

Cuadrilla Resources Limited

Annual report and financial statements

Registered number 6472493

For the year ended 31 December 2018



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Strategic report

During the year, the Company's subsidiaries have continued their exploration programme at a number of sites in the UK.

In 2018, we have made significant progress on our work programme, following what was an exciting and unprecedented period for the business. In many ways, 2018 will be remembered as a year of many 'firsts' not just for Cuadrilla but for shale gas exploration in the UK as a whole.

The first two horizontal wells drilled into UK shale rock, more than 2,600 metres below the surface and extending 800 metres and 750 metres through the Upper and Lower Bowland Shale respectively, at our flagship exploration site in Preston New Road, Lancashire. We were the first company to secure a Hydraulic Fracture Consent from the Government, including successfully passing a rigorous new financial resilience assessment, and to subsequently have our Hydraulic Fracture Plans for both wells approved by UK Regulators.

The first hydraulic fracturing of a horizontal well into UK shale began at our site in October 2018. Within weeks high quality natural gas was flowing back from the shale to the surface and Cuadrilla was flaring gas intermittently until mid-December, when flow-testing commenced. Subsequent flow test results confirmed that there is indeed a rich reservoir of recoverable high quality natural gas present in the Bowland Shale.

Our testing of this first well also demonstrated that the Bowland Shale formation fractures in a way that, from US experience, is typical of an excellent shale gas reservoir. A complex fracture network was generated and the sand injected into the fractures stayed in place during flow back. Testing also revealed that the natural gas flowing to surface from the shale had a very high methane content, which means it could be delivered into the local gas grid for the benefit of local consumers with minimal processing required.

An intentionally very conservative micro-seismic operating limit during hydraulic fracturing, set at just 0.5 on the Richter Scale, however severely constrained the volume of sand that could be injected along with water into the shale rock. This meant that in effect we were only able to partially test the potential of this well. We have made clear our views that the micro-seismic operating limit can and should be reviewed by appropriately qualified technical experts so that this exciting new gas resource can be commercially exploited for the benefit of the UK economy and gas consumers, without in any way impacting on people's safety or their property. We are fully prepared to support the relevant UK regulators in any such review with both our extensive operating data (some 40,000 micro-seismic data points collected during hydraulic fracturing of PNR well 1) and our extensive operating expertise.

All in all therefore 2018 was a relentless and exhilarating year on the PNR site and it would be remiss of me not to thank the team who managed a busy operational programme with stringent planning and permitting conditions, as well as an intense regulation regime. All of this progress in 2018 was achieved with an excellent focus and delivery on first class safety and environmental performance.

There were two key developments in relation to our exploration site in Lower Stumble, Balcombe. In January, we announced a new joint venture partnership with Angus Energy Plc, an oil and gas exploration, production and development company who joined the existing Cuadrilla partnership with AJ Lucas through the acquisition of a 25 per cent interest in UK onshore licence PEDL244. At the same time, West Sussex County Council approved a planning application to flow test and monitor the existing exploration well, which required no hydraulic fracturing because the rock was naturally fractured.

Angus Energy undertook a seven day flow test of the horizontal exploration well at Balcombe in September 2018. We were encouraged by the results. The well flowed at 853 barrels of oil per day (Bopd) equivalent and 1,587 Bopd equivalent during two separate test runs. Further analysis of the data collected will be carried out and potentially further testing may be required to finally determine the commercial potential for the site.

Strategic report *(continued)*

Principal risks and uncertainties

From the perspective of the Company, principal risks and uncertainties are integrated with the principal risks of the Cuadrilla group and are not managed separately. Accordingly, the principal risks and uncertainties of Cuadrilla Resources Holdings Limited, which include those of the Company, are discussed in the directors' report of the group's financial statements which does not form part of this report.

Key Performance Indicators ("KPIs")

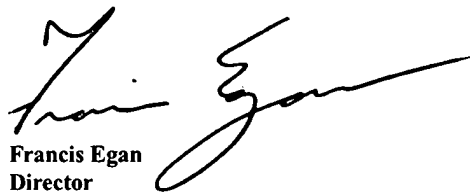
The directors of Cuadrilla Resources Holdings Limited manage the group's operations on a combined basis. For this reason, the company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance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

Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

The Directors have reviewed the forecast cash requirements of the group for the 12 months following the date of signing these accounts and, after making appropriate enquiries, they have satisfied themselves that the group will be able to meet its external liabilities as they fall due for payment.

