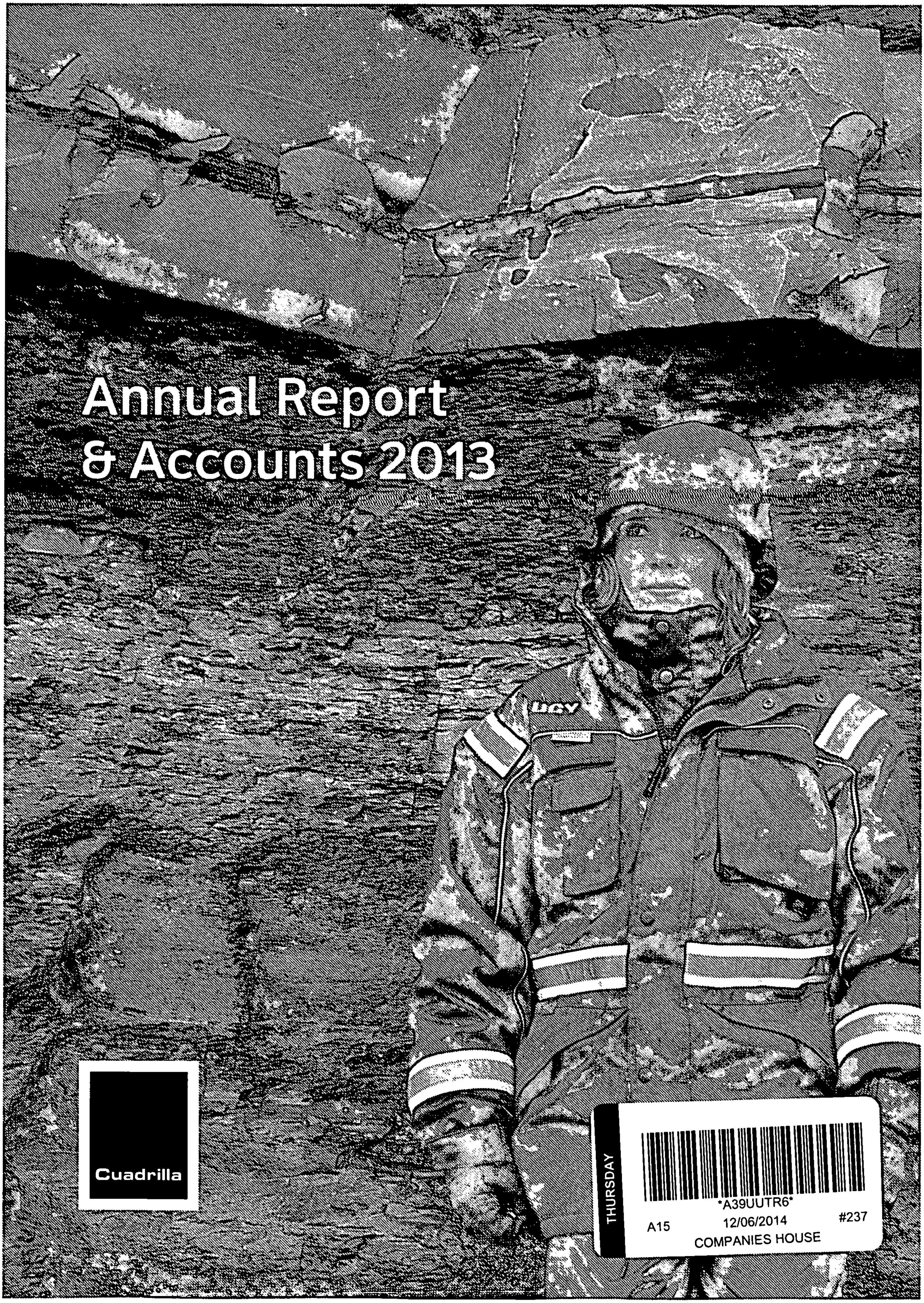
# Annual Report & Accounts 2013



Cuadrilla

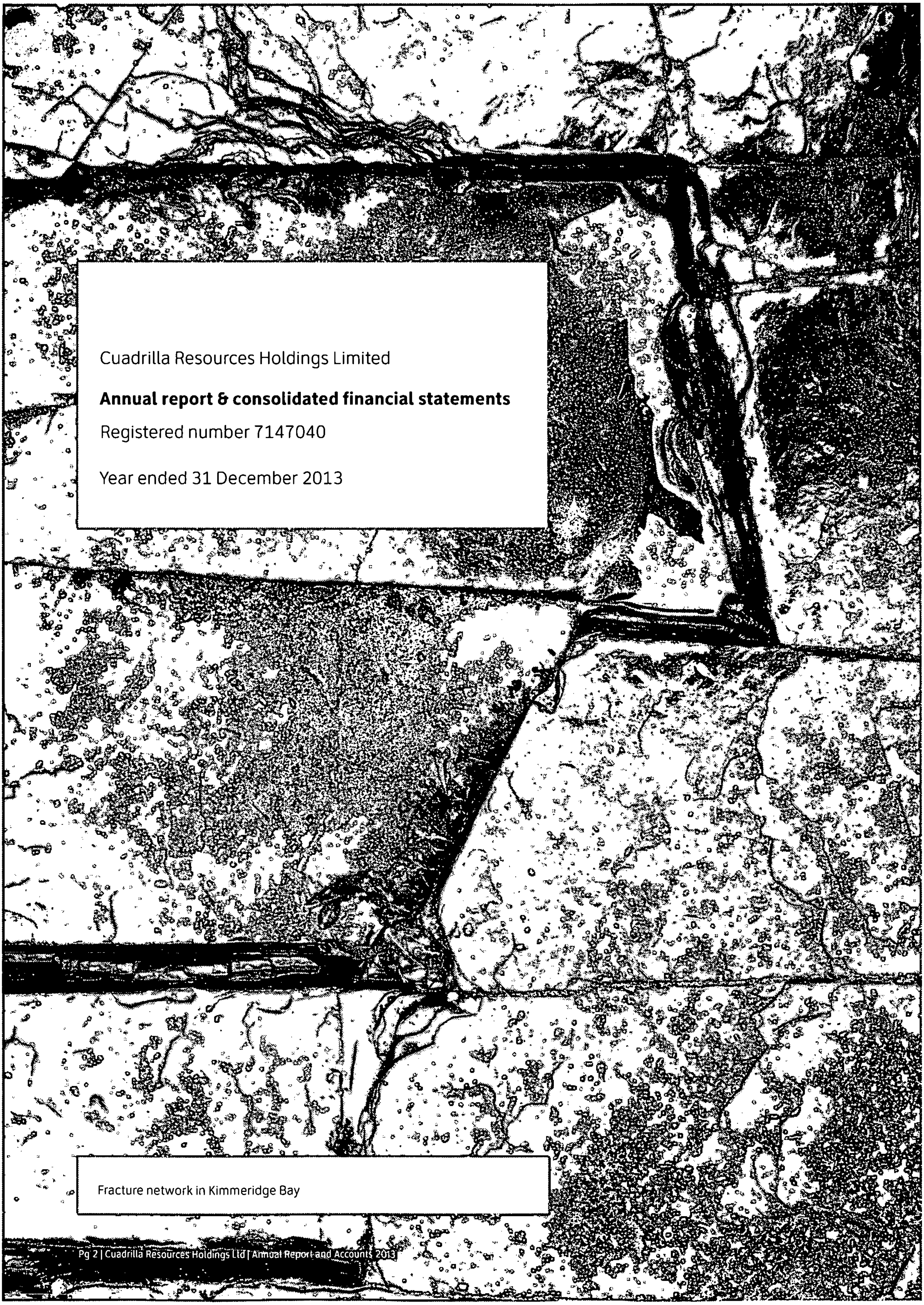
THURSDAY
*A39UUTR6*
A15 12/06/2014 #237
COMPANIES HOUSE

