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# Annual Report and Accounts 2012

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Cuadrilla Resources Holdings Limited

**DIRECTORS' REPORT & CONSOLIDATED FINANCIAL STATEMENTS**

Registered number 7147040

Year ended 31 December 2012

**CONTENTS**

Chief Executive Officer's Review - Page 2
Financial Review - Page 4
Directors' Report - Page 5
Management Team - Page 9
Corporate Governance - Page 10
Statement of directors' responsibilities - Page 15
Independent auditor's report - Page 16
Financial Statements - Page 20
Notes to the Financial Statements - Page 24
Company Information - Page 44



# Chief Executive Officer's Review

Welcome to Cuadrilla's Annual Financial Statements for 2012

As I write this, one year after beginning as CEO of Cuadrilla, it is clear that the numbers in this report are only part of our story.

Recently we made two announcements. Firstly, we announced that Centrica is investing in our Lancashire licence area. Secondly, we announced the appointment of Arup, the international engineering and design consultancy, as independent provider of Environmental Impact Assessments (EIAs) to be conducted as part of our planning applications to explore for natural gas from shale in Lancashire.

These announcements are significant evidence of both what we have achieved and the challenges of the journey ahead, not just for us, but the sector as a whole.

The investment in the Bowland licence area by Centrica reflects the considerable geological and technical progress made and also the socio-political progress.

The appointment of Arup to conduct the EIA process reflects not only their widely recognised technical rigour and expertise in environmental assessments, but also their approach to consultation and engagement with communities.

When we set out to explore our licence areas in the UK, Holland and Poland, we set out to create a corporate culture of excellence that will help to win the confidence and trust of national and local leadership and Cuadrilla's neighbours in the community. An important element of that culture is working with partners and companies who share our values and commitments and Centrica and Arup are both outstanding examples in this regard.

2012 was a productive year for us, in spite of relatively low drilling activity. We continued our analysis of the Bowland shale formation based on results of the 3D seismic survey completed in the summer of 2012. This has given us increasing confidence about the huge quantity of natural gas in place, the quality of the shale, and also helped us to improve the process of exploration site selection. We successfully established the basis for EIAs in Holland, where we have very promising exploration licences and also acquired a new exploration licence in Poland. We further developed our risk management processes and worked with DnV, the global risk management firm, to ensure these processes are consistent with global industry best practice.

Importantly, in December 2012, the Department for Energy and Climate Change ended an 18-month moratorium on hydraulic fracturing in the UK.

We all have a lot to gain from being thorough about the process of building consent for shale exploration and extraction by systematically identifying and addressing risks. We strongly believe that local communities and the UK as a whole will benefit hugely from future production of indigenous UK shale resources and that these resources can be explored for and extracted safely and responsibly.

As Cuadrilla's CEO, I give these firm commitments: to fully comply with regulation and industry best practice, to work with local communities, keeping them informed before, during and after each operation, and to do all in Cuadrilla's power to complete exploration and extraction in a safe and environmentally responsible manner as we discover the full extent of the resource and reserve opportunity wherever we operate.



Francis Egan  
Chief Executive Officer  
25 July 2013

# Financial Review

During 2012, the principle focus of Cuadrilla's activities has remained the Bowland basin in Lancashire, a hugely significant resource. The Group capitalised exploration and evaluation costs of \$22.7m during the year (2011: \$23.7m), relating principally to the acquisition of 3D seismic data for the Bowland licence area.

Cuadrilla remains debt free and is financed by its shareholders. The Company carried out six equity funding rounds in 2012 and a total of \$55.5m of share capital was issued to existing shareholders. As at 31 December 2012, the Company was jointly controlled by its shareholders as follows:

- Lucas (43.7%)
- Riverstone (43.7%), and
- Management team and employees (12.6%)

During 2012, the Group incurred operating and administrative costs of \$29.2m (\$12.3m). This was higher than previous years, as we continue to strengthen our management team to safely and effectively execute our business plan.

It remains a major objective of the Company to increase the proportion of our expenditure with Lancashire-based businesses to ensure that the local community benefits economically from exploration activities being undertaken. We expect activities in Lancashire to develop significantly in coming years and would like to see Lancashire become a hub for the nascent shale industry in Europe, replicating the effects on Aberdeen of the offshore oil and gas industry.

Much local expenditure has to date been limited to service industries, with, for example, providers of temporary accommodation being a prime example of where money is currently being spent. But as the market – and our operations – expand, we anticipate that manufacturing industries will also benefit, leading to a rise in local employment.



Andrew Price  
Company Secretary and Chief Financial Officer  
25 July 2013

# 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 2012

## 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

## 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

During 2012 Cuadrilla undertook a 3D seismic data acquisition programme to consolidate its understanding of the subsurface of the Bowland licence area. Given the substantial and national significance of this find, the Group has incurred expenditure during the year to strengthen the management team to facilitate the Group's plans in further exploring and developing this resource.

