2006.

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 in conformity with the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- 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 BOWLAND LIMITED

Opinion

We have audited the financial statements of Cuadrilla Bowland Limited for the year ended 30 June 2021 which comprise Income statement and comprehensive income, the Balance Sheet, Cash flow statement, the statement of changes in equity and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 June 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 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.

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 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 attention to Note 1 in the financial statements, which describes that the Company relies upon support from the parent company, AJ Lucas Group Limited (AJL), which has disclosed material uncertainties in its latest financial statements. AJL has provided a letter indicating that subject to successful refinancing, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due. Accordingly, the ability of AJL to provide this financial support is uncertain.

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 with respect to this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's/group's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUADRILLA BOWLAND 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 this 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 there is 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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.

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

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the direct laws and regulations relating to elements of company law and tax legislation, and financial reporting framework i.e., Companies Act 2006.
- We understood how the Company is complying with those frameworks by making enquiries with management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies, reviewed minutes of the Board meetings, and gained an understanding to the Company's approach to governance, demonstrated by the board of directors' approval of the governance framework and its review of the risk management framework and internal control processes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that might otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement including complex transactions, economic or external pressures and the impact these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with regulatory authorities.

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 BOWLAND 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

23 June 2022

Income statement and comprehensive income
for the year ended 30 June 2021

	<i>Note</i>	<i>Year ended 30 June 2021 £000</i>	<i>Six month period ended 30 June 2020 £000</i>
<i>Operating expenses</i>		<i>(64)</i>	<i>(386)</i>
<i>Operating loss</i>	<i>4</i>	<i>(64)</i>	<i>(386)</i>
<i>Taxation</i>	<i>5</i>	<i>1,325</i>	<i>500</i>
<i>Profit for the year/period</i>		<i>1,261</i>	<i>114</i>

The results above relate to continuing operations.

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

The accompanying notes on pages 14 to 25 form an integral part of these financial statements.

Balance sheet
at 30 June 2021

	<i>Note</i>	30 June 2021 £000	30 June 2020 £000
Non-current assets			
Intangible exploration and evaluation assets	6	46,212	46,284
Current assets			
Trade and other receivables	7	1,560	2,128
Cash		4	2
Total assets		<u>47,776</u>	<u>48,414</u>
Current liabilities			
Trade and other payables	8	(44,839)	(46,664)
Provisions	9	(951)	-
Non-current liabilities			
Provisions	9	-	(1,025)
Total liabilities		<u>(45,790)</u>	<u>(47,689)</u>
Net assets		<u>1,986</u>	<u>725</u>
Equity attributable to equity holders of the parent			
Share capital	10	-	-
Retained profits	10	1,986	725
Total equity		<u>1,986</u>	<u>725</u>

These financial statements were approved by the board of directors on 23 June 2022 and were signed on its behalf by:



Francis Egan
Director

Company registered number: 8340918

The accompanying notes on pages 14 to 25 form an integral part of these financial statements.

Cash flow statement
for the year ended 30 June 2021

	<i>Year ended 30 June 2021 £000</i>	<i>Six month period ended 30 June 2020 £000</i>
<i>Cash flows from operating activities</i>		
<i>Loss before tax for the year/period</i>	(64)	(386)
<i>Adjustments for:</i>		
<i>Decrease in trade and other receivables</i>	68	457
<i>Decrease in trade and other payables</i>	(1,825)	(911)
	(1,821)	(840)
<i>Tax received</i>	1,825	544
<i>Net cash inflow/(outflow) from operating activities</i>	4	(296)
<i>Cash outflows from investing activities</i>		
<i>Capitalised exploration expenditure</i>	(2)	(51)
<i>Net increase/(decrease) in cash</i>	2	(347)
<i>Cash at start of year/period</i>	2	349
<i>Cash at end of year/period</i>	4	2

The accompanying notes on pages 14 to 25 form an integral part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2021

	<i>Share capital £000</i>	<i>Retained profits £000</i>	<i>Total Equity £000</i>
<i>Balance at 1 January 2020</i>	-	611	611
<i>Total recognised income and expense for the period</i>	-	114	114
	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2020</i>	-	725	725
	<hr/>	<hr/>	<hr/>
<i>Balance at 1 July 2020</i>	-	725	725
<i>Total recognised income and expense for the year</i>	-	1,261	1,261
	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2021</i>	-	1,986	1,986
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 14 to 25 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The Company is incorporated in and domiciled in the United Kingdom.