Cuadrilla Resources Holdings Limited

**Annual report & consolidated financial statements**

Registered number 7147040

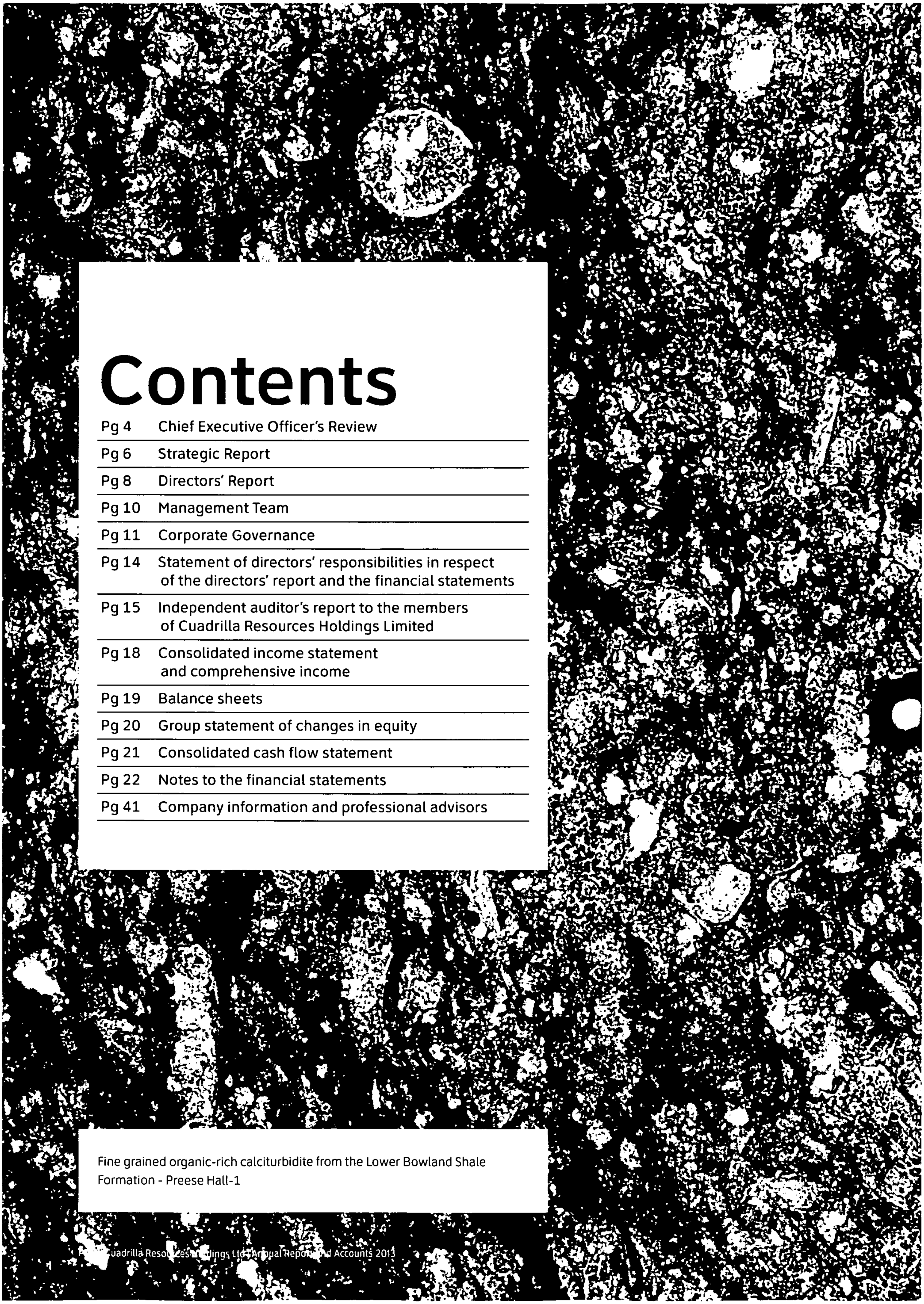
Year ended 31 December 2013



Fracture network in Kimmeridge Bay

# Contents





Fine grained organic-rich calciturbidite from the Lower Bowland Shale Formation - Preese Hall-1

# Chief Executive Officer's Review

Welcome to Cuadrilla's Annual Financial Statements for 2013.

2013 was a year of progress and development. We were delighted to announce that Centrica joined as an investor and partner in our Lancashire Bowland exploration licence, and that we had appointed Arup as the independent provider of our Environmental Impact Assessments (EIA) in Lancashire. During 2013 we also made substantial progress on our Lancashire agenda in many other respects, and successfully completed the drilling of a horizontal oil exploration well in Balcombe, West Sussex.

In Lancashire, where we recently announced two new proposed sites for shale gas exploration, we put the EIA at the centre of our site selection process and our trust-building with local communities. We believe that focus on personal communications through extensive formal and non-statutory consultation is helping to clarify both the benefits of shale gas and how any actual or perceived risks are managed and mitigated. Our applications for planning consent will be filed with Lancashire County Council this Spring, and we could commence operational activity in the 4th quarter, subject to all planning and regulatory approvals.

In Sussex we completed a successful horizontal oil exploration well at Balcombe and we have subsequently been granted planning permission to conduct a seven day flow test of that well.

There were well documented protestor events at the Balcombe exploration well site and similar protests have been witnessed at other Operator sites. We remain confident that as stakeholders and the public better understand the proposals and need for shale gas exploration and extraction in the UK, the potential economic and environmental benefits this can offer and how the industry and regulators manage risk, such operations will attract increasing support.

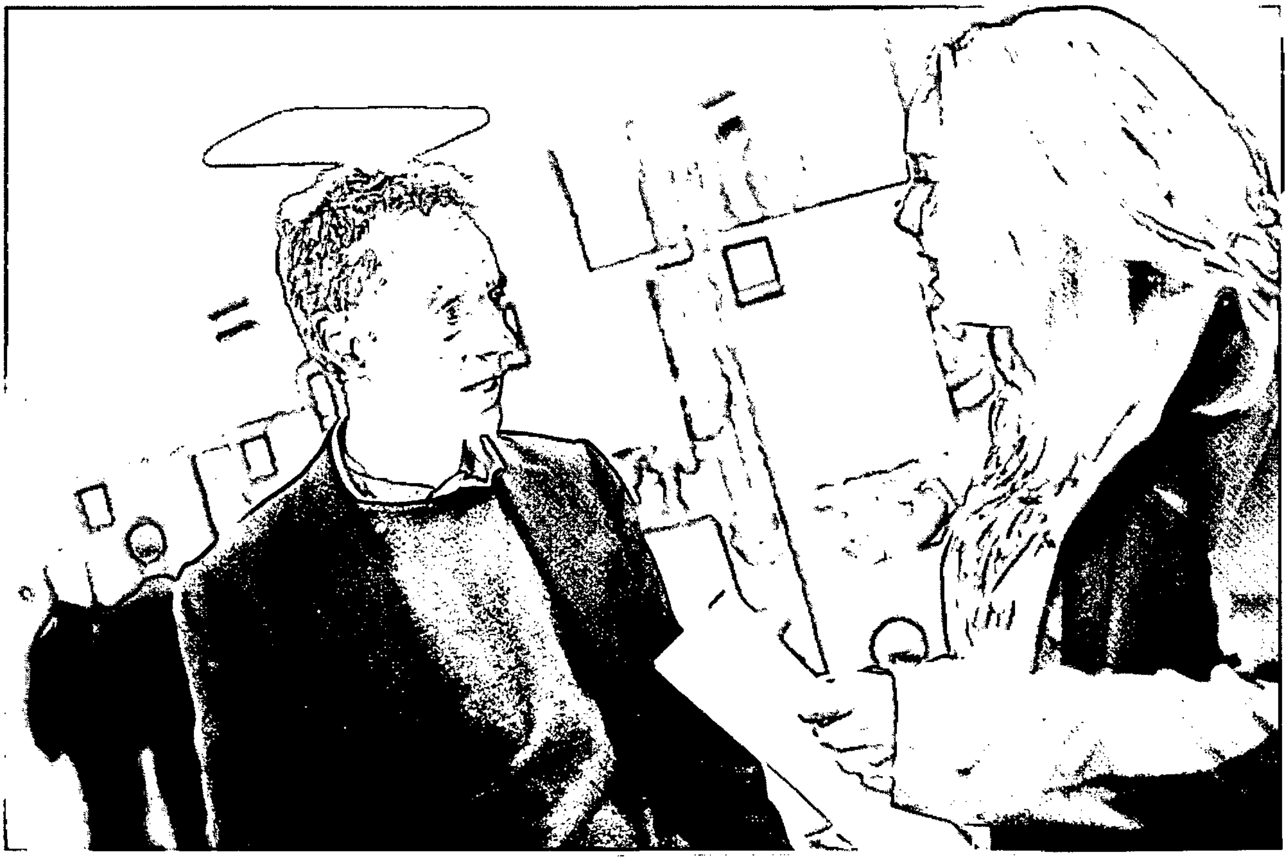
In order to ensure that industry can continue to match the UK Government's ambition for onshore gas operations, a package of measures on tax, planning and community benefits was announced in the 2013 Budget. An industry-led scheme was also launched to make sure communities share in the benefits of shale gas exploration and developments in their areas.

We are also maintaining our exploration interests in The Netherlands and Poland. The Dutch Government has commissioned a comprehensive strategic environmental assessment, following which it is hoped we will be able to apply for permission to commence exploration operations. In Poland, we are continuing to analyse seismic data we acquired in 2012/13.

As Cuadrilla's CEO, I continue to give our firm commitment to work constructively with local communities, to do all in Cuadrilla's power to complete the exploration phase sensibly and safely, and to discover the full extent of the UK's shale gas opportunity.

**Francis Egan**
Chief Executive Officer
27 May 2014

## ENGAGING WITH LOCAL COMMUNITIES




# Strategic Report

**Results and proposed dividends**

The results for the year and the Group's financial position as at the year end are shown in the attached financial statements. The Directors do not recommend the payment of a dividend.

**Business review**

The principal activities of the business continue to be the exploration for hydrocarbons in the onshore licences held by the group in the UK and mainland Europe.

