ascent resources plc

Annual Report & Accounts 2007

OIL AND GAS EXPLORATION AND PRODUCTION COMPANY ascent resources plc

Annual Report & Accounts 2007

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Directors and Advisers

Directors	John Patrick Kenny Jeremy Eng Malcolm David John Groom Alan Sinclair Jonathan Victor Lewis Legg Patrick Anthony Francis Heren Nigel Sandford Johnson Moore
Secretary	John Michael Bottomley
Registered office	One America Square Crosswall London EC3N 2SG
Nominated Adviser and Broker	Cenkos Securities plc 6.7.8 Tokenhouse Yard London EC2R 7AS
Auditors	KPMG Audit Plc 20 Farringdon Street London EC4A 4PP
Solicitors	Sprecher Grier Halberstam LLP One America Square Crosswall London EC3N 2SG
Bankers	Barclays Bank Plc London Business Banking United Kingdom House 180 Oxford Street London W1D 1EA
Financial PR	St Brides Media and Finance 38 Bow Lane London EC4M 9AY
Share Registry	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE
Company's registered number	05239285

Highlights

Drilling of five exploration wells in Hungary, Italy and Spain

Portfolio development with acquisitions in Hungary, Slovenia and Italy

Portfolio rationalisation with divestments in Romania and Spain

Acquisition of a minority interest in the Italian drilling contractor Perazzoli Drilling provides priority access to drilling rigs

Farm-out of exploration interests in Italy, the Netherlands and Switzerland

Planning complete for the commencement of Hungarian gas production in 2008

Planning on-going for production from Slovenian assets in 2008

Fund raising of a net £5.8 million in equity and convertible loan notes

Pre-tax loss of £2.13 million in line with budget

Loss per share of 0.74p

Ten well potential for the period 2008-2009

Experienced corporate, exploration and operations team in place

Group Strategic Plan

Ascent Resources plc, since its admission to the London Stock Exchange AIM market in 2004, has evolved into an oil and gas exploration and development company with some 20 projects in six countries across Europe.

The Group's portfolio of projects is balanced between development assets that will be on production in 2008, appraisal projects capable of producing in the immediate future and medium term exploration projects for long-term growth.

Key strategic principles for the Group's Projects include:

- Located in Western and Central Europe, where the fiscal and legislative systems are stable
- Located in regions with proven oil and gas productivity
- Favouring of onshore over offshore projects because of the lower costs of exploration and development
- Favouring of gas-producing assets over oil-producing assets because of the stability and long-term value of the gas market over the short-term 'spot-market' for oil
- New portfolio entrants to be in net energy importing countries which have a well developed oil and gas infrastructure
- Maintaining the balance of development, appraisal and exploration projects both in value and in timing
- Concentrating on value realisation from proving reserves with a secondary cash flow objective
- Maximising the initial equity position to enable farm-downs in order to provide non-equity exploration funding

Key strategic objectives for the management of the Group's Projects include:

- Operating through a national subsidiary with a local identity and local partner equity participation
- Respecting business practices and cultural conditions, using the language of the country with the maximum use of in-country expertise
- Retaining operatorship or providing technical expertise to joint ventures to ensure control of value realisation and schedules
- Restricting the financial exposure to any single exploration project using the risk weighted dry-hole cost concept
- Application of up-to-date and state-of-the art technology and exploration methods

Overall, the Group's strategic principles provide for a realistic approach to maximise value generation in an industry that is characterised by a high risk profile. The fundamental strength is the continuous and rigorous evaluation, and refinement of the asset base with proactive portfolio management.

Chairman's Statement

"We will remain alert to potential transactions, both corporate and asset-specific, and rigorous in our assessment of these in the context of adding shareholder value"

I am pleased to update shareholders on the Company's performance during the year ended 31 December 2007 and provide an overview of where I believe Ascent is now placed with regards to the oil and gas exploration and production industry.

Our aim has been to assemble a broad portfolio of oil and gas assets at various stages of development across Europe and to this end we currently have some 20 projects across six European countries. Our focus remains in Europe as we believe we can benefit from profitable development projects, good infrastructure with deregulated local market access and both political and financial stability. Being centred in Europe provides a balance of low risk and high potential with managed exposure to upside value through the mix of development, appraisal and exploration projects.

During the period our focus was on continuing to grow and improve the quality of our portfolio with the Company's technical staff working hard to reduce risk and calibrate the value of the assets within the portfolio. As our portfolio matures, the drilling and testing to prove hydrocarbon reserves will remain the primary objective, with development and cash flow from production a secondary focus.

The year ended 2007 was a challenging one, yet I believe that the Company's portfolio and strategy remained sound, with several gas prospects under development or in preparation as the year ended. As a company we experienced some disappointments, which negatively affected the share price, the most prominent being the Anagni-1 well results in Italy, drilled initially as a shallow geological assessment well. During drilling, the prospect exhibited most of the key ingredients of a commercial oil discovery and based on these initial positive factors, a decision was taken to deepen the well. However, Anagni-1 turned out to be a complicated well to drill. Costs went over budget and it has provided what are, for the time being at least, enigmatic results. Oil and gas exploration is a risky business and Anagni-1 highlights this fact. In the strictest sense, the well did meet its initial objectives, which were to prove the regional geological model. In order to refine our understanding of the geology, more seismic is to be run on the structure before deciding on further work on the permit.

Having noted the Anagni-1 factor with regards to our performance, it is worth remembering that it is only one project in the Company's asset base and we should not let it eclipse the positive steps taken elsewhere within the portfolio.

In Italy, the Company has secured a farm-in agreement on our Cento-Bastiglia exploration permit in the Po Valley where our new partner will fund all the costs of the first exploration well, together with the acquisition of seismic and back costs. Engineering work has continued on our two Hungarian development projects – Bajcsa and Penészlek. In a strategic context it is worth noting that we are able to book proven and probable reserves on the Penészlek area. Whilst not large, it is encouraging that a central part of our strategy is beginning to take shape.

As part of our overall portfolio management process, during the year, we sold our interest in our Romanian asset for cash and divested the bulk of our Spanish assets. In terms of additions to the portfolio, we gained access to two promising developments in Slovenia by purchasing Nemmoco Slovenia Corporation, while in Hungary we increased our position in the country by agreeing farm-in terms with Toreador Resources on its large Szolnok exploration permit. We feel that the Company's portfolio is now technically well balanced in terms of near term development projects, appraisal wells and exploration prospects and plays.

Also during the year a noteworthy event was the acquisition of a strategic stake in the Italian rig contractor Perazzoli Drilling. This provides the Group with preferential access to drilling rigs at a time when many of our competitors are struggling to secure units in a very competitive market.

Additionally, the Group's technical and portfolio management expertise has been enhanced by the appointment of Gavin Ward. Gavin, a graduate geologist and a chartered accountant, brings 20 years upstream oil and gas experience, spending the last 10 years with Noble Energy. At a time when the industry is suffering from a severe shortage of qualified staff, it is gratifying that we are able to attract people of Gavin's calibre.

Post the period end, in January 2008, we appointed Alan Sinclair to the Board as Finance Director. Alan has 29 years experience in the oil and gas sector as a corporate adviser, economist and analyst, working/consulting for a number of well-known organisations. He has considerable experience of the sector and the City and we believe he is ideally qualified to aid us in developing and enhancing the value of our portfolio. Peter Earl stepped down from his non-executive Board position because of the weight of his responsibilities in his other executive commitments and Jonathan Legg reverted from an executive to a non-executive Board role.

Regarding the financial results, we reported a loss for the year to 31 December 2007 of £2.13 million (2006: £2.15 million loss).

Outlook for 2008

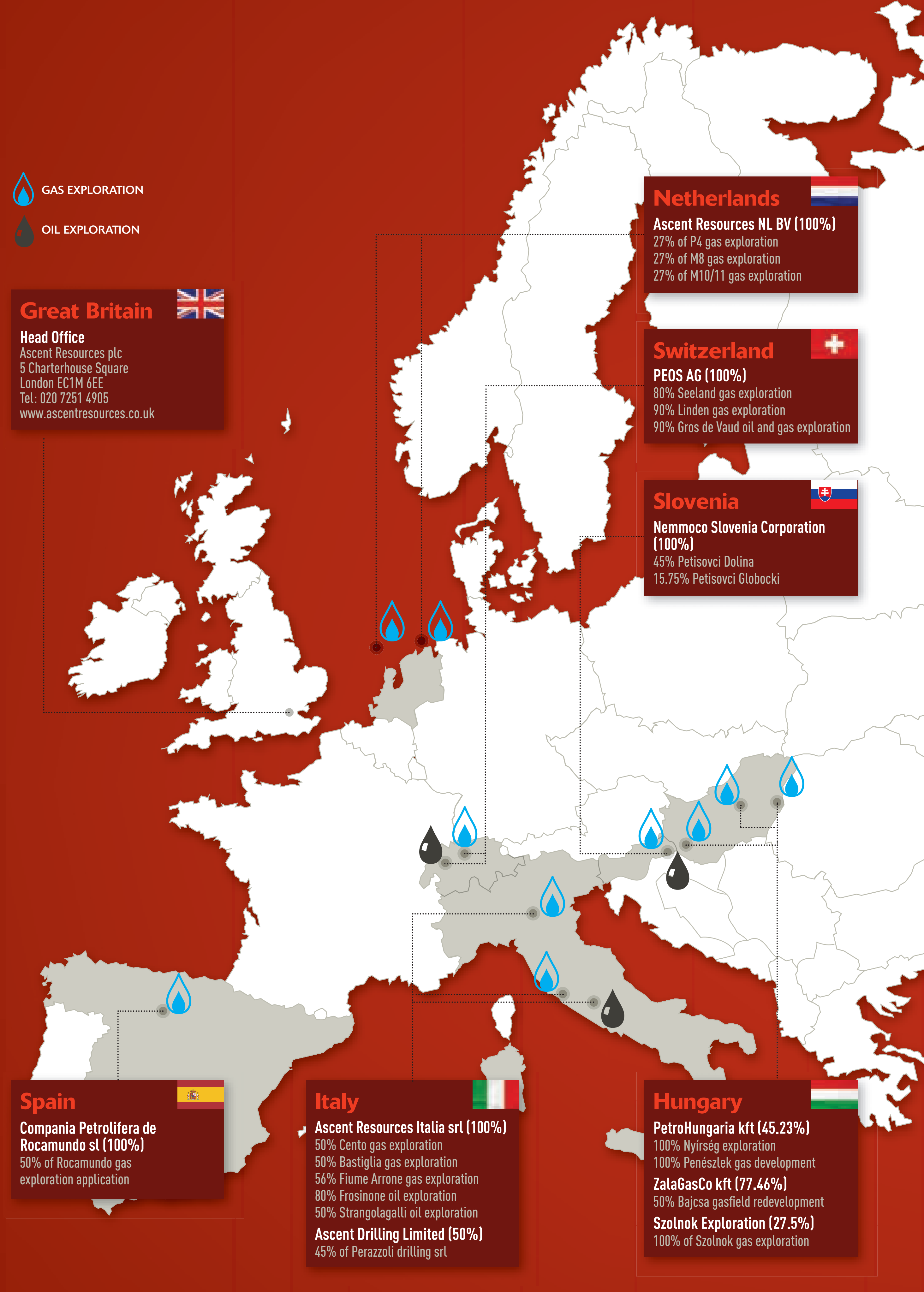
The current year features a busy work programme. In Italy we will continue to evaluate the results of the Anagni-1 well where we will run further seismic on the structure. Additionally, we will drill the Gazzata prospect on our Po Valley acreage. In Hungary, the Szolnok farm-in features the drilling of two exploration wells and the acquisition of 3-D seismic. We expect first gas from our Hungarian projects and the completion of a major 3-D seismic programme on the Penészlek acreage. We also hope to complete the sale of a portion of our offshore Netherlands acreage and anticipate that this will unlock the value of the work we have carried out on those licences. Towards the end of the year, we hope to spud the Hermrigen exploration/appraisal well in Switzerland and initiate a major 3-D seismic programme on our exploration and field development acreage in Slovenia.

I am confident that results of all this activity will go a long way to maturing the Company's asset base. Furthermore, we will remain alert to potential transactions, both corporate and asset-specific, and rigorous in our assessment of these in the context of adding shareholder value.

Given the current economic climate and our planned work programme, the Directors and I have taken steps to review positively the Group's cash flow position to ensure that we have sufficient funding to continue as a going concern. In line with best practice we have set out our potential future cash flow concerns in a transparent and clear manner in Note 1 to these statements. At the date of approving the financial statements the Group's cash position is positive and it is trading as a going concern.

Finally, I would like to thank all staff members for their dedication and hard work over the period and extend my appreciation to all of our shareholders for their continued support.

John Kenny
Chairman



Great Britain

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Netherlands

Ascent Resources NL BV (100%)
27% of P4 gas exploration
27% of M8 gas exploration
27% of M10/11 gas exploration

Switzerland

PEOS AG (100%)
80% Seeland gas exploration
90% Linden gas exploration
90% Gros de Vaud oil and gas exploration

Slovenia

Nemmoco Slovenia Corporation (100%)
45% Petisovci Dolina
15.75% Petisovci Globocki

Spain

Compania Petrolifera de Rocamundo sl (100%)
50% of Rocamundo gas exploration application

Italy

Ascent Resources Italia srl (100%)
50% Cento gas exploration
50% Bastiglia gas exploration
56% Fiume Arrone gas exploration
80% Frosinone oil exploration
50% Strangolagalli oil exploration

Ascent Drilling Limited (50%)
45% of Perazzoli drilling srl

Hungary

PetroHungaria kft (45.23%)
100% Nyírség exploration
100% Penészlek gas development

ZalaGasCo kft (77.46%)
50% Bajcsa gasfield redevelopment

Szolnok Exploration (27.5%)
100% of Szolnok gas exploration

Operations Review

The Company's portfolio now has some 20 projects across six western and central European countries with the corporate headquarters in London. During 2007, the period under review, Ascent has made progress right across the portfolio. As well as the high profile drilling and testing operations, much progress has been made in the geological and geophysical work that is the most essential part of the complex of activities that leads to efficient exploration, appraisal and development.

The portfolio is continually assessed and opportunities for strategic divestments are balanced with the assessment of compatible acquisitions. In 2007, the Company exited from its minority non-operated position in Romania and entered Slovenia as the operator of a field redevelopment project. It also sold its Spanish oil assets, but retained a gas exploration application in Spain.

Operations Review By **Event**

January 2007

Romania Profitable disposal of Millennium Resources Corporation ("MRC") to Aurelian Energy plc. MRC owned a 5% interest in three gas exploration and production concessions in north eastern Romania.

Italy Temporary completion of the Anagni-1 well in the Frosinone exploration permit of the Latina Valley. The well had been drilled to the top of the reservoir interval where a core sample had oil shows. A total loss of circulation into the reservoir necessitated the sourcing of additional equipment and materials to proceed with the drilling and evaluation.

February

Slovenia Acquired Nemmoco Slovenia Corporation with a 45% interest and operatorship of the Joint Venture that owns the development rights to the Petisovci Dolina ("P-D") oil and gasfields and a 15.75% interest and operatorship of the Joint Venture that owns the development rights to the underlying Petisovci Globoki ("P-G") gasfield. The fields are in eastern Slovenia near Lendava, close to the borders of Slovenia, Austria, Hungary and Croatia.

March

UK Raised £3.5 million (approximately £3.3 million net of expenses) through the issue of 25,000,000 new ordinary shares of 0.1p each at 14p per share.

Spain Commenced drilling of the Hontomin-4 appraisal well in the Huermeces exploration permit in Spain.

Italy Increased Ascent's equity in the Frosinone Exploration permit where the Anagni-1 well is located from 70% to 80%.

April

Hungary The Bajcsa gasfield redevelopment project received sanction from the executive management of MOL, the project partner. The project is to redevelop the partially depleted gasfield by using horizontal well recompletions.

Drilling started on PEN-102, an appraisal well to the PEN-12 gas discovery.

Netherlands The Dutch state oil company, EBN, agreed to participate in the exploration of the Company's three exploration licences offshore in the Netherlands. They took a 40% interest in Blocks P4, M8 and M10/11.

Operations Review By **Event**

April (continued)

Spain The Hontomin-4 appraisal well was plugged and abandoned after drilling into a downthrown fault compartment of the Hontomin field. This asset was fully impaired at this time.

May

Hungary The PEN-102 well was suspended awaiting a sidetrack decision as the reservoir interval was deeper than expected in the well.

The VAM-1 exploration well in the southern part of the Nyírség exploration permits started drilling.

