

# Annual Report & Accounts 2018



# Cuadrilla

## Lancashire Commitments Tracker

(Covering period 1 January 2016 to 31 March 2019)

These figures have been independently examined and verified by Danbro Accounting Limited



# 29

### Full Time Employees

Full time jobs created by Cuadrilla based in Lancashire.



# 53

### Contractors

Contract or temporary jobs created based in Lancashire as a result of Cuadrilla's operations.



# 10

### Apprenticeships or Internships

Learning posts created by Cuadrilla or its contractors which are based in Lancashire.



# £13.6m

### Direct spend

The amount of money directly spent by Cuadrilla with suppliers based in Lancashire.



# £1.35m

### Indirect spend

The amount of money Cuadrilla's suppliers have sub contracted to other suppliers based in Lancashire specifically linked to their own work for Cuadrilla.



# 769

### Supply Chain Portal Registrations

The number of Lancashire based businesses who have registered on the Lancashire Chamber of Commerces' Supply Chain Portal.



# £240k

### Local Community Benefit

This will track the amount of money received by the local community for every well drilled and fracked which will be £100k per well with £20k in addition for each lateral well.



# £266k

### Local Community Sponsorships

The amount spent by Cuadrilla sponsoring initiatives in Lancashire.



# £17k

### Local Community Donations

The amount of funds donated by Cuadrilla to Lancashire good causes.



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# Chief Executive Officer's Review

Welcome to Cuadrilla's Annual Report and Accounts for 2018.

I am delighted to provide this summary of our performance and report significant progress on our 2018 work programme, following what was an exciting and unprecedented period for the business. In many ways, 2018 will be remembered as a year of many 'firsts' not just for Cuadrilla but for shale gas exploration in the UK as a whole.

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

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

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

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

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

In December, Cuadrilla was the subject of a motion tabled at a meeting of Lancashire County Council asking the Chief Executive to write to the Prime Minister to suspend operations at Preston New Road. I'm pleased to report that an alternative amendment was tabled which instead requested the council appraise the Secretary of State in support of our efforts and, in particular, referencing Preston New Road as the most closely monitored site in Europe. This was a great achievement and real vote of confidence for us in a year where we have seen our supporter numbers grow and rise up to celebrate the business and all the benefits we are bringing and plan to bring to the Lancashire economy specifically and the UK as a whole.

We remain immensely proud of our Putting Lancashire First commitments and continue to track progress quarterly through independently examined and verified reports. By the close of March 2019, Cuadrilla had contributed over £500,000 in community benefits and sponsorship, spent over £13 million in the county and had created more than 90 full time employees, contractors and internship posts locally.

Nationally, our results and data have been used to revise financial forecasts initially created in a report by the Institute of Directors in 2013. Estimates now show the UK could reduce its dependency on imported gas by 50 per cent, create £1.8bn in community benefits and up to 64,000 jobs by 2035. In addition the supply chain could benefit by up to £33bn.

Understandably, Preston New Road has dominated our operational and business focus in 2018 but I'm pleased to provide the following updates on some of our other exploration sites too.

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

Angus Energy undertook a seven day flow test of the horizontal exploration well at Balcombe in September





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

You will recall from my update in the 2017 accounts that we were awaiting a decision on our proposed site at Roseacre Wood, Lancashire. Planning permission was submitted to drill, hydraulically fracture and test the flow of natural gas from up to four horizontal wells in 2014. This was denied in 2015 and subsequently heard at a public inquiry in 2016, which resulted in a request for more evidence on highway safety. I am disappointed that we were notified in February 2019 that planning permission had been refused for Roseacre Wood on traffic and highways grounds. We worked hard on the application and we believed the site provided an excellent opportunity but acknowledge the findings of the lengthy review process and will not be appealing against the decision.

We demonstrated our ongoing and clear commitment to returning retired exploration sites to their former 'greenfield' use with both the Becconsall single well site in Banks and the Grange Hill single well site in Singleton restored in 2018.

All who have visited Cuadrilla have commented how impressed they have been by our approach, which remains a benchmark for other UK onshore oil and gas operators.

In April 2019, Cuadrilla submitted plans to the Oil and Gas Authority (OGA) outlining a new programme of hydraulic fracturing at Preston New Road.

We remain convinced that it will not be possible to establish a commercial shale gas industry in the UK within the existing 0.5 red light operating limits of the micro-seismic Traffic Light System (TLS). However, we understand that more data is considered to be required to support the case for a TLS review and as the leading and only UK shale gas operator with permission to hydraulically fracture horizontal wells, it's clearly up to us to provide it. We plan to complete this latest programme of operations by Q4 2019 and in doing so, will operate within the current TLS.

Establishing a domestic gas supply will create significant economic prosperity including jobs and tax revenues and reduce our reliance and expenditure on foreign gas imports. We have shown that hydraulic fracturing can be carried out safely and within strict environmental limits and that the impact of any induced seismicity is far below anything that would cause damage or harm and also well below that created by other UK businesses such as construction, quarrying or geothermal, which are operating successfully across the UK every day. We will continue to prove this as we test our complete operations on both PNR wells.

A thriving shale gas industry here in the UK is also absolutely compatible with and indeed critical for reducing global carbon emissions and supporting the country's energy needs as we move towards creating more renewable energy. We have an estimated 1,300 trillion cubic feet of high quality natural shale gas beneath our feet in the UK and yet we currently import 50 per cent of our gas needs, forecast to rise to 90 per cent by 2035. In addition, we are seeing a stark rise in liquefied natural gas (LNG) being shipped into the UK from all around the world, eight LNG tankers in the first three months of 2018 increasing to 41 tankers over the same period in 2019, including LNG from Russia.

The UK Committee on Climate Change report published in May 2019 recognises that we will continue to be using significant quantities of natural gas in the UK out to 2050 and beyond in conjunction with Carbon Capture and Storage (CCS) technology and in producing hydrogen as an alternative energy for the future. Shale gas has a vital part to play in providing that domestic gas supply with a significantly lower carbon footprint than importing gas from across the world by ship.

