Cuadrilla Resources Holdings Limited

Annual report and financial statements

Registered number 07147040

For the eighteen month period ended 30 June 2020

Contents

Strategic report

Business review

Cuadrilla Resources Holdings Limited ("the Company") is a holding company for a group of subsidiaries which are involved in the exploration and appraisal of onshore oil and gas.

On 2 November 2019, the UK Government imposed a moratorium on further hydraulic fracturing in England and the Oil and Gas Authority (OGA) advised onshore shale gas explorers that compelling new scientific evidence will be required to demonstrate that hydraulic fracturing can be conducted safely before it recommends lifting the moratorium. Cuadrilla continues to work with other Operators, the OGA and UK industry to resolve concerns on hydraulic fracturing and support the UK goal of Net Zero CO_2 by 2050.

Change of ultimate parent company

In February 2020, AJ Lucas Group Limited ('AJL') increased its shareholding in the Company from 48% to 96% following the acquisition of the Riverstone shareholding for a nominal sum. As such, the Company is a subsidiary of AJL at the balance sheet date.

Principal risks and uncertainties

As a subsidiary of AJL, the principal risks and uncertainties of the Company are integrated with the principal risks and uncertainties of AJL. The AJL Board has established policies on risk management. The AJL Board and the Audit and Risk Committee monitor risk exposure and ensure that the risk management system is operating effectively. A copy of the risk statement is available in the shareholder information section of AJL's website - www.lucas.com.au.

The principal risks and uncertainties of the Company are summarised as follows:

- Exploration and appraisal risk - The assessment of resources and reserves is inherently uncertain. The Company manages the risk of geological uncertainties in the exploration and appraisal phase through the collection and extensive analysis of geological and seismic data, geomechanical studies, physical and chemical laboratory analyses and reservoir engineering data.
- Regulatory risk – Through its drilling, hydraulic fracture stimulation and well testing operations, there is exposure to planning, licensing, regulatory, environmental and other legislative risks. Although a very robust legislative and regulatory framework is in place in the UK, the challenge is in ensuring the co-ordination between all regulators for timely and efficient decision making. The Board places considerable importance on maintaining the highest standards of regulatory compliance and developing successful working relationships with local communities and local and national government authorities.
- Govt. moratorium - In November 2019 the UK Government introduced a moratorium which paused hydraulic fracturing in England "unless and until further evidence is provided that it can be carried out safely in the UK." Cuadrilla continues to work with other Operators, the OGA and UK industry to resolve concerns on hydraulic fracturing and support the UK goal of Net Zero CO_2 by 2050.
- Currency, interest rate and credit risks are not considered to be significant at this stage.

Key Performance Indicators ("KPIs")

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

Strategic report *(continued)*

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding losses of £2,653,000 for the period, which the directors believe to be appropriate for the following reasons:

The Company's parent, AJL, has provided a letter of support to the Company indicating that for 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

The directors of the Company acknowledge that there are material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern due to the considerations which have been assessed by AJL, as set out in the AJL Group Interim Report for the six month period ended 31 Dec 2020. The directors are of the view that these do not have any impact on AJL's ability to provide the financial support to the Company as set out in the support letter and these financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

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

The financial support commitment obtained from the Company's parent will ensure that the Company has sufficient resources available at the signing date of the financial statements to pay 12 months of forecast liabilities. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By order of the board

Francis Egan
Director

30 April 2021

Directors' report

The directors of Cuadrilla Resources Holdings Limited (the "Company") present their strategic report, directors' report and financial statements for the eighteen month period ended 30 June 2020.

Results and dividends

The result for the period is a loss of £2,653,000 *(year ended 31 December 2018: loss £394,000).*

The Company has carried out a review of the recoverability of intercompany loans due to the Company from its subsidiaries resulting in an exceptional impairment charge of £2,297,000 which is recognised as a loss in these financial statements (see note 3).

The directors do not recommend the payment of a dividend.

During the period, seven funding rounds were carried out and a total of £12,490,000 share capital has been issued to existing shareholders for cash, this has increased the Company's share capital from £167,654,000 to £180,144,000.