## Post balance sheet events

See note 23

## DIRECTORS' REPORT

### 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
- Legislation risk – Through its drilling completion hydraulic fracture stimulation and well testing operations the Group is exposed to planning, licensing regulatory, environmental and other legislative risks. Although a robust legislative framework is in place, the challenge is in ensuring the co-ordination between all regulators for effective and efficient regulation of our operations. The Board places considerable importance on maintaining the highest standards of compliance and developing successful working relationships with local and national government authorities
- Liquidity risk is managed by the Board who review the Groups 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 addressed by seeking to partner 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 and that the required monetary injections have been identified and are available should they be needed

**Employees**

Cuadrilla employed an average of 35 people during 2012 (2011 20 people) and 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**

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

**Non Executive directors**

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Lord John Browne of Madingley

Allan Campbell

Roy Franklin

*Appointed 24 Jan 2012*

Anthony Kelly

N John Lancaster Jr

Haroun van Hövell tot Westerflier

**Executive directors**

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Francis Egan

Chief Executive Officer

*Appointed 9 July 2012*

Anthony Carruthers

Commercial Director

*Appointed 19 April 2012*

Andrew Quarles van Ufford

Exploration Director

*Appointed 21 May 2013*

**Resigned**

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Mark Miller

Executive director

*Resigned 28 Feb 2013*

Mark Tonkin

Non executive director

*Resigned 17 Jan 2012*

Dennis Carlton

Executive director

*Resigned 16 Feb 2013*



## DIRECTORS' REPORT

### 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 \$34 000 during the year (2011 \$22 000). 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 19

### 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 25 July 2013

Andrew Price  
Company Secretary  
Cuadrilla House, Stowe Court  
Stowe Street, Lichfield, Staffordshire WS13 6AQ

## MANAGEMENT TEAM



**Francis Egan**  
Chief Executive Officer

Francis has over 28 years of diverse international experience working in engineering and management roles in the upstream oil & gas industry. Prior to joining Cuadrilla as CEO in July 2012, Francis worked in Houston as President of Production for BHP Billiton Petroleum.



**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.



**Matt Lambert**  
Government and Public Affairs Director

Matt has some 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 Quarles van Ufford**  
Exploration 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.