For all these reasons, shale remains an excellent opportunity for both Lancashire and for the country as a whole. I look forward to reporting our progress in next year's accounts.

A handwritten signature in black ink, reading 'Francis Egan'.

**Francis Egan**

Chief Executive Officer

21 May 2019



## ENGAGING WITH LOCAL COMMUNITIES



Winners of the STEM Club Challenge 2019



AFC Fylde Community Foundation's programmes getting the thumbs up from participants



Futsal scholars displaying their skills

Over £500,000  
invested in local  
community benefits,  
sponsorships and  
donations



Teamwork plays a huge part in the sessions that Cuadrilla sponsors at AFC Fylde Community Foundation



Local residents taking part in the 'Extra Time' sessions, delivered in partnership with Cuadrilla





The Young Engineers winning team from Highfield Leadership Academy taking home the £10,000 first prize



Local football teams taking part in 'Train Like A Pro' programme



Celebrating International Women's Day at Cuadrilla



Attending the celebration launch of the new Fylde Sports & Education Centre

# Strategic Report

## Results and proposed dividends

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

## Business review

Cuadrilla is a privately owned British exploration group of companies, focused on discovering and recovering natural resources, primarily natural gas from shale rock. Cuadrilla currently has onshore exploration licences in the North and South of the UK. The headquarters are in Bamber Bridge, Lancashire where the majority of our workforce are based.

Cuadrilla remains debt free and is financed by its shareholders. As at 31 December 2018, the Company was jointly owned and controlled by its shareholders as follows:

- AJ Lucas, an Australian specialist service provider to the energy, mining and infrastructure sector (48%)
- Riverstone Holdings, a private equity investor (45%); and
- Cuadrilla employees and former employees (7%)

As at 31 December 2018, the Group had net assets of £47.4m (*2017: £32.4m*). Exploration and evaluation intangible assets have increased from £32.4m to £46.2m reflecting the operational activities in the year, principally the drilling and fracturing operations at Preston New Road, Bowland, and the flow test program at Lower Stumble, Balcombe.

The result for the year is a profit of £2.7m (*2017: profit of £4.3m*) including a £1.8m profit recognised on the part-disposal of Cuadrilla's share in the PEDL 244 Balcombe exploration licence to Angus Energy plc ('Angus') in January 2018. Angus paid £4 million in cash of which Cuadrilla's share was £3m. As part of the agreement, Angus has also paid the costs of a well test program which was carried out in September 2018.

The UK's Oil and Gas Authority gave consent for the transfer of operatorship from Cuadrilla to Angus. The ownership of the Balcombe 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
Angus	-	25.00
	<b>100.00</b>	<b>100.00</b>



## STRATEGIC REPORT

Continued

Through farm-in agreements, the Group has benefited from carry arrangements with joint operating partners on both the Balcombe and Bowland licence activities this year. Cuadrilla's share of capital related project costs that have been carried total £7.3m (2017: £10.7m). Consistent with Cuadrilla's accounting policy for carried costs, these are included in income for the year and have been capitalised as an addition to exploration and evaluation assets on the balance sheet.

During 2018, four shareholder funding rounds were carried out and a total of £12.4m share capital has been issued to existing shareholders for cash. This has increased the Company's share capital to £167.7m (2017: £155.2m).

Subsequent to the year end, the Company has carried out two funding rounds in January 2019 and April 2019. Total share capital of £5.2m (US\$6.7m) has been issued to existing shareholders for cash.

### Going concern

The statutory accounts have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons. As an exploration business, the Group is funded by its major shareholders who have confirmed to the Company that they will continue to provide funding to the Group to enable it to continue to execute its approved exploration programme and meet external liabilities as they fall due for a period of at least 12 months.

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.

### Principal risks and uncertainties

As a pioneering onshore oil and gas exploration group, Cuadrilla is exposed to and manages a variety of risks to enable safe and responsible operations. The Board monitors risk exposure and is responsible for ensuring that the Group's risk management system is operating effectively. The principal risks are as follows:

Risk description	Risk management
<b>Political risk</b> Changes to local or national government could result in changes to the regulatory regime which may impact Cuadrilla's ability to deliver the business strategy.	Cuadrilla engages with government and other appropriate industry associations in order to make a case for gas production from shale rock to form part of the UK's future energy mix as we move towards a lower carbon footprint.
<b>Exploration and appraisal</b> Due to geological and technical uncertainties, there are inherent risks in assessing the level of oil and gas reserves that are recoverable and can be produced economically.	Sites are selected after peer review and collection and extensive analysis of geological and 3D data. Extensive core and log data is now available as well as fracturing performance and preliminary gas flow data from the Lower Bowland Shale. The Group has developed its own team of professional in-house technical experts and seeks external support from experienced consultants as required to analyse and mitigate against technical risk.
<b>HSE risk</b> Oil and gas exploration activities carry HSE risks. Failure to manage these risks properly could result in injury, environmental damage, security breaches or damage to equipment.	Management of HSE risk is a main priority of the business and the HSE committee reports directly to the Board. Cuadrilla has a comprehensive risk management system in place and the effectiveness of this is continually being reviewed and improved. A training and development programme is maintained and a behavioural programme is also in place to ensure working practices reduce risks to as low as is reasonably practicable.

continued overleaf

## STRATEGIC REPORT

Continued

Risk description	Risk management
<p><b>Regulatory risk</b></p> <p>Through its operations, the Group is exposed to planning, permitting, licensing and other legislative regimes. Failure to secure necessary permits or permissions would affect our ability to operate.</p>	<p>The Board places considerable importance on maintaining the highest standards of legal and regulatory compliance and developing successful working relationships with relevant local and national government authorities. Cuadrilla has a dedicated team focused on (a) securing and (b) maintaining compliance with all relevant planning, permitting and other regulatory permissions required to operate.</p>
<p><b>People risk</b></p> <p>Succession planning and retention of key staff are key to delivering the Group's growth strategy.</p>	<p>Cuadrilla has a comprehensive selection process which assesses both technical and behavioural competencies. Cuadrilla's remuneration strategy is to attract and retain staff with reward packages which are benchmarked against the wider industry. Ongoing development is achieved through exposure to a challenging and empowered working environment, with training as required. We operate a comprehensive performance appraisal system to ensure that feedback loops are effective.</p>
<p><b>Financial risk</b></p> <p>Cuadrilla has joint operating agreements for certain licences and this exposes the Group to funding risk. The Group is also exposed to capital risk as it has no significant revenues and is 100% equity financed.</p>	<p>Funding risk is mitigated by seeking out and arranging funding in a pro-active and timely manner, by delivering on HSE and technical objectives and by partnering with globally accomplished operating partners. Capital risk is managed by the Board continually reviewing cash flow forecasts to satisfy themselves that sufficient cash resources are available for the Board approved business plan and that monetary injections from shareholders or other sources of funding are identified and available as required.</p>