Cuadrilla remains debt free and is financed by its shareholders. As at 31 December 2013, the Company was jointly controlled by its shareholders as follows:

- AJ Lucas (45%)
- Riverstone (45%); and
- Management team and employees (10%)

On 13 June 2013, Centrica plc acquired all of the shares of Bowland Resources Limited, a subsidiary company, and became a 25% investment partner in the Lancashire Bowland shale gas exploration area. Centrica has paid Cuadrilla £30 million in cash and committed to fund £60 million of expenditure on the Bowland licence from the transaction effective date of 1 January 2013 (of which Cuadrilla's share is £33.75 million). A further contingent payment of £60 million (of which Cuadrilla's share is £45 million) will be paid by Centrica subject to certain operational milestones having been reached.

The ownership of the Bowland licence before and after the transaction is summarised as below:

| Owner | Ownership before transaction<br>% | Ownership after transaction<br>% |
|---|---|---|
| **Cuadrilla** | 75.00 | 56.25 |
| **A J Lucas** | 25.00 | 18.75 |
| **Centrica** | - | 25.00 |
| | 100.00 | 100.00 |

During 2013, the Group incurred operating and administrative costs of $17.2m (2012: $29.2m) stated after contributions from joint operating partners. Contributions received from partners during 2013 were higher than 2012 as a result of Centrica joining the Bowland exploration licence. The underlying activity was higher than previous years, as we continue to strengthen our management team in anticipation of operations commencing at the two new recently announced proposed exploration sites in Lancashire.

The Group has net assets of $64.7m (2012: $98.4m) and $16.2m of cash (2012: $27.6m). The reduction in net assets reflects the disposal of Bowland Resources Ltd to Centrica during the year and the reduction in A preference share capital during the year as discussed in note 19.

# STRATEGIC REPORT

Continued

**Principal risks and uncertainties**

As an oil and gas exploration group, Cuadrilla is exposed to and manages a variety of risks. The key risks are assessed as follows:

- Exploration and appraisal risk is mitigated by seeking to develop a diverse portfolio of assets in known hydrocarbon producing regions in politically stable European countries. The assessment of resources and reserves is inherently uncertain and this risk is managed by the collection and extensive analysis of geological and seismic data, geomechanical studies, physical and chemical laboratory analyses and reservoir engineering data. The Group has developed its own team of professional in-house experts and seeks external support from experienced consultants as required.
- Legislation risk – Through its drilling, completion, hydraulic fracture stimulation and well testing operations, the Group is exposed to planning, licensing, regulatory, environmental permitting and other legislative risks. Although a very robust legislative and regulatory framework is in place in the UK and the rest of the EU, the challenge is in ensuring the co-ordination between all regulators for timely and efficient decision making. The Board and Management place considerable importance on maintaining the highest standards of regulatory compliance and developing successful working relationships with local communities and local and national government authorities.
- Liquidity risk is managed by the Board who review the Group's cash flow forecasts to satisfy themselves that the Group will be able to meet its external liabilities as they fall due and that required monetary injections from shareholders are identified and available as required.
- Capital and funding risk - The Group is exposed to capital risk as currently the Group has no borrowings and is 100% equity financed. The capital structure is monitored by the Board to ensure that it meets the business plan. Funding risk is mitigated by partnering with globally accomplished operating partners.
- Currency, interest rate and credit risks – The Board does not consider that these risks are significant at this stage.

**Going concern**

The statutory accounts have been prepared on a going concern basis, which the directors believe to be appropriate.

Management have reviewed the forecast cash requirements of the Group for the 12 months following the date of approval of these financial statements and have satisfied themselves that the Group will be able to meet external liabilities as they fall due.

Andrew Price
Company Secretary and Chief Financial Officer
27 May 2014

# Directors' Report

The directors of Cuadrilla Resources Holdings Limited (the "Company") present their directors' report and the audited financial statements for year ended 31 December 2013.

### Principal activities

The principal activity of the Company is a holding company of a group of subsidiaries that are involved in the exploration and appraisal of onshore oil and gas projects in Europe, and services related thereto.

### Directors

The directors who held office during the year and subsequently were as follows:

**Non Executive directors**

| | | |
|---|---|---|
| **Lord John Browne of Madingley** | | |
| **Phillip Arnall** | | *Appointed 3 Feb 2014* |
| **Roy Franklin** | | |
| **N John Lancaster Jr** | | |
| **Ivor Orchard** | | *Appointed 3 Feb 2014* |
| **Haroun van Hővell tot Westerflier** | | |

**Executive directors**

| | | |
|---|---|---|
| **Francis Egan** | Chief Executive Officer | |
| **Anthony Carruthers** | Commercial Director | |
| **Andrew Quarles van Ufford** | Technical Director | *Appointed 21 May 2013* |

**Resigned**

| | | |
|---|---|---|
| **Allan Campbell** | Non Executive Director | *Resigned 3 Feb 2014* |
| **Anthony Kelly** | Non Executive Director | *Resigned 3 Feb 2014* |
| **Mark Miller** | Executive Director | *Resigned 28 Feb 2013* |
| **Dennis Carlton** | Executive Director | *Resigned 16 Feb 2013* |

### Employees

Cuadrilla is an equal opportunities employer. The head office is in Lichfield and provides a base for staff and consultants to meet. There are also offices in London, Blackpool, the Netherlands and Poland.

### Directors and officers indemnity insurance

The Company maintains insurance cover in respect of legal actions against its Directors and officers.

### Political and charitable donations

Charitable and community related donations totalled $80,000 during the year (2012:$34,000). There were no political donations made by the Group in the current or prior year.

### Financial instruments

The Group holds no financial instruments outside of cash and receivables. The policies for financial risk management are disclosed in note 20.

### Disclosure of information to the auditor

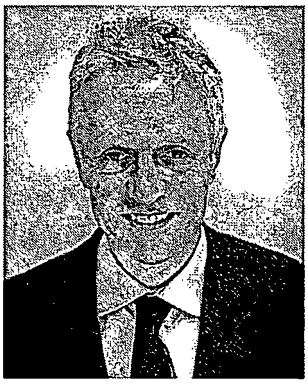
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself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

On behalf of the board, 27 May 2014
Andrew Price
Company Secretary
Cuadrilla House, Stowe Court,
Stowe Street, Lichfield, Staffordshire, WS13 6AQ

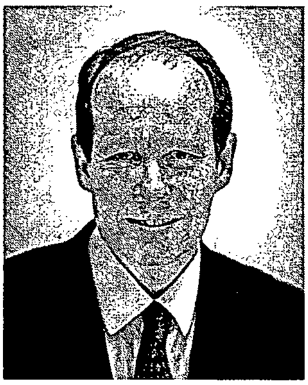
# Management Team



### Francis Egan
**Chief Executive Officer**
Francis has some 30 years of diverse international experience working in engineering and management roles in the upstream oil and gas industry. Prior to joining Cuadrilla, Francis worked in Houston as President of Production for BHP Billiton Petroleum. Francis was educated in Ireland obtaining a BE Civil Degree with First Class Honours and a Master of Engineering Science Degree. He spent time as a PhD Student and research assistant at the California Institute of Technology (Caltech) in Los Angeles and also holds an MBA from the University of Warwick.

### Tony Carruthers
**Commercial Director**
Tony has over 30 years of experience in the oil and gas industry, including 25 years spent with BP prior to joining Cuadrilla. Tony holds an MA and MEng from the University of Cambridge and a MBA from the University of Warwick. He is a Fellow of the Institute of Chemical Engineers.

### Andrew Quarles van Ufford
**Technical Director**
Andrew has been exploring and developing unconventional resources since 2007. As Geoscience Manager for Pioneer, Andrew managed the drilling of over 800 wells in the tight-oil Wolfberry play. Raised in Europe, Andrew has a Ph.D. in Geology from the University of Texas at Austin and a MBA from Northwestern University.



### Matt Lambert
**Government and Public Affairs Director**
Matt has over 25 years of experience in public affairs and government relations working for or advising major companies on their corporate affairs programmes including BT and Mars. Matt spent 12 years at Microsoft in several roles including Director of Corporate Affairs, Microsoft UK and Director of Government Affairs for Microsoft, Europe Middle East and Africa.