**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.



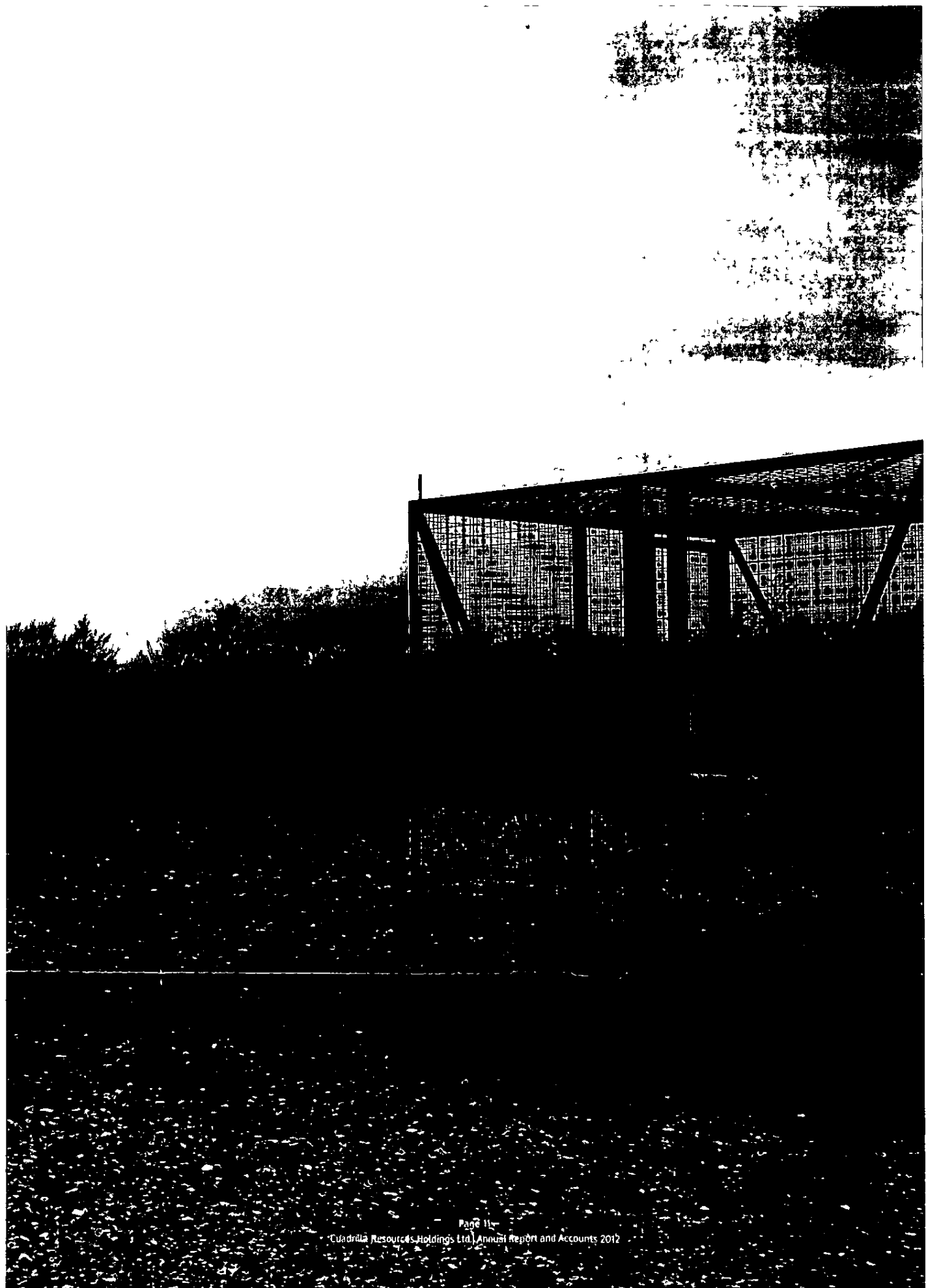
**Leon Jennings**  
HSSE Director

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. Leon has achieved formal qualifications in HSE, including the NEBOSH Level 6 Diploma in Occupational Health and Safety.



## 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



## CORPORATE GOVERNANCE

### **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 7. The board members have a wealth of industry technical and corporate experience. Board meetings are held regularly, each calendar month and the 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 15.

### **Health, Safety and Environment ('HSE') Committee**

The HSE committee comprises Roy Franklin (as chairman) and Haroun van Hóvell tot Westerflir, 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 HSE issues and received an OBE in 2004 for services to the oil and gas industry. Francis Egan (CEO) and Leon Jennings (HSE director) are in attendance at all meetings.

The HSE Committee meet at least six times a year and report conclusions and recommendations back to the board. The Committee's focus is in ensuring that Cuadrilla's HSE 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:

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

### **Audit Committee**

At the date of this report, the Audit Committee comprises Allan Campbell and Haroun van Hóvell tot Westerflir. Francis Egan (CEO) and Andrew Price (CFO and Company Secretary) are also in attendance at all meetings.

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

The Audit Committee has considered the need for an internal audit function and regards this as unnecessary due to the size and nature of operations at Cuadrilla.

There were no non-audit fees in 2012 and the Audit Committee is satisfied that the auditors are independent and objective.

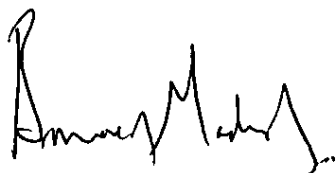
#### **Internal controls**

The Board has overall responsibility for establishing and maintaining the Groups system of internal controls and reviewing its effectiveness. However, any system of internal controls is designed to manage rather than eliminate the risk of failing to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. The key procedures are:

- HSE 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 the Joint Operating Committee attended by joint operating partners
- weekly management meetings to review HSE operating performance and financial activities, 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 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

25 July 2013



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

The directors are responsible for preparing the 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 2012 set out on pages 20 to 43. 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 15, 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 (APBs) 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 at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the groups and of the parent company's affairs as at 31 December 2012 and of the groups 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

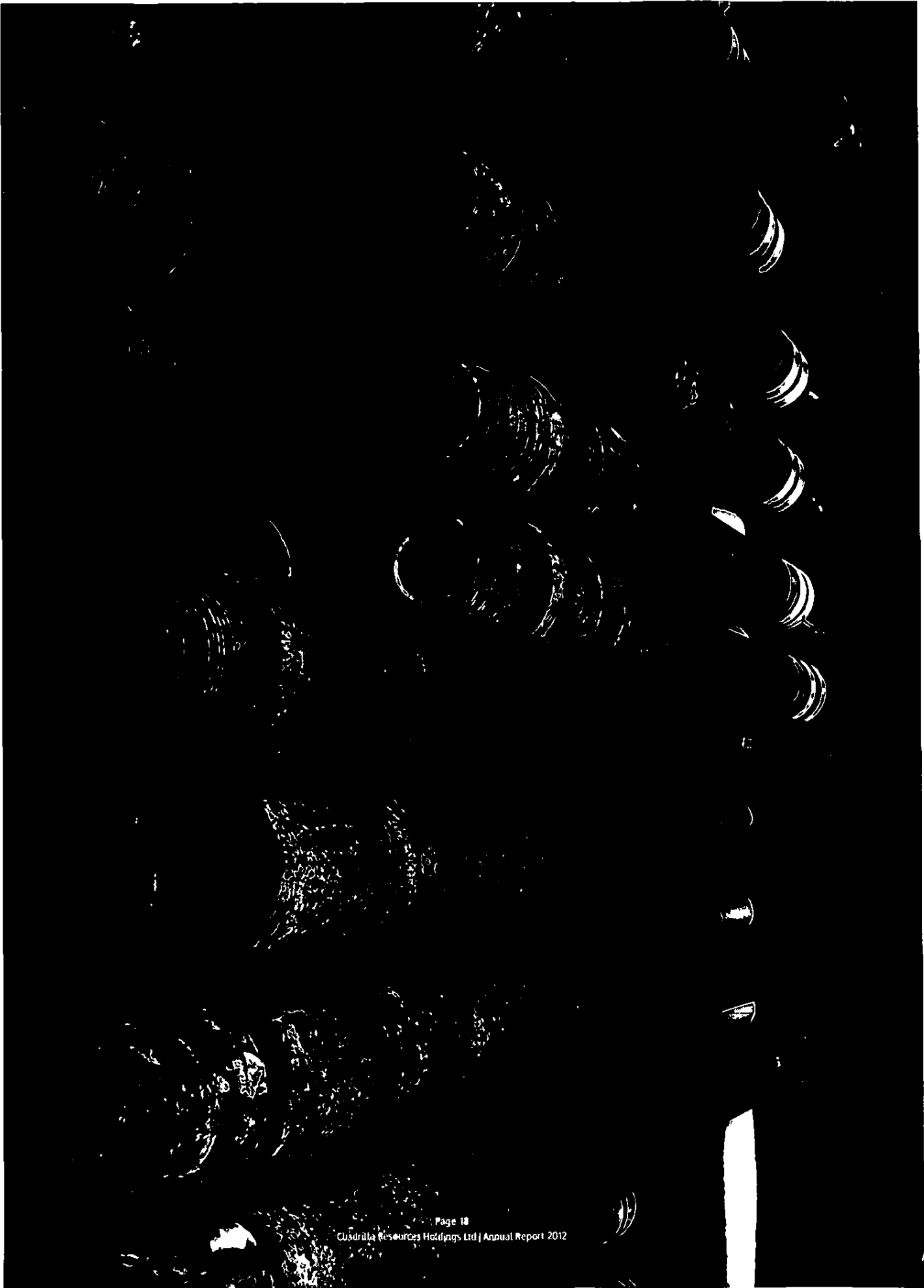
**Matters on which we are required to report by exception**