**Francis Egan**  
Chief Executive Officer  
21 May 2019



## Corporate Social Responsibility Statement

Cuadrilla will conduct its business with integrity and professionalism. These principles:

- Are relevant to all Cuadrilla employees and key contractors
- Are approved and overseen by Cuadrilla's Board of Directors
- Are reviewed on a regular basis.

Accordingly:

- **Caring for our people** - Cuadrilla respects, values and welcomes diversity in its workforce. Cuadrilla will comply with applicable laws and provide equal employment opportunity for all applicants and employees without regard to race, colour, religion, sex, national origin, age, disability, marital status, sexual orientation or gender identity. It is also important to us to provide our employees with appropriate training and development to ensure they are enabled to carry out their responsibilities to the highest of standards.
- **Caring for our communities** - We strive to be a good neighbour, recognising our responsibility to work in partnership with the communities in which we operate. We understand this means regularly communicating (listening and responding) with those communities. We also provide support, financial or otherwise, for certain community projects and initiatives.
- **Working with our partners** - We are committed to ensuring that we conduct business with our suppliers and all stakeholders that are involved or affected by our business, according to ethical, professional and legal standards with fairness, integrity and in an honest, open and transparent manner.
- **Workforce safety** - We are committed to providing a working environment which is both safe and fit for the intended purpose and ensures that health and safety issues are a priority for all business operations.
- **Protecting our environment** - We believe that preserving a clean, safe, healthy environment can go hand in hand with meeting our energy needs. We are committed to a programme of management and continuous improvement to minimise any direct or indirect environmental impacts that may be associated with our business operations.

# 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

Continued

### The Board

The Company's Board of directors comprised of two executive directors and six non-executive directors during the financial year, details of whom are set out on page 12. The Board members have a wealth of industry, technical and corporate experience. Board meetings are held at least 4 times during the year, and in addition executive management provide formal briefings to the Board every second week. A Shareholders' Agreement sets out a formal schedule of matters which require Board approval ensuring that the Board exercises control over all key areas.

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

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

The HSE Committee comprises Phil Arnall (as Chairman) and Robin Duggan, both of whom are non-executive directors. Francis Egan (CEO) and Rowland Wright (Head of Health and Safety) are in attendance at all meetings.

The HSE Committee meet at least four times a year and report conclusions and recommendations back to the Board. The Committee's focus is in ensuring that Cuadrilla's 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 role of the Committee is to provide assurance to the Board 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

The Audit Committee comprises Robin Duggan (as Chairman) and Phil Arnall, both of whom are non-executive directors. Francis Egan (CEO), Jill Overland (Head of Finance) and Rebecca Henworth (Company Secretary) are also in attendance at all meetings.

Audit Committee meetings are held at least twice a year. The external auditor is invited to attend the meetings and to hold sessions with the Committee without the presence of management as required.

The Committee's duties and responsibilities include:

- To monitor, review and challenge the integrity of the Group's financial statements before submission to the Board for approval. Particular attention is given to critical accounting policies and any decisions requiring judgement.
- To review the effectiveness of Cuadrilla's internal control and risk management framework.
- To consider and assess the external auditor's independence, objectivity and any non-audit services provided.
- To review with the auditor the findings of their work.

### Remuneration Committee

The Remuneration Committee comprises Ivor Orchard (as Chairman) and Alfredo Marti, both of whom are non-executive directors.

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

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

## CORPORATE GOVERNANCE

Continued

### Internal controls

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

- HSE management system;
- implementation of a business controls framework which gives an overview of policies, standards and/or other guidance documents across all discipline areas;
- approval by the Board of operational plans and budgets;
- ongoing review and challenge of the execution of the operational plan, actual and forecast expenditure and cash flows versus the approved budget;
- approval and review of the operation plan by Joint Operating Committees for each licence attended by joint operating partners;
- monthly executive management team meetings to review HSE, operating performance and financial activities;
- recruitment of appropriately experienced and qualified staff to key management positions.

### UK Bribery Act

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

On behalf of the Board



**Roy Franklin**

Chairman of the Board

21 May 2019



## Directors' Report

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

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

### 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.

### 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, and services related thereto.

### Directors

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

Non-Executive Directors		
Roy Franklin	Chairman of the Board, AJ Lucas representative	
Phillip Arnall	AJ Lucas representative	
Ivor Orchard	AJ Lucas representative	
Robin Duggan	Riverstone representative	
N John Lancaster Jr	Riverstone representative	
Alfredo Marti	Riverstone representative	

Executive Directors		
Francis Egan	Chief Executive Officer	
Mark Lappin	Technical Director	(resigned 28 February 2019)

### 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 £81,000 during the year (2017:£100,000). 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 17.

## DIRECTORS' REPORT

Continued

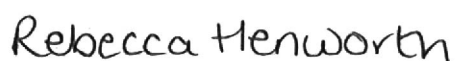
### Disclosure of information to the auditor

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

During the period Ernst Young LLP was appointed as auditor of the Company.  
Pursuant to Section 487 of the Companies Act 2006, Ernst Young LLP will be deemed to be reappointed and will therefore continue in office.