June

Hungary The VAM-1 well was abandoned when no viable reservoir was discovered at this location. This asset was fully impaired at this time.

Italy The Anagni-1 well was deepened following the arrival of the rig which drilled the Hontomin-4 well in Spain.

July

Italy The core and logs from the deepened Anagni-1 well showed good reservoir quality and contained good oil shows in the cores. The rig prepared the well for pump testing to recover over 3,000 tonnes of drilling fluids estimated to have been lost during drilling.

August

Italy Deltana Energy Limited agreed to farm-in to the Cento and Bastiglia exploration permits in the Po Valley. The agreement provided for Deltana to drill one firm and one contingent well, to purchase 1.5 million of seismic and to refund past expenditures on the project.

The Arrone-1 gas exploration well in the Fiume Arrone exploration permit commenced drilling. The well encountered gas but the logs showed that the reservoir would not be capable of commercial exploitation at this stage. However, well post mortem and geoseismic studies were planned to establish any other viable targets in the area.

September

Italy The Company initiated the acquisition of a minority 22.5% interest in Perazzoli Drilling, an Italian drilling contractor. Perazzoli Drilling has two rigs with 40 Tonne and 100 Tonne capacity. It also has a new 200 Tonne unit on order. This acquisition provides Ascent with priority access to drilling rigs for its projects in Italy and Switzerland.

Hungary The Joint Development Agreements for the Bajcsa project were signed with MOL.

October

Spain The Company entered into an agreement with Leni Gas and Oil plc to sell its Spanish oil assets which were producing a total of approximately 120 barrels per day.

Switzerland Leni Gas and Oil, subject to various criteria, agreed to take either a 10% or 40% interest in the Seeland Freinisberg exploration permit in northern Switzerland. It is planned to drill an appraisal well to the 1982 gas discovery at Hermrigen on this permit.

November

UK The Company placed £2.5 million of convertible loan notes.

December

Italy The Perazzoli Drilling acquisition was completed.

Deltana Energy Limited brought fellow Australian company, Otto Energy Limited, into the farm-in arrangements for the Cento and Bastiglia exploration permits in the Po Valley.

Hungary Ascent agreed to farm-in to the Szolnok exploration licence and to take a 27.5% interest. It is planned to drill two wells and shoot 150 sq km of 3-D seismic in the first half of 2008.

Post Balance Sheet Events

January 2008

Italy Despite producing small amounts of oil, water dominated the production fluids during testing of the Anagni-1 well. A seismic survey to assess the scale of the reservoir updip is planned during 2008 since the new log and in-well seismic indicate that the Anagni-1 location was not optimally located on the structure.

UK Alan Sinclair was appointed as Finance Director; Peter Earl resigned from the Board and Jonathan Legg resumed a non-executive position.

February

Switzerland The location of the Hermrigen gas appraisal well was discussed with the Hermrigen Town Council and a location was chosen close to the original well.

April

Hungary The TIK-1 gas exploration well started drilling and the acquisition of the 150 sq km 3-D seismic survey commenced in the Szolnok exploration licence.

Leni Gas and Oil purchased a 7.27% interest in the Penészlek and Bajcsa gas development projects.

The completion and re-test of the PEN-104 gas discovery was finished. This well will commence production as soon as the facilities are delivered and hooked-up and the necessary authorisations are received later in 2008.

The TIK-1 exploration well was plugged and abandoned having discovered a thicker than expected gas reservoir, but containing gas with approximately 90% CO_2 content. Management have started to explore the potential of other related locations with the project's joint venture partners.

Operations Review By **Country**

Hungary

Ascent now has three projects in Hungary. The **Nyírség** gas exploration and development project in the east; the **Bajcsa** gasfield redevelopment in the west and the **Szolnok** Exploration project in central Hungary.

The Nyírség Gas Exploration and Development Project

PetroHungaria kft operates this project which is owned 45.23% by Ascent Resources. The other partners are DualEx Energy of Canada, Geomega kft of Hungary, Leni Gas and Oil plc of the United Kingdom and Swede Resources of Sweden (formerly PetroPequinia).

The two Nyírség permits cover an area of 2,483 sq km along the Romanian border in the eastern part of Hungary. The area includes the partially depleted Penészlek gasfield that produced a total of approximately 5 bcf of gas from six wells between 1983 and 1989. Gas prices then were a fraction of the sales price achievable today and the field was abandoned with economic reserves remaining.

PetroHungaria acquired 270 km of 2-D seismic in late 2005. The interpretation of this seismic and the integration of it with some 600 km of existing 2-D seismic led to the development of a new geological model of the area. On the basis of this new interpretation and having concluded the farm-out agreement with DualEx Energy and Swede Resources, four exploration wells have been drilled.

The first of these wells, PEN-104, discovered and tested a new gas reservoir close to the old Penészlek field. This well has now been completed and it is ready to produce. This production will use the old Penészlek pipeline and will commence as soon as the facilities are installed, the pipeline hook-up completed and the necessary authorisation received.

The second well, FGY-2 was drilled in the northern part of the permits. This prospect, despite having good seismic indicators and encountering good quality reservoir, did not contain gas.

The third well, PEN-102, also close to the Penészlek field was drilled as an appraisal of the PEN-12 well which tested gas but was not connected to the production facilities. This well encountered the same reservoirs but at a structurally deeper location as the 2D seismic was not capable of resolving the local faults associated with the structure. This well is currently suspended and following the results of the planned regional 3-D acquisition a sidetrack decision will be made.

The fourth well, VAM-1, drilled in the extreme south of the permits and although it tested good quality gas from a Miocene target, the reservoir characteristics were too poor for commercial production to be established. The VAM-1 well was subsequently abandoned.

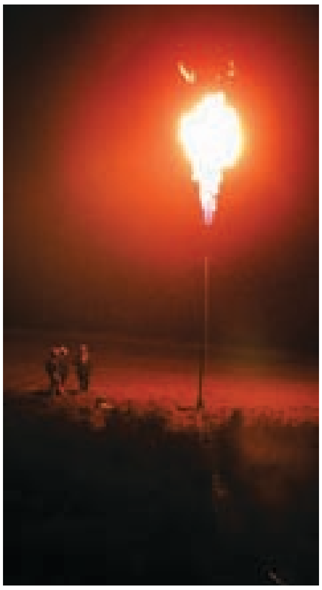
After the start of production from the PEN-104 well, there are plans to acquire a new 3-D survey of about 100 sq km in the Penészlek area. It is also planned to tie-in the PEN-9 and PEN-12 wells along with the redevelopment of the old Penészlek field at a later stage. These two wells both tested gas but were not put on production. The results of the 3-D survey are expected to define a number of new accumulations that will be considered for eventual tie-in to the new development.

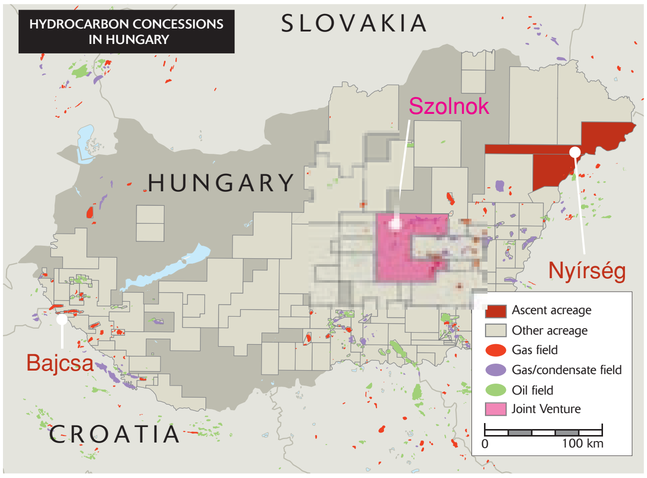
The Bajcsa Gasfield Redevelopment Project

"These three projects create a core area in Hungary for the Company and form an important part of the portfolio"

Ascent has a 38.73% interest in this project. The joint venture is between MOL with 50% and ZalaGasCo kft with 50%. ZalaGasCo is owned 77.46% by Ascent. The other partners are Leni Gas and Oil plc and Geomega kft.
This project is located in the south western part of Hungary close to the Croatian and Slovenian border and involves the redevelopment of the Bajcsa gasfield. The Bajcsa gasfield was discovered and developed in the 1960's and 1970's and contains gas in multiple, stacked, low permeability reservoirs of the lower Pannonian. As a consequence of the low permeability, the vertical development wells used in the original development of the field did not recover all of the gas reserves.

Considerable time has been spent not only on the preparation and approval of the legal documentation for the Joint Development, but also on the design, implementation and engineering of the new horizontal wells which are planned to recover the remaining gas reserves.





These wells will be drilled as soon as the requisite permits have been received and funding has been allocated. The field still produces minor amounts of gas, and the original field production facilities are already in place and connected to the regional gas pipeline network. This will allow the new wells to be brought into production immediately upon completion.

The Szolnok Exploration Project

Ascent farmed-in to a 27.5% interest in the project during the second half of 2007 and has been appointed joint technical operator with Toreador Hungary Limited which owns a 25% interest.

The Szolnok exploration licence is 2,620 sq km in area and is one of the largest in Hungary; it is located in the central plains and bisected by the river Tiza. Geographically, the permit is located at the northern end of the Mako Trough which has sourced numerous large gas and oilfields which are currently producing in the surrounding area.

The immediate exploration plans are for two exploration wells and the acquisition of 150 sq km of 3-D seismic. At the time of writing, the seismic acquisition is on-going and the first of the two exploration wells is being drilled.

These three projects create a core area in Hungary for the Company and form an important part of the portfolio. Gas prices in Hungary are high and comparable to the price realised in Western Europe. The PEN-104 well is scheduled to commence production in 2008 and will provide an important cash flow stream to the Company. Also in Budapest, the Company maintains its principal Geoscience Facility where most of the geological and geophysical work of the Group is undertaken.

Italy

Ascent has interests in four projects in Italy:

1 **The Cento and Bastiglia exploration permits in the Po Valley located between Bologna and Emilia Romagna.**
2 **The Fiume Arrone exploration permit located north east of Rome's Fiumicino airport.**
3 **The Frosinone exploration permit located south east of Rome in the Latina Valley.**
4 **The Strangolagalli concession where Ascent's interest is in the horizons beneath the producing Ripi oilfield.**

Ascent also owns a 22.5% interest in Perazzoli Drilling, a drilling contractor based in Corte Maggiore, south east of Milan.

Ascent holds its Italian interests in the wholly owned and Italian registered subsidiary Ascent Resources Italia srl. which has its office in Rome.

Cento and Bastiglia Exploration Permits

These permits were farmed-out in 2007 to Otto Energy Limited of Australia which has taken a 50% interest in return for paying for the cost of one firm well and one contingent well. The first well, which is scheduled for the second half of 2008, is targeting the Gazzata prospect at a depth of just over 2,000m. If the Gazzata well is successful, a second well will be considered for drilling on the Rubiera prospect to the south east. Permitting for this well, Palazzo-1, is on-going.

These two wells are located in the western part of the two permits and leaves scope for further exploration in the remainder of the permits.

Fiume Arrone Exploration Permit

During 2007, Ascent increased its interest in this permit to 56% and drilled the Arrone-1 well in August. Whilst drilling, a significant gas kick was encountered in the well at one of the targets. However, the interpretation of the log data showed the reservoir was thin and poor quality and would not be capable of sustaining commercial production. The well was subsequently abandoned, but further well post mortem and geoscience studies were planned in respect of the permit.

Frosinone Exploration Permit

Drilling on the Frosinone permit in the Latina Valley started in late 2006 with the Anagni-1 well and operations continued into 2007 with further reservoir evaluation which included core analysis, in-well seismic and production testing. The Company announced the well as an oil discovery in January 2007. The target carbonate platform was encountered at 865m and after drilling a further 40m into the limestone, oil shows were observed in the cuttings. Total lost circulation at 921m confirmed the presence of reservoir quality rock. A 5m core was then taken below the lost circulation zone and recovered oil which was present in open fractures. The core contained porosities in the range of 12% to 20% over approximately a one hundred metre section.

The Company has been examining the oil geochemistry with the goal of identifying the hydrocarbon source, migration routes and timing of the oil charge. A post-well review of the operations highlighted the need for further seismic studies. Activities in 2008 will focus on improving the definition of the sub surface structure through acquisition of additional 2-D seismic lines over key features of the prospect.

Ascent has an 80% interest in the Frosinone Exploration Permit and is partnered by a private Italian company, Pentex Italia srl.

"Perazzoli Drilling is important for Ascent as it not only gives a competitive advantage but the strong order book should also contribute to financial stability"

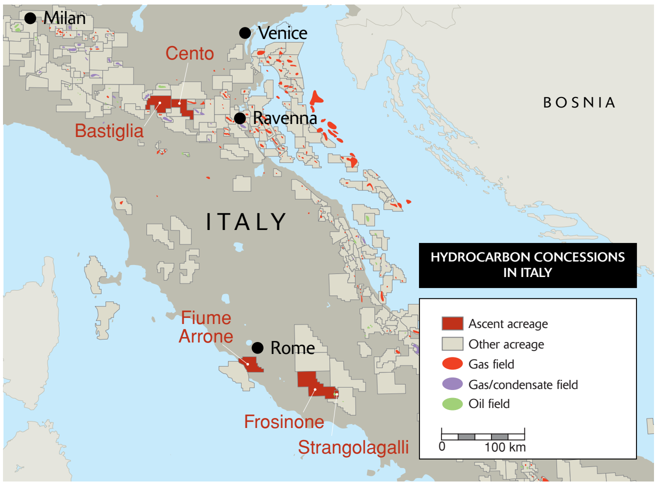
Strangolagalli Concession

Ascent has a 50% interest in this concession with Pentex owning the remaining 50%. The area contains the Ripi oilfield which produces oil from a Flysh reservoir down to depths of about 450m and Ascent has exploration rights below this field. The oil produced from the Ripi field is thought to have originated in the deeper horizons and to have migrated into its reservoirs through the underlying carbonates. It is planned to explore the deeper carbonates as a part of the work on the Frosinone Permit.

Perazzoli Drilling

Ascent acquired a 22.5% interest in Perazzoli Drilling which owns one 40 Tonne and one 100 Tonne drilling rig. There is also a latest generation, low environmental impact 200 Tonne capacity hydraulic rig on order from Drillmec, which is due to be delivered in the summer of 2008.

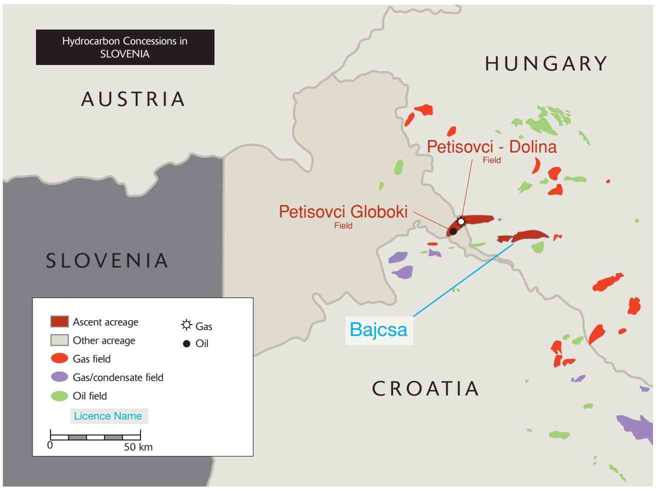
The industry is seeing extremely high levels of activity with the availability of services and equipment limited at the present time. The purchase of the minority interest in Perazzoli Drilling gives the Company priority access to certain drilling rigs. The participation in Perazzoli Drilling is important for Ascent as it not only gives a competitive advantage in oil and gas activities but the strong order book should also contribute to financial stability.



Slovenia

Ascent operates in Slovenia through its wholly owned subsidiary Nemmoco Slovenia Corporation. Nemmoco has offices in Lendava in the east of the country and is only a few kilometres from the Petisovci oil and gasfields. Nemmoco is the operator of these redevelopment projects and has a 45% interest in the shallower oil and gas reservoirs and a 15.75% interest in the deeper tight gas reservoirs.

The Slovenian oil and gasfields were originally discovered in 1942 and currently only produce minor amounts of oil and gas. The Petisovci fields lie on a thrusted anticlinal structure on the south western outskirts of the Pannonian Basin, in the Carpathian back-arc sub-basin of the Zala-Drava-Mura Depression. US Geological Survey counts 58 oil and 46 gasfields in the Zala-Drava-Mura Depression alone, with reserves amounting to 400 million barrels of oil and 4 trillion cubic feet of gas.



