Cuadrilla Bowland Limited

Annual report and financial statements

Registered number 8340918

For the year ended 30 June 2023

Contents

Strategic report

The directors present their strategic report for the year ended 30 June 2023.

Business Review

Cuadrilla Bowland Limited ("the Company") has a 51.25% interest and is the operator of UK onshore licence PEDL165, which covers an area of approximately 1,000 km^2 in Lancashire.

To date, exploration undertaken includes the acquisition of approximately 100 km^2 of 3 dimensional seismic and the drilling of five shale exploration wells, including the first two horizontal wells drilled and hydraulically fractured into UK shale rock at the Preston New Road ("PNR") site near Blackpool. Both 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.

Prior to the start of the financial year, in April 2022, the Secretary of State at the Department for Business, Energy and Industrial Strategy ("BEIS") had commissioned the British Geological Survey ("BGS") to conduct an expert technical review of the "modelling of seismic activity in shale rocks in the UK." This was in response to very high and volatile gas prices adversely impacting domestic and business customers and growing calls from Cuadrilla, other UK shale companies, Conservative MPs, and the media for the Government not to ignore domestic shale gas resources.

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 BGS' scientific conclusions, on the 22nd of September 2022, the Government announced, 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.

However just five weeks after the moratorium was lifted, following a change of Prime Minister and with no new scientific advice having been requested or produced, on the 27th of October 2022, 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 accepted, based on advice from its leading scientific advisory body, that more wells must be drilled and fractured 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.

Considering 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 a non-cash impairment expense against the carrying value of its onshore shale gas exploration assets to comply with relevant applicable accounting standards as at 31 December 2022.

We continue to engage with the Government, regulators and other industry players to address the issues that led to the moratorium. The shale gas potential resource that we have discovered remain in-situ and available to be developed as and when the political will to do so emerges.

In December 2022, Cuadrilla lodged a request to Lancashire County Council for a 24-month extension to the currently approved period for planning permission at the PNR exploration site. The application was approved by the Council's Planning Committee in June 2023.

Strategic report *(continued)*

Post balance sheet events

In August 2023 the North Sea Transition Authority ("NSTA") issued a notice to Cuadrilla to plug and abandon the two shales gas exploration wells at Preston New Road (wells PNR1z and PNR2) by 31 December 2024. Together with our Joint Venture partner Spirit Energy we are putting plans in place to comply with that instruction. This does not impact the underlying shale exploration licence which comprises approximately 100km^2 and which we will continue to operate in partnership with Spirit.

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.

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 22nd 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 27th 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 22nd 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_2 by 2050. This will lead to a reduction in gas consumption and a requirement to capture and/or offset the CO_2 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_2 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. A very robust legislative and regulatory framework is in place in the UK, but challenges remain 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 licences. 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 licences 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 losses of £46,338,000 for the year *(year ended 30 June 2022: £147,000)* and net liabilities of £44,499,000 *(2022: net assets £1,839,000)*, which the directors believe to be appropriate for the following reasons:

The directors have prepared cashflow forecasts for the 12-month period to 31 March 2025. The Company is dependent for its working capital on funds provided to it by AJL, 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 31 March 2025, AJL will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

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

19 March 2024

Directors' report

The directors of the Company present their directors' report and financial statements for the year ended 30 June 2023.

Results and dividends

The Company has carried out a review of the carrying value of its onshore shale gas exploration assets resulting in an exceptional non-cash impairment expense of £46,127,000 which is recognised as a loss in these financial statements.

The result for the year is a loss of £46,338,000 *(year ending 30 June 2022: £147,000)*. 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.

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

Pursuant to Section 487 of the Companies Act 2006, MHA 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

19 March 2024

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 BOWLAND LIMITED

Opinion

We have audited the financial statements of Cuadrilla Bowland Limited (the 'Company') for the year ended 30 June 2023 which comprise the income statement, the statement of comprehensive income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation of the company's financial statements 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 2023 and of the Company's loss 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.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 the directors' report.

Matters on which we are required to report by exception

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 by 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor 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 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;
- Enquiry of management to identify any instances of non-compliance with laws and regulations;

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

Auditor responsibilities for the audit of the financial statements *(continued)*

- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluation the business rational of significant transactions outside the normal course of business and reviewing accounting estimates for bias;
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. 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 financial statements is located on the FRC's website at: 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
19 March 2024

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 2023

	Note	Year ended 30 June 2023 £000	Year ended 30 June 2022 £000
Operating expenses		***(106)***	*(147)*
Remeasurement of decommissioning provision		***(105)***	-
Impairment of exploration assets		***(46,127)***	-
Operating loss	*4*	***(46,338)***	*(147)*
Taxation	*5*	-	-
Loss for the year		***(46,338)***	*(147)*

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 13 to 24 form an integral part of these financial statements.