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 25 July 2013  
Chartered Accountants

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



## **FINANCIAL STATEMENTS**

Consolidated statement of comprehensive income	Page 20
Balance sheets at 31 December 2012	Page 21
Consolidated Statement of Changes in Equity	Page 22
Consolidated cash flow statement	Page 23

## **NOTES TO THE FINANCIAL STATEMENTS**

1 Accounting policies	Page 24
2 Revenue, business and geographical segments	Page 28
3 Expenses and auditor's remuneration	Page 28
4 Staff numbers and costs	Page 29
5 Director's remuneration	Page 29
6 Share of results of joint venture	Page 29
7 Finance income and expense	Page 29
8 Taxation	Page 30
9 Property, plant and equipment - Group	Page 31
10 Intangible assests - Group	Page 32
11 Investments	Page 33
12 Inventories	Page 34
13 Trade and other receivables	Page 34
14 Trade and other payables	Page 35
15 Employee benefits	Page 35
16 Provisions	Page 35
17 Capital and reserves	Page 36
18 Capital and reserves - Issued share capital	Page 38
19 Financial instruments	Page 40
20 Operating leases	Page 41
21 Commitments	Page 42
22 Related parties	Page 42
23 Post balance sheet events	Page 43
24 Ultimate parent company and parent company of larger group	Page 43

## Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
Revenue	1 2	612	3,694
Cost of sales		(445)	(3 412)
<b>Gross profit</b>		<b>167</b>	<b>282</b>
Operating expenses		(21,516)	(5,951)
Administrative expenses		(7,722)	(6,338)
<b>Operating loss</b>	1 3	<b>(29,071)</b>	<b>(12 007)</b>
Share of results of joint venture	6	(198)	(300)
Financial income	7	-	24
<b>Loss before tax</b>		<b>(29,269)</b>	<b>(12 283)</b>
Taxation	8	(1)	(2)
<b>Loss for the year</b>		<b>(29,270)</b>	<b>(12,285)</b>

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

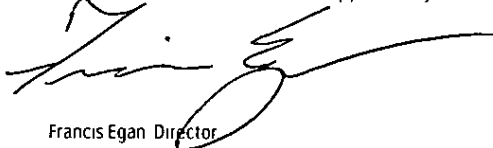
The accompanying notes on pages 24 to 43 form an integral part of these financial statements

## Balance sheets

at 31 December 2012

	Note	Group		Company	
		2012	2011	2012	2011
		\$000	\$000	\$000	\$000
Non-current assets					
Property plant and equipment	9	34,249	37,105	-	-
Intangible assets	10	56,914	34,161	-	-
Investments in subsidiaries	11a	-	-	26,421	26,421
Investments in jointly controlled entities	11b	3,015	2,540	-	-
		94,178	73,806	26,421	26,421
Current assets					
Inventories	12	413	224	-	-
Trade and other receivables	13	10,460	8,350	126,642	75,943
Cash at bank		7,609	3,839	-	-
		18,482	12,413	126,642	75,943
Total assets		112,660	86,219	153,063	102,364
Current liabilities					
Trade and other payables	14	(12,822)	(10,601)	(64)	(114)
Provisions	16	(477)	-	-	-
		(13,299)	(10,601)	(64)	(114)
Non-current liabilities					
Provisions	16	(954)	(1,431)	-	-
Total liabilities		(14,253)	(12,032)	(64)	(114)
Net assets		98,407	74,187	152,999	102,250
Equity attributable to equity holders of the parent					
Share capital	17	217,419	161,952	217,419	161,952
Other reserves	17	(50,678)	(48,701)	(57,228)	(55,251)
Retained losses	17	(68,334)	(39,064)	(7,192)	(4,451)
Total equity		98,407	74,187	152,999	102,250