The Petisovci fields continue east into Hungary. Approximately one third of the structure is in Slovenia with the balance in Hungary. The field on the Hungarian side of the border is the Lovaszi field. Lovaszi has, to date, produced 50 million barrels of oil and 230 billion cubic feet of gas, approximately 7 times more than that produced from Petisovci (5.6 million barrels of oil and 34.3 billion cubic feet of gas).

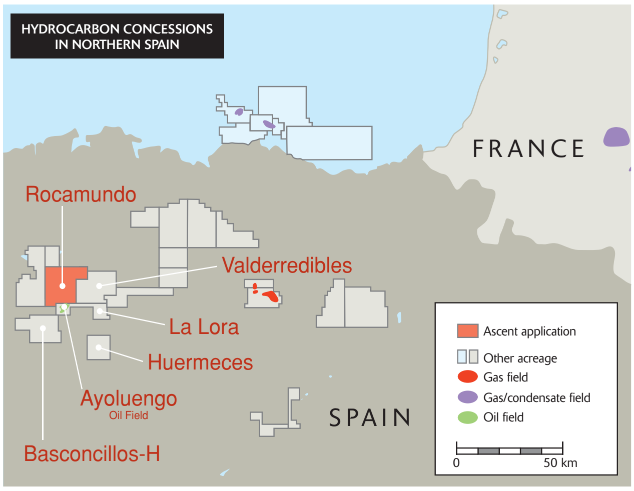
The work being carried out by Ascent involves a complete re-assessment of the geological, geophysical and engineering information from the fields. This work will result in a new field model and a plan for the fields will be prepared. The plan will consider secondary and tertiary recovery techniques as well as the introduction of new technology to the area such as artificial lift which will allow oil to be pumped from the wells.

During the year, the deep E1 sands were tested in the D-14 well and flowed gas following some coil tubing intervention work. These sands have previously not been tested in the eastern part of the field area.

Spain

During the year, Ascent sold its oil assets in Spain to Leni Gas and Oil plc. This divestment included an 88.75% interest in the Ayoluengo oilfield and a 50% interest in three exploration blocks surrounding the field. The Ayoluengo field had been on production for some 40 years and was producing a total of about 120 barrels of oil per day. Despite the high oil price economic returns were poor as the operating costs were also rising. The unsuccessful Hontomin-4 well that was drilled in the first half of 2007 on the Huermeces permit also contributed to the decision to exit.

The Company retains an interest in Spain through the Rocamundo exploration application in which Ascent has a 50% interest. Subsequent to lodging this application with the Ministry of Economics, a competing application has been submitted in the same area. A resolution to this situation is expected in the coming months.



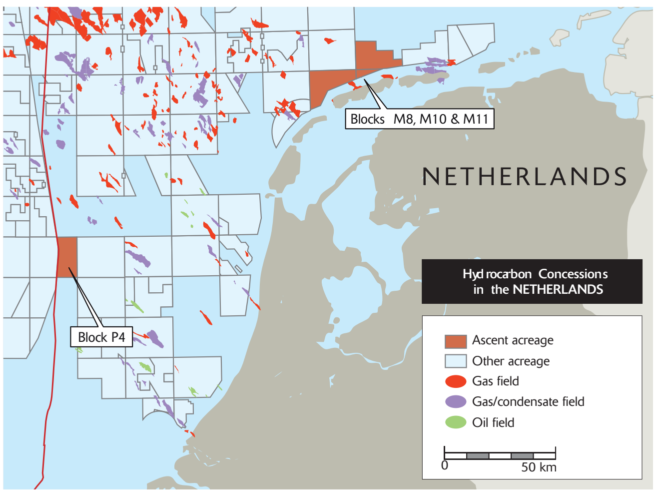
The Netherlands

In November 2006 Ascent was awarded four exploration areas offshore The Netherlands. P4 is in the Southern Gas Basin of the North Sea adjacent to the UK-Netherlands median line. The other three blocks, M8, M10 and M11 are located in the eastern near shore area of 'M' quadrant. As M10 and M11 are relatively small part blocks, an application was made and accepted to combine these into a single block.

Exploration and production activities have been on-going in the Netherlands for the last 50 years and, similarly to the UK sector of the Southern Gas Basin, the whole area is in relatively shallow water (less than 50m) and does not have the severe weather associated with the Central and Northern North Sea fields. The most important consequence of these more benign conditions is that exploration and development costs are lower and that drilling activity can be undertaken by the smaller and cheaper jack-up drilling rigs rather than the semi-submersibles or drill-ships that are required in deeper waters.

Ascent's partners in these exploration and appraisal projects are Canadian independent, McLaren Energy, UK independent GTO Limited and since April 2007, the Dutch State oil company, EBN.

During the year, the interpretation of good quality 3D seismic was completed over the majority of the area as well as detailed sedimentological studies on cores. These studies were designed to identify the most productive sand intervals and to assess the future production and productivity potential of the area where there are already three structures that have tested gas. Other work in 2007 established the presence of six further prospects alongside the two discovery wells M11-1 and M10-1 and an extension of the Terschelling Noord field operated by NAM (Shell-Exxon Netherlands). Appraisal and development options were being considered at the end of 2007 and partners are expected to decide on future exploration and appraisal activities later this year.



M11-1 Gasfield

This field was discovered in 1982 by NAM. The gas is within the sandstones of the Upper Slochteren Member of the Rotliegend Group and is in a fault- bounded horst block. Although the well tested over 2 million cubic feet of gas per day the field was not developed at that time.

Terschelling-Noord Gasfield

This gasfield was discovered in 1993 also by NAM. It has not been drilled in the Ascent operated M10 block, but the field does extend a few kilometres across the boundary and into the acreage owned by the Ascent Group. The reservoir is the same Rotliegend sandstone as M11-1 and a production licence was applied for by NAM but has not yet been awarded. When this field is developed, it will bring development infrastructure to within 5 km of the Ascent M11-1 field area and the Ascent Group will be able to access production and reserves attributable to the M10 area of the field.

Activities in the Netherlands are the only offshore projects in the Ascent portfolio. Although these projects are located near to shore and in shallower waters, they still require offshore jack-up drilling rigs and the cost profile of offshore developments is greater than comparable onshore prospects.

Switzerland

Ascent holds three exploration permits in Switzerland through 80/90% interests in the Swiss Joint Venture. Two are within the Canton of Bern: the Seeland-Freinisberg and Linden Permits, the other within the Canton of Vaud. The principal Joint Venture partner is Schweizer Erdöl AG (SEAG), the former Swisspetrol Company which holds 10% interest in the Joint Venture and the rights to the majority of the hydrocarbon exploration data in Switzerland.

Apart from a 10% interest in the Seeland-Freinisberg permit that is held under option to Leni Gas and Oil plc, the remaining 90% interest in the Joint Venture is held by PEOS AG, a Swiss company registered in the Canton of Zurich and a wholly owned subsidiary of Ascent. PEOS AG has experience of hydrocarbon exploration operations in the Concordat Permit of north eastern Switzerland particularly as the operator of hydraulic fracture stimulation and testing of the Weiach-2 well in the Canton of Zurich in 2004.

Canton of Bern, Linden Exploration Permit

This permit was awarded to SEAG on behalf of the Joint Venture in August 2005. It contains the Linden-1 well 20 km south east of the city of Bern and drilled to a depth of 5,442m in 1972. This well tested at a rate of 3 mmscfd of gas.

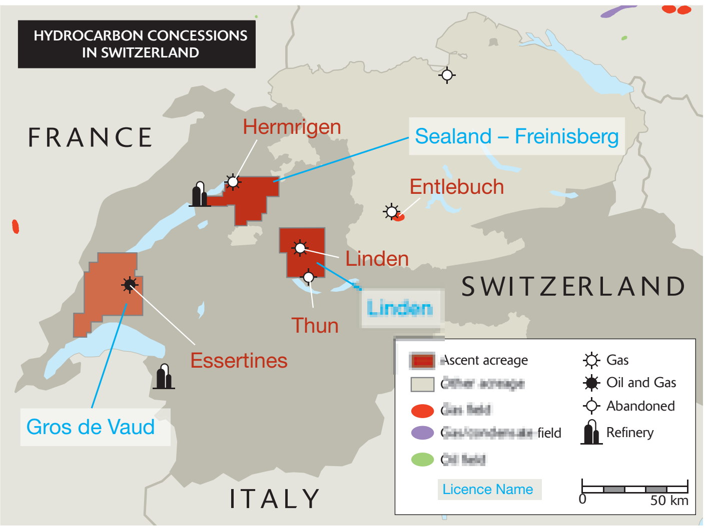
Canton of Bern, Seeland-Freinisberg Exploration Permit

Awarded at the same time as Linden, this exploration permit contains the Hermrigen-1 discovery well 20 km north west of Bern and drilled in 1982 to a depth of 2,425m.

Canton of Vaud, Gros de Vaud Exploration Permit

This exploration permit north of Lac Leman and the city of Lausanne contains the 1962 Essertine-1 well, drilled by BEB (Shell Mobil of Germany) to a depth of 2,936m. Although the well did not reach its primary target in the Triassic, it produced oil on test from Rhaetian sandstone reservoirs at 2,500m.

Having completed a comprehensive Prospectivity Report and Prospect Inventory across the three exploration permits, the work this year has concentrated on finding suitable drilling locations and preparing the geological and drilling engineering programmes for the wells. The first Swiss well is to be an appraisal of the Hermrigen discovery. Following discussions with the town council of Hermrigen access to a suitable location has been agreed and the construction permit required for the drilling of the well are in preparation. The original well, drilled by Elf Acquitaine in 1982, failed to reach its primary target but tested gas from a secondary shallower reservoir.



"The work this year has concentrated on finding suitable drilling locations and preparing the geological and drilling engineering programmes"

2

Summary of Group Net Oil and Gas Reserves

Location of Net Gas Reserves and Gas Resources

	Net Proven + Probable Reserves (Bcf))	Net Attributable Contingent Resources (Bcf))			Net Attributable Prospective Resources (Bcf))		
		Low	Best	High	Low	Best	High
Hungary (1)(a)	0.5	0.1	0.3	0.9	Not Reported	Not Reported	Not Reported
Hungary (2)	0.9	8.8	10.8	16.8			
Italy (1)(b)	–	–	–	–	24	123	348
Netherlands (1)(a)	–	3.7	8.8	18.8	–	–	–
Netherlands (2)	–	–	–	–	7	11	18
Switzerland (1)(c)	–	4.0	9.6	19.1	157	313	609
Net Attributable at 31 December 2007	1.4	16.6	29.5	55.6	188	447	975

(1) These figures are based upon independent evaluations provided by:
- (a) ERC Energy Resource Consultants Limited and Equipoise Solutions
- (b) RobSearch Australia Pty Ltd
- (c) Tracs International

(2) These figures are based upon Management evaluations

Proven Reserves are those quantities of petroleum which can be estimated with reasonable certainty to be commercially recoverable, from known reservoirs and under current economic conditions, operating methods, and government regulations. There is at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those unproved reserves which are more likely than not to be recoverable. There is at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proven plus probable reserves.

Contingent Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

Prospective Resources are those quantities of petroleum which are estimated to be potentially recoverable from undiscovered accumulations.

Summary of Ascent Resources plc Licence Interests as at 31 May 2008

Permit	Subsidiary	Working Interest (%)	Permit Area Gross (sq km)	Net (sq km)	Status
Hungary					
Nyírség	PetroHungaria kft	45.23	2,483	1,123	Gas exploration & development
Bajcsa	ZalaGasCo kft	38.73	27	10	Gas redevelopment
Szolnok	Ascent Resources plc	27.50	2,620	721	Gas exploration
Italy					
Cento	Ascent Resources Italia srl	50.00	357	179	Gas exploration
Bastiglia	Ascent Resources Italia srl	50.00	471	236	Gas exploration
Frosinone	Ascent Resources Italia srl	80.00	858	686	Oil exploration
Fiume Arrone	Ascent Resources Italia srl	56.00	358	200	Gas exploration
Strangolagalli	Ascent Resources Italia srl	50.00	41	21	Oil exploration
Slovenia					
Petisovci Dolina	Nemmoco Slovenia Corp	45.00	36	16	Gas development
Petisovci Globoki	Nemmoco Slovenia Corp	15.75	36	6	Gas development
Switzerland					
Seeland-Freinisburg	PEOS AG	80.00	364	291	Gas appraisal
Linden	PEOS AG	90.00	330	297	Gas appraisal
Gros de Vaud	PEOS AG	90.00	736	662	Oil & Gas exploration
The Netherlands					
P4	Ascent Resources NL BV	27.00	175	47	Gas exploration
M8	Ascent Resources NL BV	27.00	409	110	Gas exploration
M10/M11	Ascent Resources NL BV	27.00	211	57	Gas exploration & appraisal
Spain					
Rocamundo	Compania Petrolifera de Rocamundo sl	50.00	–	–	Gas exploration application

Glossary

Bbl	Barrel	Bcf	Billion cubic feet
Bbls	Barrels	Bcfe	Billion cubic feet equivalent
Bpd	Barrels per day	Bcfpd	Billion cubic feet per day
Bopd	Barrels oil per day	Tcf	Trillion cubic feet
MMBbl	Million barrels	Tcfe	Trillion cubic feet equivalent
MBpd	Thousand barrels per day	BTU	British thermal unit
MMBpd	Million barrels per day	BTUpcf	British thermal unit per cubic foot
MBopd	Thousand barrels oil per day	MMBTU	Million British thermal unit
MMBopd	Million barrels oil per day	MMBTUpd	Million British thermal unit per day
BOE	Barrels oil equivalent	$MM	Millions of Dollars
MMBoe	Million Barrels oil equivalent	MTpd	Metric Tons per day
MMBoepd	Million Barrels oil equivalent per day	LPG	Liquefied Petroleum Gas
Mcf	Thousand cubic feet	Gal	Gallon
MMcfepd	Million cubic feet equivalent per day	KWH	Kilowatt Hour
MMcfpd	Million cubic feet per day	MWH	Megawatt Hour
MMscfd	Million Standard cubic feet of gas per day	GWH	Gigawatt Hour

One barrel of oil or condensate is equivalent to 6 Mcf of natural gas

Board of Directors

John Kenny (66)

Non-Executive Chairman
Member of the Audit Committee

John Kenny has enjoyed an extensive career in the oil and gas sector where he has an excellent record of creating shareholder value. He co-founded the JP Kenny Group of Companies, which traded internationally in oil and gas engineering, sub-sea survey and inspection, and shipping. He was a founder of JP Kenny Exploration & Production Ltd; the forerunner of LSE listed JKX Oil & Gas plc. He holds a degree in chemical engineering from University College London and is an Honorary Fellow of the College.

Jeremy Eng (49)

Managing Director

Jeremy Eng has extensive experience in the independent oil and gas sector and a wide network of contacts within the sector. In his 24-year career in the industry he has specialised in operations and technical management for the independent sector. Prior to joining Ascent Resources, Jeremy was CEO of a private upstream gas company and Technical Director of WPN Resources Ltd, a Canadian junior-listed oil & gas company now called Grove Energy. Previously he worked for a successful petroleum engineering consultancy business. He started his career with Schlumberger and after earning a Master degree in petroleum engineering worked for Premier, Tullow and other independent operators.

Malcolm Groom (57)

Legal Director

Malcolm Groom is an experienced energy lawyer having previously been head of both Denton Hall and Norton Rose energy groups. He was a co-founder and managing Director of Consort Resources founded in 2000. He is now also a consultant to a number of foreign governments on legal matters concerning the oil industry.

Alan Sinclair (51)

Finance Director

Alan Sinclair has a wealth of experience within the oil and gas industry as well as the City of London having worked in the sector for 29 years as a corporate advisor, economist and analyst. Prior to joining Ascent Resources he was a consultant for exploration and production companies providing business development and corporate finance advice. He has served as associate director with BZW, ING, FBR International and Noble & Company. In his early career Alan gained experience working with leading companies including Conoco UK, Wood Mackenzie and Smith New Court (now Merrill Lynch), before moving to a commercial role in BG Group.

Jonathan Legg (55)

Non-Executive Director

Chairman of the Remuneration Committee

Jonathan Legg has wide experience of the energy industry at a senior level. In 1997, he formed Energy Business Consultants, which advised UK and international clients on commercial aspects of gas and power. In 1999 Jonathan founded Consort Resources, which by the time of its sale in 2003 was a top 10 UK gas producer. Jonathan has also been a senior executive of Conoco (U.K.) and BG E&P. Jonathan has also served on the board of UK Offshore Operators' Association, and was a member of the Government's UK-Continental Interconnector Steering Group. He was also a director of the company owned by the UK's gas shippers to administer the Network Code.