The financial statements have been prepared and approved by the directors in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006.

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 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 2023. 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 2023. The letter indicates that subject to successful refinancing by AJL, 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 consider that this constitutes a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern.

The directors of the Company also acknowledge that AJL has set out in the AJL Group Interim Report for the half year ended 31 December 2021 a number of events and conditions which raise doubt about AJL's ability to continue as a going concern, including the ability to refinance existing facilities which mature in the going concern assessment period. The directors are of the view that, other than the refinancing, 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 was unable to continue as a going concern.

The directors have considered the impact of the global COVID-19 pandemic on the Company. The Company has taken all recommended and necessary precautions to protect our employees and other stakeholders with whom we regularly interact. As our exploration sites have been largely non-operational, as a consequence of the moratorium on hydraulic fracturing in England, the directors consider that the COVID-19 pandemic impact on the business has been materially less than otherwise might have been the case.

Notes (continued)

1 Accounting policies (continued)

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 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. Cuadrilla continues to work with other Operators, the NSTA and UK industry to resolve concerns on hydraulic fracturing and support domestic gas production consistent with the UK goal of Net Zero CO₂ by 2050.

As at the balance sheet date, the Company has intangible exploration assets in respect of its interest in PEDL165 of £46,212,000 (30 June 2020: £46,284,000). 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 significantly differ to the amounts stated in the Balance Sheet.

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 from the date they are available for use.

Carried interests

Where the Company has entered into carried interest agreements in exploration and evaluation projects and the Company's interest is being carried by a third party, the Company records carried costs as exploration and evaluation assets and income as appropriate once the entitlement to receive the carry proceeds becomes non-cancellable.

Notes (continued)

1 Accounting policies (continued)

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.

Decommissioning costs

Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the net present value of estimated future expenditure determined in accordance with local conditions and requirements. Discounting is used to the extent it is material. An asset, of an amount equivalent to the provision, is also added to the tangible cost and depreciated as part of the cost of the asset. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and associated asset.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting, where material, the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

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.

IFRS 16 – ‘Leases’

The Directors have considered all lease arrangements of the Company, in view of IFRS16 – ‘Leases’ and have concluded that there are no leased assets that are required to be classified as right-of-use assets.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of lease expenses.

Notes (continued)

1 Accounting policies (continued)

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.

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.

New and amended IFRS Standards that are effective for the current year

During the year, the following new and amended IFRSs were adopted for the first time:

- Amendments to IFRS 3 Definition of a Business Amendments
- IAS 1 and IAS 8 Definition of Material Amendments
- IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform
- The Conceptual Framework for Financial Reporting

The adoption of these standards does not have a material impact on the Company in the current or future reporting periods.

Adopted IFRS not yet applied

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

- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current Amendments
- IFRS 3 Reference to the Conceptual Framework Amendments
- IAS 16 Property, Plant and Equipment—Proceeds before Intended Use Amendments
- IAS 37 Onerous Contracts – Cost of Fulfilling a Contract Annual Improvements
- IFRS Standards 2018-2020 Cycle
- IFRS 16 COVID-19-Related Rent Concessions

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.