These financial statements were approved by the board of directors on 25 July 2013 and were signed on its behalf by



Francis Egan, Director

Company registered number 7147040

The accompanying notes on pages 24 to 43 form an integral part of these financial statements

## Consolidated Statement of Changes in Equity

at 31 December 2012

	Share capital	Shares to be issued	Minority reserve	Retained losses	Total equity
	\$000	\$000	\$000	\$000	\$000
Balance at 1 January 2011	130,857	-	(50,678)	(26,779)	53,400
Recognised loss for the year	-	-	-	(12,285)	(12,285)
New shares issued	31,095	-	-	-	31,095
Shares to be issued	-	1,977	-	-	1,977
<b>Balance at 31 December 2011</b>	<b>161,952</b>	<b>1,977</b>	<b>(50,678)</b>	<b>(39,064)</b>	<b>74,187</b>
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
<b>Balance at 31 December 2012</b>	<b>217,419</b>	<b>-</b>	<b>(50,678)</b>	<b>(68,334)</b>	<b>98,407</b>

The accompanying notes on pages 24 to 43 form an integral part of these financial statements

## Consolidated cash flow statement

for the year ended 31 December 2012

	Group	
	2012 \$000	2011 \$000
<b>Cash flows from operating activities</b>		
Loss before tax for the year	(29,269)	(12,283)
Adjustments for		
Depreciation and amortisation	4,676	4,466
Foreign exchange losses	55	104
Financial income	-	(24)
Increase in trade and other receivables	(2,110)	(5,590)
(Increase)/decrease in inventories	(189)	116
Increase in trade and other payables	2,221	5,030
Other non-cash movements	(416)	(3,502)
	(25,032)	(11,683)
Tax paid	(1)	(2)
<b>Net cash outflow from operating activities</b>	<b>(25,033)</b>	<b>(11,685)</b>
<b>Cash flows from investing activities</b>		
Acquisition of joint venture	(475)	(2,540)
Acquisition of property, plant and equipment	(1,794)	(3,763)
Capitalised exploration expenditure	(22,306)	(20,173)
Acquisition of other intangible assets	(57)	(5)
Interest received	-	24
<b>Net cash outflow from investing activities</b>	<b>(24,632)</b>	<b>(26,457)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	53,490	31,095
Proceeds from shares to be issued	-	1,977
<b>Net cash inflow from financing activities</b>	<b>53,490</b>	<b>33,072</b>
Net increase/(decrease) in cash	3,825	(5,070)
Cash at 1 January	3,839	9,013
Effect of exchange rate fluctuations on cash held	(55)	(104)
<b>Cash at 31 December</b>	<b>7,609</b>	<b>3,839</b>

The accompanying notes on pages 24 to 43 form an integral part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS

(forming part of the 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 director's report on page 5

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 and that the required monetary injections have been identified and are available should they be needed

#### 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.

## 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	
	2012	2011
	\$000	\$000
Services for the exploration and appraisal of oil and gas assets	456	3,523
Electricity production from gas	156	171
	<b>612</b>	<b>3,694</b>

## 3 Expenses and auditor's remuneration

Included in operating loss are the following:

	Group	
	2012	2011
	\$000	\$000
Operating costs related directly to producing assets	451	248
Depreciation of tangible fixed assets	4,650	4,447
Operating lease charges – land and buildings	547	544
Operating lease charges – motor vehicles	7	-
Foreign exchange losses	55	104

Auditor's remuneration:

	Group	
	2012	2011
	\$000	\$000
Audit of the parent company and consolidated financial statements	43	39
Amounts receivable by auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	40	31
All other services	-	8

#### 4. Staff numbers and costs

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

	Number of employees Group	
	2012	2011
Management and operational support	35	20

The aggregate payroll costs of these persons were as follows

	\$000	\$000
Wages and salaries	3,661	2 247
Social security costs	477	300
Contributions to defined contribution plans	79	51
	4,217	2 598

#### Company

The Company had no employees during the current or prior year

#### 5. Directors' remuneration

	2012	2011
	\$000	\$000
Directors' emoluments	1,539	703

The aggregate of emoluments of the highest paid director were \$425 000 (2011 \$363,000) None of the directors hold any share options in the Company and no retirement benefits are accruing to directors (2011 none)

#### 6. Share of results of joint venture

	2012	2011
	\$000	\$000
Delta Hungary Hydrocarbons Kft	198	300

#### 7 Finance income and expense

Recognised in loss before tax

	2012	2011
	\$000	\$000
Finance income		
Interest income on cash balances	-	24

## 8. Taxation

Recognised in the income statement

	2012 \$000	2011 \$000
Current tax expense	1	2
Deferred tax expense	-	-
<b>Total tax expense</b>	<b>1</b>	<b>2</b>