By order of the board



Francis Egan
Director

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

16 July 2019

Directors' report

The directors of Cuadrilla Resources Limited (the "Company") present their strategic report, directors' report and financial statements for the year ended 31 December 2018.

With effect from 1 January 2018, the Company has changed its functional and presentational currency from US Dollars to GB Pounds as the majority of cash flows are in the UK where revenues and costs are sterling denominated.

Results and dividends

The result for the year is a loss of £99,000 (2017: profit £14,000).

The Directors do not recommend the payment of a dividend.

Principal activities

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

Directors

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

Francis Egan
Mark Lappin (resigned 28 February 2019)

Disclosure of information to auditor

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

Auditor

During the period Ernst Young LLP was appointed as auditor of the Company.

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

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

16 July 2019

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

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

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

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

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

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

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

Opinion

We have audited the financial statements of Cuadrilla Resources Limited for the year ended 31 December 2018 which comprise of the Income Statement and Comprehensive Income, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity, and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

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

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester 19/07/19

Income statement and comprehensive income
for the year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Revenue	2	1,571	2,097
Gross profit		1,571	2,097
<i>Operating expenses</i>		(124)	(121)
<i>Administrative expenses</i>		(1,684)	(2,131)
Operating loss	5	(237)	(155)
Taxation	6	138	169
(Loss)/profit for the year		(99)	14
Total comprehensive (expense)/income for the year		(99)	14

The results above relate to continuing operations.

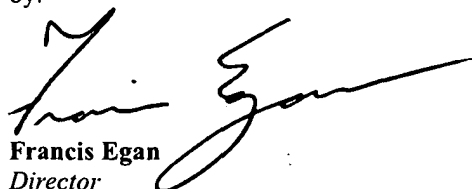
The Company has no other income or expenses recognised in the year, other than those shown in the 'Income Statement and Comprehensive Income' above.

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.

Balance sheet
at 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	7	-	112
Intangible assets	8	80	164
Investments in subsidiaries	9	1	1
		<u>81</u>	<u>277</u>
Current assets			
Trade and other receivables	10	91,710	79,372
Cash		735	686
		<u>92,445</u>	<u>80,058</u>
Total assets		<u><u>92,526</u></u>	<u><u>80,335</u></u>
Current liabilities			
Trade and other payables	11	(99,007)	(86,717)
Total liabilities		<u><u>(99,007)</u></u>	<u><u>(86,717)</u></u>
Net liabilities		<u><u>(6,481)</u></u>	<u><u>(6,382)</u></u>
Equity attributable to equity holders of the parent			
Share capital	12	-	-
Retained losses	12	(6,481)	(6,382)
Total equity		<u><u>(6,481)</u></u>	<u><u>(6,382)</u></u>

These financial statements were approved by the board of directors on 16 July 2019 and were signed on its behalf by:


Francis Egan
Director

Company registered number: 6472493

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.

Cash flow statement
for the year ended 31 December 2018

	<i>2018</i> <i>£000</i>	<i>2017</i> <i>£000</i>
<i>Cash flows from operating activities</i>		
<i>Loss before tax for the year</i>	(237)	(155)
<i>Adjustments for:</i>		
<i>Depreciation and amortisation</i>	5	57
<i>Loss on disposal of tangible and intangible assets</i>	191	-
<i>Foreign exchange losses</i>	88	113
<i>Impairment of loans to subsidiaries</i>	29	124
<i>Increase in trade and other receivables</i>	(12,398)	(2,006)
<i>Increase in trade and other payables</i>	12,290	1,041
	<hr/>	<hr/>
	(32)	(826)
<i>Tax received</i>	169	101
	<hr/>	<hr/>
<i>Net cash inflow/(outflow) from operating activities</i>	137	(725)
	<hr/>	<hr/>
<i>Cash flows from investing activities</i>		
<i>Purchases of intangible assets</i>	-	(77)
	<hr/>	<hr/>
<i>Net cash outflow from investing activities</i>	-	(77)
	<hr/>	<hr/>
<i>Net increase/(decrease) in cash</i>	137	(802)
<i>Cash at start of year</i>	686	1,713
<i>Effect of exchange rate fluctuations on cash held</i>	(88)	(225)
	<hr/>	<hr/>
<i>Cash at 31 December</i>	735	686
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2018