Principal activities

The principal activity of the Company is a holding company of a group of companies focused on exploration, discovering and recovering natural resources, primarily natural gas from shale rock. The Company's subsidiaries own exploration licences in the North and South of the UK.

Change of accounting year end

In order to align with the accounting year end of the AJ Lucas group, the Company has extended the accounting period to end on 30 June 2020. As such, the Income Statement is for the 18 month period ended 30 June 2020 whilst comparatives reflect the 12 months ended 31 December 2018.

Directors

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

Francis Egan	Chief Executive Officer	
Andrew Purcell	AJ Lucas representative	(appointed 1 September 2020)
Ivor Orchard	AJ Lucas representative	
Phillip Arnall	AJ Lucas representative	(resigned 31 August 2020)
Roy Franklin	AJ Lucas representative	(resigned 30 June 2020)
Robin Duggan	Riverstone representative	(resigned 4 February 2020)
N John Lancaster Jr	Riverstone representative	(resigned 4 February 2020)
Alfredo Marti	Riverstone representative	(resigned 4 February 2020)
Mark Lappin	Technical Director	(resigned 28 February 2019)

Disclosure of information to auditor

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

Directors' report *(continued)*

Auditor

Pursuant to Section 487 of the Companies Act 2006, Ernst Young LLP will be deemed to be reappointed and will therefore continue in office.

By order of the board

Francis Egan
Director

3000 Aviator Way
Wythenshawe
Manchester
M22 5TG

30 April 2021

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs in conformity with the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Opinion

We have audited the financial statements of Cuadrilla Resources Holdings Limited for the 18-month period ended 30 June 2020 which comprise the Income Statement and Comprehensive Income, the Balance Sheet and Statement of changes in equity and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2020 and of its loss for the 18 month period then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which describes that the Company relies upon support from the parent company, AJ Lucas Group Limited, which has disclosed material uncertainty in its latest financial statements. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified with respect to this matter.

Other information

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

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

30 April 2021

Income statement and comprehensive income
for the 18 month period ended 30 June 2020

	Note	***Period ended 30 June 2020 £000***	*Year ended 31 Dec 2018 £000*
Administrative expenses		***(356)***	*(394)*
Impairment of intercompany receivables		***(2,297)***	-
Operating loss	*3*	***(2,653)***	*(394)*
Taxation	*4*	-	-
Loss for the period/year		***(2,653)***	*(394)*

The results above relate to continuing operations.

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

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

Balance sheet
at 30 June 2020

	Note	30 June 2020 £000	31 Dec 2018 £000
Non-current assets			
Investments in subsidiaries	5	19,890	19,890
Current assets			
Trade and other receivables	6	107,609	98,066
Total assets		127,499	117,956
Current liabilities			
Trade and other payables	7	(32)	(326)
Total liabilities		(32)	(326)
Net assets		127,467	117,630
Equity attributable to equity holders of the parent			
Share capital	9	180,144	167,654
Merger reserve	8	(43,081)	(43,081)
Retained losses	8	(9,596)	(6,943)
Total equity		127,467	117,630

These financial statements were approved by the board of directors on 30 April 2021 and were signed on its behalf by:

Francis Egan
Director

Company registered number: 07147040

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

Statement of changes in equity
At 30 June 2020

	Issued share capital £000	*Merger reserve £000*	*Retained losses £000*	*Total equity £000*
Balance at 1 January 2018	*155,242*	*(43,081)*	*(6,549)*	*105,612*
Loss for the year	-	-	*(394)*	*(394)*
New shares issued	*12,412*	-	-	*12,412*
Balance at 31 December 2018	*167,654*	*(43,081)*	*(6,943)*	*117,630*
Balance at 1 January 2019	*167,654*	*(43,081)*	*(6,943)*	*117,630*
Loss for the period	-	-	*(2,653)*	*(2,653)*
New shares issued	*12,490*	-	-	*12,490*
Balance at 30 June 2020	***180,144***	***(43,081)***	***(9,596)***	***127,467***

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

Notes

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

The Company has taken the exemption from presenting consolidated accounts as, at the Balance Sheet date, group accounts are prepared by AJ Lucas Group Limited, the ultimate parent company.