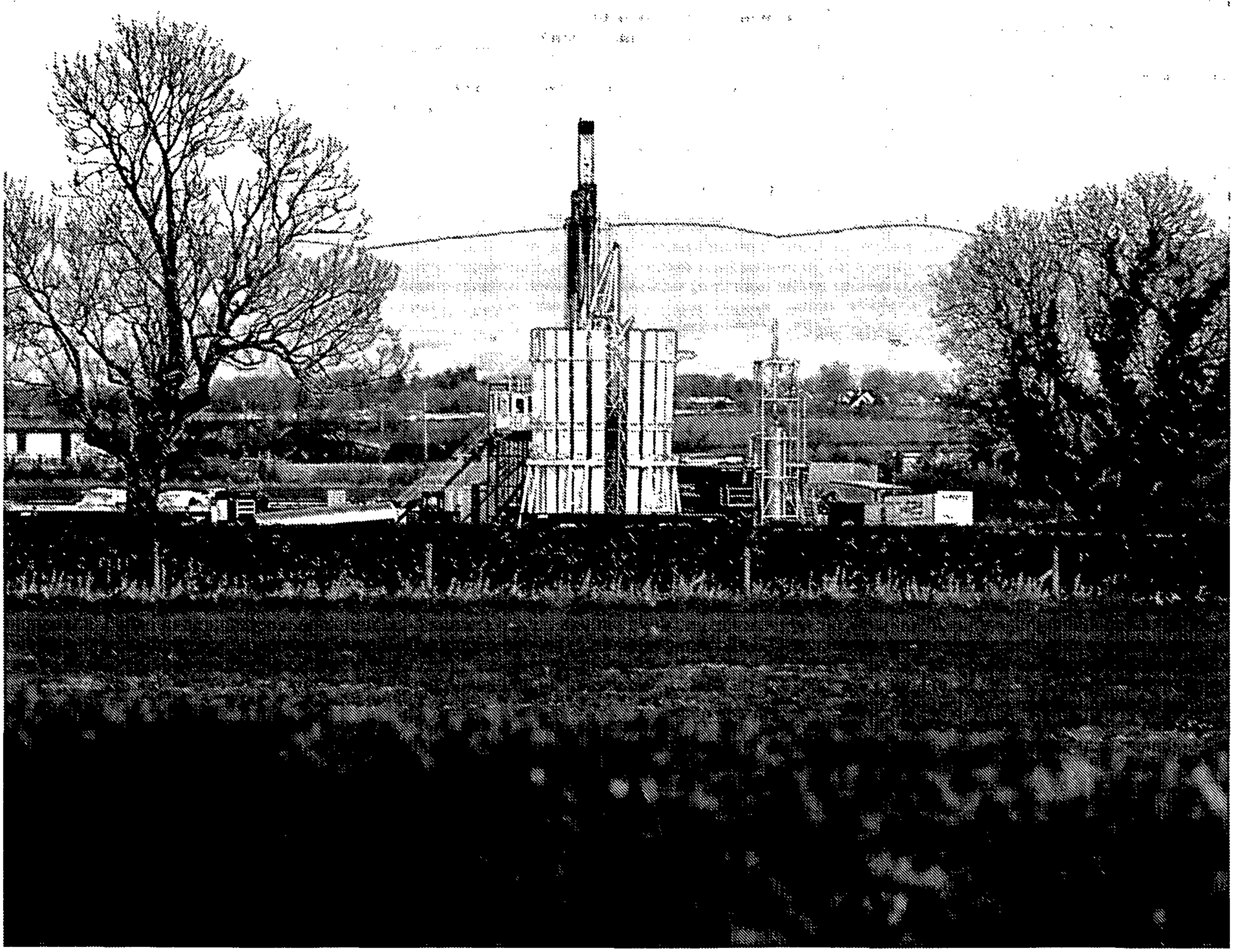
### Andrew Price
**Chief Financial Officer and Company Secretary**
Andrew became Cuadrilla's Financial Director at the start of 2009. Andrew is a graduate of Oxford University where he read Politics Philosophy and Economics, after which he qualified as a chartered accountant with Arthur Andersen in London in 1995. Since then he has held a number of international senior finance roles with FTSE 100 listed companies.

### Eric Vaughan
**Well Services Director**
Eric has over 30 years of experience in the drilling and well service industry. He is a former US and European regional manager for NOWSCO Well Service, where he managed significant onshore oilfield service operations.

### Leon Jennings
**HSSE Director**
Leon has over a decade of diverse experience working in senior HSE roles, including senior management positions at Atkins Group and National Express Group, prior to joining Cuadrilla in November 2011.

# Corporate Governance

As a private company, Cuadrilla Resources Holdings Limited is not required to comply with the UK Corporate Governance Code. The board does however recognise the importance of sound corporate governance and is committed to maintaining high standards which are consistent with the size and scale of planned future operations.



### The Board

The Company's Board of directors comprises of three executive directors and six non-executive directors, details of whom are set out on page 8. The Board members have a wealth of industry, technical and corporate experience. Board meetings are held 4 times during the year, and in addition executive management provide formal briefings to the Board every second week. A Shareholders Agreement sets out a formal schedule of matters which require Board approval ensuring that the Board exercises control over all key areas.

The statement of directors' responsibilities is set out on page 14.

### Health, Safety, Security and Environment ('HSSE') Committee

The HSSE Committee comprises Roy Franklin (as chairman) and Haroun van Hővell tot Westerflier, both of whom are non-executive directors. Roy Franklin is a geologist by training and has broad experience from management positions with BP, Paladin Resources plc and Clyde Petroleum plc. He has strong expertise in HSSE issues and received an OBE in 2004 for services to the oil and gas industry. Francis Egan (CEO) and Leon Jennings (HSSE director) are in attendance at all meetings.

The HSSE Committee meet at least four times a year and report conclusions and recommendations back to the Board. The Committee's focus is in ensuring that Cuadrilla's HSSE management system and operating practices are aligned with regulatory and industry best practice and that Cuadrilla's management team are implementing those systems and associated work procedures and practices. The Committee provide assurance to the Board to ensure that:

- HSSE risk is being proactively identified, assessed and appropriately managed;
- HSSE policy and HSSE risk management framework is effectively implemented into all operations; and
- Cuadrilla is fully compliant with all applicable HSSE legislation, permits and conditions.

### Audit Committee

At the date of this report, the Audit Committee comprises Haroun van Hővell tot Westerflier (as Chairman) and Phillip Arnall. Francis Egan (CEO) and Andrew Price (CFO and Company Secretary) are also in attendance by invitation at all meetings.

The Committee meet with the external auditor at least twice a year.

The Committee keeps under review the external auditor's independence, objectivity and any non-audit services provided.

### Remuneration Committee

The Remuneration Committee comprises Ivor Orchard (as Chairman) and Haroun van Hővell tot Westerflier, both of whom are non-executive directors.

It is Cuadrilla's policy to maintain remuneration packages which are sufficient to attract and retain executives of the highest calibre. The principal role of the Remuneration Committee is to make recommendations to the Board on Cuadrilla's remuneration policy and to determine specific remuneration packages for the executive directors and other members of the management team.

The Committee normally meets twice a year. No directors or managers are involved in any discussions or decisions relating to their own remuneration or terms and conditions of service.

### Internal controls

The Board has overall responsibility for establishing and maintaining the effectiveness of the Group's system of internal controls. The key processes are:

- HSSE risk management system;
- approval by the Board of operational plans and budgets;
- ongoing review and challenge of the execution of the operational plan, actual and forecast expenditure and cash flows versus the approved budget;
- approval and review of the operation plan by Joint Operating Committees for each licence, attended by joint operating partners;
- weekly management meetings to review HSSE, operating performance and financial activities;
- monthly management performance reviews; and
- recruitment of appropriately experienced and qualified staff to key management positions.

### Bribery Act

The Company is committed to conducting all of its business in an honest and ethical manner and takes a zero-tolerance approach to all forms of bribery and corruption. All employees, contractors, consultants and suppliers are required to act professionally, fairly and with integrity in all its business dealings and relationships wherever it operates around the world. The Company has put in place appropriate measures to ensure compliance with the UK Bribery Act 2010, including individual training and assessment. More information on the Anti-Corruption and Bribery Policy is available on the website.

On behalf of the Board
The Lord Browne of Madingley
Chairman of the Board
27 May 2014

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

# Independent auditor's report to the members of Cuadrilla Resources Holdings Limited

We have audited the financial statements of Cuadrilla Resources Holdings Limited for the year ended 31 December 2013 set out on pages 18 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate.

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

Continued

KPMG

**Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

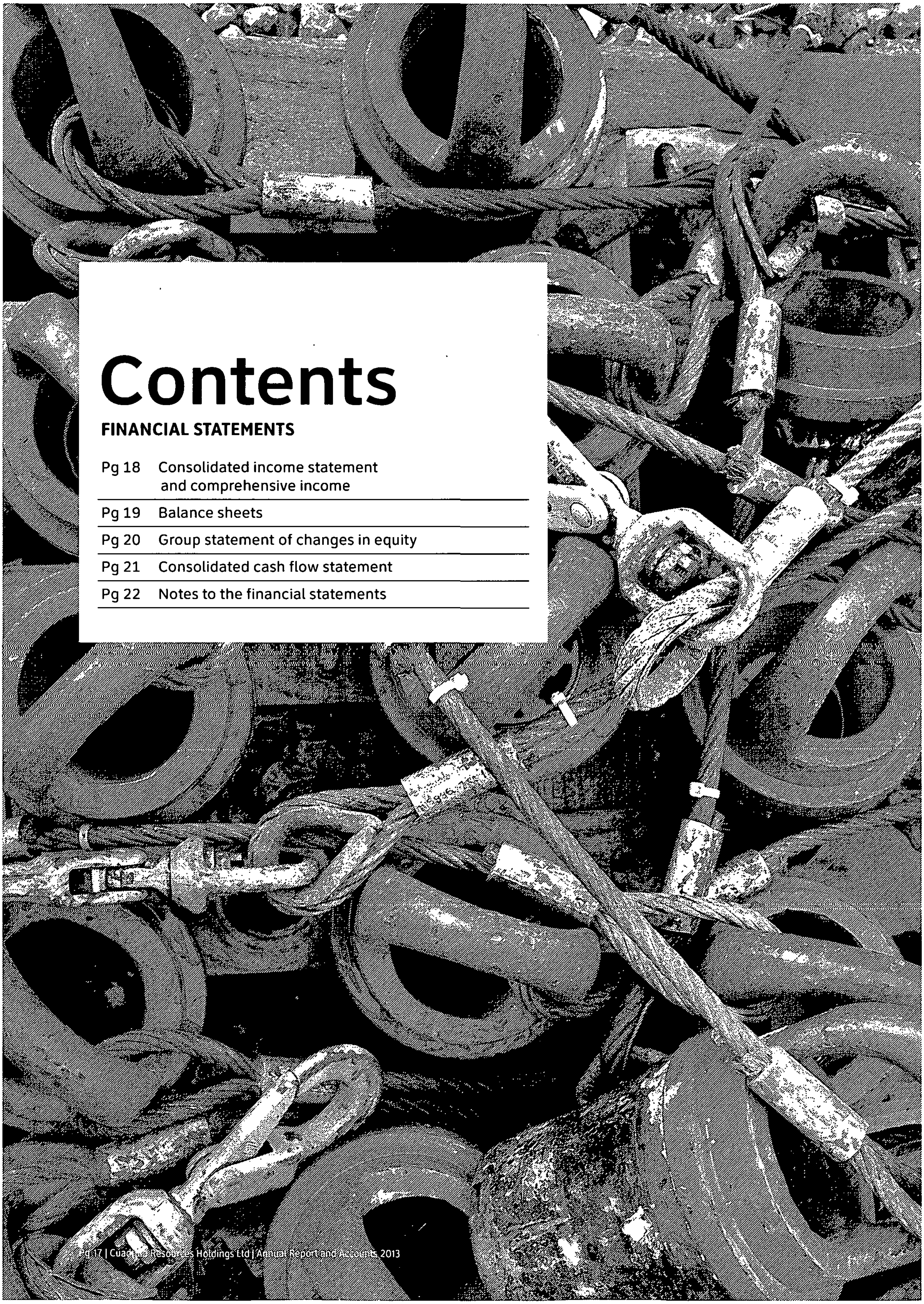
**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Peter Meehan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
27 May 2014