Patrick Heren (55)

Non-Executive Director

Member of the Audit Committee and Remuneration Committee

Patrick Heren is a leading energy commentator and consultant, with nearly 31 years' experience of competitive energy markets. He is regarded as an authoritative analyst of the British and European gas markets. He has been a strategic commercial advisor on a number of major LNG and pipeline gas contracts. His company, Heren Energy, publishes the most widely used price indices for European gas and power.

Nigel Moore (64)

Non-Executive Director

Chairman of the Audit Committee and Member of the Remuneration Committee

Nigel Moore is a Chartered Accountant and was a former partner at Ernst & Young for 30 years until 2003. For the last ten years at Ernst & Young he specialised in the oil and gas sector, advising large international companies, providing significant input to strategic options, new opportunities and delivering shareholder value. Nigel is also on the Boards of Hochschild Mining plc, JKX Oil and Gas plc, Vitec Group plc, TEG Group plc as well as Production Services Network Ltd, a major Aberdeen-based Oilfields Services company.

Directors' Report

The Directors present their report and the financial statements of the Group for the year ended 31 December 2007.

Principal activities
The principal activities of the Group comprise gas and oil exploration and production. The Company is registered in England and Wales and is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

The Group has its headquarters in London and has gas and oil interests in Europe, principally in Hungary, Slovenia, Italy, Switzerland, the Netherlands and Spain. The Group operates in its own undertaking, through subsidiary companies and joint ventures. The subsidiary undertakings affecting the Group's results and net assets are listed in Note 16 to the financial statements.

Business review
The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2007 and of the position of the Group at the end of the year. The Chairman's Statement and the Group Operations Review set out on pages 8-21 together with the information set out below presents relevant information that fulfils the requirements of the business review.

Principal risks and uncertainties
The Group operates in an industry characterised by a range of business risks. The Company maintains a risk register that categorises risks under the headings: Strategic, Operations, Financial, Compliance, and Knowledge. The key risks and uncertainties faced by the Group are summarised below.

- ***Strategic*** – the achievement of corporate objectives is dependent on the strategy followed by the Group, as well as the interaction with stakeholders and shareholders, good governance and an understanding of economic and market dynamics.
- ***Operations*** - the operations of the Group may be adversely affected by its ability to find and develop adequate gas and oil reserves, to develop and exploit new gas and oil acreage, and to recruit and retain management and staff with the right technical skills.
- ***Financial*** – the Group's ability to meet its obligations and achieve objectives is influenced by its liquidity and gearing, movements in commodity prices and costs, movements in foreign exchange and financial reporting requirements.
- ***Compliance*** – the Group must comply with a range of corporate, legal and industry regulations and the nature of its operations necessitates strong controls around contractual arrangements, especially in respect of areas such as joint venture agreements.
- ***Knowledg***e – the Group is dependent on the efficient and effective operation of its information systems and the management and reporting of project data and reserves information is key. Loss of key personnel may also lead to the potential loss of corporate 'intellectual property'.

Key performance indicators
The Directors consider a range of financial and non-financial key performance indicators. Financial indicators are principally focused on the regular review of major projects, comparing actual costs with budgets and projections. More detailed assessments are also made of un-risked and risked 'net present values' (NPVs), project rates of return and investment ratios such as '*success case investment efficiency*'. Monthly trading and cash movements are also reviewed for each of the Group companies. Specific exploration-related key performance indicators include: the probability of geological success (Pg), the probability of commerciality or completion (Pc) and the probability of economic success (Pe).

Future developments
The Company has identified the European gas market as a relatively stable and secure arena in which to compete. The European market continues to be a net importer of gas whilst diversity of supply is central to the energy security strategy of most nations. The Company continues to seek to exploit the market through the identification and exploration of gas reserves near to core industrial and residential conurbations. It competes in the European gas and oil exploration and production sector by seeking to realise value rapidly from its assets, minimising risk through spreading investment over a range of European countries.

Financial risk management
Details of the Group's financial instruments and its policies with regard to financial risk management are given in Note 40 to the financial statements.

Results and dividends

The Group adopted International Financial Reporting Standards (‘IFRS’) in 2007, which resulted in the need to restate prior period financial statements (see Note 42 to the financial statements). The loss for the year after taxation was £2,129,982 (2006: loss £2,154,007). The Directors have not recommended the payment of a dividend.

Post balance sheet events

On 14 April 2008 the Company agreed to divest an interest in two of its Hungarian gas development projects to Leni Gas and Oil plc (‘Leni Gas’). Leni Gas purchased a 7.27% interest in PetroHungaria kft and a 14.54% interest in ZalaGasCo kft for a cash consideration of €2 million.

PetroHungaria kft owns a 100% interest in the Penészlek gas development project in the Nyírség exploration permits in eastern Hungary, while ZalaGasCo kft owns a 50% interest in the Bajcsa gasfield redevelopment project in Western Hungary. Ascent Resources plc has a 45.23% interest in the Penészlek project and a 38.73% interest in the Bajcsa project.

Directors

The Directors of the Company that served during the year, and subsequently, were as follows:

John Patrick Kenny	
Jeremy Eng	
Malcolm David John Groom	
Alan Sinclair	Appointed 9 January 2008
Jonathan Victor Lewis Legg	
Patrick Anthony Francis Heren	
Peter Richard Stephen Earl	Resigned 9 January 2008
Nigel Sandford Johnson Moore	

Relevant details of the Directors, which include committee memberships, are set out on pages 26-27.

Directors’ interests

The beneficial and non-beneficial interests in the issued share capital of the Company were as follows:

Ordinary shares of 0.1p each.

	At 31 December 2007	At 31 December 2006
John Patrick Kenny	700,000	100,000
Jeremy Eng	2,000,000	2,000,000
Malcolm David John Groom	1,497,705	1,597,750
Alan Sinclair	–	–
Jonathan Victor Lewis Legg	533,526	533,526
Patrick Anthony Francis Heren	–	–
Peter Richard Stephen Earl	50,000	50,000
Nigel Sandford Johnson Moore	119,500	119,500

Details of Directors’ share options and remuneration are set out in Note 6 to the financial statements under the heading: ‘Directors’ remuneration’.

Third party indemnity provision

The Company has provided liability insurance for its Directors. The annual cost of the cover is not material to the Group. The Company’s Articles of Association allow it to provide an indemnity for the benefit of its directors which is a qualifying indemnity provision for the purposes of the Companies Act 1985.

Share capital

Details of changes to share capital in the period are set out in Note 27 to the financial statements.

DIRECTORS' REPORT *(continued)*

Substantial shareholdings

As at 2 June 2008 the Company has been notified of the following significant interests in its ordinary shares, being a holding of 3% and above:

	Number of ordinary shares	%
Credit Suisse Client Nominees (UK) Ltd	64,625,619	21.20
Ronald Bruce Rowan	25,000,000	8.20
Tiger Resource Finance Limited	23,049,451	7.56
HSBC Global Custody Nominee (UK) Ltd	12,650,000	4.15
Roy Nominees Ltd	11,958,646	3.92
TD Waterhouse Nominees (Europe) Ltd	10,006,596	3.28

Shareholder communications

The Company has a website: www.ascentresources.co.uk, for the purposes of improving information flow to shareholders, as well as potential investors.

Charitable and political contributions

No charitable or political contributions were made by the Group during 2007 and 2006.

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2007, the Group had an average of 143 days (2006: 180 days) purchases owed to trade creditors.

Disclosure of information to the auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware; and
- that director had taken all steps that the director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

This information is given and should be interpreted in accordance with the provisions of s234Z of the Companies Act 1985.

Going Concern

The financial information has been prepared on a going concern basis. The Directors are of the opinion that the Group and Company has sufficient cash to fund its activities based on projected cash flow information in excess of twelve months from the date of these financial statements. Management continues to monitor all working capital commitments and balances on a weekly basis and believe that they have identified appropriate levels of financing for the Group and Company to continue to meet its liabilities as they fall due for at least the next twelve months.

In preparing the cash flow forecasts the Directors have identified a number of cash receipts and cash payments where they have had to use their best judgement to make certain estimates. The most significant of these judgements and estimates are described below.

The Group has submitted returns to the Italian tax authorities in respect of a substantial VAT recoverable amount relating to 2007 transactions. However, the recovery of VAT can be protracted and until verified by the authorities the final amount and its timing of receipt cannot be agreed with certainty.

Revenue from the current development on the Penészlek field in Hungary is assumed, based on the best estimates of production levels and current contracted gas prices.

In common with many similar companies, the Group and Company raises finance for its exploration and appraisal activities in discrete tranches. On a number of projects certain assumptions have also been made with regard to working capital management, matching cash inflows from cash calls, to cash outflows. If the timing of these inflows and outflows were to change the Group and Company may be required to seek additional bridging finance to meet any shortfall. At this time, based on the latest cash flow projections, the Board does not believe that it is necessary to secure additional financing.

Given the current economic climate and with a possible shortfall between funds expected to be available and on-going expenditure requirements a degree of uncertainty remains over the receipt and timing of the inflow of finance and this could cast significant doubt on the Group's and Company's ability to continue as a going concern. If this were the case the Group and Company would be unable to continue realising its assets and discharging its liabilities in the normal course of business. However, at the date of approving these financial statements the Group's and Company's cash position is positive and it is trading as a going concern.

Auditors
UHY Hacker Young resigned as auditors during the year and KPMG Audit Plc were appointed in their place. A resolution to re-appoint KPMG Audit Plc will be proposed at the next Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Jeremy Eng
Managing Director
9 June 2008

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance and this statement describes how the principles of the Combined Code have, where appropriate for a company of this size and nature, been adopted and applied.

Board of Directors

The Board is responsible to shareholders for the proper management of the Group. The Board comprises three Executive Directors and four Non-Executive Directors. Each of the Executive Directors has extensive knowledge of the gas and oil industry combined with a range of general business skills. Since the year end a new Finance Director has been appointed and the Commercial Director has now taken on a non-executive role. Brief biographies are set out on pages 26-27 and these demonstrate the range of relevant experience of the Board.

All of the Directors bring independent judgement to bear on issues of strategy, performance, resource allocation and governance standards. There is clear division of responsibilities between the Chairman and the Managing Director. Non-Executive Directors have been issued with share options which is contrary to the best practice guidelines in the Combined Code. However, in the opinion of the Board, this aligns their objectives with those of shareholders and in overall terms the Board considers that all of the Non-Executive Directors are independent.

The Board meets at least quarterly and as issues arise that require the Board's attention. During 2007 all Board meetings were attended by the majority of Board members in office at the time. All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. The Directors have access to independent professional advice, at the Company's expense, if and when required. Once a year the Board also have an 'away-day' with senior management drawn from across the Group, together with key advisers to the Company.

There is a formal schedule of matters reserved for consideration by the Board and other matters are delegated to Board Committees. The Memorandum and Articles of Association require that at every AGM a Director who has been a director at each of the preceding two annual general meetings, and has not been appointed or re-appointed at another general meeting, should seek re-election.

Sub-Committees

The Board has appointed the two sub-committees as summarised below. Terms of reference of the Committees can be found on the Company website. A Nomination Committee has not been appointed given the size and complexity of the Company.

(a) Audit Committee

This Committee comprises three Non-Executive Directors, under the Chairmanship of Nigel Moore. It meets at least twice a year and reviews the interim and annual financial statements, internal control matters and the scope and effectiveness of external audit. The external auditors have unrestricted access to the Chairman of the Audit Committee and a representative from the audit partner is normally invited to attend meetings. A member of the finance team is also invited to attend meetings. The Committee held two meetings during the year to review the 2006 annual financial statements and the 2007 interim report. Additionally a number of informal meetings and communications took place between the Chairman, the external auditors, Company executives and staff.

(b) Remuneration Committee

This Committee comprises three Non-Executive Directors which during the year was under the chairmanship of Peter Earl; following Peter Earl's resignation in January 2008 Jonathan Legg has been elected as Chairman. The Committee is responsible for making recommendations to the Board on the Company's overall framework for remuneration and its cost. In addition, it determines the individual remuneration of Executive Directors. Non-Executive fees are considered and agreed by the Board. During the year the Committee conducted a review of the Company's approach to the issue of share options.

Relationships with shareholders

The Board remains fully committed to maintaining regular communication with its shareholders. There is regular dialogue with major institutional shareholders and meetings are offered through the year and following significant announcements. Press releases have been issued throughout the year and these are posted on the Company website (www.ascentresources.co.uk). Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed through info3@ascentresources.co.uk. Shareholders are also encouraged to attend the Annual General Meeting to discuss the progress of the Group.

Internal controls

The Board acknowledges its responsibility for establishing, maintaining and reviewing the Group's system of internal controls and for reviewing its effectiveness. The internal control system includes financial, operational and compliance controls and risk management. The systems are designed to safeguard the assets of the Group from inappropriate use or from loss and fraud; to help ensure the quality of internal and external reporting; and to help ensure compliance with applicable laws and regulations and internal policies with respect to the conduct of business.

The Board has put in place formal lines of responsibility and delegation of authority and has delegated to executive management the implementation of material internal control systems. Policies and procedures have been reviewed and a number have been updated to reflect changes in the business. A budgeting process is in place for all material items of expenditure, especially in respect of the major exploration projects, and an annual budget is approved by the Board. Costs are reviewed against budget and the Group's cash position is monitored on a weekly basis. A new financial accounting system was implemented in the year; this has led to a review and upgrade to the regular financial reporting routines across the Group. A new risk and control register has also been established to support the Board's primary responsibility of identifying and managing the critical business risks facing the Group.

Given the inherent limitations in any system of internal control a sound system reduces but cannot eliminate the possibility of poor judgement, human error, management or staff override and any unforeseen circumstances. The Board have undertaken a formal review of the effectiveness of internal control at the year end and, whilst some additional processes and procedures have been identified that will enhance the current systems, the Board considers that the system of internal control operated effectively throughout the year and up to the date of the financial statements.

Corporate Responsibility

Ascent Resources plc operates a Management System that embodies Environmental, Health, Safety ("EHS") and Social Responsibility ("SR") principles. This System defines Objectives to be met by Ascent Resources plc, its subsidiaries, affiliates, associates and operated joint ventures (hereinafter collectively referred to as Ascent) in the management of EHS and SR.

The Policy of the Board of Ascent is to be fully accountable for the necessary practices, procedures and means being in place so as to ensure that each EHS & SR Objective is demonstrated in full and that continuous improvement practices are operating to ensure that the required practices, procedures and means are being monitored, refined and optimised as necessary. The Board will accordingly review and report regularly to external stakeholders as to the achievement of the Objectives of this Policy.

In accordance with this Policy, the Executive Directors of Ascent are directly and collectively responsible to the Board for demonstrating that the EHS & SR Objectives are attained throughout Ascent. The Executive Directors have adopted Management System Guidelines as guidance for demonstrating this.

The Objectives of the Environment, Health, Safety & Social Responsibility Policy are:

- Ascent shall manage all operations in a manner that protects the environment and the health and safety of employees, third parties, and the community.
- The Executive Directors provide the vision, establish the framework, set the objectives and provide the resources for responsible management of Ascent's operations.
- Leadership and visible commitment to continuous improvement are critical elements of successful operations.
- A process that measures performance relative to Policy Aims & Objectives is essential to improving performance. Sharing best practices and learning from each other promotes improvement.
- Effective business controls ensure the prevention, control and mitigation of threats and hazards to business stewardship.
- Risk identification, assessment and prioritisation can reduce risk and mitigate hazards to employees, third parties, the community and the environment. Management of risk is a continuous process.
- Safe, environmentally sound operations rely on well-trained motivated people. Careful selection, placement, training, development and assessment of employees, and clear communication and understanding of responsibilities are critical to achieving operating excellence.
- The use of internationally recognised standards, procedures and specifications for design, construction, commissioning, modifications and decommissioning activities is essential for achieving operating excellence.
- Operations within recognised and prudent parameters are essential to achieving clear operating excellence. This requires operating, inspection and maintenance procedures, and information on the processes, facilities and materials handled, together with systems to ensure that such procedures have been properly communicated and understood.
- Adhering to established safe work practices, evaluating and managing change, and providing up-to-date procedures to manage safety and health risks contribute to a safe workplace for employees and third parties.
- The minimisation of environmental risks and liabilities are integral parts of our operations.
- Third parties who provide materials and services (personnel and equipment) or operate facilities on Ascent's behalf have an impact on EHS & SR excellence. It is essential that third-party services are provided in a manner consistent with Ascent's EHS & SR Policy & Management System Guidelines.
- Compliance with regulatory requirements and company guidelines must be periodically measured and verified as part of the continuous improvement process.
- Preparedness and planning for emergencies are essential to ensuring that all necessary actions are taken if an incident occurs, to protect employees, third parties, the public, the environment, the assets and brand of Ascent.
- Effective reporting, incident investigation, communication and lessons learned are essential to attaining and improving performance.
- Open and honest communication with the communities, authorities and stakeholders with which Ascent operates builds confidence and trust in the integrity of Ascent.