On behalf of the Board



### Rebecca Henworth

Company Secretary  
21 May 2019

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



# Statement of Directors' Responsibilities

## in Respect of The Annual Report and the Financial Statements

The directors are responsible for preparing the Annual 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent 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 group or the parent 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 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 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 group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Ernst & Young LLP**  
**2 St Peter's Square**  
**Manchester M2 3EY**  
**United Kingdom**

## **Independent Auditor's Report**

### **to the Members of Cuadrilla Resources Holdings Limited**

#### **Opinion**

We have audited the financial statements of Cuadrilla Resources Holdings Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Group Income Statement, Consolidated and Parent Company Statement of Comprehensive Income, Group and Parent Company Balance Sheet, Group and Parent Company Statement of Changes of Equity, Consolidated Cash Flow Statement and the related notes 1 to 22 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

#### **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 group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### **Conclusions relating to going concern**

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

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

#### **Other information**

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

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

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

We have nothing to report in this regard.

## AUDIT REPORT

Continued



### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

In the light of the knowledge and understanding of the group and the parent 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 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.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

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

### 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**

**21 May 2019**

Notes:

1. The maintenance and integrity of the Cuadrilla Resources Holdings Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## Group Income Statement

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
<b>Revenue</b>	2	<b>210</b>	18
Operating expenses		<b>(3,520)</b>	(2,975)
Administrative expenses		<b>(3,680)</b>	(3,627)
Contribution of carried costs	9	<b>7,304</b>	10,667
Profit on disposal of licence share		<b>1,816</b>	-
<b>Operating profit</b>	3	<b>2,130</b>	4,083
Financial income	6	<b>1</b>	1
<b>Profit before tax</b>		<b>2,131</b>	4,084
Taxation	7	<b>519</b>	170
<b>Profit for the year from continuing operations</b>		<b>2,650</b>	4,254

The accompanying notes on pages 22 to 39 form an integral part of these financial statements.

## FINANCIAL STATEMENTS

Continued

### Statements of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £000	2017 £000
<b>Group</b>			
<b>Profit for the year</b>		<b>2,650</b>	4,254
Other comprehensive income:			
Items that will be reclassified to profit and loss:			
Currency translation differences	15	-	(146)
<b>Total comprehensive income for the year</b>		<b>2,650</b>	4,108

	Note	2018 £000	2017 £000
<b>Company</b>			
<b>Loss for the year</b>		<b>(394)</b>	(151)
Other comprehensive income:			
Items that will be reclassified to profit and loss:			
Currency translation differences	15	-	5
<b>Total comprehensive loss for the year</b>		<b>(394)</b>	(146)

The Company has taken exemption under section 408 of the Companies Act 2006 not to present the individual parent undertaking income statement. The result for the Company for the year was a loss of £394,000 (2017: loss of £151,000).

The accompanying notes on pages 22 to 39 form an integral part of these financial statements.

## FINANCIAL STATEMENTS

Continued

### Balance Sheets

At 31 December 2018

	Note	Group		Company	
		2018 £000	2017 £000	2018 £000	2017 £000
Non-Current Assets					
Property, plant and equipment	8	3,458	5,608	-	-
Intangible assets	9	46,197	32,427	-	-
Investments in subsidiaries	10	-	-	19,890	19,890
		49,655	38,035	19,890	19,890
Current Assets					
Trade and other receivables	11	6,535	5,321	98,066	85,896
Cash at bank		2,265	6,373	-	-
		8,800	11,694	98,066	85,896
Total Assets		58,455	49,729	117,956	105,786
Current Liabilities					
Trade and other payables	12	(7,282)	(12,269)	(326)	(174)
Provisions	14	-	(1,126)	-	-
		(7,282)	(13,395)	(326)	(174)
Non-Current Liabilities					
Provisions	14	(3,731)	(3,954)	-	-
Total Liabilities		(11,013)	(17,349)	(326)	(174)
Net Assets		47,442	32,380	117,630	105,612
Equity Attributable to Equity Holders of the Parent					
Share capital	16	167,654	155,242	167,654	155,242
Merger reserve	15	(38,151)	(38,151)	(43,081)	(43,081)
Retained losses	15	(82,061)	(84,711)	(6,943)	(6,549)
Total Equity		47,442	32,380	117,630	105,612

These financial statements were approved by the board of directors on 21 May 2019 and were signed on its behalf by:



**Francis Egan**

Director

Company registered number: 7147040

The accompanying notes on pages 22 to 39 form an integral part of these financial statements.



## FINANCIAL STATEMENTS

Continued

### Group and Parent Company Statements of Changes in Equity

At 31 December 2018

	Issued share capital £000	Merger reserve £000	Retained losses £000	Total equity £000
<b>Group</b>				
Balance at 1 January 2017	164,704	(40,873)	(95,157)	28,674
Profit for the year	-	-	4,254	4,254
Other comprehensive income - foreign currency differences	-	-	(146)	(146)
New shares issued	1,597	-	-	1,597
Foreign currency adjustment	(11,059)	2,722	6,338	(1,999)
<b>Balance at 31 December 2017</b>	<b>155,242</b>	<b>(38,151)</b>	<b>(84,711)</b>	<b>32,380</b>
Balance at 1 January 2018	155,242	(38,151)	(84,711)	32,380
Profit for the year	-	-	2,650	2,650
New shares issued	12,412	-	-	12,412
<b>Balance at 31 December 2018</b>	<b>167,654</b>	<b>(38,151)</b>	<b>(82,061)</b>	<b>47,442</b>

	Issued share capital £000	Merger reserve £000	Retained losses £000	Total parent equity £000
<b>Company</b>				
Balance at 1 January 2017	164,704	(46,155)	(6,860)	111,689
Loss for the year	-	-	(151)	(151)
Other comprehensive income - foreign currency differences	-	-	5	5
New shares issued	1,597	-	-	1,597
Foreign currency adjustment	(11,059)	3,074	457	(7,528)
<b>Balance at 31 December 2017</b>	<b>155,242</b>	<b>(43,081)</b>	<b>(6,549)</b>	<b>105,612</b>
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
<b>Balance at 31 December 2018</b>	<b>167,654</b>	<b>(43,081)</b>	<b>(6,943)</b>	<b>117,630</b>

The accompanying notes on pages 22 to 39 form an integral part of these financial statements.