Notes (continued)

2 Business and geographical segments

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

3 Staff costs and directors remuneration

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

4 Expenses and auditor's remuneration

Included in profit for the year/period are the following:

	<i>Year ended 30 June 2021 £000</i>	<i>Six month period ended 30 June 2020 £000</i>
<i>Management fees</i>	<i>313</i>	<i>777</i>
<i>Operating lease charges – land and buildings</i>	<i>58</i>	<i>43</i>
	<hr/> <hr/>	<hr/> <hr/>

Management fees are charges from the immediate parent company – Cuadrilla Resources Limited for services provided to the Company. These management fees were agreed by both parties and are recorded at a value equivalent to the cost to Cuadrilla Resources Limited.

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 2021 £000</i>	<i>Six month period ended 30 June 2020 £000</i>
<i>Current tax income</i>	1,325	500
<i>Deferred tax expense</i>	-	-
	<hr/>	<hr/>
<i>Total tax income</i>	1,325	500
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of effective tax rate

	<i>Year ended 30 June 2021 £000</i>	<i>Six month period ended 30 June 2020 £000</i>
<i>Loss before tax for the year/period</i>	(64)	(386)
	<hr/>	<hr/>
<i>Tax using the UK Ring-fence corporation tax rate of 40%</i>	26	154
<i>Current year pre-trading expenses for which no deferred tax asset was recognised</i>	1,299	346
	<hr/>	<hr/>
<i>Total tax income</i>	1,325	500
	<hr/> <hr/>	<hr/> <hr/>

The ring fence corporation tax rate applicable for the period of 40% comprises the main rate of corporation tax on ring fence profits of 30% and an additional supplementary charge of 10%. An onshore allowance may also be available to reduce the supplementary charge and this will reduce the Company's tax charge accordingly.

No provision for tax has been made as the Company has estimated accumulated pre-trading expenses £13,513,000 (2020: £14,656,000) 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 pre-trading expenses.

Notes (continued)

6 Intangible exploration and evaluation assets

	<i>Exploration and Evaluation costs £000</i>
<i>Cost and net book value</i>	
<i>Balance at 1 January 2020</i>	46,233
<i>Additions</i>	51
	<hr/>
<i>Balance at 30 June 2020</i>	46,284
	<hr/>
<i>Balance at 1 July 2020</i>	46,284
<i>Release of decommissioning provision</i>	(74)
<i>Additions</i>	2
	<hr/>
<i>Balance at 30 June 2021</i>	46,212
	<hr/>

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 significantly differ to the amounts stated in the Balance Sheet.

7 Trade and other receivables

	<i>30 June 2021 £000</i>	<i>30 June 2020 £000</i>
<i>Current</i>		
<i>Trade receivables</i>	-	117
<i>Trade receivables from related parties (note 13)</i>	1,435	1,304
<i>Other receivables</i>	125	707
	<hr/>	<hr/>
	1,560	2,128
	<hr/>	<hr/>

Notes (continued)

8 Trade and other payables

	30 June 2021 £000	30 June 2020 £000
Current		
Amounts due to immediate parent company (note 13)	44,800	46,442
Accrued expenses	39	129
Other taxes	-	93
	<u>44,839</u>	<u>46,664</u>

Amounts due to the parent company – Cuadrilla Resources Limited relate to the settlement of liabilities on behalf of the Company. The amounts bear no interest and are repayable on demand. Cuadrilla Resources 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.

9 Provisions

Decommissioning provision	2021 £000	2020 £000
Balance at start of year/period	1,025	1,025
Release of provision	(74)	-
Balance at 30 June	<u>951</u>	<u>1,025</u>
<i>Included in:</i>		
Current liabilities	951	-
Non-current liabilities (between one and five years)	-	1,025

Provision has been made for the future cost for the removal of facilities and site restoration to a condition acceptable to the relevant authorities. These provisions are based on the group's internal estimate as at 30 June 2021. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. The estimates are reviewed regularly to take into account any material changes to the assumptions. Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time. Discounting is used to the extent it is material.