During 2007, the Group was Operator of several exploration projects, all of which were closely managed for maintaining the EHS and SR policy aims.

There have been no convictions in relation to breaches of any applicable Acts recorded against the Group during the reporting period.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare financial statements for each financial year which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make estimates and judgements that are reasonable and prudent;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors' Report to the Members of Ascent Resources plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Ascent Resources plc for the year ended 31 December 2007 which comprise the Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Recognised Income and Expense and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 35.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Chairman's Statement and Group Operations Review that is cross referred from the Business Review Section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter

In forming our opinion on the financial statements which is not qualified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the Group's and Company's ability to continue as a going concern. The Group and Company raise finance for its exploration and appraisal activities in discrete tranches and the Group has net operating cash outflows in each of the two years ended 31 December 2007. It incurred a net loss of £2.13 million during the year ended 31 December 2007. These conditions along with other matters discussed in Note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

KPMG Audit Plc 9 June 2008

Chartered Accountants
Registered Auditor

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Consolidated Income Statement

for the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Continuing operations			
Revenue		252,652	384,499
Cost of sales	2	(2,224,517)	(870,215)
Gross loss		(1,971,865)	(485,716)
Other operating income	3	35,513	85,993
Administrative expenses	4	(2,939,276)	(1,953,850)
Operating loss		(4,875,628)	(2,353,573)
Finance income	7	755,511	153,222
Finance expense	7	(122,965)	(11,514)
Profit on sale of investments	8	2,113,100	57,858
Loss before tax		(2,129,982)	(2,154,007)
Taxation	9	–	–
Loss for period		(2,129,982)	(2,154,007)
Attributable to:			
Equity holders of the Company		(2,129,982)	(2,154,007)
Minority interests		–	–
Loss per share			
From total operations	10		
Basic and fully diluted loss per share		(0.74)p	(0.94)p

Consolidated Balance Sheet

as at 31 December 2007

	Notes	31 December 2007 £	31 December 2006 £
Non-current assets			
Property, plant and equipment	11	13,142	176,788
Exploration and decommissioning costs	13	9,590,541	4,218,918
Interests in associates	15	918,475	–
Total non-current assets		10,522,158	4,395,706
Current assets			
Assets held for sale	17	–	805,303
Inventories	18	646,861	450,774
Trading investments	19	500,000	50,482
Trade and other receivables	20	3,141,819	2,121,568
Cash and cash equivalents		1,323,773	1,941,044
Total current assets		5,612,453	5,369,171
Current liabilities			
Trade and other payables	23	(2,131,663)	(2,555,042)
Bank loans	25	(447,971)	(459,310)
Net current assets		3,032,819	2,354,819
Non-current liabilities			
Borrowings	25	(3,468,110)	(458,411)
Provisions	26	(246,552)	(121,075)
Net assets		9,840,315	6,171,039
Equity			
Attributable to:			
Share capital	27	304,781	264,825
Equity reserve	28	84,356	–
Share premium account	28	13,067,078	7,943,786
Share based payment reserve	28	1,191,177	793,060
Translation reserves	28	149,065	(4,472)
Retained earnings	28	(4,956,511)	(2,826,529)
Total equity attributable to shareholders of the Company		9,839,946	6,170,670
Minority interest	28	369	369
Total equity		9,840,315	6,171,039

The financial statements were approved by the Board of Directors on 9 June 2008 and were signed on its behalf by:

Jeremy Eng
Managing Director

Company Balance Sheet

as at 31 December 2007

	Notes	31 December 2007 £	31 December 2006 £
Non-current assets			
Property, plant and equipment	12	3,027	–
Exploration costs	14	–	397,211
Investment in subsidiaries	16	1,975,046	1,742,706
Intercompany receivables		10,814,604	3,571,284
Total non-current assets		12,792,677	5,711,201
Current assets			
Assets held for sale	17	–	657,087
Trading investments	19	500,000	50,482
Trade and other receivables	21	357,161	124,797
Cash and cash equivalents		779,236	545,214
Total current assets		1,636,397	1,377,580
Current liabilities			
Trade and other payables	24	(587,962)	(234,504)
Total current liabilities		(587,962)	(234,504)
Net current assets		1,048,435	1,143,076
Non-current liabilities			
Borrowings	25	(2,415,644)	–
Net assets		11,425,468	6,854,277
Equity			
Share capital	27	304,781	264,825
Equity reserve	29	84,356	–
Share premium	29	13,067,078	7,943,786
Share based payment reserve	29	1,191,177	793,060
Retained earnings	29	(3,221,924)	(2,147,394)
Total equity		11,425,468	6,854,277

The financial statements were approved by the Board of Directors on 9 June 2008 and were signed on its behalf by:

Jeremy Eng
Managing Director

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Net cash used in operating activities	33	(4,171,198)	(1,334,509)
Investing activities			
Financial income		106,834	129,117
Payments for investing in exploration		(5,915,174)	(3,120,155)
Acquisition of property, plant and equipment		(13,549)	–
Acquisition of subsidiaries held for sale		–	(855,786)
Proceeds from disposal of subsidiary		943,694	987,629
Proceeds from disposal of current asset investment		1,399,341	–
Proceeds from sale of plant and equipment		159,072	–
Acquisition of associated undertaking		(918,474)	–
Acquisition of subsidiaries		–	(158,144)
Cash acquired with subsidiaries		(25,056)	77,533
Net cash from investing activities		(4,263,312)	(2,939,806)
Financing activities			
Financial expense		(122,965)	(11,514)
Loans received		3,387,950	1,346,620
Loans repaid		(305,234)	–
Cash proceeds from issue of shares		5,047,238	1,282,515
Share issue costs		(189,750)	(75,615)
Net cash from financing activities		7,817,239	2,542,006
Net decrease in cash and cash equivalents		(617,271)	(1,732,309)
Cash and cash equivalents at beginning of period		1,941,044	3,673,353
Cash and cash equivalents at end of period		1,323,773	1,941,044

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Attributable to the equity holders of Ascent Resources plc			
Loss for the period	28	(2,129,982)	(2,154,007)
Currency translation differences	28	153,537	(4,472)
Total recognised loss for the period		(1,976,445)	(2,158,479)

There are no movements to be recognised through the parent company statement of recognised income and expense in 2007 and 2006.

Company Cash Flow Statement

for the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Net cash used in operating activities	34	(936,380)	(953,588)
Investing activities			
Financial income		34,757	119,066
Payments for investing in exploration		–	(327,211)
Acquisition of property, plant and equipment		(4,542)	–
Acquisition of intangible assets		(249,606)	–
Acquisition of subsidiary		(116,845)	–
Acquisition of subsidiaries held for sale		–	(707,569)
Proceeds from disposal of subsidiary		–	987,629
Advances to subsidiaries		(7,210,798)	(3,571,289)
Proceeds from sale of current asset investment		1,399,342	–
Net cash from investing activities		(6,147,692)	(3,499,374)
Financing activities			
Financial expense		(39,395)	(30,322)
Loans received		2,500,000	–
Cash proceeds from issue of shares		5,047,239	1,432,521
Share issue costs		(189,750)	(75,615)
Net cash from financing activities		7,318,094	1,326,584
Net increase/(decrease) in cash and cash equivalents		234,022	(3,126,378)
Cash and cash equivalents at beginning of period		545,214	3,671,592
Cash and cash equivalents at end of period		779,236	545,214

Notes to the Financial Statements

for the year ended 31 December 2007

1 Accounting policies

Reporting entity

Ascent Resources plc ("the Company") is a company domiciled and incorporated in England. The address of the Company's registered office is One America Square, Crosswall, London, EC3N 2SG. The consolidated financial information of the Company as at 31 December 2007 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The consolidated financial statements of the Group for the year ended 31 December 2007 are available from the Company's website at www.ascentresources.co.uk.

Basis of accounting

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 s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The financial information has been prepared under the historical cost convention except for available-for-sale financial assets and financial instruments which are measured at fair value through profit and loss. The principal accounting policies set out below have been consistently applied to all periods presented.

Going Concern

The financial information has been prepared on a going concern basis. The Directors are of the opinion that the Group and Company has sufficient cash to fund its activities based on projected cash flow information in excess of twelve months from the date of these financial statements. Management continues to monitor all working capital commitments and balances on a weekly basis and believe that they have identified appropriate levels of financing for the Group and Company to continue to meet its liabilities as they fall due for at least the next twelve months.

In preparing the cash flow forecasts the Directors have identified a number of cash receipts and cash payments where they have had to use their best judgement to make certain estimates. The most significant of these judgements and estimates are described below.

The Group has submitted returns to the Italian tax authorities in respect of a substantial VAT recoverable amount relating to 2007 transactions. However, the recovery of VAT can be protracted and until verified by the authorities the final amount and its timing of receipt cannot be agreed with certainty.

Revenue from the current development on the Penészlek field in Hungary is assumed, based on the best estimates of production levels and current contracted gas prices.

In common with many similar companies, the Group and Company raises finance for its exploration and appraisal activities in discrete tranches. On a number of projects certain assumptions have also been made with regard to working capital management, matching cash inflows from cash calls to cash outflows. If the timing of these inflows and outflows were to change the Group and Company may be required to seek additional bridging finance to meet any shortfall. At this time, based on the latest cash flow projections, the Board does not believe that it is necessary to secure additional financing.

Given the current economic climate and with a possible shortfall between funds expected to be available and on-going expenditure requirements, a degree of uncertainty remains over the receipt and timing of the inflow of finance and this could cast significant doubt on the Group's and Company's ability to continue as a going concern. If this were the case the Group and Company would be unable to continue realising its assets and discharging its liabilities in the normal course of business. However, at the date of approving these financial statements the Group's and Company's cash position is positive and it is trading as a going concern.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

Errors under previous GAAP
In the course of the IFRS conversion management reviewed the assumptions made in determining the fair value of key acquisitions that make up the Group. As a result management have restated the transactions recorded in the UK GAAP position as at 31 December 2006; a full reconciliation has been provided in note 41.

Transition arrangements
IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The consolidated information has been prepared on the basis of the following material exemptions:

- Business combinations prior to 1 July 2005 have not been restated to comply with IFRS 3 "Business Combinations"
- IFRS 2 "Share-based Payments" has been applied retrospectively to those options that were issued after 7 November 2002 and not vested by 1 July 2005.
- IFRS 1 "First time adoption of International accounting standards" translation differences have been deemed to be zero at the IFRS transition date.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 42.

Adoption of IFRSs in issue but not yet effective
At the date of approval of these financial statements the Group has not applied the following IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations, which are in issue but not yet effective, their adoption is not expected to have a material effect on the financial statements

IFRS 8 *Operating Segments*
IAS 23 (Revised) *Borrowing Costs*
IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*
IFRIC 12 *Service Concession Arrangements*

Critical accounting estimates and assumptions
The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on practical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary, if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recognised in the period in which the estimate is revised.

Critical judgements in applying the Group's accounting policies
The application of the Company's accounting policies may require management to make judgements, apart from those involving estimates, which can have a significant effect on the amounts recognised in the financial statements. Management judgement is particularly required when assessing the substance of transactions that have a complicated structure or legal form.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

The key area where management judgement will need to be applied will be in the areas of:

(a) *Oil and gas assets* – exploration and evaluation costs are initially classified and held as intangible fixed assets rather than being expensed. The carrying value of intangible exploration and evaluation assets are then determined. Management considers these assets for impairment at least annually based on an estimation of the recoverability of the cost pool from future revenues of the related oil and gas reserves (see Note 13);

(b) *Decommissioning provision* – the cost of decommissioning is estimated by reference to operators and internal specialist staff (see Note 26);

(c) *Convertible loan notes* – management assesses the fair value of the liability component at issue and will review the appropriateness of the amortisation period annually (see Note 25);

(d) *Basis of consolidation* – management consider the Company's ability to exert financial and operational control, as well as the level of voting rights and representation on the board as a basis of consolidation;

(e) *Business combinations* – management assess the fair value of the assets and liabilities acquired based on the assessment of operations and internal specialist staff (see Note 31);

(f) *Share-based payments* – management assesses the fair value of each option using an appropriate pricing model based on option and share prices, volatility and the life of the option (see Note 39).

Basis of consolidation
The financial statements comprise the consolidation of the accounts of the Company and its subsidiary undertakings and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting. Consistent accounting policies have been used to prepare the consolidated Financial Statements.

Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of undertakings acquired or disposed of are consolidated from or to the date when control passes to or from the Group. For the Company financial statements only, investments in subsidiary undertakings are stated at cost less provision for impairment.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from date that control commences until the date that control ceases.

Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill
On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over net fair values of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the net fair values of the identifiable assets, liabilities and contingent liabilities acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

Interest in jointly controlled operations
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Where a company undertakes its activities under a joint venture arrangement directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with the other ventures are recognised in the financial statements of the relevant Group company and classified according to their nature.

Similarly, income from the sale and use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised in the financial statements of the relevant Group company and classified according to their nature.

Interests in Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates 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 income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Oil and Gas Exploration Assets
The Group follows the "successful efforts" method of accounting for exploration and evaluation costs. All licence/project acquisitions, exploration and appraisal costs incurred or acquired on the acquisition of subsidiary, are accumulated in respect of each identifiable project area. These costs, which are classified as intangible fixed assets are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Pre-licence/project costs are written off immediately. Other costs are also written off unless commercial reserves have been established or the determination process has not been completed. Thus accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences the accumulated costs for the relevant area of interest are transferred from intangible fixed assets to tangible fixed assets as 'Developed oil and gas assets'.

Impairment of oil and gas exploration assets
The carrying value of oil and gas exploration assets is assessed on at least an annual basis or when there has been an indication that impairment in value may have occurred. The impairment of oil and gas exploration assets is assessed based on the Directors' intention with regard to future exploration and development of individual significant areas and the ability to obtain funds to finance such exploration and development.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

Impairment of developed oil and gas assets

When events or changes in circumstances indicate that the carrying amount of expenditure attributable to a successful well may not be recoverable from future net revenues from oil and gas reserves attributable to that well, a comparison between the net book value of the cost attributable to that well and the discounted future cash flows from that well is undertaken. To the extent that the carrying amount exceeds the recoverable amount, the cost attributable to that well is written down to its recoverable amount and charged as an impairment.

Depletion of developed oil and gas assets

Costs carried in each well are depreciated on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus production in the period. Costs in the unit of production calculation include the net book value of capitalised costs plus estimated future development costs. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

Decommissioning costs

Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the net present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also added to oil and gas exploration assets and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

Property, plant and equipment assets other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost, less accumulated depreciation, and any provision for impairment. Depreciation is provided at rates estimated to write off the cost, less estimated residual value of each asset over its expected useful life as follows:

Computer and office equipment – 33% straight line.

Revenue recognition

Oil and gas sales revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the Group's share of oil and gas supplied in the period.

Inventories

Inventories, including materials, equipment and inventories of gas and oil held for sale in the ordinary course of business, are stated at weighted average historical cost, less provision for deterioration and obsolescence or, if lower, net realisable value.

Foreign currency

The Company's strategy is focused on developing oil and gas projects across Europe funded by shareholder equity and other financial assets which are principally denominated in Sterling. The functional currency is Sterling.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Sterling at the average rate ruling during the period. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

Transactions in foreign currency are translated to the respective functional currency of the Group entity at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date. Exchange gains and losses on short-term foreign currency borrowings and deposits are included with net interest payable.

Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating loss.

Taxation

The tax expense represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on the estimated taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the expected tax rate applicable to annual earnings.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Share-based payments

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options and shares allocated determined using the Binomial method. The value of the charge is adjusted to reflect expected and actual levels of vesting. Charges are not adjusted for market related conditions which are not achieved. Where equity instruments are granted to persons other than directors or employees, the consolidated income statement is charged with the fair value of any goods or services received.

Cash-settled share based payments

The cost of cash-settled share based payments is measured at fair value using an appropriate option valuation model. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period, a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the period.

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, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Non-current assets held for sale

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then on initial classification as held for sale, non current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

Convertible loan notes
The net proceeds received from the issue of convertible loan notes are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not re-measured.

Subsequent to the initial requisition the liability component is measured at amortised cost using the effective interest method.