Balance sheet
at 30 June 2023

	Note	***2023*** ***£000***	*2022* *£000*
Non-current assets			
Intangible exploration and evaluation assets	*6*	**-**	*46,127*
Current assets			
Trade and other receivables	*7*	***1,888***	*1,706*
Cash		***6***	*6*
Total assets		***1,894***	*47,839*
Current liabilities			
Trade and other payables	*8*	***(45,432)***	*(45,144)*
Non-current liabilities			
Provisions	*9*	***(961)***	*(856)*
Total liabilities		***(46,393)***	*(46,000)*
Net assets / (liabilities)		***(44,499)***	*1,839*
Equity attributable to equity holders of the parent			
Share capital	*10*	**-**	*-*
Retained profits	*10*	***(44,499)***	*1,839*
Total equity / (deficit)		***(44,499)***	*1,839*

These financial statements were approved by the board of directors on 19 March 2024 and were signed on its behalf by:

Francis Egan
Director

Company registered number: 8340918

The accompanying notes on pages 13 to 24 form an integral part of these financial statements.

Cash flow statement
for the year ended 30 June 2023

	Year ended 30 June 2023 £000	*Year ended 30 June 2022 £000*
Cash flows from operating activities		
Loss before tax for the year	***(46,338)***	*(147)*
Adjustments for:		
Decrease/(increase) in trade and other receivables	***(182)***	*(146)*
Increase/(decrease) in trade and other payables	***288***	*305*
Impairment of exploration assets	***46,127***	-
Remeasurement of decommissioning provision	***105***	-
Net cash inflow/(outflow) from operating activities	-	*12*
Cash outflows from investing activities		
Capitalised exploration expenditure	-	*(10)*
Net increase/(decrease) in cash	-	*2*
Cash at start of year	***6***	*4*
Cash at end of year	***6***	*6*

The accompanying notes on pages 13 to 24 form an integral part of these financial statements.

Statement of changes in equity
for the year ended 30 June 2023

	Share capital £000	*Retained profits £000*	*Total Equity £000*
Balance at 1 July 2021	-	1,986	1,986
Total recognised income and expense	-	(147)	(147)
Balance at 30 June 2022	-	1,839	1,839
Balance at 1 July 2022	-	1,839	1,839
Total recognised income and expense	-	(46,338)	(46,338)
Balance at 30 June 2023	**-**	***(44,499)***	***(44,499)***

The accompanying notes on pages 13 to 24 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. The Company's registered office address is Manchester Business Park, 3000 Aviator Way, Wythenshawe, M22 5TG.

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 losses of £46,338,000 for the year *(year ended 30 June 2022: £147,000)* and net liabilities of £44,499,000 *(2022: net assets £1,839,000)*, which the directors believe to be appropriate for the following reasons:

The directors have prepared cashflow forecasts for the 12-month period to 31 March 2025. The Company is dependent for its working capital on funds provided to it by AJL, 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 31 March 2025, AJL will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

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)*

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.

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.

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)*

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. The Company applies an inflation adjustment to the current cost estimates and discounts the resulting cash flows using a risk free discount rate. The provision estimate reflects a higher inflation percentage in the near term for the period 2023 – 2024 and thereafter incorporates the long-term UK target inflation rate for the period 2025 and beyond. 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.

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

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

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

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

The Company has provisions relating to the future cost for the removal of facilities and site restoration to a condition acceptable to the relevant authorities. These financial liabilities are classified and measured at fair value through profit and loss in accordance with IFRS 9.

Notes *(continued)*

1 Accounting policies *(continued)*

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 total lease expense.

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.

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:

- 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 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)*

1 Accounting policies *(continued)*

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
- Note 9 – Decommissioning provisions
- Note 11 - IFRS 9 Expected Credit Loss provisions

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 operating loss for the year are the following:

	Year ended 30 June 2023	*Year ended 30 June 2022*
	£000	*£000*
Management fees	***325***	*329*
Operating lease charges – land and buildings	***66***	*61*
Impairment of exploration assets	***46,127***	*-*

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

	Year ended 30 June 2023 £000	*Year ended 30 June 2022 £000*
Current tax income	-	-
Deferred tax expense	-	-
Total tax income	-	-

Reconciliation of effective tax rate

	Year ended 30 June 2023 £000	*Year ended 30 June 2023 £000*
Loss before tax for the year	*(46,338)*	*(147)*
Tax using the UK Ring-fence corporation tax rate of 40%	*18,535*	*59*
Disallowable expenses	*(18,495)*	-
Current year pre-trading expenses for which no deferred tax asset was recognised	*(40)*	*(59)*
Total tax income	-	-

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.

No provision for tax has been made as the Company has estimated accumulated pre-trading expenses £9,152,000 *(2022: £11,683,000)* 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

	Exploration and Evaluation costs £000
Cost and net book value	
Balance at 1 July 2021	*46,212*
Remeasurement of decommissioning provision	*(95)*
Additions	*10*
Balance at 30 June 2022	*46,127*
Balance at 1 July 2022	*46,127*
Impairment of exploration assets	*(46,127)*
Balance at 30 June 2023	-

The Company has a 51.25% interest and is the operator of UK onshore licence PEDL165.