Reconciliation of effective tax rate

	2012 \$000	2011 \$000
Loss before tax for the year	(29,269)	(12,283)
Tax using the UK corporation tax rate of 24.5% (2011 26.5%)	7,171	3,255
Effect of ring fence trades tax rate of 62% (2011 59.3%)	3,849	1,739
Effect of tax rates in foreign jurisdictions	(12)	(40)
Minimum foreign corporation tax payments	1	2
Depreciation in excess of capital allowances	(1,167)	(1,230)
Non-deductible expenses	(613)	(1,326)
Tax losses brought forward offset in the current year	12	1,139
Current year losses and pre-trading expenditure for which no deferred tax asset is recognised	(9,240)	(3,537)
<b>Total tax expense</b>	<b>1</b>	<b>2</b>

The UK Government announced on 23 March 2011 that the Supplementary Charge on UK oil and gas production would be increased from 20% to 32% from 24 March 2011 thus increasing the total ring fenced trade tax rate on UK oil and gas production from 50% to 62%

Following the announcement of the 2012 Budget the Finance Act 2012 (the 'Act') was enacted by Parliament in July 2012. The Act confirmed reductions in the main rate of UK corporation tax from 26% to 24% from April 2012 and from 24% to 23% from April 2013 both of which were enacted during the year. In addition, in the 2012 Budget the Government proposed further reductions in the rate of corporation tax from 24% to 22% from 1 April 2013 and in the 2012 Autumn Statement announced an acceleration of this decrease in corporation tax to 21% from 1 April 2014. The March 2013 budget announced that the rate will further reduce to 20% by 2015. It has not yet been possible to quantify the full anticipated effects of the announced changes in UK tax rates although this will reduce the company's future current tax charge accordingly.

Tax has been recorded at the effective blended rate for the period of 24.5%

No provision for tax has been made as the Group has estimated accumulated tax losses and pre-trading expenditure of \$41,299,000 (2011 \$18,952,000) 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 \$2,424,000 (2011 \$1,482,000).

## 9. Property, plant and equipment – Group

	Oil production assets \$000	Plant and equipment \$000	Fixtures & fittings \$000	Motor vehicles \$000	Total \$000
<b>Cost</b>					
Balance at 1 January 2011	601	41,500	173	186	42,460
Additions	13	825	43	126	1,007
<b>Balance at 31 December 2011</b>	<b>614</b>	<b>42,325</b>	<b>216</b>	<b>312</b>	<b>43,467</b>
Balance at 1 January 2012	614	42,325	216	312	43,467
Additions	35	1,559	145	55	1,794
<b>Balance at 31 December 2012</b>	<b>649</b>	<b>43,884</b>	<b>361</b>	<b>367</b>	<b>45,261</b>
<b>Depreciation, depletion and impairment</b>					
Balance at 1 January 2011	(153)	(1,687)	(40)	(35)	(1,915)
Depreciation charge for the year	(137)	(4,203)	(50)	(57)	(4,447)
<b>Balance at 31 December 2011</b>	<b>(290)</b>	<b>(5,890)</b>	<b>(90)</b>	<b>(92)</b>	<b>(6,362)</b>
Balance at 1 January 2012	(290)	(5,890)	(90)	(92)	(6,362)
Depreciation charge for the year	(132)	(4,358)	(74)	(86)	(4,650)
<b>Balance at 31 December 2012</b>	<b>(422)</b>	<b>(10,248)</b>	<b>(164)</b>	<b>(178)</b>	<b>(11,012)</b>
<b>Net book value</b>					
At 1 January 2011	448	39,813	133	151	40,545
At 31 December 2011 and 1 January 2012	324	36,435	126	220	37,105
<b>At 31 December 2012</b>	<b>227</b>	<b>33,636</b>	<b>197</b>	<b>189</b>	<b>34,249</b>

### Company

The Company has no property plant and equipment



## 10. Intangible assets – Group

	Exploration and development costs	Software	Total
	\$000	\$000	\$000
<b>Cost</b>			
Balance at 1 January 2011	10,469	73	10,542
Additions	23,675	5	23,680
<b>Balance at 31 December 2011</b>	<b>34,144</b>	<b>78</b>	<b>34,222</b>
Balance at 1 January 2012	34,144	78	34,222
Additions	22,722	57	22,779
<b>Balance at 31 December 2012</b>	<b>56,866</b>	<b>135</b>	<b>57,001</b>
<b>Amortisation</b>			
Balance at 1 January 2011	-	(42)	(42)
Amortisation for the year	-	(19)	(19)
<b>Balance at 31 December 2011</b>	<b>-</b>	<b>(61)</b>	<b>(61)</b>
Balance at 1 January 2012	-	(61)	(61)
Amortisation for the year	-	(26)	(26)
<b>Balance at 31 December 2012</b>	<b>-</b>	<b>(87)</b>	<b>(87)</b>
<b>Net book value</b>			
At 1 January 2011	10,469	31	10,500
At 31 December 2011 and 1 January 2012	34,144	17	34,161
<b>At 31 December 2012</b>	<b>56,866</b>	<b>48</b>	<b>56,914</b>