Measurement convention

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

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding losses of £2,653,000 for the period which the directors believe to be appropriate for the following reasons:

The Company's parent, AJL, has provided a letter of support to the Company indicating that for 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

The directors of the Company acknowledge that there are material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern due to the considerations which have been assessed by AJL, as set out in the AJL Group Interim Report for the six months ended 31 Dec 2020. The directors are of the view that these do not have any impact on AJL's ability to provide the financial support to the Company as set out in the support letter and these financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

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

The financial support commitment obtained from the Company's parent will ensure that the Company has sufficient resources available at the signing date of the financial statements to pay 12 months of forecast liabilities. The directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Foreign currency

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

Investments

Investments in subsidiaries are stated at cost less impairment.

Notes *(continued)*

1 Accounting policies *(continued)*

Cash flow statement

The Company has not prepared a cash flow statement as any cash transactions are paid or received by the subsidiary company, Cuadrilla Resources Limited, on behalf of the Company and settled through the intercompany account.

Investments

Investments in subsidiaries are stated at cost less impairment.

Non derivative financial instruments

Trade and other receivables are recognised initially at fair value.

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

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

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

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

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Adopted IFRS not yet applied

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

- IAS1 and IAS8 Definition of Material
- IFRS3 Definition of a Business – Amendments to IFRS3
- The Conceptual Framework for Financial Reporting

The directors anticipate that adoption of all Standards and Interpretations, as listed above, will not have a material impact on the financial statements of the Company in future periods.

2 Staff costs and directors' remuneration

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

No directors received any remuneration in respect of services to the Company.

The Company does not operate any share option schemes.

3 Expenses and auditors remuneration

Included in operating loss for the period/year are the following:

	18m period ended 30 June 2020 £000	*Year ended 31 Dec 2018 £000*
Audit of the parent company	***5***	*5*
Audit of the consolidated financial statements	**-**	*25*
Amounts receivable by auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	***65***	*30*
Services for audit of AJ Lucas Group Limited	***15***	-
Foreign exchange (gains)/losses	***(1)***	*15*
Impairment of loans to subsidiaries	***2,297***	-

The audit fees were payable to Ernst & Young LLP.

The Company has established a provision against the recoverability of amounts due from subsidiary companies of £2,297,000 *(2018: £nil).*

Notes *(continued)*

4 Taxation

Recognised in the income statement

	30 June 2020	*31 Dec 2018*
	£000	*£000*
Current tax income	-	-
Deferred tax expense	-	-
Total tax income	-	-

Reconciliation of effective tax rate

	2020	*2018*
	£000	*£000*
Loss before tax for the period/year	***2,653***	*(394)*
Tax using the UK corporation tax rate of 19%	***504***	*75*
Non-deductible expenses	***(439)***	*(22)*
Current year losses for which no deferred tax asset is recognised	***(65)***	*(53)*
Total tax income	-	-

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. In the 2020 Budget announcement on 11 March 2020, it was announced that the UK corporation tax rate would remain at 19% for the years starting 1 April 2020 and 2021.

No provision for tax has been made as the Company has estimated accumulated tax losses of £5,598,000 *(2018: £5,255,000)* which are available for offset against future taxable income. A deferred tax asset has not been recognised as it is uncertain when the Company will be able to utilise the losses.

Notes *(continued)*

5 Investments in subsidiaries

	2020 £000
At 1 January 2019 and 30 June 2020	***19,890***

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

The Company is the parent company of Cuadrilla Resources Limited, which in turn is the parent company of a number of subsidiary companies involved principally in oil and gas exploration activities. All subsidiaries have a registered office address at 3000 Aviator Way, Wythenshawe, Manchester M22 5TG and are detailed as follows:

	Country of Incorporation	Nature of business	Class of shares held	Ownership
Subsidiaries held by the Company:				
Cuadrilla Resources Limited	*UK*	*Management services to subsidiaries*	*Ordinary*	*100%*
Subsidiaries held through Cuadrilla Resources Limited:				
Cuadrilla Bowland Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Elswick Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Balcombe Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Weald Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Elswick (No.2) Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla North Cleveland Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla South Cleveland Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Gainsborough Limited	*UK*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Well Services Limited	*UK*	*Services for oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Services Limited	*UK*	*Not trading*	*Ordinary*	*100%*