	<i>Share capital £000</i>	<i>Retained losses £000</i>	<i>Total Equity £000</i>
<i>Balance at 1 January 2017</i>	-	(6,852)	(6,852)
<i>Profit for the period</i>	-	14	14
<i>Foreign currency adjustment</i>		456	456
	<hr/>	<hr/>	<hr/>
<i>Balance at 31 December 2017</i>	-	(6,382)	(6,382)
	<hr/>	<hr/>	<hr/>
<i>Balance at 1 Jan 2018</i>	-	(6,382)	(6,382)
<i>Total recognised expense</i>	-	(99)	(99)
	<hr/>	<hr/>	<hr/>
<i>Balance at 31 December 2018</i>	-	(6,481)	(6,481)
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 12 to 23 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

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

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

The Company has taken the exemption from presenting consolidated accounts as group accounts are prepared by Cuadrilla Resources Holdings Limited, the ultimate parent company.

Measurement convention

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

Change in functional and presentation currency

Up to 31 December 2017, the Company operated using a presentational and functional currency of US Dollars (USD). Following completion of a review of accounting policies, the Company has changed presentational and functional currency from USD to GB Pounds (GBP) with effect from 1 January 2018, as the majority of the Company’s cash flows are in the UK where revenues and costs are GBP denominated.

These are the first financial statements to be presented in GBP and all comparative information has been restated in accordance with the requirements set out in IAS 21, The Effect of Changes in Foreign Exchange Rates, with respect to translation of results to presentational currency:

- a. Assets and liabilities in non-GBP currencies were translated into GBP at the closing rate prevailing at the balance sheet dates;
- b. Non-GBP income and expenses were translated into GBP at an exchange rates which approximates to the exchange rate ruling at the date of the transactions; and
- c. All resulting exchange rate differences have been recognised in other comprehensive income or directly in reserves as appropriate.

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 statutory accounts have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by Cuadrilla Resources Holdings Limited, the Company’s parent. Cuadrilla Resources Holdings Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available.

The Directors have reviewed the forecast cash requirements of the Cuadrilla group for the 12 months following the date of signing these accounts and, after making appropriate enquiries, they have satisfied themselves that the group will be able to meet its external liabilities as they fall due for payment.

Notes (continued)

1 Accounting policies (continued)

Foreign currency

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

Investments

Investments in subsidiaries are stated at cost less impairment.

Non derivative financial instruments

The adoption of IFRS 9 – 'Financial Instruments', effective from 1 January 2018 has not had a material impact on these financial statements.

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.

Property, plant and equipment

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

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Fixtures, fittings and equipment 4 years

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

Intangible assets – computer software

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

Revenue

Revenue is recognised at the fair value of the consideration received or receivable from subsidiaries in respect of management services supplied during the period once the risks and rewards of the supply have been transferred. The adoption of IFRS 15 – 'Revenue from Contracts with Customers', effective from 1 January 2018, has not had a material impact on the financial statements.

Notes (continued)

1 Accounting policies (continued)

Employee benefits

Defined contribution plans

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

Financing income

Financing income is interest receivable on cash balances.

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.

Adopted IFRS not yet applied

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

- IFRS 14 - Regulatory Deferral Accounts
- Annual improvements to IFRS 2010-2012 cycle
- Annual improvements to IFRS 2011-2013 cycle
- Annual improvements to IFRS 2012-2014 cycle
- Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS 16 – Leases

The Directors are considering the impact of IFRS16 – ‘Leases’ which is effective from 1 January 2019 and this assessment is ongoing at the balance sheet date. The Directors anticipate that adoption of all other Standards and Interpretations, as listed above, will not have a material impact on the financial statements of the Company in future periods.

2 Revenue, business and geographical segments

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

Notes (continued)

3 Staff numbers and costs

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

	<i>Number of employees</i>	
	<i>Company</i>	
	2018	2017
Management and operational support	26	24

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
<i>Wages and salaries</i>	2,780	2,608
<i>Social security costs</i>	367	313
<i>Contributions to defined contribution plans</i>	134	135
	3,281	3,056

4 Directors' remuneration

	2018	2017
	£000	£000
Directors' emoluments	680	632

The aggregate emoluments during the year of the highest paid director were £480,000 (2017: £416,000).

Company contributions made to directors' money purchase pension plans total £nil (2017: £10,000). No retirement benefits are accruing under defined benefit pension schemes.

