ascent
resources plc

# Annual Review 2008
including Report & Financial Statement

OIL AND GAS EXPLORATION AND PRODUCTION COMPANY ascent resources plc

# Annual Report & Accounts 2008

## Contents

# Directors and Advisers

| | |
|---|---|
| Directors | John Patrick Kenny<br>Jeremy Eng<br>Simon Cunningham<br>Malcolm David John Groom<br>Jonathan Victor Lewis Legg<br>Nigel Sandford Johnson Moore |
| Secretary | John Michael Bottomley |
| Registered office | One America Square<br>Crosswall<br>London EC3N 2SG |
| Nominated Adviser and Broker | Cenkos Securities plc<br>6.7.8 Tokenhouse Yard<br>London EC2R 7AS |
| Co-Broker | Fox-Davies Capital<br>Whitefriars House<br>Carmelite Street<br>London EC4Y 0BS |
| Auditors | KPMG Audit Plc<br>20 Farringdon Street<br>London EC4A 4PP |
| Solicitors | Sprecher Grier Halberstam LLP<br>One America Square<br>Crosswall<br>London EC3N 2SG |
| Bankers | Barclays Bank<br>Level 27<br>1 Churchill Place<br>London E14 5HP |
| Financial PR | St Brides Media and Finance<br>38 Bow Lane<br>London EC4M 9AY |
| Share Registry | Computershare Investor Services PLC<br>The Pavilions<br>Bridgwater Road<br>Bristol BS13 8AE |
| Company’s registered number | 05239285 |

# Chairman's Statement

This has been an eventful period for the Company as we continue to move our business forward and mature our portfolio, encompassing over 20 oil and gas production, exploration and appraisal projects across Europe.

In spite of these uncertain economic times, I am pleased to report that Ascent has performed well this year. The recent period has been distinguished by knock-on effects from the global financial crisis on the wider economy, resulting in what has been a difficult time for many companies operating in the oil and gas sector. In spite of this, the Company has been able to draw on its experience and skills-base to advance its portfolio and expand its activities.

Our established strategy of participating in low cost onshore assets with high upside potential gives us a degree of flexibility and mobility that has proved invaluable given the recent fall in commodity prices. Indeed, the diversity of our portfolio has become one of our key strengths in such a volatile market. The signing of an oil and gas asset management joint venture with San Severina has also enabled us to expand our activities and increase the potential for shareholder returns in other jurisdictions outside our traditional European focus area.

The Company intends to drill at least nine wells in the near future, and it is continuing development work on existing projects to increase production volumes and revenues.

In August 2008 we announced the commencement of gas production from the PEN-104 well in the Penészlek area of the Nyírség permits in Hungary. This project is demonstrative of our ability to carry out the full cycle of the exploration and production process, from the preliminary geological analysis and the acquisition of seismic through drilling and construction of facilities and, in due course, to gas sales. The project also highlighted our adaptability when, during a shutdown of production whilst repairs to a compressor were underway at Penészlek, the decision was made to sidetrack the well in order to increase substantially the amount of recoverable gas. Drilling of a complex sidetrack well commenced in March 2009 and was completed in April on schedule and below budget, with production recommencing shortly thereafter.

In Italy, we are currently drilling the Gazzata-1 gas exploration well in the Po Valley. The drilling contractor, Perazzoli, is 22.5% owned by Ascent and the drilling rig is a new build, low environmental impact, HH-200. The Gazzata-1 prospect is well defined by seismic data acquired and has the potential to be a valuable discovery for Ascent.

With a portfolio of European assets and a technical team with in-depth experience, both operationally and corporately, we have a structure that can be utilised to generate substantial additional shareholder value. To facilitate this, in October 2008, we announced the signature of an oil and gas management joint venture with San Severina. The joint venture was established to acquire minority positions and provide investment funding for producing and development or appraisal stage oil and gas projects. Ascent provides management services in return for carried equity positions in each project. San Severina have committed an initial tranche of €100 million. In addition to new acquisitions, they have the option of investing in Ascent's existing projects. As a new business line, this joint venture holds much potential.

In May 2009 GEM agreed to make available an equity line of credit of up to £5 million for Ascent. This facility adds an additional layer of flexibility and funding certainty to the Company's overall financing strategy.