Valuation of investments and the moratorium on hydraulic fracturing in England
As a result of the current moratorium on hydraulic fracturing in England, exploration activities have been impacted and significantly reduced until such time that the moratorium is lifted. The valuation of investments has been assessed on the basis that the moratorium would be lifted in the future. In the event the moratorium is not lifted, and hydraulic fracturing is not allowed to recommence, the valuation of investments may be significantly lower than the amounts stated in the Balance Sheet.

6 Trade and other receivables

	30 June 2020 £000	31 Dec 2018 £000
Current		
Prepayments	-	*11*
Other receivables	***25***	*28*
Other receivables from related parties (note 11)	***107,584***	*98,027*
	107,609	*98,066*

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

Notes *(continued)*

7 Trade and other payables

	30 June 2020	*31 Dec 2018*
	£000	*£000*
Current		
Accrued expenses	*32*	*326*

8 Capital and reserves

Reconciliation of movement in capital and reserves

	Issued share capital £000	*Merger reserve £000*	*Retained losses £000*	*Total equity £000*
Balance at 1 January 2018	*155,242*	*(43,081)*	*(6,549)*	*105,612*
Loss for the year	-	-	*(394)*	*(394)*
New shares issued	*12,412*	-	-	*12,412*
Balance at 31 December 2018	***167,654***	***(43,081)***	***(6,943)***	***117,630***
Balance at 1 January 2019	*167,654*	*(43,081)*	*(6,943)*	*117,630*
Loss for the period	-	-	*(2,653)*	*(2,653)*
New shares issued	*12,490*	-	-	*12,490*
Balance at 30 June 2020	***180,144***	***(43,081)***	***(9,596)***	***127,467***

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.

Notes *(continued)*

9 Capital and reserves – issued share capital

The issued share capital of the Company at 30 June 2020 is as follows:

Number of shares

	At 1 Jan 2018	Additions	At 31 Dec 2018	Additions	At 30 June 2020
	'000	'000	'000	'000	'000
Allotted, called up and fully paid					
Deferred shares of $0.01 each	10	-	10	-	10
Ordinary 'A' shares of $0.01 each	68,003	5,775	73,778	5,572	79,350
Ordinary 'B' shares of $0.01 each	19,875	-	19,875	-	19,875
Ordinary 'C' shares of $0.01 each	11,914	707	12,621	680	13,301
Ordinary 'D' shares of $0.01 each	4,202	353	4,555	340	4,895
'A' 8% cumulative preference shares of $2.79 each	53,666	5,775	59,441	5,572	65,013
'B' 0% preference shares of $2.79 each	19,875	-	19,875	-	19,875
	177,545	12,610	190,155	12,164	202,319

Issued share capital

	At 1 Jan 2018	Additions	At 31 Dec 2018	Additions	At 30 June 2020
	£000	£000	£000	£000	£000
Allotted, called up and fully paid					
Deferred shares of $0.01 each	-	-	-	-	-
Ordinary 'A' shares of $0.01 each	512	44	556	45	601
Ordinary 'B' shares of $0.01 each	150	-	150	-	150
Ordinary 'C' shares of $0.01 each	90	5	95	5	100
Ordinary 'D' shares of $0.01 each	31	3	34	3	37
'A' 8% cumulative preference shares of $2.79 each	112,716	12,360	125,076	12,437	137,513
'B' 0% preference shares of $2.79 each	41,743	-	41,743	-	41,743
	155,242	12,412	167,654	12,490	180,144

Notes *(continued)*

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' and 'D' shares have restricted voting and distribution rights.
- The holders of 'A' preference shares are entitled to receive cumulative dividends only 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. There is no contractual requirement for the Company to deliver cash or financial assets either in the ordinary course of business or otherwise. As a result, both classes of shares are classified as equity in accordance with the requirements of *IAS 32 Financial Instruments: Presentation.*

The legal ownership of the 'C' and 'D' ordinary shares is held by the Cuadrilla Resources Employee Share Ownership Plan Trust and the beneficial ownership of these shares are allocated to Cuadrilla employees only. In all cases, the beneficial interests in these shares are purchased by employees at par value, which is considered to be the fair value. As at 30 June 2020, the Trust held a total of £25,000 of unallocated 'C' and 'D' shares, being 3,063,000 shares of $0.01 each. The beneficial ownership of these shares will be allocated to employees in future periods.