5 Operating loss

Included in operating loss for the year are the following:

	2018	2017
	£000	£000
<i>Impairment of loans to subsidiaries</i>	29	124
<i>Depreciation of tangible fixed assets</i>	-	6
<i>Loss on disposal of tangible fixed assets</i>	112	-
<i>Amortisation of intangible assets</i>	5	51
<i>Loss on disposal of intangible assets</i>	79	-
<i>Operating lease charges – land and buildings</i>	46	125
<i>Operating lease charges – motor vehicles</i>	10	18
<i>Operating lease charges – equipment</i>	24	25
<i>Foreign exchange losses</i>	88	113

Audit fees are borne by the parent company.

Notes (continued)

6 Taxation

Recognised in the income statement

	2018 £000	2017 £000
Current tax income	138	169
Deferred tax expense	-	-
	<hr/>	<hr/>
Total tax income	138	169
	<hr/>	<hr/>

Reconciliation of effective tax rate

	2018 £000	2017 £000
Loss before tax for the year	(237)	(155)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 19% (2017:19.25%)	45	30
Depreciation in excess of capital allowances for which no deferred tax asset is recognised	(21)	(1)
Non-deductible expenses	(16)	(27)
Current year losses for which no deferred tax asset is recognised	130	167
	<hr/>	<hr/>
Total tax income	138	169
	<hr/>	<hr/>

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

No provision for tax has been made as the Company has estimated accumulated tax losses of £39,000 (2017: £nil) which are available for offset against future taxable income. A deferred tax asset has not been recognised as it is uncertain when the Company will be able to utilise the losses. The Company also has an unrecognised deferred tax asset in respect of property, plant and equipment of £26,000 (2017:£8,000).

Notes (continued)

7 Property, plant and equipment

	<i>Fixtures, fittings & equipment</i>	<i>Under construction</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost			
Balance at 1 January 2017	46	120	166
Foreign currency adjustment	(3)	(8)	(11)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	43	112	155
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 January 2018	43	112	155
Disposals	-	(112)	(112)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	43	-	43
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation			
Balance at 1 January 2017	(40)	-	(40)
Depreciation charge for the year	(6)	-	(6)
Foreign currency adjustment	3	-	3
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	(43)	-	(43)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 January 2018 and 31 December 2018	(43)	-	(43)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 1 January 2017	6	120	126
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2017 and 1 January 2018	-	112	112
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2018	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The depreciation charge is recognised within administrative costs for the year (2017:same).

Notes (continued)

8 Intangible assets

Cost	Software £000
<i>At 1 January 2017</i>	344
<i>Additions – under construction</i>	77
<i>Foreign currency adjustment</i>	(26)
	<hr/>
<i>Balance at 31 December 2017</i>	395
	<hr/>
<i>At 1 January 2018</i>	395
<i>Disposals</i>	(79)
	<hr/>
<i>Balance at 31 December 2018</i>	316
	<hr/>
Amortisation	
<i>At 1 January 2017</i>	(195)
<i>Amortisation charge for the year</i>	(51)
<i>Foreign currency adjustment</i>	15
	<hr/>
<i>Balance at 31 December 2017</i>	(231)
	<hr/>
<i>At 1 January 2018</i>	(231)
<i>Amortisation charge for the year</i>	(5)
	<hr/>
<i>Balance at 31 December 2018</i>	(236)
	<hr/>
Net book value	
<i>At 1 January 2017</i>	149
	<hr/>
<i>At 31 December 2017 and 1 January 2018</i>	164
	<hr/>
<i>At 31 December 2018</i>	80
	<hr/>

The amortisation charge is recognised within administrative costs for the year (2017:same).

Notes (continued)

9 Investments in subsidiaries

	<i>Shares in subsidiary undertakings £000</i>
Cost	
<i>At 1 January 2018 and 31 December 2018</i>	54
	<hr/>
Provision for impairment	
<i>At 1 January 2018 and 31 December 2018</i>	(53)
	<hr/>
Net book value	
<i>At 1 January 2018 and 31 December 2018</i>	1
	<hr/>

During the year, Cuadrilla Poland Sp.Zo.o, a subsidiary company incorporated in Poland was liquidated.