Financial instruments
Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Investments are classified as either held-for-trading or available for sale at initial recognition and this designation is re-evaluated at each balance sheet date. Trading investments are initially measured at cost, including transaction costs. At subsequent reporting dates trading investments are measured at fair value or at cost where fair value is not readily ascertainable. Gains and losses arising from changes in fair value are recognised directly to the income statement.

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans are recorded at fair value plus any directly attributable costs, with subsequent measurement at amortised cost. Finance costs are accounted for on an accruals basis in the income statement using the effective interest method.

Cash and cash equivalents comprise cash balances and call deposits.

Equity
Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

Investments and loans
Shares and loans in subsidiary undertakings are shown at cost. Provisions are made for any permanent diminution in value.

Pension costs
Contributions are made to the individual pension scheme of a Director's choice and are charged to the Income Statement as they become payable.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

1 Accounting policies *(continued)*

Segmental Analysis

The Group has one business segment: oil and gas exploration and production.

All exploration and production activities are conducted in Europe. There is only one geographic segment.

2 Cost of sales

	Year ended 31 December £	18 months ended 31 December 2006 £
Production costs	164,665	261,699
Impairment costs (see Note 13)	1,334,882	242,708
Other exploration and project costs	724,970	365,808
	2,224,517	870,215

3 Other operating income

	Year ended 31 December £	18 months ended 31 December 2006 £
Fees for technical services	13,121	62,112
Profit on sale of investments	22,392	23,881
	35,513	85,993

4 Administrative expenses

	Year ended 31 December £	18 months ended 31 December 2006 £
Depreciation of plant and equipment	10,698	34,434
Provision for bad debts	558,973	–
Wages and salaries (see note 6)	721,011	782,073
Consulting charges	864,819	919,107
Profit on sale of fixed assets	(24,635)	–
Provision for reduction in value of quoted securities	50,482	–
Impairment in assets held for sale	148,217	–
Share based payment charge	360,612	122,700
Other office costs	249,099	95,536
	2,939,276	1,953,850

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

5 Auditors' remuneration

	Year ended 31 December £	18 months ended 31 December 2006 £
Fees payable to the Company's auditor and its associates for the audit of the Group's annual accounts (including **£129,500** in respect of the Company (2006: £50,000))	173,017	62,000
Fees payable to the Company's auditor for other services: Tax services	49,300	–

6 Employees and Directors

(a) Employees

The average number of persons employed by the Company and Group, including executive directors, were:

	Year ended 31 December Number	18 months ended 31 December 2006 Number
Management and technical	6	6

	£	£
Wages and salaries	460,383	228,631
Social security costs	182,779	99,762
Pension costs	40,344	–
Share based payments	37,505	453,680
	721,011	782,073

All staff included above represents 'key management personnel' in the Company. During the year two members of staff were promised 425,000 and 400,000 options to subscribe for ordinary shares in the Company at 14p and 11.75p respectfully. The Company offers all staff the opportunity to enter into a stakeholder pension scheme.

(b) Directors' remuneration

	Year ended 31 December £	18 months ended 31 December 2006 £
Fees and emoluments	243,496	164,322
Social security costs	160,169	84,841
Pension costs	40,344	–
Share-based payments	–	415,500
	444,009	664,663

In addition to the above £42,902 (2006: £289,150) was paid to third parties as consideration for making available the services of directors. Pension costs relate to payments made to a director's own personal pension plan.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

6 Employees and Directors *(continued)*

(c) Highest paid director

	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Fees and emoluments	134,667	58,892
Social security costs	704	65,970
Pension costs	40,344	–
Share-based payments	–	161,250
	175,715	286,112

There was no consideration paid to third parties for making available services of the above director, in addition to the above (2006: £213,161)

(d) Directors' Incentive Share Options

Director	As at 1 January 2006	Exercised	As at 31 December 2007	Date Granted	Share Price at Grant	Exercise Price	Exercise Period
J P Kenny	500,000	(500,000)	–	28.12.05	10.5p	10.5p	28.12.06 – 28.12.10
J V L Legg	1,000,000	–	1,000,000	23.09.05	13.5p	15p	23.03.06 – 23.09.08
	1,000,000	–	1,000,000	23.09.05	13.5p	40p	23.09.06 – 23.09.09
	500,000	–	500,000	28.06.05	5.5p	5p	28.06.06 – 28.06.10
	500,000	–	500,000	28.12.05	10.5p	10.5p	28.12.06 – 28.12.10
P R S Earl	500,000	–	500,000	15.05.06	13p	11.5p	15.05.07 – 15.05.11
N S J Moore	500,000	–	500,000	28.06.06	9p	9.5p	28.06.07 – 28.06.11
M D J Groom	1,000,000	–	1,000,000	28.06.05	5.5p	5p	28.06.06 – 28.06.10
	1,000,000	–	1,000,000	23.09.05	13.5p	40p	23.09.06 – 23.09.09
	1,000,000	–	1,000,000	23.09.05	13.5p	15p	23.03.06 – 23.09.08
J Eng	10,000,000	–	10,000,000	10.04.05	5p	5p	10.04.06 – 10.04.10
	2,500,000	–	2,500,000	23.09.05	13.5p	15p	23.03.06 – 23.09.08
	2,500,000	–	2,500,000	23.09.05	13.5p	40p	23.09.06 – 23.09.09
P A F Heren	500,000	–	500,000	09.11.05	11.5p	11.5p	09.11.06 – 09.11.10

Alan Sinclair was granted 1,000,000 options for new ordinary shares in the Company on 14 January 2008 at a price of 11p per share, exercisable from 14 January 2009 until 14 January 2013.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

7 Finance income and expenses

	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Financial income		
Bank interest receivable	106,834	129,117
Exchange gain	648,677	24,105
	755,511	153,222
Financial expense		
Interest payable on bank loans	(122,965)	(11,514)

8 Profit on sale of investments

	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Sale of subsidiary company		
Compania Petrolifera de Sedano sl	1,421,327	–
Sale of assets held for resale		
Millennium International Corporation Limited	671,671	–
Afren Plc	20,102	57,858
	2,113,100	57,858

Further details on the sale of these investments are set out in Note 32.

9 Taxation

	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Current tax	–	–
Deferred tax	–	–
Total tax expense for the period	–	–

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

9 Taxation *(continued)*

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	Year ended 31 December £	18 months ended 31 December 2006 £
Loss before taxation	(2,129,982)	(2,154,007)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006: 30%)	(638,995)	(646,202)
Effects of:		
Other timing differences	1,747	1,135
Net increase in unrecognised losses carried forward	765,584	418,307
Other temporary differences not recognised	126,440	175,790
Effect of tax rates in foreign jurisdictions	80,598	35,823
Other non-taxable items	(427,361)	(12,512)
Other non-deductible expenses	91,987	27,659
Total tax expense for the year	–	–

10 Loss per share

	Year ended 31 December £	18 months ended 31 December 2006 £
Losses		
Losses for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders	2,129,982	2,154,007

Number of shares	Year ended 31 December Number	18 months ended 31 December 2006 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	289,478,538	229,697,066
Number of dilutive shares under option	–	–
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	289,478,538	229,697,066

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is done to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to outstanding share options.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

11 Property, Plant and Equipment – Group

	£
Cost	
At 1 July 2005	–
Additions	202,898
Net exchange differences	–
At 1 January 2007	202,898
Additions	13,665
Disposals	(178,526)
Net exchange differences	1,795
At 31 December 2007	**39,832**
Depreciation	
At 1 July 2005	–
Charge for the year	26,110
Net exchange differences	–
At 1 January 2007	26,110
Charge for the year	22,179
Disposals	(22,379)
Net exchange differences	780
At 31 December 2007	**26,690**
Net book value	
At 31 December 2007	**13,142**
At 31 December 2006	176,788

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

12 Property, Plant and Equipment – Company

	£
Cost	
At 1 January 2007	–
Additions	4,541
Disposals	–
At 31 December 2007	**4,541**
Depreciation	
At 1 January 2007	–
Charge for the year	1,514
Disposals	–
At 31 December 2007	**1,514**
Net book value	
At 31 December 2007	**3,027**
At 31 December 2006	–

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

13 Exploration costs –

Group	Decommissioning Costs £	Italy £	Hungary £	Other locations £	Total £
Cost					
At 1 July 2005	–	–	–	164,973	164,973
Additions	121,075	2,422,775	1,246,523	516,561	4,306,934
At 1 January 2007	121,075	2,422,775	1,246,523	681,534	4,471,907
Additions	246,552	4,718,871	68,398	1,391,240	6,425,061
Disposals	(121,075)	–	–	–	(121,075)
Intra-group transfers	–	397,211	–	(397,211)	–
Net exchange differences	–	301,955	106,801	–	408,756
At 31 December 2007	**246,552**	**7,840,812**	**1,421,722**	**1,675,563**	**11,184,649**
Impairment					
At 1 July 2005	–	–	–	–	–
Charge for the year	10,281	–	242,708	–	252,989
At 1 January 2007	10,281	–	242,708	–	252,989
Charge for the year	4,277	–	302,966	1,027,639	1,334,882
On disposals	(14,558)	–	–	–	(14,558)
Net exchange differences	–	–	20,795	–	20,795
At 31 December 2007	**–**	**–**	**566,469**	**1,027,639**	**1,594,108**
Net book value					
At 31 December 2007	**246,552**	**7,840,812**	**855,253**	**647,924**	**9,590,541**
At 31 December 2006	110,794	2,819,986	1,003,815	284,323	4,218,918
At 1 July 2005	–	–	–	164,973	164,973

'Other locations' include: the Netherlands, Slovenia, Spain and Switzerland.

Impairment provisions have been made in the year in respect of two sites in Hungary and one in Spain, prior to disposal. All associated costs were written off at this time.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

14 Exploration costs – Company

	£
Cost	
At 1 July 2005	70,000
Additions	327,211
At 1 January 2007	397,211
Additions	–
Intra-group transfers	(397,211)
At 31 December 2007	**–**
Impairment	
At 1 July 2005	–
Charge for the year	–
At 1 January 2007	–
Charge for the year	–
On disposals	–
At 31 December 2007	**–**
Net book value	
At 31 December 2007	**–**
At 31 December 2006	397,211
At 1 July 2005	70,000

15 Interest in associates

The Company has an indirect holding in Perazzoli Drilling srl, which was acquired by Ascent Drilling Limited during December 2007. Consequently, given the time scale and materiality levels the Group has not accounted for any share of the company's profit or loss for the period under review.

Details of the associate undertaking as at 31 December 2007 were as follows:

Name of company	Principal activity	Country of incorporation	% of share capital held
Perazzoli Drilling srl	Drilling rig owner and contractor	Italy	22.5%

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

15 Interest in associates *(continued)*

	£
At 1 January 2007	–
Additions in the year	918,475
At 31 December 2007	**918,475**

Aggregate amounts relating to associates

The summarised financial information of the associate company set out below is as at 31 December 2007.

	2007 £
Assets	970,461
Liabilities	967,567
Revenues	90,243
Profit	2,894

16 Investment in subsidiaries

	Shares in subsidiary undertakings £
At 1 July 2005	120,148
Additions	1,622,558
At 1 January 2007	1,742,706
Additions (see Note 31)	232,340
Impairment	–
At 31 December 2007	**1,975,046**

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

16 Investment in subsidiaries *(continued)*

Details of the Company's subsidiary undertakings as at 31 December 2007 were as follows:

Name of company	Principal activity	Country of incorporation	% of share capital held
Nemmoco Slovenia Corporation	Oil and Gas exploration	British Virgin Islands	100%
Borona Holdings Ltd.	Oil and Gas exploration	Cyprus	100%
Ascent Production Ltd.	Holding Company	England	100%
Teredo Oils Ltd. (held indirectly)	Oil and Gas exploration and production	England	100%
Ascent Drilling Limited	Holding Company	England	50%
Ascent Gabon Ltd.	Oil and Gas exploration	England	100%
PetroHungaria kft	Oil and Gas exploration	Hungary	92%
ZalaGasCo kft	Oil and Gas exploration	Hungary	90%
Ascent Resources Italia srl	Oil and Gas exploration	Italy	100%
Ascent Netherlands BV	Oil and Gas exploration	Netherlands	100%
Compania Petrolifera de Rocamundo sl	Oil and Gas exploration	Spain	100%
PEOS AG	Oil and Gas exploration	Switzerland	100%

17 Assets held for sale

	2007 £	2006 £
Group		
Millennium International Resources Corporation Limited	–	657,087
Ayoopco Limited (formerly 'Northern Petroleum Exploration Limited')	–	148,216
	–	805,303

	2007 £	2006 £
Company		
Millennium International Resources Corporation Limited	–	657,087

The Company disposed of Millennium International Resources Corporation Limited during the year, for details of the disposal see Note 32(b). The Group is in the process of selling its shares in Ayoopco Limited to Gold Oil plc (a third party). The Directors have considered the carrying amount of this investment and have written down the value to zero at the year end date.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

18 Inventories – Group

	2007 £	2006 £
Equipment and spares	646,861	450,774

19 Trading investments

	Group £	Company £
At 1 July 2005	–	–
Additions	50,482	50,482
Impairment	–	–
At 1 January 2007	50,482	50,482
Additions	500,000	500,000
Impairment	(50,482)	(50,482)
At 31 December 2007	**500,000**	**500,000**

The Group has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

The above trading investment represents shares in listed equity securities that present the Group with opportunity for return through dividend income and trading gains. The fair values of all equity securities are based on quoted market prices.

20 Trade and other receivables – Group

	2007 £	2006 £
Trade receivables	360,804	158,170
VAT recoverable	1,280,769	923,181
Other receivables	284,986	9,886
Prepayments	97,476	1,077
Bond	1,117,784	1,029,254
	3,141,819	2,121,568

A bond is held with the Cento Bank Italia as security for a bank loan originally for €2,000,000 as set out in Note 25.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

20 Trade and other receivables – Group *(continued)*

The above carrying amounts of financial assets represent the maximum credit exposure to the Group. The aging of unimpaired trade receivables were:

	2007 £	2006 £
Not past due	210,907	158,170
Past due 0-30 days	–	–
Past due 31-120 days	149,897	–
More than one year	–	–
Total	360,804	158,170

21 Trade and other receivables – Company

	2007 £	2006 £
Trade receivables	280,442	60,000
VAT recoverable	46,210	64,797
Prepayments	6,434	–
Other receivables	24,075	–
	357,161	124,797

The aging of unimpaired trade receivables were:

	2007 £	2006 £
Not past due	280,442	60,000
Past due 0-30 days	–	–
Past due 31-120 days	–	–
More than one year	–	–
Total	280,442	60,000

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

22 Deferred tax

There is no deferred tax charge for both the Group and Company in the year (2006:£ nil). Details of net deferred tax assets not recognised are set out below.

	2007 £	2006 £
Group		
Tax losses	(2,213,442)	(1,472,355)
Company		
Tax losses	(342,962)	(390,043)

Deferred tax assets have not been recognised in respect of unprovided deferred tax items because it is not probable that future taxable profit will be available to utilise these temporary differences.

23 Trade and other payables – Group

	2007 £	2006 £
Trade payable	1,579,855	1,248,505
Bank loan	–	428,898
Tax and social security payable	276,826	378,251
Other payables	–	336,084
Accruals and deferred income	274,982	163,304
	2,131,663	2,555,042

Tax and social security payable includes National Insurance on share based payments of £229,358 (2006 : £73,920)

24 Trade and other payables – Company

	2007 £	2006 £
Trade payable	179,362	2,524
Tax and social security payable	242,176	82,597
Accruals and deferred income	166,424	149,383
	587,962	234,504

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Tax and social security payable includes National Insurance on share based payments of £229,358 (2006: £73,920)

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

25 Borrowings

	2007 £	2006 £
Group		
Current		
Bank Loans	447,971	459,310
Non-current		
Convertible loan note	2,415,644	–
Bank loan	593,413	458,411
Other loans (see Note 37(b))	459,053	–
	3,468,110	458,411
Company		
Non-current		
Convertible loan note	2,415,644	–
Group non-current borrowings are repayable as follows:		
In the second year	3,468,110	458,411
In the third to fifth years inclusive	–	–
	3,468,110	458,411

The Directors consider that the carrying amount of the bank and other loans approximates to their fair value. The weighted average interest rate of the bank loan is 4.8% (2006: 4.6%).

Convertible loan note

On 14 November 2007 the Company issued 2,500,000 £1 loan notes at par to finance further working capital requirements of the Group. The term of the loan notes is three years and the debt is unsecured on any specific assets. The conversion price into ordinary shares is fixed at 20p and interest is calculated at a fixed 8.5% to be paid bi-annually on 1 January and 1 July each year.