Year ended 31 December 2018 share transactions

During 2018, the Company carried out four funding rounds and issued total share capital of $16,180,000 (£12,412,000) to existing shareholders. The Company issued 5,775,000 'A' ordinary shares of $0.01 each, 5,775,000 'A' preference shares of $2.79 each, 706,070 'C' ordinary shares of $0.01 each and 353,035 'D' ordinary shares of $0.01 each. All shares were issued at par value to existing shareholders for cash.

Period ended 30 June 2020 share transactions

The Company has carried out a total of seven funding rounds during the 18 month period ended 30 June 2020. Total share capital of $15,610,000 (£12,490,000) has been issued to existing shareholders. The Company issued 5,571,457 'A' ordinary shares of $0.01 each, 5,571,457 'A' preference shares of $2.79 each, 681,184 'C' ordinary shares of $0.01 each and 340,592 'D' ordinary shares of $0.01 each. All shares were issued at par value to existing shareholders for cash.

Notes *(continued)*

10 Financial instruments

10(a) Fair value of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Fair values

The fair values of financial assets and liabilities are considered to be the same as the carrying amounts.

10(b) Credit risk

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

As at 30 June 2020, all trade receivables are due from fellow group companies. The Company applies the expected credit loss approach to establish an allowance for impairment that represents its estimate of expected credit loss in respect of trade and other receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure expected credit losses trade receivables have been grouped based on shared credit characteristics. The loss allowance for the current and prior year has been based on the credit risk of AJL and adjusted upwards where required.

10(c) Liquidity risk

Financial risk management

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

The Company's ultimate parent, AJL, has provided a letter of support to the Company indicating that for 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

The Company's ultimate parent, AJL, has provided a letter of support to the Company indicating that for 12 months from the date of approval of these financial statements, it will continue to provide the necessary financial support to enable the Company to trade and meet its liabilities as they fall due.

10(d) Market risk

Financial risk management

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

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

10(e) Capital management

Management have reviewed the forecast cash requirements of the Company for the following 12 months and have satisfied themselves that the Company will be able to meet its external liabilities as they fall due for payment.

Notes *(continued)*

11 Related parties

Key management personnel

The key management personnel are considered to be the directors of the Company. The directors of the Company and their immediate families control 0.2% of the voting shares of the company.

Administrative expenses incurred from shareholders:

	30 June 2020	*31 Dec 2018*
	£000	*£000*
Shareholder fees – AJ Lucas Group Limited	***21***	*112*
Shareholder fees – Riverstone Holdings LLC	***145***	*112*
	166	*224*

Other receivables

	30 June 2020	*31 Dec 2018*
	£000	*£000*
Subsidiaries – Cuadrilla Resources Limited	***107,584***	*98,027*

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

12 Ultimate parent company and parent company of larger group

At the start of the period, the Company was jointly controlled by its shareholders: Lucas Cuadrilla PTY Limited (48%), Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP (45%) and employees and former employees (7%).

In February 2020, Lucas Cuadrilla PTY Limited increased its shareholding in Cuadrilla Resources Holdings Limited from 48% to 96% following the acquisition of the Riverstone shareholding for a nominal sum. The remaining 4% is owned by employees and former employees.

As at the date of this report, the Company is a subsidiary of AJ Lucas Group Limited and the largest and smallest consolidated financial statements into which the results of the Company are consolidated are those of the ultimate parent company and controlling party, AJ Lucas Group Limited, a company registered in Australia. Copies of the consolidated financial statements are available from Level 22, 167 Eagle Street, Brisbane, QLD 4000, Australia.