## FINANCIAL STATEMENTS

Continued

### Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Group	
	2018 £000	2017 £000
<b>Cash flows from operating activities</b>		
Operating profit for the year	2,130	4,083
Adjustments for:		
Loss on disposal of tangible fixed assets	112	-
Loss on disposal of intangible assets	79	-
Profit on disposal of licence share	(1,816)	-
Depreciation and amortisation	2,044	2,171
Foreign exchange gains	(51)	(292)
Increase in trade and other receivables	(868)	(2,696)
Decrease in inventories	-	2
(Decrease)/increase in trade and other payables	(4,984)	9,783
	(3,354)	13,051
Tax received	170	113
Interest received	1	1
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(3,183)</b>	<b>13,165</b>
<b>Cash flows from investing activities</b>		
Capitalised exploration expenditure	(16,388)	(10,666)
Disposal of licence share	3,000	-
Acquisition of other intangible assets	-	(77)
<b>Net cash outflow from investing activities</b>	<b>(13,388)</b>	<b>(10,743)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	12,412	1,597
<b>Net cash inflow from financing activities</b>	<b>12,412</b>	<b>1,597</b>
Net (decrease)/increase in cash	(4,159)	4,019
Cash at 1 January	6,373	2,139
Effect of exchange rate fluctuations on cash held	51	215
<b>Cash at 31 December</b>	<b>2,265</b>	<b>6,373</b>

The accompanying notes on pages 22 to 39 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.

### 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. The principal accounting policies adopted by the Group are set out below.

### Change in functional and presentation currency

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

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

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

### Going concern

The group’s business activities, together with the factors likely to affect its future developments, performance and position are set out in the Strategic Report on page 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.

### Accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The principal accounting estimates, assumptions and judgements employed in the preparation of these consolidated group financial statements which could affect the carrying amounts of assets and liabilities at the balance sheet dates are as follows:

### Judgements

- Carrying value and useful economic life of other intangible assets
- Revenue recognition of new revenue streams
- Determining which evaluation and exploration activities meet capitalisation criteria

### Estimates

#### *Recoverable value of Exploration and Evaluation intangible assets*

Exploration and evaluation costs are capitalised in accordance with IFRS 6 and are evaluated for impairment. Impairment reviews, where required, involve relevant estimates and assumptions of recoverable reserves, production profiles, land agreements, conditions of planning permissions, expected gas prices, applicable taxes and other matters. Where the final outcome or revised estimates differ from estimates used in earlier impairment reviews, the results of those differences, to the extent that they actually affect impairment provisions, are accounted for when such revisions are made. Details of the Group’s intangible exploration and evaluation assets are disclosed in note 9.

#### *Deferred tax asset recognition*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit together with future tax planning strategies. Details of the Group’s deferred tax position, including the losses that are not recognised due to uncertainty of future utilisation are given in note 7.

#### *Decommissioning provisions*

The estimated costs of decommissioning facilities at the end of field life are based on forecast prices at the balance sheet date. Details of the Group’s decommissioning provisions are disclosed in note 14.

### 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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

*Joint Arrangements* - A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are in turn classified as:



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 1. Accounting Policies Continued

- Joint ventures whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and
- Joint operations whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

#### *Application of the equity method to joint ventures*

Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

*Joint operations* - Where the Group is a party to a joint operation, the consolidated financial statements include the Group's share of the joint operations assets and liabilities, as well as the Group's share of the entity's profit or loss and other comprehensive income, on a line-by-line basis.

#### **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 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.

#### **Carried interests**

Where the Group has entered into carried interest agreements in exploration and evaluation projects and the Group's interest is being carried by a third party, the Group records carried costs as exploration and evaluation assets and income as appropriate once the entitlement to receive the carry proceeds becomes non-cancellable.

#### **Impairment test**

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

- i. Expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- ii. Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- iii. Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 1. Accounting Policies Continued

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
- Office equipment 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.

#### 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 and 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. The adoption of IFRS 15 – 'Revenue from Contracts with Customers', effective from 1 January 2018, has not had a material impact on the financial statements.

#### 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

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

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

The directors are considering the impact of IFRS 16 – 'Leases' which is effective from 1 January 2019 and this assessment is ongoing at the balance sheet date.

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

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 2. Revenue, business and geographical segments

The Group has a single class of business which is oil and gas exploration, development and production. The Group operates in one geographical area, the United Kingdom.

Revenue from external customers arises from the following:

	Group	
	2018 £000	2017 £000
Provision of equipment and services for the exploration and appraisal of oil and gas assets	210	18

### 3. Expenses and auditor's remuneration

Included in operating profit are the following:

	Group	
	2018 £000	2017 £000
Depreciation of tangible fixed assets	2,038	2,119
Amortisation of software assets	6	52
Loss on disposal of tangible fixed assets	112	-
Loss on disposal of intangible fixed assets	79	-
Profit on disposal of licence share	(1,816)	-
Operating lease charges – land and buildings	370	463
Operating lease charges – motor vehicles	10	18
Operating lease charges – equipment	24	30
Foreign exchange gains	(51)	(292)

The profit on disposal of licence share of £1,816,000 arose on 21 January 2018 when Angus Energy plc ('Angus') became a 25% investment partner in the PEDL 244 Balcombe exploration licence. Angus paid £4million in cash of which Cuadrilla's share was £3m. As part of the agreement to farm-in to the licence, Angus have also paid the costs of the well test program at the Lower Stumble site.

Auditor's Remuneration:

	Group	
	2018 £000	2017 £000
Audit of the parent company and consolidated financial statements	30	27

#### Amounts receivable by auditor and its associates in respect of:

Audit of financial statements of subsidiaries pursuant to legislation	30	33
Other services	-	19

The 2018 audit fees were payable to Ernst & Young LLP (2017:KPMG LLP).

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 4. Staff numbers and costs

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

	Number of employees	
	Group	
	2018 £000	2017 £000
Management and operational support	26	24

The aggregate payroll costs of these persons were as follows:

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

#### Company

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



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 5. Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	680	632

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

Company contributions to directors' money purchase pension plans total £nil (2017: £10,000). No retirement benefits are accruing to directors under defined benefit schemes (2017: none).