KPMG LLP
One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH, United Kingdom



# Contents

## FINANCIAL STATEMENTS

## Consolidated statement of comprehensive income

for the year ended 31 December 2013

| | Note | 2013<br>$000 | 2012<br>$000 |
|---|---|---|---|
| **Revenue** | 1,2 | 3,439 | 612 |
| Cost of sales | | (451) | (445) |
| **Gross profit** | | 2,988 | 167 |
| | | | |
| Operating expenses | | (8,324) | (21,516) |
| Administrative expenses | | (8,922) | (7,722) |
| **Operating loss** | 1,3 | (14,258) | (29,071) |
| | | | |
| Profit on sale of subsidiary | 6 | 5,362 | - |
| Share of results of joint venture | 7 | (18) | (198) |
| Financial income | 8 | 44 | - |
| **Loss before tax** | | (8,870) | (29,269) |
| Taxation | 9 | - | (1) |
| **Loss for the year** | | (8,870) | (29,270) |

The results above relate to continuing operations.

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

The accompanying notes on pages 22 to 40 form an integral part of these financial statements.

## Balance sheets

*at 31 December 2013*

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Non-current assets** | | | | | |
| **Property, plant and equipment** | 10 | **20,852** | 34,249 | **-** | - |
| Intangible assets | 11 | **16,792** | 56,914 | **-** | - |
| Investments in subsidiaries | 12a | **-** | - | **26,421** | 26,421 |
| Investments in jointly controlled entities | 12b | **-** | 3,015 | **-** | - |
| | | **37,644** | 94,178 | **26,421** | 26,421 |
| **Current assets** | | | | | |
| Inventories | 13 | **317** | 413 | **-** | - |
| Trade and other receivables | 14 | **18,752** | 10,460 | **101,117** | 126,642 |
| Cash at bank | | **16,194** | 7,609 | **-** | - |
| | | **35,263** | 18,482 | **101,117** | 126,642 |
| **Total assets** | | **72,907** | 112,660 | **127,538** | 153,063 |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **(6,836)** | (12,822) | **(74)** | (64) |
| Provisions | 17 | **(452)** | (477) | **-** | - |
| | | **(7,288)** | (13,299) | **(74)** | (64) |
| **Non-current liabilities** | | | | | |
| Provisions | 17 | **(954)** | (954) | **-** | - |
| **Total liabilities** | | **(8,242)** | (14,253) | **(74)** | (64) |
| **Net assets** | | **64,665** | 98,407 | **127,464** | 152,999 |
| **Equity attributable to equity holders of the parent** | | | | | |
| Share capital | 18 | **192,547** | 217,419 | **192,547** | 217,419 |
| Merger reserve | 18 | **(50,678)** | (50,678) | **(57,228)** | (57,228) |
| Retained losses | 18 | **(77,204)** | (68,334) | **(7,855)** | (7,192) |
| **Total equity** | | **64,665** | 98,407 | **127,464** | 152,999 |

These financial statements were approved by the board of directors on 27 May 2014 and were signed on its behalf by:

F. Egan

Francis Egan
Director

Company registered number: 7147040.

The accompanying notes on pages 22 to 40 form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity

at 31 December 2013

| | Issued share capital $000 | Shares to be issued $000 | Merger reserve $000 | Retained losses $000 | Total equity $000 |
|---|---|---|---|---|---|
| Balance at 1 January 2012 | 161,952 | 1,977 | (50,678) | (39,064) | 74,187 |
| Recognised loss for the year | - | - | - | (29,270) | (29,270) |
| New shares issued | 55,467 | (1,977) | - | - | 53,490 |
| **Balance at 31 December 2012** | **217,419** | **-** | **(50,678)** | **(68,334)** | **98,407** |
| | | | | | |
| Balance at 1 January 2013 | 217,419 | - | (50,678) | (68,334) | 98,407 |
| Recognised loss for the year | - | - | - | (8,870) | (8,870) |
| New shares issued | 15,128 | - | - | - | 15,128 |
| 'A' preference share reduction | (40,000) | - | - | - | (40,000) |
| **Balance at 31 December 2013** | **192,547** | **-** | **(50,678)** | **(77,204)** | **64,665** |

The accompanying notes on pages 22 to 40 form an integral part of these financial statements.

## Consolidated cash flow statement

for the year ended 31 December 2013

| | Group | |
|---|---|---|
| | 2013 $000 | 2012 $000 |
| **Cash flows from operating activities** | | |
| **Loss before tax for the year** | (8,870) | (29,269) |
| Adjustments for: | | |
| Profit on sale of tangible fixed assets | (3,958) | - |
| Impairment of joint ventures | 3,015 | - |
| Profit on sale of subsidiaries | (5,362) | - |
| Depreciation and amortisation | 4,428 | 4,676 |
| Foreign exchange (gains)/losses | (514) | 55 |
| Financial income | (44) | - |
| Increase in trade and other receivables | (8,292) | (2,110) |
| Decrease/(increase) in inventories | 96 | (189) |
| (Decrease)/increase in trade and other payables | (3,293) | 2,221 |
| Decrease in provisions | (25) | - |
| Other non-cash movements | - | (416) |
| Tax paid | - | (1) |
| **Net cash outflow from operating activities** | (22,819) | (25,033) |
| **Cash flows from investing activities** | | |
| Proceeds from disposal of subsidiary | 13,965 | - |
| Cash received from subsidiary prior to disposal | 45,132 | - |
| Proceeds from disposal of property, plant and equipment | 13,021 | - |
| Acquisition of property, plant and equipment | (77) | (1,794) |
| Capitalised exploration expenditure | (16,101) | (22,306) |
| Acquisition of other intangible assets | (222) | (57) |
| Acquisition of joint venture | - | (475) |
| Interest received | 44 | - |
| **Net cash inflow/(outflow) from investing activities** | 55,762 | (24,632) |
| **Cash flows from financing activities** | | |
| Proceeds from the issue of share capital | 15,128 | 53,490 |
| Reduction of 'A' preference share capital | (40,000) | - |
| **Net cash(outflow)/ inflow from financing activities** | (24,872) | 53,490 |
| Net increase in cash | 8,071 | 3,825 |
| Cash at 1 January | 7,609 | 3,839 |
| Effect of exchange rate fluctuations on cash held | 514 | (55) |
| **Cash at 31 December** | 16,194 | 7,609 |

The accompanying notes on pages 22 to 40 form an integral part of these financial statements.

### 1. Accounting policies

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

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The parent company financial statements and the group financial statements are presented in US dollars, which is the Company's functional and presentation currency.

**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 group'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 6.

The statutory accounts have been prepared on a going concern basis, which the directors believe to be appropriate.

Management have reviewed the forecast cash requirements of the Group for the 12 months following the date of approval of these financial statements and have satisfied themselves that the Group will be able to meet its external liabilities as they fall due.

**Cash flow statement**

The Company has not prepared a cash flow statement as it has not engaged in any cash transactions during the period. Expenses have been paid on behalf of the Company by its immediate subsidiary company, Cuadrilla Resources Limited, and settled through the intercompany current account.

**Basis of consolidation**

*Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*Jointly controlled entities*

Jointly controlled entities in which the Group holds an interest on a long term basis and which are jointly controlled by the Group and one or more venturers under a contractual arrangement. The consolidated financial statements are prepared using the equity method, so as to include the Group's proportionate shares of operating profit or loss, interest, taxation and net assets of joint venture companies.

**Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate issued 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.

The assets and liabilities of foreign operations are translated to the Group's presentational currency USD at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

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

*Trade and other receivables*
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*
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.

*Cash*
Cash comprises bank balances.

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

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

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

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

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

Exploration and evaluation assets are amortised from the date they are available for use.

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

i. Expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

ii. Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and

iii. Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

### Decommissioning costs
Where a material liability for the removal of facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the estimated future expenditure, determined in accordance with local conditions and requirements. Discounting is used to the extent it is material. An asset, of an amount equivalent to the provision, is also added to the applicable project 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.

### Property, plant and equipment
The Group applies IAS 16, "Property, Plant and Equipment", and established oil and gas industry practice to expenditures relating to properties or fields with commercial reserves. If sites are already producing, assets are carried as production assets within tangible fixed assets.

Fixed assets, including production assets, which are not subject to depletion, are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and equipment 10 years
- Fixtures and fittings 4 years
- Motor vehicles 4 years

Gas production assets are depreciated relative to the units of production.

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

A review for impairment indicators is also carried out each year on the capitalised costs in production assets. This is carried out on a field or concession basis, as appropriate. Under oil and gas industry standard practice this impairment test is calculated by comparing the net capitalised cost with the net present value of future pre-tax cash flows which are expected to be derived from the field or concession discounted at an appropriate discount rate per annum.

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.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

**Employee benefits**
*Defined contribution plans*
A defined contribution plan is a post-employment benefit plan under which the Group 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.

**Provisions**
A provision is recognised in the balance sheet when the Group 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.

**Preference share capital**
Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders. Preference share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in profit or loss as accrued.

**Revenue**
Revenue is recognised at the fair value of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer in respect of services provided and gas supplied in the period.

**Expenses**
*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 the total lease expense.

**Financing income**
Financing income is interest receivable on funds invested. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

**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**
The Adopted IFRSs which have been issued but have not been applied by the Group in these financial statements are not expected to have a material effect on the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS
Continued

## 2. Revenue, business and geographical segments
The Group has a single class of business which is oil and gas exploration, development and production. The Group operates in one geographical area, Europe.

Revenue from external customers arises from the following:

| | Group | |
|---|---|---|
| | 2013<br>$000 | 2012<br>$000 |
| Services for the exploration and appraisal of oil and gas assets | 3,396 | 456 |
| Electricity production from gas | 43 | 156 |
| | 3,439 | 612 |

## 3. Expenses and auditor's remuneration
Included in operating loss are the following:

| | Group | |
|---|---|---|
| | 2013<br>$000 | 2012<br>$000 |
| Depreciation of tangible fixed assets | 4,411 | 4,650 |
| Gain on disposal of tangible fixed assets | (3,958) | - |
| Impairment of investments in joint ventures (see note 12b) | (3,015) | - |
| Operating lease charges – land and buildings | 722 | 547 |
| Operating lease charges – motor vehicles | 18 | 7 |
| Foreign exchange (gains)/ losses | (514) | 55 |

During the year the Company disposed of certain surplus items of plant and equipment, generating a profit on disposal of $3,958,000.

Auditor's remuneration:

| | Group | |
|---|---|---|
| | 2013<br>$000 | 2012<br>$000 |
| Audit of the parent company and consolidated financial statements | 44 | 43 |
| | | |
| **Amounts receivable by auditor and its associates in respect of:** | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 41 | 40 |
| Other non-audit services | 32 | - |

## 4. Staff numbers and costs

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

| | Number of employees | |
|---|---|---|
| | 2013 | 2012 |
| Management and operational support | 36 | 35 |

The aggregate payroll costs of these persons were as follows:

| | $000 | $000 |
|---|---|---|
| Wages and salaries | 4,505 | 3,661 |
| Social security costs | 599 | 477 |
| Contributions to defined contribution plans | 357 | 79 |
| | 5,461 | 4,217 |

**Company**

The Company had no employees during the current or prior year.

## 5. Directors' remuneration

| | 2013<br>$000 | 2012<br>$000 |
|---|---|---|
| Directors' emoluments | 1,453 | 1,539 |

The aggregate of emoluments during the year of the highest paid director were $635,000.In 2012, the emoluments of the highest paid director were $435,000 and relate to a partial year due to the appointment of the director mid-year. None of the directors hold any share options in the Company and no retirement benefits are accruing to directors (2012: none).

## NOTES TO THE FINANCIAL STATEMENTS
Continued

### 6. Profit on sale of subsidiary
On 13 June 2013, Centrica plc acquired Bowland Resources Limited, a wholly owned subsidiary, and became a 25% investment partner in the Lancashire Bowland shale gas exploration area. Centrica has committed to fund £60,000,000 of expenditure on the Bowland licence from the transaction effective date of 1 January 2013 (of which Cuadrilla's share is £33,750,000). A further contingent payment of £60,000,000 (of which Cuadrilla's share is £45,000,000) will be paid by Centrica subject to certain operational milestones having been reached. After deducting transaction costs of $2,299,000 the profit arising on consolidation is $5,362,000.

### 7. Share of results of joint venture

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Delta Hungary Hydrocarbons Kft | 18 | 198 |

### 8. Finance income and expense
Recognised in loss before tax:

| | 2013 $000 | 2012 $000 |
|---|---|---|
| **Finance income** | | |
| Interest income on cash balances | 44 | - |

## 9. Taxation

**Recognised in the income statement**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Current tax expense | - | 1 |
| Deferred tax expense | - | - |
| Total tax expense | - | 1 |

**Reconciliation of effective tax rate**

| | 2013 $000 | 2012 $000 |
|---|---|---|
| Loss before tax for the year | (8,870) | (29,269) |
| | | |
| Tax using the UK corporation tax rate of 23.25% (2012:24.5 %) | 2,062 | 7,171 |
| Effect of ring fence trades tax rate of 62% | 1,755 | 3,849 |
| Effect of tax rates in foreign jurisdictions | 5 | (12) |
| Minimum foreign corporation tax payments | - | 1 |
| Depreciation in excess of capital allowances for which no deferred tax asset is recognised | (139) | (1,167) |
| Difference in tax rate on profit on sale of subsidiary | 1,247 | - |
| Non-deductible expenses | (883) | (613) |
| Tax losses brought forward offset in the current year | - | 12 |
| Current year losses and pre-trading expenditure for which no deferred tax asset is recognised | (4,047) | (9,240) |
| Total tax expense | - | 1 |

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

Tax has been recorded at the effective blended rate for the period of 23.25% (2012: 24.5%).

No provision for tax has been made as the Group has estimated accumulated tax losses and pre-trading expenditure of $30,775,000 (2012:$41,299,000) which are available for offset against future taxable income. A deferred tax asset has not been recognised as it is uncertain when the Group will be able to utilise the losses and pre-trading expenditure. The Group also has an unrecognised deferred tax asset in respect of property, plant and equipment of $2,186,000 (2012:$2,424,000).

## 10. Property, plant and equipment – Group

| | Gas production assets $000 | Plant and equipment $000 | Fixtures & fittings $000 | Motor vehicles $000 | Total $000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2012 | 614 | 42,325 | 216 | 312 | 43,467 |
| Additions | 35 | 1,559 | 145 | 55 | 1,794 |
| Balance at 31 December 2012 | 649 | 43,884 | 361 | 367 | 45,261 |
| Balance at 1 January 2013 | 649 | 43,884 | 361 | 367 | 45,261 |
| Additions | - | - | 71 | - | 71 |
| Disposals | (1) | (13,224) | - | (95) | (13,320) |
| Balance at 31 December 2013 | 648 | 30,660 | 432 | 272 | 32,012 |
| **Depreciation, depletion and impairment** | | | | | |
| Balance at 1 January 2012 | (290) | (5,890) | (90) | (92) | (6,362) |
| Depreciation charge for the year | (132) | (4,358) | (74) | (86) | (4,650) |
| Balance at 31 December 2012 | (422) | (10,248) | (164) | (178) | (11,012) |
| Balance at 1 January 2013 | (422) | (10,248) | (164) | (178) | (11,012) |
| Depreciation charge for the year | (111) | (4,104) | (93) | (103) | (4,411) |
| Disposals | - | 4,177 | - | 86 | 4,263 |
| Balance at 31 December 2013 | (533) | (10,175) | (257) | (195) | (11,160) |
| **Net book value** | | | | | |
| At 1 January 2012 | 324 | 36,435 | 126 | 220 | 37,105 |
| At 31 December 2012 and 1 January 2013 | 227 | 33,636 | 197 | 189 | 34,249 |
| At 31 December 2013 | **115** | **20,485** | **175** | **77** | **20,852** |

**Company**
The Company has no property, plant and equipment.

## 11. Intangible assets – Group

| | Exploration & evaluation costs $000 | Software $000 | Total $000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 January 2012 | 34,144 | 78 | 34,222 |
| Additions | 22,722 | 57 | 22,779 |
| Balance at 31 December 2012 | 56,866 | 135 | 57,001 |
| | | | |
| Balance at 1 January 2013 | 56,866 | 135 | 57,001 |
| Additions | 16,101 | 222 | 16,323 |
| Disposal of subsidiary | (56,428) | - | (56,428) |
| Balance at 31 December 2013 | 16,539 | 357 | 16,896 |
| | | | |
| **Amortisation** | | | |
| Balance at 1 January 2012 | - | (61) | (61) |
| Amortisation for the year | - | (26) | (26) |
| Balance at 31 December 2012 | - | (87) | (87) |
| | | | |
| Balance at 1 January 2013 | - | (87) | (87) |
| Amortisation for the year | - | (17) | (17) |
| Balance at 31 December 2013 | - | (104) | (104) |
| | | | |
| **Net book value** | | | |
| At 1 January 2012 | 34,144 | 17 | 34,161 |
| At 31 December 2012 and 1 January 2013 | 56,866 | 48 | 56,914 |
| **At 31 December 2013** | **16,539** | **253** | **16,792** |

### Company
The Company has no intangible assets.

## 12. Investments

## 12(a) Investments in subsidiaries

**Company**

Shares in group undertakings

| | 2013 $000 |
|---|---|
| At 1 January 2013 | 26,421 |
| Additions in the year | - |
| **Balance at 31 December 2013** | **26,421** |

Investments in group undertakings are recorded at cost which is the fair value of the consideration paid.