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.

Considering 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 a non-cash impairment expense against the carrying value of its onshore shale gas exploration assets to comply with relevant applicable accounting standards as at 31 December 2022.

7 Trade and other receivables

	30 June 2023 £000	*30 June 2022 £000*
Current		
Trade receivables	***40***	*67*
Trade receivables from related parties (note 13)	***1,848***	*1,639*
	1,888	*1,706*

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

Notes *(continued)*

8 Trade and other payables

	30 June 2023	*30 June 2022*
	£000	*£000*
Current		
Amounts due to immediate parent company (note 13)	***45,332***	*45,101*
Accrued expenses	***97***	*39*
Other taxes	***3***	*4*
	45,432	*45,144*

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.

9 Provisions

Decommissioning provision	***2023***	*2022*
	£000	*£000*
Balance at start of year	***856***	*951*
Remeasurement of provision	***105***	*(95)*
Balance at 30 June	***961***	*856*
Included in:		
Non-current liabilities (between one and five years)	***961***	*856*

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 2023. 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. The Company applies an inflation adjustment to the current cost estimates and discounts the resulting cash flows using a risk free discount rate. The provision estimate reflects a higher inflation percentage in the near term for the period 2023 – 2024 and thereafter incorporates the long-term UK target inflation rate for the period 2025 and beyond. Discounting is used to the extent it is material.

Notes *(continued)*

10 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	*Retained profits £000*	*Total Equity £000*
Balance at 1 July 2021	-	*1,986*	*1,986*
Total recognised income and expense for the year	-	*(147)*	*(147)*
Balance at 30 June 2022	-	*1,839*	*1,839*
Balance at 1 July 2022	-	*1,839*	*1,839*
Total recognised income and expense for the year	-	*(46,338)*	*(46,338)*
Balance at 30 June 2023	**-**	***(44,499)***	***(44,499)***

Share capital – Ordinary shares

	30 June 2023 Number	*30 June 2022 Number*
On issue at 30 June – fully paid	***100***	*100*

	2023 £	*2022 £*
Allotted, called up and fully paid		
100 ordinary shares of US$1 each	*75*	*75*

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.

11 Financial instruments

	30 June 2023 £000	*30 June 2022 £000*
Financial assets at amortised cost	***1,888***	*1,706*
Financial liabilities at amortised cost	***45,432***	*45,144*
Financial liabilities at Fair Value through profit and loss	***961***	*856*

Notes *(continued)*

11 Financial instruments *(continued)*

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.

The Company has provisions relating to the future cost for the removal of facilities and site restoration to a condition acceptable to the relevant authorities. These financial liabilities are classified and measured at fair value through profit and loss in accordance with IFRS 9.

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.

As at 30 June 2023, the most significant receivable is the amount due from fellow group companies. The Company applies the expected credit loss approach to establish an allowance for impairment that represents its estimate of expected credit loss in respect of trade and other receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure expected credit losses trade receivables have been grouped based on shared credit characteristics. The loss allowance for the current and prior year has been based on the credit risk of AJL and adjusted upwards where required.

The exposure to external trade receivables balance is £40,000 *(2022:£67,000).* Subsequent to the year end, all amounts outstanding have been received.

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 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.

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 £66,000 *(year ended 30 June 2022: £61,000)* 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 2023	30 June 2022
	£000	£000
Less than one year	**30**	24

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 15). 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 2023, the following transactions have taken place with AJL in respect of joint operating agreements as follows:

	Contributions to exploration and evaluation assets		**Recharge of operating costs**		**Receivables outstanding**	
	30 June 2023	30 June 2022	**30 June 2023**	30 June 2022	**30 June 2023**	30 June 2022
	£000	£000	**£000**	£000	**£000**	£000
AJ Lucas Group	**-**	4	**79**	234	**1,848**	1,639

Cuadrilla Resources Limited

For the year ended 30 June 2023, the following related party transactions took place with the immediate parent company, Cuadrilla Resources Limited:

	Management fees		**Payables outstanding**	
	30 June 2023	30 June 2022	**30 June 2023**	30 June 2022
	£000	£000	**£000**	£000
Immediate parent company				
Cuadrilla Resources Limited	**325**	329	**45,332**	45,101

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 August 2023 the NSTA issued a notice to Cuadrilla to plug and abandon the two shale gas exploration wells at Preston New Road (wells PNR1z and PNR2) by 31 December 2024. Together with our Joint Venture partner Spirit Energy we are putting plans in place to comply with that instruction. This does not impact the underlying shale exploration licence which comprises approximately 100km^2 and which we will continue to operate in partnership with Spirit.

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.