None of the directors hold any share options in the Company.

### 6. Finance income

Recognised in profit before tax

	2018 £000	2017 £000
<b>Finance income</b>		
Interest income on cash balances	1	1

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 7. Taxation

#### Recognised in the income statement

	2018 £000	2017 £000
Current tax income	519	170
Deferred tax expense	-	-
<b>Total tax income</b>	<b>519</b>	<b>170</b>

#### Reconciliation of effective tax rate

	2018 £000	2017 £000
<b>Profit before tax for the year</b>	<b>2,131</b>	<b>4,084</b>
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	(405)	(786)
Effect of ring fence trades tax rate of 40%	(901)	(1,380)
Effect of tax rates in foreign jurisdictions	1	1
Depreciation in excess of capital allowances for which no deferred tax asset is recognised	(409)	(408)
Non-deductible expenses	(91)	(36)
Non-taxable income	2,921	4,267
Utilisation of brought forward losses	821	-
Current year losses and pre-trading expenditure for which no deferred tax asset is recognised	(1,418)	(1,488)
<b>Total tax income</b>	<b>519</b>	<b>170</b>

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

The ring fence corporation tax rate applicable for the period of 40% comprises the main rate of corporation tax on ring fence profits of 30% and an additional supplementary charge of 10%. An onshore allowance may also be available to reduce the supplementary charge and this will reduce the group's tax charge accordingly.

No provision for tax has been made as the Group has estimated accumulated tax losses and pre-trading expenditure of £46,281,000 (2017: £43,118,000) 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 £3,190,000 (2017: £3,157,000).

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 8. Property, plant and equipment – Group

	Gas production assets £000	Plant and equipment £000	Office equipment £000	Under construction £000	Total £000
<b>Cost</b>					
Balance at 1 January 2017	523	22,096	56	121	22,796
Foreign currency adjustment	(35)	(1,472)	(4)	(9)	(1,520)
<b>Balance at 31 December 2017</b>	<b>488</b>	<b>20,624</b>	<b>52</b>	<b>112</b>	<b>21,276</b>
Balance at 1 January 2018	488	20,624	52	112	21,276
Disposals	-	-	-	(112)	(112)
<b>Balance at 31 December 2018</b>	<b>488</b>	<b>20,624</b>	<b>52</b>	<b>-</b>	<b>21,164</b>
<b>Depreciation</b>					
Balance at 1 January 2017	(523)	(14,023)	(49)	-	(14,595)
Depreciation charge for the year	-	(2,112)	(7)	-	(2,119)
Foreign currency adjustment	35	1,007	4	-	1,046
<b>Balance at 31 December 2017</b>	<b>(488)</b>	<b>(15,128)</b>	<b>(52)</b>	<b>-</b>	<b>(15,668)</b>
Balance at 1 January 2018	(488)	(15,128)	(52)	-	(15,668)
Depreciation charge for the year	-	(2,038)	-	-	(2,038)
<b>Balance at 31 December 2018</b>	<b>(488)</b>	<b>(17,166)</b>	<b>(52)</b>	<b>-</b>	<b>(17,706)</b>
<b>Net Book Value</b>					
At 1 January 2017	-	8,073	7	121	8,201
At 31 December 2017 and 1 January 2018	-	5,496	-	112	5,608
<b>At 31 December 2018</b>	<b>-</b>	<b>3,458</b>	<b>-</b>	<b>-</b>	<b>3,458</b>

#### Company

The Company has no property, plant and equipment.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 9. Intangible assets – Group

	Exploration & evaluation costs £000	Software £000	Total £000
<b>Cost</b>			
Balance at 1 January 2017	23,859	350	24,209
Increase in decommissioning provision	852	-	852
Additions	10,667	77	10,744
Disposals	(1,171)	-	(1,171)
Foreign currency adjustment	(1,944)	(26)	(1,970)
<b>Balance at 31 December 2017</b>	<b>32,263</b>	<b>401</b>	<b>32,664</b>
Balance at 1 January 2018	32,263	401	32,664
Decrease in decommissioning provision	(55)	-	(55)
Additions	15,262	-	15,262
Disposals	(1,352)	(79)	(1,431)
<b>Balance at 31 December 2018</b>	<b>46,118</b>	<b>322</b>	<b>46,440</b>
<b>Amortisation</b>			
Balance at 1 January 2017	(1,210)	(199)	(1,409)
Amortisation for the year	-	(52)	(52)
Disposals	1,171	-	1,171
Foreign currency adjustment	39	14	53
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>(237)</b>	<b>(237)</b>
Balance at 1 January 2018	-	(237)	(237)
Amortisation for the year	-	(6)	(6)
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>(243)</b>	<b>(243)</b>
<b>Net Book Value</b>			
At 1 January 2017	22,649	151	22,800
At 31 December 2017 and 1 January 2018	32,263	164	32,427
<b>At 31 December 2018</b>	<b>46,118</b>	<b>79</b>	<b>46,197</b>

Additions to Exploration and Evaluation assets of £15,262,000 (2017:£10,667,000) include costs of £7,304,000 (2017:£10,667,000) that have been met by Cuadrilla's joint operating partners under carry arrangements relating to farm-in agreements. The corresponding contributions have been recognised in the income statement.

#### Company

The Company has no intangible assets.