Details of all of the Company's subsidiaries at 31 December 2018 are as follows:

	<i>Country of Incorporation</i>	<i>Nature of business</i>	<i>Class of shares held</i>	<i>Ownership</i>
Cuadrilla Bowland Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla Elswick Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla Balcombe Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla Weald Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla Elswick (No.2) Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla North Cleveland Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla South Cleveland Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla Gainsborough Limited*	UK	Oil and gas exploration	Ordinary	100%
Cuadrilla Brabant BV**	Netherlands	Oil and gas exploration	Ordinary	100%
Cuadrilla Hardenberg BV**	Netherlands	Oil and gas exploration	Ordinary	100%
Cuadrilla Well Services Limited*	UK	Services for oil and gas exploration	Ordinary	100%
Cuadrilla Services Limited*	UK	Investment holding	Ordinary	100%

*All UK subsidiaries have a registered office address at Cuadrilla House, Sceptre Court, Sceptre Way, Bamber Bridge, Lancs PR5 6AW

**The Subsidiaries in the Netherlands have a registered office address at Dorpstraat 20, 5296 L V Esch, The Netherlands

10 Trade and other receivables

	<i>2018 £000</i>	<i>2017 £000</i>
Current		
<i>Trade receivables</i>	-	7
<i>Trade receivables due from related parties (note 15)</i>	90,323	78,014
<i>Prepayments</i>	108	151
<i>Other receivables</i>	1,279	1,200
	<hr/>	<hr/>
	91,710	79,372
	<hr/>	<hr/>

Notes (continued)

11 Trade and other payables

	2018 £000	2017 £000
Current		
Trade payables	241	710
Amounts due to immediate parent company (note 15)	98,027	85,806
Social security and other taxes	93	77
Accrued expenses	646	124
	<u>99,007</u>	<u>86,717</u>

Amounts due to the immediate 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.

12 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Retained losses £000	Total Equity £000
Balance at 1 January 2017	-	(6,852)	(6,852)
Profit for the period	-	14	14
Foreign currency adjustment		456	456
	<u>-</u>	<u>(6,382)</u>	<u>(6,382)</u>
Balance at 31 December 2017	-	(6,382)	(6,382)
	<u>-</u>	<u>(6,382)</u>	<u>(6,382)</u>
Balance at 1 Jan 2018	-	(6,382)	(6,382)
Total recognised expense	-	(99)	(99)
	<u>-</u>	<u>(6,481)</u>	<u>(6,481)</u>
Balance at 31 December 2018	-	(6,481)	(6,481)

Share capital

	2018 number	2017 number
Ordinary shares		
On issue at 31 December – fully paid	100	100
	<u>100</u>	<u>100</u>
	2018	2017
	£	£
Allotted, called up and fully paid		
Ordinary shares of US\$1.50 each	113	113
	<u>113</u>	<u>113</u>

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

Notes (continued)

13 Financial instruments

13(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.

13(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 at 31 December 2018.

13(c) Liquidity risk

Financial risk management

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

The Company's most significant creditor is an intercompany balance with its parent company, which although it is repayable on demand, the parent company has indicated that for at least 12 months from the date of approval of these financial statements, it 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.

13(d) Market risk

Financial risk management

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

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

13(e) Capital management

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

Notes (continued)

14 Operating lease commitments

The Company leases land and buildings, vehicles and office equipment under a number of operating leases. During the year £80,000 (2017: £168,000) was recognised as an expense in the income statement in respect of leases.

Non-cancellable operating lease rentals are as follows:

	2018 £000	2017 £000
<i>Less than one year</i>	97	84
<i>Between two and five years</i>	27	50
	<u>124</u>	<u>134</u>

15 Related parties

Key management personnel

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

Management fees

The Company has recognised income of £1,571,000 in respect of management fees (2017: £2,097,000). Management fees are charges for operational and administrative services provided by the Company to subsidiary companies. The management fees are agreed by both parties and are recorded at a value equivalent to the cost to the Company.

Other related party transactions

	<i>Receivables outstanding</i>		<i>Payables outstanding</i>	
	2018 £000	2017 £000	2018 £000	2017 £000
<i>Immediate parent company</i>	-	-	98,027	85,806
<i>Subsidiaries</i>	90,294	77,985	-	-
<i>AJ Lucas Group Limited (see note 16)</i>	29	29	-	-
	<u>90,323</u>	<u>78,014</u>	<u>98,027</u>	<u>85,806</u>

All intercompany accounts are current.

Notes *(continued)*

16 Ultimate parent company and parent company of larger group

The company is a subsidiary of Cuadrilla Resources Holdings Limited which is jointly controlled by its shareholders:

- Lucas Cuadrilla PTY Limited (48%);
- Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP (45%); and
- Management team and employees (7%).

The largest and smallest consolidated financial statements into which the results of the Company are consolidated are those of the ultimate parent company, Cuadrilla Resources Holdings Limited. Cuadrilla Resources Holdings Limited is a company incorporated in the United Kingdom and copies of the consolidated financial statements are available from Companies House, Crown Way, Cardiff, CF14 3UZ.