The Company has the option to settle the accrued interest in shares, and should this be exercised, a 10% discount on market value would apply. The note holders can elect to convert the note at any time. The Company may elect to convert the notes at any time after the first anniversary of the loan notes being issued, if the value of the share is equal to or above 20p.

	£
Nominal value of the loan notes issued	2,500,000
Equity component (see Note 29)	(84,356)
Total liability component at 31 December 2007	2,415,644

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

26 Provisions – Group

Decommissioning	£
At 1 July 2005	–
Provisions made during the year	121,075
At 1 January 2007	121,075
Provisions made during the year	246,552
Disposals	(121,075)
At 31 December 2007	246,552

The amount provided for decommissioning costs represents the Group's share of site restoration costs for the Frosinone and Fiume Arrone projects in Italy. The decommissioning liabilities in 2006 were in respect of the producing Ayoluengo field acquired in October 2005. The most recent estimate is that the year-end provision will become payable in 2008/9.

27 Called up share capital

	2007 £	2006 £
Authorised		
10,000,000,000 ordinary shares of 0.10p each	10,000,000	10,000,000
Allotted, called up and fully paid		
304,782,042 (2006: 264,824,686) ordinary shares of 0.10p each	304,781	264,825

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

27 Called up share capital *(continued)*

Movements in called up share capital	Number of shares
As at 1 July 2005	208,518,168
Shares issued in lieu of services provided	1,011,816
Shares issued on acquisition of PEOS AG	1,175,100
Shares issued on acquiring 50% of Northern Petroleum Exploration Limited	370,370
Shares issued on acquisition of Teredo Oils Limited	1,500,000
Shares issued on acquisition of Millennium International Resources Corporation Limited	678,906
Shares issued for cash	100,000
Shares issued to GTO Limited Joint Venture for funding exploration	814,941
Shares issued for acquisition of 25% interest of La Lora field by NPEL	562,967
Exercise of options for cash	50,092,418
At 31 December 2006	264,824,686
Shares issued on acquisition of Nemmoco Slovenia Corporation Limited	680,205
Placing of new shares	25,000,000
Exercise of options for cash	12,885,743
Shares issued on acquisition of additional 10% of Frosinone Licence	1,391,408
At 31 December 2007	**304,782,042**

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

28 Reconciliation of movements in Group Equity

	Share capital £	Equity reserve £	Share premium £	Share based payment reserve £	Translation reserve £	Retained earnings £	Total parent equity £	Minority interest £	Total equity £
Balance at 1 July 2005	208,518	–	5,020,634	290,600	–	(691,732)	4,828,020	369	4,828,389
Loss for the period	–	–	–	–	–	(2,154,007)	(2,154,007)	–	(2,154,007)
Assets available for sale	–	–	–	–	–	19,210,	19,210	–	19,210
Issue of shares during the period	56,307	–	2,998,767	–	–	–	3,055,074	–	3,055,074
Share issue costs	–	–	(75,615)	–	–	–	(75,615)	–	(75,615)
Exchange differences on translation of foreign operations	–	–	–	–	(4,472)	–	(4,472)	–	(4,472)
Share based payment	–	–	–	502,460	–	–	502,460	–	502,460
Balance at 1 January 2007	264,825	–	7,943,786	793,060	(4,472)	(2,826,529)	6,170,670	369	6,171,039
Loss for the year	–	–	–	–	–	(2,129,982)	(2,129,982)	–	(2,129,982)
Issues of shares during the year	39,956	–	5,313,042	–	–	–	5,352,998	–	5,352,998
Share issue costs	–	–	(189,750)	–	–	–	(189,750)	–	(189,750)
Issue of convertible loan notes	–	84,356	–	–	–	–	84,356	–	84,356
Exchange differences on translation of foreign operations	–	–	–	–	153,537	–	153,537	–	153,537
Share based payment	–	–	–	398,117	–	–	398,117	–	398,117
Balance at 31 December 2007	**304,781**	**84,356**	**13,067,078**	**1,191,177**	**149,065**	**(4,956,511)**	**9,839,946**	**369**	**9,840,315**

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

29 Reconciliation of movements in Company Equity

	Share capital £	Equity reserve £	Share premium £	Share based payment reserve £	Retained earnings £	Total Equity
Balance at 1 July 2005	208,518	–	5,020,634	290,600	(704,450)	4,815,302
Loss for the period	–	–	–	–	(1,462,154)	(1,462,154)
Issue of shares during the period	56,307	–	2,998,767	–	–	3,055,074
Share issue costs	–	–	(75,615)	–	–	(75,615)
Share based payments	–	–	–	502,460	–	502,460
Assets available for sale	–	–	–	–	19,210	19,210
Balance at 1 January 2007	264,825	–	7,943,786	793,060	(2,147,394)	6,854,277
Loss for the year	–	–	–	–	(1,074,530)	(1,074,530)
Issue of shares during the year	39,956	–	5,313,042	–	–	5,352,998
Share issue costs	–	–	(189,750)	–	–	(189,750)
Issue of convertible loan notes	–	84,356	–	–	–	84,356
Share based payments	–	–	–	398,117	–	398,117
Balance at 31 December 2007	**304,781**	**84,356**	**13,067,078**	**1,191,177**	**(3,221,924)**	**11,425,468**

30 Operating lease arrangement

At the balance sheet date, the Group had no outstanding commitments for future minimum lease payments under non-cancellable operating leases. The outstanding arrangements in 2006, which fell due as set out below, represented rentals payable for certain office properties.

	2007 £	2006 £
Within one year	–	21,000
In the second to fifth year inclusive	–	–
After five years	–	–
	–	21,000

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

31 Acquisition of Subsidiaries

(a) Nemmoco Slovenia Corporation

On 7 March 2007 the Group acquired 100 per cent of the issued share capital of Nemmoco Slovenia Corporation.

	Book value £	Fair value adjustments £	Fair value £
Net assets acquired:			
Plant, property and equipment	116	–	116
Exploration and appraisal assets	3,142,629	(3,018,681)	123,948
Receivables	2,408	–	2,408
Cash	(25,056)	–	(25,056)
Payables	(610)	–	(610)
	3,119,487	(3,018,681)	100,806
Goodwill			–
Total consideration			100,806
Satisfied by:			
680,205 ordinary shares in Ascent Resources plc at 14.8p per share (see Note 27)			100,806
Net cash outflow arising on acquisition:			
Cash and cash equivalents acquired			(25,056)

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

31 Acquisition of Subsidiaries *(continued)*

(b) PetroHungaria kft

On 6 December 2007 the Group acquired an additional 2 per cent of the issued share capital of PetroHungaria kft.

	Book value £	Fair value adjustments £	Fair value £
Net assets acquired:			
Plant, property and equipment	4,161	–	4,161
Exploration and appraisal assets	15,294	121,900	137,194
Receivables	365	–	365
Cash and cash equivalents	6,240	–	6,240
Payables	(47,100)	–	(47,100)
	(21,040)	121,900	100,860
Goodwill			–
Total consideration			100,860
Satisfied by cash:			100,860
Net cash outflow arising on acquisition:			
Cash consideration			(100,860)
Cash and cash equivalents acquired			6,240
			(94,620)

(C) Other subsidiaries acquired

During the year the Group acquired 100 per cent of the issued share capital of Compania Petrolifera de Rocamundo sl, ZalaGasCo kft and Ascent Netherlands BV. These companies were all newly registered in the year. Total acquisition cost was £30,674.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

32 Disposal of invesments

a) On 1 November 2007 the Group completed the disposal of its interest in Compania Petrolifera de Sedano sl

The effect of the disposal in the consolidated income statement of the Group is:

	2007 £
Revenue	–
Expense	1,027,226
Loss before tax	1,027,226
Tax	–
Loss after tax	1,027,226

The gain on sale is summarised below:

	2007 £
Total proceeds received on disposal (includes shares of £560,000)	1,534,218
Cost of disposal	(852)
Net assets on disposal	(112,038)
Total gain on disposal	1,421,328

The effect of the disposal on the cash flow of the Group is:

	£
Proceeds from disposal	974,218
Expenses of disposal	(852)
Cash balance included in disposal	(29,672)
Net proceeds on disposal	943,694

b) On 1 January 2007 the Group completed the disposal of its interest in Millennium International Corporation Limited

There is no net effect of the disposal in the consolidated income statement of the Group.

The gain on sale and cash flow effect is summarised below:

	2007 £
Cash proceeds on disposal	1,323,539
Net assets on disposal	(651,868)
Total gain on disposal	671,671
The effect of the disposal on the cash flow of the Group is:	1,323,539

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

33 Cash used in operations – Group

	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Loss before tax	(2,129,982)	(2,154,007)
Depreciation charge	570	26,110
Increase in receivables	(687,753)	(908,410)
(Decrease)/increase in payables	(350,069)	1,503,910
Increase in inventories	(196,087)	(450,773)
Profit on sale of tangible fixed assets	(3,447)	–
Profit on sale of investments held for sale	–	(57,858)
Profit on sale of subsidiary	(2,113,100)	–
Revaluation of quoted securities	60,000	–
Impairment of asset held for sale	148,217	–
Impairment of exploration expenditure	1,330,605	242,708
Amortisation of decommissioning costs	4,277	10,281
Share-based payment charge	398,117	576,380
Exchange differences	(648,677)	(5,247)
Cash used in operations	(4,187,329)	(1,216,906)
Tax paid	–	–
Financial income	(106,834)	(129,117)
Financial expense	122,965	11,514
Net cash used in operating activities	(4,171,198)	(1,334,509)

34 Cash used in operations – Company

	Year ended 31 December 2007 £	18 months ended 31 December 2006 £
Loss before tax	(1,074,530)	(1,459,367)
Depreciation charge	1,514	–
Decrease/(increase) in receivables	12,201	(69,502)
Increase in payables	353,453	87,645
Profit on sale of subsidiary	(691,773)	–
Share based payment	398,117	576,380
Revaluation of quoted securities	60,000	–
Cash used in operations	(941,018)	(864,844)
Tax paid	–	–
Financial income	(34,757)	(119,066)
Financial expense	39,395	30,322
Net cash used in operating activities	(936,380)	(953,588)

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

35 Exploration expenditure commitments

In order to maintain an interest in the oil and gas permits in which the Group is involved, the Group is committed to meet the conditions under which the permits were granted and the obligations of any joint operating agreements. The timing and the amount of exploration expenditure commitments and obligations of the Group are subject to the work programmes required as per the permit commitments. This may vary significantly from the forecast programmes based upon the results of the work performed. Drilling results in any of the projects may also result in variation of the forecast programmes and resultant expenditure. Such activity may lead to accelerated or decreased expenditure. It is the Group's policy to seek joint operating partners at an early stage to reduce its commitments.

The Group has the following exploration and expenditure commitments:

	2007 £	2006 £
Not more than one year	2,174,769	3,386,000
Between one and two years	327,547	1,000,000
	2,502,316	4,386,000

36 Contingent liabilities

At the balance sheet date there were no contingent liabilities (2006: £nil) in respect of litigation, overseas taxes and guarantees.

37 Related party transactions

(a) Group Companies

Transactions and inter-company balances between the Company and its subsidiaries have been eliminated on consolidation. A summary of transactions in the year and the year end balances follows.

Transactions in the year	Cash advances 2007 £	Services provided by Ascent Resources plc 2007 £	Cash advances 18 months ended 31 December 2006 £	Services provided by Ascent Resources plc 18 months ended 31 December 2006 £
Subsidiaries				
Ascent Production Ltd	(413,604)	–	478,214	–
Teredo Oils Ltd	2,941	21,266	33,783	151,385
Borona Holdings Ltd	–	172,800	–	17,728
PetroHungaria kft	474,675	329,142	1,072,929	270,213
Ascent Italia srl	4,364,984	1,186,341	1,071,003	560,443
SEAG Borona JV	–	8,352	–	93,147
Ascent Drilling Ltd	429,673	14,747	–	–
PEOS AG	–	1,192	–	6,410
Ascent Gabon Ltd	(48,303)	12,688	–	36,760
Ascent Netherlands BV	(299,958)	583,093	–	–
Nemmoco Slovenia Corporation	82,755	99,805	–	–
Held for resale				
Ayoopco Ltd	220,731	–	(220,731)	–
	4,813,894	2,429,426	2,435,198	1,136,086

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

37 Related party transactions *(continued)*

Balances at the year end	Cash advances 2007 £	Trading balance 2007 £	Cash advances 2006 £	Trading balance 2006 £
Subsidiaries				
Ascent Production Ltd	64,610	–	478,214	–
Teredo Oils Ltd	36,724	172,651	33,783	151,385
Borona Holdings Ltd	–	190,528	–	17,728
PetroHungaria kft	1,547,604	599,355	1,072,929	270,213
Ascent Italia srl	5,435,987	1,746,784	1,071,003	560,443
SEAG Borona JV	–	101,499	–	93,147
Ascent Drilling Ltd	429,673	14,747	–	–
PEOS AG	–	7,602	–	6,410
Ascent Gabon Ltd	(48,303)	49,448	–	36,760
Ascent Netherlands BV	(299,958)	583,093	–	–
Nemmoco Slovenia Corporation	82,755	99,805	–	–
Held for resale				
Ayoopco Ltd	–	–	(220,731)	–
	7,249,092	3,565,512	2,435,198	1,136,086

(b) Directors

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of Ascent Resources plc. Information regarding their compensation is given in Note 6.

NSJ Moore

Nigel Moore is a Non-Executive Director of JKX Oil and Gas plc ('JKX'), a company that is a joint-venture partner of Ascent Resources Italia srl. Throughout the year JKX has traded on commercial terms set out in the joint-venture agreement. The value of work performed in respect of exploration costs on the Arrone-1 project is £58,212 (2006: £nil) and the amount owed to JKX at the year end amounted to £14,346 (2006: £nil).

MDJ Groom

Malcolm Groom owns a 50% shareholding in Ascent Drilling Limited and at the year-end date had an outstanding loan balance of £459,053 (€625,000) due from Ascent Drilling Limited. The loan is unsecured, has no fixed term and is interest free.

Ascent Drilling Limited is a new company and has been treated as a new subsidiary company (see Note 16). The company holds an investment in Perazzoli Drilling srl, representing 22.5% of the share capital. The company made no sales and incurred a loss of £20,078 in the year to 31 December 2007.

(c) Other related party transactions

Perazzoli Drilling srl

During the year Ascent Resources Italia srl purchased drilling rig services valued at £44,069 (2006: £nil) from the Group associate company, Perazzoli Drilling srl ('Perazzoli'). At the year end the outstanding balance payable by Ascent Resources Italia srl to Perazzoli was £44,069 (2006: £nil).

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

38 Post balance sheet events

On 14 April 2008 the Company agreed to divest an interest in two of its Hungarian gas development projects to Leni Gas and Oil plc ('Leni Gas'). Leni Gas purchased a 7.27% interest in PetroHungaria kft and a 14.54% interest in ZalaGasCo kft for a cash consideration of €2 million.

PetroHungaria kft owns a 100% interest in the Penészlek gas development project in the Nyírség exploration permits in eastern Hungary, while ZalaGasCo kft owns a 50% interest in the Bajcsa gasfield redevelopment project in Western Hungary. Ascent Resources plc has a 45.23% interest in the Penészlek project and a 38.73% interest in the Bajcsa project.

39 Share based payments

The Company has provided the Directors, certain employees and institutional investors with share options and warrants ('options'). Options are exercisable at a price equal to the closing market price of the Company's shares on the date of grant. The exercisable period varies and can be up to four years after which time the option lapses.

Details of the share options outstanding during the year are as follows:

	2007 Number of share options	Weighted average exercise price
Outstanding at the beginning of the period	37,573,106	13.55p
Granted during the period	5,200,000	27.29p
Exercised during the period	(12,885,743)	12.01p
Expired during the period	(137,363)	12.00p
Outstanding at the end of the period	29,750,000	16.80p
Exercisable at the end of the period	**28,925,000**	**16.91p**

	2006 Number of share options	Weighted average exercise price
Outstanding at the beginning of the period	61,692,418	12.31p
Granted during the period	25,973,106	17.37p
Forfeited during the period	–	–
Exercised during the period	(50,092,418)	5.00p
Expired during the period	–	–
Outstanding at the end of the period	37,573,106	13.55p
Exercisable at the end of the period	36,073,106	13.65p

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

39 Share based payments *(continued)*

The value of the options is measured by the use of a binomial pricing model. The inputs into the binomial model were as follows:

	2007	2006
Share price at grant date	9 – 20p	5 – 13.4p
Exercise price	11.75 – 30p	5 – 40.0p
Volatility	100%	49.2%
Expected life	3 – 5 years	1 – 5 years
Risk free rate	4.68 – 5.63%	5%
Expected dividend yield	0%	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life is the expiry period of the options from the date of issue.