### Company

The Company has no intangible assets

## 11. Investments

### 11 (a) Investments in subsidiaries

#### Company

##### Shares in group undertakings

	2012 \$000
At 1 January 2012	26,421
Additions in the year	-
<b>Balance at 31 December 2012</b>	<b>26,421</b>

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

The principal subsidiaries are as follows

Company	Country of incorporation	Nature of business	Class of shareholding	Ownership
Cuadrilla Resources Limited	UK	Management services to subsidiaries	Ordinary	100%
<b>Group</b>				
Cuadrilla Well Services Limited	UK	Services for oil and gas exploration	Ordinary	100%
Cuadrilla Elswick Limited*	UK	Electricity production	Ordinary	100%
Bowland Resources 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%
Susquehanna Natural Resources Co	USA	Services for 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 Resources Deutschland GmbH	Germany	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%

\* 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

## 11 (b) Investments in jointly controlled entities

### Group

	2012 \$000
At 1 January 2012	2,540
Additions in the year	475
<b>Balance at 31 December 2012</b>	<b>3,015</b>

During the year the Group completed the acquisition of 29.33% of 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.

## 12. Inventories

	Group	
	2012 \$000	2011 \$000
Raw materials and consumables	413	224

## 13. Trade and other receivables

	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Current</b>				
Trade receivables	-	25	-	-
Trade receivables from related parties (note 22)	893	2,141	-	-
Prepayments	4,098	3,375	19	24
Loans to related parties (note 22)	1,161	1,161	-	-
Other receivables	2,162	500	23	30
Other receivables from related parties (note 22)	2,146	1,148	126,600	75,889
	<b>10,460</b>	<b>8,350</b>	<b>126,642</b>	<b>75,943</b>

### Group

Prepayments include deposits paid in respect of equipment for the exploration and evaluation programme of \$3,228,000 (2011: \$2,712,000).

## 14. Trade and other payables

	Group		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Current</b>				
Trade payables	11,691	8,831	-	-
Social security and other taxes	190	426	-	-
Accrued expenses	941	1,344	64	114
	<b>12,822</b>	<b>10,601</b>	<b>64</b>	<b>114</b>

## 15. Employee benefits

### Defined contribution plans

The Group does not operate any pension plans but contributes to employees personal pension schemes

The total expense relating to these schemes in the current year was \$79 000 (2011 \$51 000)

### Company

The Company does not operate or contribute to any pension schemes

### Share-based payments – Company

The Company does not operate any share schemes

## 16. Provisions

Group Decommissioning provision	2012 \$000	2011 \$000
At 31 December	1,431	1,431
<b>Included in</b>		
Current liabilities	477	-
Non-current liabilities (after five years)	954	1,431
	<b>1,431</b>	<b>1,431</b>

Discounting is used to the extent it is material

## 17. 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 2011	130,857	-	(50,678)	(26,779)	53,400
Total recognised loss for the year	-	-	-	(12,285)	(12,285)
New shares issued	31,095	-	-	-	31,095
Shares to be issued	-	1,977	-	-	1,977
<b>Balance at 31 December 2011</b>	<b>161,952</b>	<b>1,977</b>	<b>(50,678)</b>	<b>(39,064)</b>	<b>74,187</b>
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
<b>Balance at 31 December 2012</b>	<b>217,419</b>	<b>-</b>	<b>(50,678)</b>	<b>(68,334)</b>	<b>98,407</b>

## Reconciliation of movement in capital and reserves – Company

	Ordinary Share Capital \$000	Share Premium \$000	Reserves \$000	Merger Reserve \$000	Total Equity \$000
Balance at 1 January 2011	130,857	-	(57,228)	(2,933)	70,696
Total recognised loss for the year	-	-	-	(1,518)	(1,518)
New shares issued	31,095	-	-	-	31,095
Shares to be issued	-	1,977	-	-	1,977
<b>Balance at 31 December 2011</b>	<b>161,952</b>	<b>1,977</b>	<b>(57,228)</b>	<b>(4,451)</b>	<b>102,250</b>
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
<b>Balance at 31 December 2012</b>	<b>217,419</b>	<b>-</b>	<b>(57,228)</b>	<b>(7,192)</b>	<b>152,999</b>

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.