Notes (continued)

10 Capital and reserves

Reconciliation of movement in capital and reserves

	<i>Share capital £000</i>	<i>Retained profits £000</i>	<i>Total Equity £000</i>
<i>Balance at 1 January 2020</i>	-	611	611
<i>Total recognised income and expense for the period</i>	-	114	114
	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2020</i>	-	725	725
	<hr/>	<hr/>	<hr/>
<i>Balance at 1 July 2020</i>	-	725	725
<i>Total recognised income and expense for the year</i>	-	1,261	1,261
	<hr/>	<hr/>	<hr/>
<i>Balance at 30 June 2021</i>	-	1,986	1,986
	<hr/>	<hr/>	<hr/>

Share capital – Ordinary shares

	<i>30 June 2021 Number</i>	<i>30 June 2020 Number</i>
<i>On issue at 30 June – fully paid</i>	100	100
	<hr/>	<hr/>
	<i>2021</i>	<i>2020</i>
	<i>£</i>	<i>£</i>
<i>Allotted, called up and fully paid</i>		
100 ordinary shares of US\$1 each	75	75
	<hr/>	<hr/>

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)

11 Financial instruments

11(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.

11(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. The Company has no significant exposure to credit risk.

11(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 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 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.

11(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. Exposure to foreign currency risk is not considered significant.

11(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)

12 Operating leases

The Company leases land and buildings under operating leases. During the year £58,000 (*period ended 30 June 2020: £43,000*) was recognised as an expense in the income statement in respect of operating leases.

Non-cancellable operating lease rentals are payable as follows:

	30 June 2021 £000	30 June 2020 £000
<i>Less than one year</i>	24	23

13 Related parties

A J Lucas Group Limited

The Company has shared interests in licence areas with joint operating partners – Lucas Bowland Limited and Lucas Bowland (No.2) Limited, companies which are subsidiaries of AJL (see note 14). Requests to partners for funding the exploration programme are made in accordance with joint operating agreements. These contributions are recognised as a credit to exploration and evaluation assets where appropriate to ensure that costs capitalised reflect the Company's interest only. During the year ended 30 June 2021, the following transactions have taken place with AJL in respect of joint operating agreements as follows:

	<i>Contributions to exploration and evaluation assets</i>		<i>Recharge of operating costs</i>		<i>Receivables outstanding</i>	
	30 June 2021 £000	30 June 2020 £000	30 June 2021 £000	30 June 2020 £000	30 June 2021 £000	30 June 2020 £000
<i>AJ Lucas Group</i>	1	(85)	28	272	1,435	1,304

Cuadrilla Resources Limited

For the year ended 30 June 2021, the following related party transactions took place with the immediate parent company, Cuadrilla Resources Limited:

	<i>Management fees</i>		<i>Payables outstanding</i>	
	30 June 2021 £000	30 June 2020 £000	30 June 2021 £000	30 June 2020 £000
<i>Immediate parent company</i> Cuadrilla Resources Limited	313	777	44,800	46,442

The terms of the intercompany current account are disclosed in note 8 and the management fee arrangements are disclosed in note 4.

Notes (continued)

14 Post balance sheet events

In March 2022 the NSTA wrote to Cuadrilla withdrawing the plug and abandonment (P&A) notices that it had previously issued in respect of the two wells at Preston New Road (Wells PNR1z and PNR2). The NSTA accepted a request by Cuadrilla that both wells be moved to a Suspended Status until end June 2023. This information is disclosed as a non-adjusting post balance sheet event and subsequently, no change has been made to the classification of the decommissioning provisions classified as current liabilities as at 30 June 2021.

In April 2022 in response to growing calls from MPs, business leaders and the media, the Secretary of State at BEIS (SoS) 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 has been asked to complete its review and report to the SoS by the end of June 2022. Cuadrilla has provided written input to the review and offered its full co-operation to the BGS.

In June 2022 Centrica subsidiary Spirit Energy and Cuadrilla signed an agreement under which Spirit withdrew the notice that it had exercised in July 2020 notifying its intention to exit the PEDL 165 Bowland exploration licence. Spirit is now retaining its 25% interest in the PEDL 165 licence.

15 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.