The principal subsidiaries are as follows:

| | Country of Incorporation | Nature of business | Class of shares held | Ownership |
|---|---|---|---|---|
| **Company** | | | | |
| Cuadrilla Resources Limited | UK | Management services to subsidiaries | Ordinary | 100% |
| **Group** | | | | |
| Cuadrilla Well Services Limited | UK | Services for 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 Bowland Limited | UK | Oil and gas exploration | Ordinary | 100% |
| Cuadrilla Hardenburg BV* | Netherlands | Oil and gas exploration | Ordinary | 100% |
| Cuadrilla Brabant BV* | Netherlands | Oil and gas exploration | Ordinary | 100% |
| Cuadrilla Poland Sp.Zo.o | Poland | Oil and gas exploration | Ordinary | 100% |
| Cuadrilla Morava SRO | Czech Republic | Oil and gas exploration | Ordinary | 100% |
| Cuadrilla Hungary Limited | UK | Investment holding | Ordinary | 100% |
| Cuadrillco Limited | UK | Not trading | Ordinary | 100% |
| Susquehanna Natural Resources Co | USA | Services for oil and gas exploration | Ordinary | 100% |

*Subsidiary has changed name as described below

**Change of subsidiary names**

The following subsidiaries changed their names in 2013 as part of the unification of the Cuadrilla brand:

| Previous name | New name |
|---|---|
| Elswick Resources Limited | Cuadrilla Elswick Limited |
| Bolney Resources Limited | Cuadrilla Balcombe Limited |
| Tanglewood Resources Limited | Cuadrilla Weald Limited |
| Hardenburg Resources BV | Cuadrilla Hardenburg BV |
| Brabant Resources BV | Cuadrilla Brabant BV |

## 12(b) Investments in jointly controlled entities

| | $000 |
|---|---|
| **Cost** | |
| Balance at 1 January 2013 | 3,015 |
| Additions | - |
| Balance at 31 December 2013 | 3,015 |
| | |
| **Provision** | |
| Balance at 1 January 2013 | - |
| Impairment charge in the year | (3,015) |
| Balance at 31 December 2013 | (3,015) |
| | |
| **Net book value** | |
| At 31 December 2012 and 1 January 2013 | 3,015 |
| At 31 December 2013 | - |

The Group owns an investment of 29.33% in the ordinary share capital of Delta Hungary Hydrocarbons Kft, a company registered in Hungary. The investment is considered to be a joint venture due to the contractual relationship with other shareholders which give joint control.

During the year, the Directors reassessed the carrying value of the investment and this has resulted in an impairment charge of $3,015,000.

## 13. Inventories

| | Group | |
|---|---|---|
| | 2013<br>$000 | 2012<br>$000 |
| Raw materials and consumables | 317 | 413 |

## NOTES TO THE FINANCIAL STATEMENTS
Continued

## 14. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Current** | | | | |
| Trade receivables | 3,130 | 273 | - | - |
| Trade receivables from related parties (note 23) | 1,033 | 620 | - | - |
| Prepayments | 3,821 | 4,098 | 24 | 19 |
| Loans to related parties (note 23) | 1,161 | 1,161 | - | - |
| Other receivables | 9,520 | 2,162 | 30 | 23 |
| Other receivables from related parties (note 23) | 87 | 2,146 | 101,063 | 126,600 |
| | 18,752 | 10,460 | 101,117 | 126,642 |

**Group**
Prepayments include deposits paid in respect of equipment for the exploration and evaluation programme of $3,064,000 (2012: $3,228,000).

## 15. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| **Current** | | | | |
| **Trade payables** | 5,085 | 11,691 | - | - |
| **Social security and other taxes** | 316 | 190 | - | - |
| **Accrued expenses** | 1,435 | 941 | 74 | 64 |
| | 6,836 | 12,822 | 74 | 64 |

## 16. Employee benefits
**Defined contribution plans**
The Group does not operate any pension plans, but contributes to employee's personal pension schemes. The total expense relating to these schemes in the current year was $357,000 (2012: $79,000).

**Company**
The Company does not operate or contribute to any pension schemes.

**Share-based payments – Company**
The Company does not operate any share schemes.

## 17. Provisions

| Decommissioning provision | Group | |
|---|---|---|
| | 2013<br>$000 | 2012<br>$000 |
| **At 31 December** | **1,406** | **1,431** |
| **Included in:** | | |
| Current liabilities | 452 | 477 |
| Non-current liabilities (after five years) | 954 | 954 |
| | 1,406 | 1,431 |

Discounting is used to the extent it is material.

## 18. Capital and reserves

**Reconciliation of movement in capital and reserves – Group**

| | Issued share capital $000 | Shares to be issued $000 | Merger reserve $000 | Retained losses $000 | Total equity $000 |
|---|---|---|---|---|---|
| Balance at 1 January 2012 | 161,952 | 1,977 | (50,678) | (39,064) | 74,187 |
| Total recognised loss for the year | - | | - | (29,270) | (29,270) |
| New shares issued | 55,467 | (1,977) | - | - | 53,490 |
| **Balance at 31 December 2012** | **217,419** | **-** | **(50,678)** | **(68,334)** | **98,407** |
| Balance at 1 January 2013 | 217,419 | - | (50,678) | (68,334) | 98,407 |
| Total recognised loss for the year | - | - | - | (8,870) | (8,870) |
| New shares issued | 15,128 | - | - | - | 15,128 |
| 'A' preference share reduction | (40,000) | - | - | - | (40,000) |
| **Balance at 31 December 2013** | **192,547** | **-** | **(50,678)** | **(77,204)** | **64,665** |

**Reconciliation of movement in capital and reserves – Company**

| | Issued share capital $000 | Shares to be issued $000 | Merger reserve $000 | Retained losses $000 | Total parent equity $000 |
|---|---|---|---|---|---|
| Balance at 1 January 2012 | 161,952 | 1,977 | (57,228) | (4,451) | 102,250 |
| Total recognised loss for the year | - | - | - | (2,741) | (2,741) |
| New shares issued | 55,467 | (1,977) | - | - | 53,490 |
| **Balance at 31 December 2012** | **217,419** | **-** | **(57,228)** | **(7,192)** | **152,999** |
| Balance at 1 January 2013 | 217,419 | - | (57,228) | (7,192) | 152,999 |
| Total recognised loss for the year | - | - | - | (663) | (663) |
| New shares issued | 15,128 | - | - | - | 15,128 |
| 'A' preference share reduction | (40,000) | - | - | - | (40,000) |
| **Balance at 31 December 2013** | **192,547** | **-** | **(57,228)** | **(7,855)** | **127,464** |

The merger reserve arose in February 2010, when the shares of Cuadrilla Resources Corporation Limited were exchanged for shares in the Company. Since the share for share exchange did not change the members and their rights, the transfer of ownership was accounted for in accordance with the principles of merger accounting.

In December 2011, the Company received cash in advance of shares to be issued of $1,977,000. The shares were issued in January 2012.