The Group recognised total expenses of £398,117 and £502,460 related to equity-settled share-based payment transactions in 2007 and 2006.

The Group recognised a cash liability of £155,438 (2006: £73,920) in respect of national insurance liability arising on share based payments.

40 Financial risk management

Group and Company

a) Credit risk

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board operates a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and conditions are offered. The Group does not operate a credit policy in relation to its investment in liquid securities, given that it only holds one such investment. The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2007, no guarantees were outstanding (31 December 2006: none).

b) Currency risk

The functional currency for the Group's operating activities is the Pound Sterling and for drilling activities it is the Euro and Hungarian Forint. The Group's objective in managing currency exposures arising from its net investments overseas is to maintain a low level of borrowings. The Group has not hedged against currency depreciation but continues to keep the matter under review.

c) Price risk

The Group does not operate a price-risk policy in relation to its investment in liquid securities, given that it only holds one such investment.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

40 Financial risk management *(continued)*

d) Interest rate risk

At 31 December 2007, the Group had:

- Euro cash deposits at a sterling equivalent of: £898,716 (2006: £1,790,934),
- Hungarian Forint cash deposits at a sterling equivalent of: £305,317 (2006: £145,491); and
- UK Pound Sterling cash deposits of: £119,660 (2006: £4,619).

At 31 December 2007 the Group also had a Euro bond deposit at a sterling equivalent of: £1,117,784 (2006: £1,009,965).

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities, was as follows:

	Weighted Average Floating Interest Rate %	Amount £
Financial assets (sterling equivalent)		
Cash in Euro	4.2	898,716
Cash in Sterling	2.5	119,600
Cash in Hungarian Forints	2.7	305,317
Euro bond deposit	4.1	1,117,784

Financial liabilities

At 31 December 2007, the Group had a loan of £2,500,000 at a fixed rate of 8.5% and a Euro loan at sterling equivalent of £1,041,385 (2006: £1,346,620) at a fixed interest rate of 4.8% (2006: 4.6%).

e) Capital management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to wider financial risks as the business develops.

41 Errors under previous GAAP

In preparing the condensed consolidated interim financial information, management have revisited the assumptions and treatment of the Group's accounts. As a result, management have corrected several errors under previous GAAP. The impact of which is summarised below for 31 December 2006.

i) In respect of the acquisitions of Ascent Resources Italia srl on 19 July 2005 and Teredo Oils Limited on 4 October 2005, management inappropriately assessed the fair values of the assets, liabilities and contingent liabilities acquired as being equal to the previous carrying value. Management have determined that this was an inappropriate basis and have identified the assets and liabilities acquired and attributed a fair value to them on a line by line basis. The resulting effect is to attribute the previously recorded negative goodwill to assets and liabilities acquired. The net effect of these adjustments is to increase net assets by £142,000 as at 31 December 2006 and to decrease the Group's retained earnings for the period ended 31 December 2006 by £142,000 being the reversal of the negative goodwill previously amortised through the income statement. In addition the charges associated with the positive goodwill have been reversed out.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

41 Errors under previous GAAP *(continued)*

ii) Management identified consideration received in March 2007 in respect of the disposal of the remaining licence interest disposed of by Ascent Gabon Limited in July 2005 amounting to £24,000. The consideration was not accounted for in the 18 months ended 31 December 2006 in error.

iii) In the course of their investigation management have reallocated expenses between administration costs and cost of sales to ensure that the presentation is consistent to prior years and most truly represent the business, there is no impact on retained earnings or equity as a result of this adjustment.

The following tables identify the impact on the previously reported numbers.

Restated Consolidated Profit and Loss Account for the 18 month period ended 31 December 2006

	18 months ended 31 December 2006 £	Errors under previous GAAP £	Ref	18 months ended 31 December 2006 £
Group Turnover	384,499	–		384,499
Cost of sales	(320,343)	(549,872)	iii	(870,215)
Gross profit/(loss)	**64,156**	**(549,872)**		**(485,716)**
Administrative expenses before amortisation of goodwill	(1,652,726)	307,164	iii	(1,345,562)
Impairment of exploration assets	(242,708)	242,708	iii	–
Amortisation of goodwill	142,071	(142,071)	i	–
Share based payments	(576,380)	–		(576,380)
Other operating income	139,180	23,881	ii	163,061
Group operating loss	**(2,126,407)**	**(118,190)**		**(2,244,597)**
Interest receivable	129,117	–		129,117
Interest payable	(11,514)	–		(11,514)
Loss on ordinary activities before taxation	**(2,008,804)**	**(118,190)**		**(2,126,994)**
Taxation	–	–		–
Loss on ordinary activities after taxation	**(2,008,804)**	**(118,190)**		**(2,126,994)**
Minority interest	30,678	–		30,678
Loss for the period	**(1,978,126)**	**(118,190)**		**2,096,316)**

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

41 Errors under previous GAAP *(continued)*

Restated Consolidated Balance Sheet as at 31 December 2006

	31 December 2006 £	Errors under previous GAAP £	Ref	31 December 2006 (restated) £
Fixed assets				
Intangible assets	4,807,400	(699,276)	i	4,108,124
Decommissioning asset	110,794	–		110,794
Goodwill	(863,369)	863,369	i	–
Tangible assets	198,215	(21,427)	i	176,788
	4,253,040	**142,666**		**4,395,706**
Current assets				
Current assets investments	855,786	–		855,786
Stocks	450,773	–		450,773
Debtors	2,097,687	23,881	ii	2,121,568
Cash at bank and in hand	1,941,044	–		1,941,044
	5,345,290	**23,881**		**5,369,171**
Creditors: amounts falling due within one year	(2,196,384)	(284,737)	i	(2,481,121)
Net current assets	3,148,906	(260,856)		2,888,050
Total assets less current liabilities	**7,401,946**	**(118,190)**		**7,283,756**
Creditors: amounts falling due after one year	(917,722)	–		(917,722)
	6,484,224	**(118,190)**		**6,366,034**
Provision for liabilities and charges	(194,995)	–		(194,995)
Net assets	**6,289,229**	**(118,190)**		**6,171,039**
Capital and reserves				
Called up share capital	264,825	–		264,825
Share premium account	7,943,786	–		7,943,786
Share based payment reserve	793,060	–		793,060
Profit and loss account	(2,682,133)	(118,190)	i, ii	(2,800,323)
Minority interest	(30,309)	–		(30,309)
Shareholder's funds	**6,289,229**	**(118,190)**		**6,171,039**

No restatement required for the Company Balance Sheet as at 31 December 2006.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

42 Transition to IFRS

Ascent Resources Plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2006. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 31 December 2006 to the revised net assets and profit under IFRS as reported in these financial statements. There were no reconciling items between UK GAAP and IFRS at the transition date, being 1 July 2005.

Group

	Notes	Restated previous GAAP £	Effect of transition to IFRS £	IFRS £
Reconciliation of equity at 31 December 2006				
Non-current assets				
Intangible assets				
– exploration costs		4,108,124	–	4,108,124
– decommisioning costs		110,794	–	110,794
Tangible assets		176,788	–	176,788
Current assets				
Subsidiary undertakings held for resale		805,304	–	805,304
Inventories		450,774	–	450,774
Trading investments		50,482	–	50,482
Trade and other receivables		2,121,568	–	2,121,568
Cash and cash equivalents		1,941,044	–	1,941,044
Current liabilities				
Trade and other payables		(2,481,122)	–	(2,481,122)
Non-current liabilities				
Bank loans		(917,722)	–	(917,722)
Provisions		(194,995)	–	(194,995)
Net assets		**6,171,039**	**–**	**6,171,039**
Equity				
Attributable to:				
Minority interest	H	(30,309)	30,678	369
Share capital		264,825	–	264,825
Share premium account		7,943,786	–	7,943,786
Share based payment reserve		793,060	–	793,060
Translation reserves	D	(12,275)	7,803	(4,472)
Retained earnings	ABC	(2,788,048)	(38,481)	(2,826,529)
		6,171,039	**–**	**6,171,039**

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

42 Transition to IFRS *(continued)*

Company

	Notes	previous GAAP £	Effect of transition to IFRS £	IFRS £
Reconciliation of equity at 31 December 2006				
Non-current assets				
Intangible assets				
– exploration costs		397,211	–	397,211
– Investment in subsidiaries	G	5,313,990	(3,571,284)	1,742,706
– Intercompany receivables	G	–	3,571,284	3,571,284
Current assets				
Subsidiary undertakings held for resale	F	707,569	(50,482)	657,087
Trading investments	F	–	50,482	50,482
Trade and other receivables		124,797	–	124,797
Cash and cash equivalents		545,214	–	545,214
Current liabilities				
Trade and other payables	E	(160,584)	(73,920)	(234,504)
Non-current liabilities				
Provisions	E	(73,920)	73,920	–
Net assets		**6,854,277**	**–**	**6,854,277**
Equity				
Attributable to:				
Share capital		264,825	–	264,825
Share premium account		7,943,786	–	7,943,786
Share based payment reserve		793,060	–	793,060
Retained earnings		(2,147,394)	–	(2,147,394)
		6,854,277	**–**	**6,854,277**

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

42 Transition to IFRS *(continued)*

Reconciliation of the consolidated loss for the period ended 31 December 2006

	Notes	Restated previous GAAP £	Effect of transition to IFRS £	IFRS £
Revenue		384,499	–	384,499
Cost of sales		(870,215)	–	(870,215)
Gross loss		(485,716)	–	(485,716)
Other operating income		85,993	–	85,993
Administrative expenses	A	(1,345,562)	(7,803)	(1,353,365)
Share based payments		(576,380)	–	(576,380)
Operating loss		(2,321,665)	(7,803)	(2,329,468)
Interest receivable		129,117	–	129,117
Interest payable		(11,514)	–	(11,514)
Profit on sale of investments held for sale		57,858	–	57,858
Other gains and losses	B	19,210	(19,210)	–
Loss before taxation from continuing operations		**(2,126,994)**	**(27,013)**	**(2,154,007)**
Taxation		–	–	–
Loss for the period attributable to equity shareholders		**(2,126,994)**	**(27,013)**	**(2,154,007)**
Profit attributable to minority interests		30,678	(30,678)	–
Loss for the period		**(2,096,316)**	**(57,691)**	**(2,154,007)**

Explanation of adjustments to equity

A IFRS 3 – Positive goodwill must not be amortised. Previously under UK GAAP, positive goodwill was amortised.

B IFRS 5 – Subsidiaries held for re-sale should be consolidated and carried at lower of carrying value and fair value less costs to sell. Previously under UK GAAP, subsidiaries held for re-sale were not consolidated and were carried at cost.

C IAS 39 – The bond held with the Cento Bank Italia which is due in more than one year must be measured at each reporting date at amortised cost. Previously under UK GAAP, this was carried at nominal value.

D IAS 21 – An average rate is used to translate the income statements of foreign subsidiaries, where as previously under UK GAAP, the foreign subsidiaries were translated at closing rate.

E IFRS 2 – Although, this is identical to FRS 20, the share option charge was not posted when the interim financial statements for the period ended 30 June 2006 were issued.

Notes to the Financial Statements *(continued)*

for the year ended 31 December 2007

42 Transition to IFRS *(continued)*

F IAS 39 – Investment in Afren Plc will be classified as a financial instrument available for sale, and will have to be carried at fair value. Previously under UK GAAP, this was held at cost.

G IAS 1 – Intercompany loans should be re-classified as non-current receivables.

H Under international accounting standards, losses that exceed minority interest in the equity of a subsidiary may create a debit balance on minority interests only if the minority has a binding obligation to fund the losses.

Cash flow statement

The Group's consolidated cash flow statements are presented in accordance with IAS 7. The statements present substantially the same information as that required under UK GAAP, with the following principle exceptions:

1. Under UK GAAP, cash flows are presented under nine standard headings, whereas IFRS requires the classification of cash flows resulting from operating, investing and financing activities.

2. The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, which include cash and short term liquid investments. Under UK GAAP, cash comprises cash in hand and deposits repayable on demand.

Notice of Annual General Meeting

Notice is hereby given that the third Annual General Meeting of Ascent Resources plc (the "Company") will be held at the offices of Sprecher Grier Halberstam LLP, 5th Floor, One America Square, Crosswall, London EC3N 2SG on Tuesday 22nd July 2008 at 10 am for the following purposes:-

Ordinary Business

1. To receive and adopt the report of the directors and the financial statements for the year ended 31st December 2007 and the report of the auditors thereon.
2. To re-appoint, as director of the Company, Mr A Sinclair, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-election.
3. To re-appoint, as a director of the Company, Mr P Heren, who retires in accordance with Article 25.3 of the Company's Articles of Association and offers himself for re-election.
4. To re-appoint, as director of the Company, Mr J P Kenny, who retires in accordance with Article 25.3 of the Company's Articles of Association and offers himself for re-election.
5. To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:-
   That KPMG Audit Plc be appointed auditors of the Company in place of the retiring auditors to hold office until the conclusion of the next general meeting at which accounts are laid before the company and that their remuneration be determined by the directors.

Special Business

6. To consider, and if thought fit, to pass the following Resolution which is proposed as an Ordinary Resolution:-

   THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act"), in substitution for all previous powers granted to them, to exercise all the powers of the Company to allot and make offers to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £101,492.42 such authority shall, unless previously revoked or varied by the Company in general meeting, expire on the conclusion of the Annual General Meeting of the Company to be held in 2009 provided that the Company may, at any time before such expiry, make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.

7. To consider, and if thought fit, to pass the following Resolution which is proposed as a Special Resolution:-

   THAT the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by Resolution 6 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be in substitution for any previous powers conferred on the Directors pursuant to the said Section 95 and shall be limited to:-

   (a) the allotment of equity securities in connection with an issue in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be practicable) to the respective number of Ordinary Shares in the capital of the Company held by them on the record date for such allotment, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange, in any territory; and

   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of further equity securities up to an aggregate nominal amount of £95,000.00;

provided that the power in this Resolution 7 shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the said Act after such expiry and the Directors may allot equity securities pursuant thereto as if the power conferred hereby had not expired.

BY ORDER OF THE BOARD
J M Bottomley,
Company Secretary

One America Square
Crosswall
London EC3N 2SG

23rd June 2008

Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Should you wish to appoint more than one proxy please return this form and attach to it a schedule detailing the names of the proxies you wish to appoint, the number of shares each proxy will represent and the way in which you wish them to vote on the resolutions that are to be proposed. To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be lodged at the offices of the Company's registrars, Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH by hand, or sent by post, so as to be received not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be).
2. The completion and return of a form of proxy will not preclude a member from attending in person at the meeting and voting should he wish to do so.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those members entered on the register of members at 10 am on 20th July 2008 shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of £0.001 each in the capital of the Company held in their name at that time. Changes to the register after 10 am on 20th July 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. Resolution 2 – Having been appointed since the last Annual General Meeting, Alan Sinclair must retire in accordance with Article 20.3 of the Company's Articles of Association, and being eligible is offering himself for re-appointment.
5. Resolutions 3-4 – Article 25.3 of the Company's Articles of Association require that one third of the directors of the Company who have held office since the last Annual General Meeting, must retire and, if they are eligible, may offer themselves for re-appointment.
6. Resolution 6 – As required by the Companies Act 1985, this resolution, to be proposed as an Ordinary Resolution, relates to the grant to the Directors of authority to allot unissued Ordinary Shares until the conclusion of the Annual General Meeting to be held in 2009, unless the authority is renewed or revoked prior to such time. In accordance with best practice, and if approved, this authority is limited to a maximum of 101,492,420 Ordinary Shares, which is equivalent to 33.3% of the issued share capital of the Company as at the date of this Notice.
7. Resolution 7 – Section 89(1) of the Companies Act 1985 requires that if the Directors decide to allot unissued Ordinary Shares in the Company the shares proposed to be issued be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. However, to act in the best interests of the Company the Directors may require flexibility to allot shares for cash without regard to the provisions of Section 89(1). Therefore this resolution, to be proposed as a Special Resolution, seeks authority to enable the Directors to allot equity securities up to a maximum of 95,000,000 Ordinary Shares, being equal to 31% of the Company's issued share capital, as at the date of this Notice. This authority expires at the conclusion of the Annual General Meeting to be held in 2009.

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Your Notes

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Your Notes

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ascent resources plc

OIL AND GAS EXPLORATION AND PRODUCTION COMPANY

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