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 10. Investments in subsidiaries

#### Company

Shares in group undertakings

	2018 £000
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**At 1 January 2018 and 31 December 2018**

**19,890**

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

The details of investments in subsidiaries, the ordinary share capital of all being 100% held, are as follows:

	Country of Incorporation	Nature of business	Registered office
<b>Subsidiaries held by the Company:</b>			
Cuadrilla Resources Limited	England	Management services to subsidiaries	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
<b>Subsidiaries held through Cuadrilla Resources Limited:</b>			
Cuadrilla Bowland Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Elswick Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Balcombe Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Weald Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Elswick (No.2) Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla North Cleveland Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla South Cleveland Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Gainsborough Limited	England	Oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Hardenberg BV	Netherlands	Oil and gas exploration	Dorpsstraat 20, 5296 L V Esch, The Netherlands
Cuadrilla Brabant BV	Netherlands	Oil and gas exploration	Dorpsstraat 20, 5296 L V Esch, The Netherlands
Cuadrilla Well Services Limited	England	Services for oil and gas exploration	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW
Cuadrilla Services Limited (formerly Cuadrilla Hungary Limited)	England	Investment holding	Cuadrilla House, Sceptre Court, Bamber Bridge, Lancs PR5 6AW

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 11. Trade and other receivables

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>Current</b>				
Trade receivables	2,818	2,095	-	-
Trade receivables from related parties (note 20)	1,255	1,332	-	-
Prepayments	385	347	11	12
Other receivables	2,077	1,547	28	20
Other receivables from related parties (note 20)	-	-	98,027	85,864
	<b>6,535</b>	<b>5,321</b>	<b>98,066</b>	<b>85,896</b>

### 12. Trade and other payables

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>Current</b>				
Trade payables	3,517	3,903	-	-
Social security and other taxes	93	76	-	-
Accrued expenses	3,672	2,910	326	174
Deferred income	-	5,380	-	-
	<b>7,282</b>	<b>12,269</b>	<b>326</b>	<b>174</b>

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 13. Employee benefits

#### Defined contribution plans

The Group does not operate any pension plans, but contributes to employee's personal pension schemes. The total expense relating to these schemes in the current year was £134,000 (2017: £135,000).

#### Company

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

#### Share-based payments – Company

The Company does not operate any share option schemes.

### 14. Provisions

Decommissioning Provision	Group	
	2018 £000	2017 £000
At 1 January	5,080	4,562
(Decrease)/increase in provision in the year	(55)	852
Utilisation of provision in the year	(1,126)	-
Release of provision in the year due to sale of licence share	(168)	-
Foreign currency adjustment	-	(334)
<b>At 31 December</b>	<b>3,731</b>	<b>5,080</b>
<b>Included In:</b>		
Current liabilities	-	1,126
Non-current liabilities (two to five years)	1,750	1,807
Non-current liabilities (after five years)	1,981	2,147
	<b>3,731</b>	<b>5,080</b>

Provision has been made for the future cost for the removal of facilities and site restoration to a condition acceptable to the relevant authorities. These provisions are based on the Group's internal estimate as at 31 December 2018. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. The estimates are reviewed regularly to take into account any material changes to the assumptions. Actual decommissioning costs will ultimately depend upon future costs for decommissioning which will reflect market conditions and regulations at that time. Discounting is used to the extent it is material.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 15. Capital and reserves

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

	Issued share capital £000	Merger Reserve £000	Retained losses £000	Total equity £000
Balance at 1 January 2017	164,704	(40,873)	(95,157)	28,674
Profit for the year	-	-	4,254	4,254
Other comprehensive income - foreign currency differences	-	-	(146)	(146)
New shares issued	1,597	-	-	1,597
Foreign currency adjustment	(11,059)	2,722	6,338	(1,999)
<b>Balance at 31 December 2017</b>	<b>155,242</b>	<b>(38,151)</b>	<b>(84,711)</b>	<b>32,380</b>
Balance at 1 January 2018	155,242	(38,151)	(84,711)	32,380
Profit for the year	-	-	2,650	2,650
New shares issued	12,412	-	-	12,412
<b>Balance at 31 December 2018</b>	<b>167,654</b>	<b>(38,151)</b>	<b>(82,061)</b>	<b>47,442</b>

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

	Issued share capital £000	Merger Reserve £000	Retained losses £000	Total parent equity £000
Balance at 1 January 2017	164,704	(46,155)	(6,860)	111,689
Loss for the year	-	-	(151)	(151)
Other comprehensive income – foreign currency differences	-	-	5	5
New shares issued	1,597	-	-	1,597
Foreign currency adjustment	(11,059)	3,074	457	(7,528)
<b>Balance at 31 December 2017</b>	<b>155,242</b>	<b>(43,081)</b>	<b>(6,549)</b>	<b>105,612</b>
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
<b>Balance at 31 December 2018</b>	<b>167,654</b>	<b>(43,081)</b>	<b>(6,943)</b>	<b>117,630</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.



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 16. Capital and reserves – issued share capital

The issued share capital of the Company at 31 December 2018 is as follows:

Number of Shares (000)	At 1 Jan 2017	Additions	At 31 Dec 2017	Additions	At 31 Dec 2018
<b>Allotted, called up and fully paid</b>					
Deferred shares of \$0.01 each	10	-	10	-	10
Ordinary 'A' shares of \$0.01 each	67,288	715	68,003	5,775	73,778
Ordinary 'B' shares of \$0.01 each	19,875	-	19,875	-	19,875
Ordinary 'C' shares of \$0.01 each	11,827	87	11,914	707	12,621
Ordinary 'D' shares of \$0.01 each	4,158	44	4,202	353	4,555
'A' 8% cumulative preference shares of \$2.79 each	52,951	715	53,666	5,775	59,441
'B' 0% preference shares of \$2.79 each	19,875	-	19,875	-	19,875
	175,984	1,561	177,545	12,610	190,155

Issued Share Capital	At 1 Jan 2017 £000	Additions £000	Foreign currency adjustments £000	At 31 Dec 2017 £000	Additions £000	At 31 Dec 2018 £000
<b>Allotted, called up and fully paid</b>						
Deferred shares of \$0.01 each	-	-	-	-	-	-
Ordinary 'A' shares of \$0.01 each	543	6	(37)	512	44	556
Ordinary 'B' shares of \$0.01 each	160	-	(10)	150	-	150
Ordinary 'C' shares of \$0.01 each	96	1	(7)	90	5	95
Ordinary 'D' shares of \$0.01 each	33	-	(2)	31	3	34
'A' 8% cumulative preference shares of \$2.79 each	119,150	1,590	(8,024)	112,716	12,360	125,076
'B' 0% preference shares of \$2.79 each	44,722	-	(2,979)	41,743	-	41,743
	164,704	1,597	(11,059)	155,242	12,412	167,654

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 31 December 2018, the Trust held a total of £28,000 of unallocated 'C' and 'D' shares, being 3,548,000 shares of \$0.01 each. The beneficial ownership of these shares will be allocated to employees in future periods.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 16. Capital and reserves – issued share capital cont.