## NOTES TO THE FINANCIAL STATEMENTS
Continued

## 19. Capital and reserves – issued share capital
The issued share capital of the Company at 31 December 2013 is as follows:

**Number of shares (000)**

| | At 31 Dec 2011 | Additions | At 31 Dec 2012 | Additions | Reductions | At 31 Dec 2013 |
|---|---|---|---|---|---|---|
| **Allotted, called up and fully paid** | | | | | | |
| Deferred shares of $0.01 each | 10 | - | 10 | - | - | 10 |
| Ordinary 'A' shares of $0.01 each | 37,937 | 19,800 | 57,737 | 5,400 | - | 63,137 |
| Ordinary 'B' shares of $0.01 each | 19,875 | - | 19,875 | - | - | 19,875 |
| Ordinary 'C' shares of $0.01 each | 7,883 | 2,700 | 10,583 | 737 | - | 11,320 |
| 'A' 8% cumulative preference shares of $2.79 each | 37,937 | 19,800 | 57,737 | 5,400 | (14,337) | 48,800 |
| 'B' 0% preference shares of $2.79 each | 19,875 | - | 19,875 | - | - | 19,875 |
| | 123,517 | 42,300 | 165,817 | 11,537 | (14,337) | 163,017 |

**Issued share capital**

| | At 31 Dec 2011 $000 | Additions $000 | At 31 Dec 2012 $000 | Additions $000 | Reductions $000 | At 31 Dec 2013 $000 |
|---|---|---|---|---|---|---|
| **Allotted, called up and fully paid** | | | | | | |
| Deferred shares of $0.01 each | - | - | - | - | - | - |
| Ordinary 'A' shares of $0.01 each | 379 | 198 | 577 | 54 | - | 631 |
| Ordinary 'B' shares of $0.01 each | 199 | - | 199 | - | - | 199 |
| Ordinary 'C' shares of $0.01 each | 79 | 27 | 106 | 7 | - | 113 |
| 'A' 8% cumulative preference shares of $2.79 each | 105,845 | 55,242 | 161,087 | 15,067 | (40,000) | 136,154 |
| 'B' 0% preference shares of $2.79 each | 55,450 | - | 55,450 | - | - | 55,450 |
| | 161,952 | 55,467 | 217,419 | 15,128 | (40,000) | 192,547 |

The terms of the shares in issue are as follows:

- The holders of ordinary 'A' and 'B' 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.
- The holders of the deferred shares and the ordinary 'C' shares have restricted voting and distribution rights.
- The holders of 'A' preference shares are entitled to receive cumulative dividends when, as and if declared by the Board of Directors and are not entitled to vote at meetings of the Company. The holders of 'B' preference shares are not entitled receive dividends or to vote at meetings of the Company.

No shares are classified as liabilities and all shares are classified as shareholders' funds.

*2012 share transactions*

During January 2012, the Company issued share capital of $5,042,000 to existing shareholders. This completed the equity funding round for which some shares had been paid in advance of issue. The Company issued 1,800,000 'A' ordinary shares of $0.01 each, 1,800,000 'A' preference shares of $2.79 each and 245,455 'C' ordinary shares of $0.01 each. All shares were issued at par value to existing shareholders for cash.

During February, May, July, September and November 2012, the Company carried out another five equity funding rounds and issued share capital of $50,425,000 to existing shareholders. The Company issued 18,000,000 'A' ordinary shares of $0.01 each, 18,000,000 'A' preference shares of $2.79 each and 2,454,545 'C' ordinary shares of $0.01 each. All shares were issued at par value to existing shareholders for cash.

*2013 share transactions*

During February 2013, the Company issued share capital of $10,085,000 to existing shareholders. The Company issued 3,600,000 'A' ordinary shares of $0.01 each, 3,600,000 'A' preference shares of $2.79 each and 490,909 'C' ordinary shares of $0.01 each. All shares were issued at par value to existing shareholders for cash.

During May 2013, the Company issued share capital of $5,043,000 to existing shareholders. The Company issued 1,800,000 'A' ordinary shares of $0.01 each, 1,800,000 'A' preference shares of $2.79 each and 245,455 'C' ordinary shares of $0.01 each. All shares were issued at par value to existing shareholders for cash.

On 9th August 2013, the Company passed a special resolution to reduce the Company's 'A' preference share capital by cancelling and extinguishing a total of 14,336,918 issued 'A' preference shares of $2.79 each. All shares were redeemed at par value to existing shareholders in cash with payments totalling $40,000,000.

*Post balance sheet share transactions*

During April 2014, the Company issued 3,904,153 'D' ordinary shares of $0.01 each to the Cuadrilla Resources Employee Benefit Trust.

# 20 Financial instruments

## 20 (a) Fair values 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.

*Cash*
Cash represents bank balances and the fair value of cash is estimated as its carrying amount where the cash is repayable on demand.

*Fair values*
The fair values of financial assets and financial liabilities are considered to be the same as the carrying amounts for both the Company and the Group.

## 20 (b) Credit risk

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

*Exposure to credit risk - Group*
The maximum exposure to credit risk for trade receivables at the balance sheet date was $4,163,000 (2012:$893,000). The trade receivables are not overdue for payment and therefore the Group has no significant exposure to credit risk at 31 December 2013.

*Exposure to credit risk - Company*
The Company has no significant exposure to external credit risk at 31 December 2013 as the most significant receivables balances are due from subsidiaries.

## 20 (c) Liquidity risk

*Financial risk management*
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

**Group**
The Group prepares cash flow information on a regular basis which is reviewed by directors and senior management to ensure that as far as possible it will have sufficient liquidity to meet its liabilities when due.

Contractually, all liabilities at 31 December 2013 fall due for payment within one year. 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.

**Company**
As a holding company the Company has no significant exposure to liquidity risk.

## 20 (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 Group's income or the value of its holdings of financial instruments.

Exposure to currency, interest rate and credit risks arise in the normal course of the Groups and Company's business.

**Foreign currency risk**
**Group**
The Group's exposure to foreign currency risk is not considered significant.

**Company**
The Company's exposure to foreign currency risk is not considered significant since the Company's transactions are principally denominated in US$.

**Market risk – Interest rate risk**
The Company and the Group do not have any interest bearing borrowings and so interest rate risk is not considered to be significant.

## 20(e) Capital management

**Group**
The Group meets its day to day working capital requirements and medium term funding requirements through shareholder cash injections. The Group prepares cash flow information on a regular basis which is reviewed by directors and senior management to ensure that as far as possible it will have sufficient liquidity to meet its liabilities when due.

**Company**
As a holding company, the Company does not have significant day to day working capital requirements. Any funding requirements identified are met by group companies.

## 21. Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | Group | |
|---|---|---|
| | 2013<br>$000 | 2012<br>$000 |
| Less than one year | 255 | 215 |
| Between one and five years | 197 | 218 |
| Over five years | 108 | 144 |
| | 560 | 577 |

The Group leases vehicles, land and buildings under a number of operating leases. During the year $740,000 was recognised as an expense in the income statement in respect of these operating leases (2012: $554,000).

**Company**

The Company has no operating leases.

## 22. Commitments

**Capital commitments**

The Group and Company have no capital commitments at 31 December 2013 (2012: none).

## 23. Related parties

**Group**

**Key management loans**

The Group has advanced loans to key management of $1,161,000 (2012: $1,161,000) to enable them to participate in the equity of the company. These loans are interest free.

**Joint licence operating agreements – AJ Lucas Group Limited**

The Group has shared interests in a number of licence areas with joint operating partners which are subsidiaries of AJ Lucas Group Limited (see note 24). 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 Group's interest only. During the year ended 31 December 2013, the following transactions have taken place with AJ Lucas Group Limited in respect of joint operating agreements as follows:

| Group | Contributions to exploration and evaluation assets | | Recharge of operating costs | | Receivables outstanding | |
|---|---|---|---|---|---|---|
| | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 | 2013 $000 | 2012 $000 |
| AJ Lucas Group | 2,295 | 6,971 | 2,707 | 1,377 | 1,033 | 620 |

Cash calls not yet invoiced amount to $87,000 (2012: $2,146,000).
Subsequent to the year end, all receivables outstanding have been received.

**Company**

| Other related party transactions | Administrative expenses incurred from | |
|---|---|---|
| | 2013 $000 | 2012 $000 |
| Shareholder fees – AJ Lucas Group Limited | 150 | 150 |
| Shareholder fees – Riverstone Holdings LLC | 150 | 150 |
| | 300 | 300 |

| Subsidiaries | Receivables outstanding | |
|---|---|---|
| | 2013 $000 | 2012 $000 |
| Cuadrilla Resources Limited | 101,063 | 126,600 |

The intercompany account with the subsidiary bears no interest and is repayable on demand.

## 24. Ultimate parent company and parent company of larger group

The directors do not consider there to be an ultimate controllingparty of Cuadrilla Resources Holdings Limited as it is jointly controlled by its shareholders:

- Lucas Cuadrilla PTY Limited, a company incorporated in Australia (45%)
- Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, registered in the Cayman Islands (45%); and
- Management team and employees (10%).

No other group financial statements include the results of the Company.

Cuadrilla

## COMPANY INFORMATION

**Registered Office**
Cuadrilla House
Stowe Court
Stowe Street
Lichfield
Staffordshire
WS13 6AQ
United Kingdom
P: +44 (0)1543 266 444
F: +44 (0)1543 266 440

| | |
|---|---|
| Company Secretary: | Andrew Price |
| Registered Number: | 7147040 |
| Website: | www.cuadrillaresources.com |
| Contact us: | enquiries@cuadrillaresources.com |

## PROFESSIONAL ADVISERS

**Auditor**
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

**Solicitors**
Eversheds LLP
115 Colmore Row
Birmingham
B3 3AL

**Insurance broker and risk advisors**
**Willis Group**
Willis Building
51 Lime Street
London
EC3M 7DQ

**Bankers**
HSBC Bank plc
8 Canada Square
London
E14 5HQ

**Public Relations - National**
**Bell Pottinger Private**
Holborn Gate
330 High Holborn
London
WC1V 7QD

**Public Relations - Regional**
**PPS Group Limited**
Hanover House
30-32 Charlotte Street
Manchester
M1 4FD