## 18 Capital and reserves – issued share capital

The issued share capital of the Company at 31 December 2012 is as follows

Issued share capital	At 31 December 2010		At 31 December 2011		At 31 December 2012
	Number of shares	Amount	Number of shares	Amount	
<b>Allotted, called up and fully paid</b>					
Deferred shares of \$0.01 each	10	-	10	-	10
Ordinary 'A' shares of \$0.01 each	30,737	7,200	37,937	19,800	57,737
Ordinary 'B' shares of \$0.01 each	19,875	-	19,875	-	19,875
Ordinary 'C' shares of \$0.01 each	6,902	981	7,883	2,700	10,583
'A' 8% cumulative preference shares of \$2.79 each	26,821	11,116	37,937	19,800	57,737
'B' 0% preference shares of \$2.79 each	19,875	-	19,875	-	19,875
	<b>104,220</b>	<b>19,297</b>	<b>123,517</b>	<b>42,300</b>	<b>165,817</b>

Issued share capital	At 31 December 2010		At 31 December 2011		At 31 December 2012
	Number of shares	Amount	Number of shares	Amount	
<b>Allotted, called up and fully paid</b>					
Deferred shares of \$0.01 each	-	-	-	-	-
Ordinary A shares of \$0.01 each	307	72	379	198	577
Ordinary B shares of \$0.01 each	199	-	199	-	199
Ordinary 'C' shares of \$0.01 each	69	10	79	27	106
A 8% cumulative preference shares of \$2.79 each	74,832	31,013	105,845	55,242	161,087
'B' 0% preference shares of \$2.79 each	55,450	-	55,450	-	55,450
	<b>130,857</b>	<b>31,095</b>	<b>161,952</b>	<b>55,467</b>	<b>217,419</b>

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 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 to receive dividends or to vote at meetings of the Company

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

**2011 share transactions**

On 2 March 2011 the Company issued 3 915,771 'A' preference shares of \$2.79 each at par value for \$10 925 000 cash to the fund managed by Riverstone Holdings LLC

The Company carried out three equity funding rounds in July August and September 2011. The Company issued a total of 7 200 000 'A' ordinary shares of \$0.01 each, 7 200,000 'A' preference shares of \$2.79 each and 981 819 'C' ordinary shares of \$0.01 each. All shares were issued at par value to existing share holders for \$20 170 000 cash.

**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.

**Post balance sheet 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.



## **19. Financial instruments**

### **19 (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

### **19 (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 \$893,000 (2012 \$2,166,000) The trade receivables are not overdue for payment and therefore the Group has no significant exposure to credit risk at 31 December 2012

#### **Exposure to credit risk - Group**

The Company has no significant exposure to external credit risk at 31 December 2012 as the most significant receivables balances are due from subsidiaries

### **19 (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

As an exploration business the Group is funded by its shareholders Lucas Cuadrilla PTY Limited and a fund managed by Riverstone Holdings LLC who have confirmed to the Company that they will continue to provide funding to the Group to enable it to continue to execute its exploration programme and meet external liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements

Contractually all liabilities at 31 December 2012 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 and that the required monetary injections have been identified and are available should they be needed

#### **Company**

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

## 19 (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

### Market risk - Foreign currency risk

#### Group

The Group's exposure to foreign currency risk is not considered significant since the majority of transactions are carried out in US\$

#### 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

## 19 (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

## 20 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2012 \$000	2011 \$000
Less than one year	215	232
Between one and five years	218	29
Over five years	144	-
	577	261

The Group leases vehicles, land and buildings under a number of operating leases. During the year \$554 000 was recognised as an expense in the income statement in respect of these operating leases (2011: \$544 000)

### Company

The Company has no operating leases

## 21. Commitments

### Capital commitments

#### Group

Capital expenditure for equipment for the exploration programme which was contracted for at the balance sheet date but not yet incurred amounted to \$nil (31 December 2011: \$1,427,000)

#### Company

The Company has no capital commitments

## 22. Related parties

### Group

Directors and key management loans

The Group has advanced loans to key management and directors of \$1,161,000 (2011: \$1,161,000) to enable them to participate in the equity of the company. These loans are interest free.

### Joint licence operating agreements

The Group has shared interests in a number of licence areas. In cases where the Group has a joint operating partner, requests for funding from partners are made in accordance with the 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 2012, the following transactions have taken place with partners who participate in exploration activities as follows:

	Contributions to exploration and evaluation assets		Recharge of operating costs		Receivables outstanding	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Lucas Energy (UK) Limited	6,971	8,836	1,377	647	620	1,989
Energie Beheer Nederland BV	-	-	1,023	906	273	152
	6,971	8,836	2,400	1,553	893	2,141

Lucas Energy (UK) Limited is a subsidiary of AJ Lucas Group Limited (see note 24)

Cash calls not yet invoiced to joint operating partners amount to \$2,146,000 (2011: \$1,148,000)

Subsequent to the year end, all receivables outstanding from joint operating partners have been received.

### Company

	Administration expenses incurred from	
	2012 \$000	2011 \$000
Shareholder fees – AJ Lucas Group Limited	150	150
Shareholder fees – Riverstone Holdings LLC	150	150
	300	300

	Receivables outstanding	
	2012 \$000	2011 \$000
Subsidiaries Cuadrilla Resources Limited	126,600	75,889

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

### 23. Post balance sheet events

On 13 June 2013, Centrica plc acquired Bowland Resources Limited 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. 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	Ownership after transaction
Cuadrilla	75.00	56.25
A J Lucas	25.00	18.75
Centrica	nil	25.00
	100.00	100.00

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

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

- Lucas Cuadrilla PTY Limited, a company incorporated in Australia (43.7%)
- Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, registered in the Cayman Islands (43.7%) and
- Management team and employees (12.6%)

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

## COMPANY INFORMATION

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