#### *2017 share transactions*

During 2017, the Company carried out two funding rounds and issued total share capital of \$2,003,000 (£1,597,000) to existing shareholders. The Company issued 715,000 'A' ordinary shares of \$0.01 each, 715,000 'A' preference shares of \$2.79 each, 87,418 'C' ordinary shares of \$0.01 each and 43,709 'D' ordinary shares of \$0.01 each. All shares were issued at par value to existing shareholders for cash.

#### *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.

#### *Post balance sheet share transactions*

The Company has carried out two funding rounds in January 2019 and April 2019. Total share capital of \$6,726,000 (£5,233,000) has been issued to existing shareholders. The Company issued 2,400,600 'A' ordinary shares of \$0.01 each, 2,400,600 'A' preference shares of \$2.79 each, 293,506 'C' ordinary shares of \$0.01 each and 146,753 'D' ordinary shares of \$0.01 each. All shares were issued at par value to existing shareholders for cash.

### 17. Financial instruments

#### (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.

##### *Cash*

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

##### *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 value of financial instruments by category

The fair value of financial instruments has been calculated under IFRS 9- Financial Instruments using Level 2 hierarchy. The Directors consider that the fair value of the Group and Company's financial assets and liabilities are not considered to be materially difference from their book values.

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
<b>Measured at amortised cost</b>				
<b>Financial assets</b>				
Trade and other receivables*	6,150	4,974	98,055	85,884
Cash at bank	2,265	6,373	-	-
<b>Financial liabilities</b>				
Trade and other payables*	(3,517)	(3,903)	-	-
	<b>4,898</b>	<b>7,444</b>	<b>98,055</b>	<b>85,884</b>

\*Excluding tax, deferred income, prepayments and accruals

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 17. Financial Instruments cont.

#### (b) Credit risk

##### *Financial risk management*

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

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

The maximum exposure to credit risk for trade receivables at the balance sheet date was £4,073,000 (2017:£3,427,000). The trade receivables are not overdue for payment and therefore the Group has no significant exposure to credit risk at 31 December 2018. Subsequent to the year end, all trade receivables have been settled in cash.

##### *Exposure to credit risk – Company*

The Company has no significant exposure to external credit risk at 31 December 2018 as the most significant receivables balances are due from subsidiaries.

#### (c) Liquidity risk

##### *Financial risk management*

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

##### *Group*

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

Contractually, all liabilities at 31 December 2018 fall due for payment within one year. Management have reviewed the forecast cash requirements of the Group for the following 12 months and have satisfied themselves that the Group will be able to meet its external liabilities as they fall due.

##### *Company*

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

#### (d) Market risk

##### *Financial risk management*

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

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

##### *Foreign currency risk*

The Company and Group's exposure to foreign currency risk is not considered to be significant.

##### *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.

#### (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.

### 18. Operating leases

The Group leases land and buildings and other equipment under a number of operating leases. During the year £404,000 was recognised as an expense in the income statement in respect of these operating leases (2017: £511,000).

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2018 £000	2017 £000
Less than one year	161	225
Between one and five years	121	121
	<b>282</b>	<b>346</b>

##### **Company**

The Company has no operating leases.

## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 19. Commitments

#### Capital commitments

The Group and Company have no capital commitments at 31 December 2018 (2017: none).

### 20. Related parties

#### Group

##### Key management personnel

The key management personnel are considered to be the directors of the Company. The compensation of the directors is given in note 5. The directors of the Company and their immediate relatives control 0.2% of the voting shares of the Company.

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

The Group has shared interests in a number of licence areas with joint operating partners which are subsidiaries of AJ Lucas Group Limited (see note 22). Requests to partners for funding the exploration programme are made in accordance with joint operating agreements. These contributions are recognised as a credit to exploration and evaluation assets where appropriate to ensure that costs capitalised reflect the Group's interest only. During the year ended 31 December 2018, the following transactions have taken place with subsidiaries of AJ Lucas Group Limited in respect of joint operating agreements as follows:

	Contributions to exploration and evaluation assets		Recharge of operating costs		Receivables outstanding	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
<b>AJ Lucas Group</b>	<b>7,179</b>	4,944	<b>1,986</b>	1,684	<b>1,255</b>	1,332

Subsequent to the year end, all receivables outstanding have been received.

#### Company

Other related party transactions	Administrative expenses incurred from	
	2018 £000	2017 £000
Shareholder fees – AJ Lucas Group Limited	112	117
Shareholder fees – Riverstone Holdings LLC	112	117
	<b>224</b>	234

Subsidiaries	Receivables outstanding	
	2018 £000	2017 £000
<b>Cuadrilla Resources Limited</b>	<b>98,027</b>	85,864

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



## NOTES TO THE FINANCIAL STATEMENTS

Continued

### 21. Post balance sheet event

The Company has carried out two funding rounds in January 2019 and April 2019. Total share capital of \$6,726,000 (£5,233,000) has been issued to existing shareholders. The Company issued 2,400,600 'A' ordinary shares of \$0.01 each, 2,400,600 'A' preference shares of \$2.79 each, 293,506 'C' ordinary shares of \$0.01 each and 146,753 'D' ordinary shares of \$0.01 each. All shares were issued at par value to existing shareholders for cash.

### 22. 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 (48%)
- Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, registered in the Cayman Islands (45%); and
- Cuadrilla employees (7%).

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





**Cuadrilla**

## COMPANY INFORMATION

Registered Office  
Cuadrilla House  
6 Sceptre Court  
Sceptre Way  
Bamber Bridge  
Preston  
Lancashire  
PR5 6AW

Phone: +44(0)1772 585 450

Company Secretary: Rebecca Henworth  
Registered Number: 7147040

Website: [www.cuadrillaresources.com](http://www.cuadrillaresources.com)  
Contact Us: [enquiries@cuadrillaresources.com](mailto:enquiries@cuadrillaresources.com)