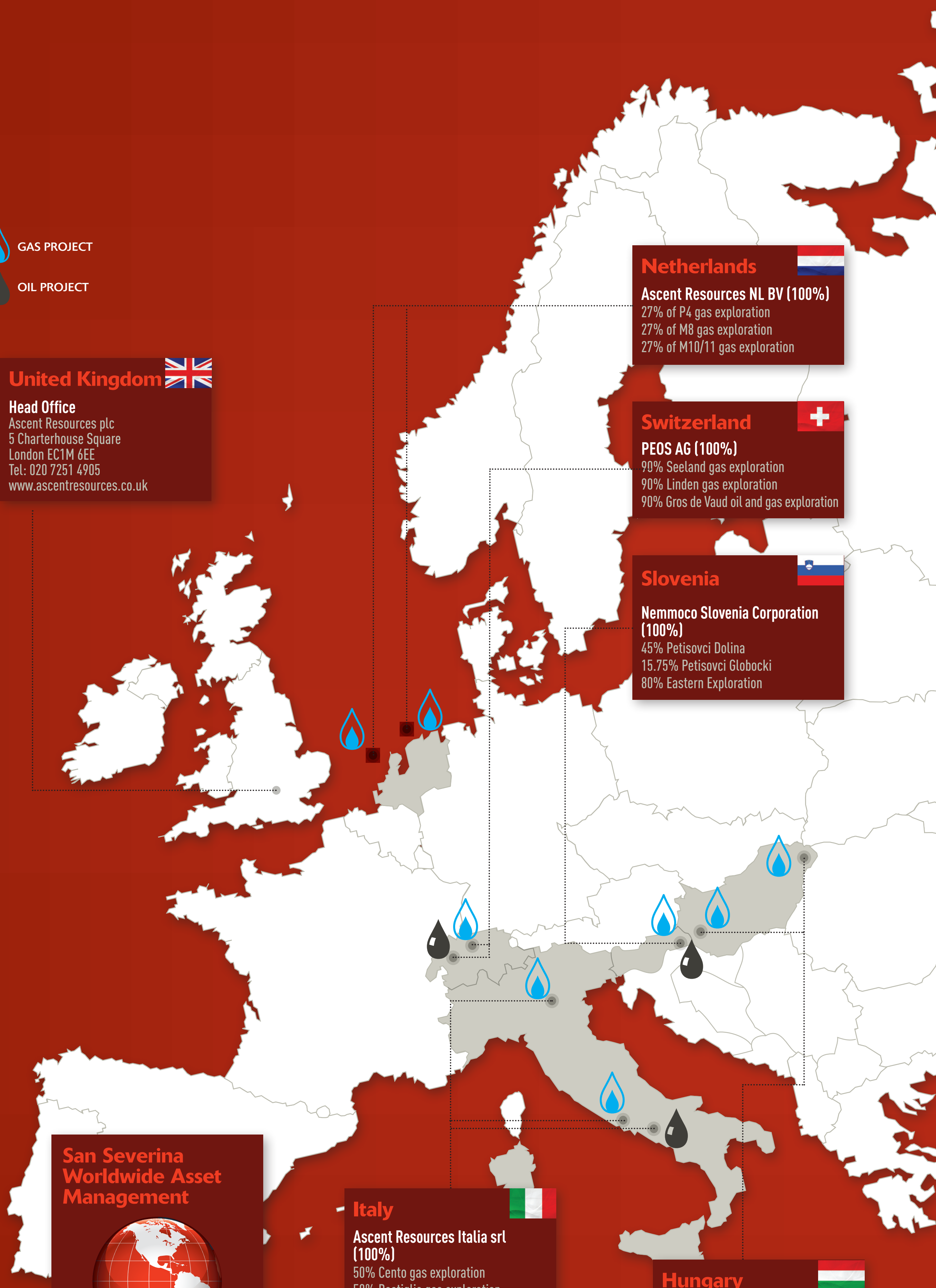
## Outlook

I believe that the Company is in a strong position moving forward. We have a diverse portfolio of assets with a good balance of development, appraisal and exploration projects. Development of these assets continues at a steady pace and our efforts have been bolstered with the new asset management relationship with San Severina, its commitment to our business model and faith in Ascent's management team to deliver quality returns.

Finally I would like to take this opportunity to thank everyone involved in the Company for their continued hard work and the part they have all played in moving Ascent further towards achieving its goals this year. We continue, as ever, to remain thorough in our assessment of future opportunities to generate genuine shareholder value and I look forward to updating you with further developments during, what I believe, will be a bright year for the Company.

**John Kenny**
*Chairman*

# 1




## United Kingdom

**Head Office**
Ascent Resources plc
5 Charterhouse Square
London EC1M 6EE
Tel: 020 7251 4905
www.ascentresources.co.uk

## 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%)**
90% 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
80% Eastern Exploration

## San Severina Worldwide Asset Management

80% San Severina
20% Ascent (carried)

## 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

# Operations Review

Ascent has continued in the improvement of the European portfolio, making significant progress in a number of its project areas. The portfolio of some twenty projects in Hungary, Slovenia, Italy, Switzerland and offshore the Netherlands is well balanced and this review, rather than by geographical location, will consider the assets according to their status as producing, development or redevelopment, appraisal and exploration. The Company also has an oil and gas asset management joint venture with Swiss Fund, San Severina, as well as a minority interest in Italian drilling contractor, Perazzoli Drilling.

## Development Projects

At the present time, the Company has one producing asset, the Penészlek PEN-104 gasfield. The primary objective of the Company is to move assets up the value chain and ultimately for those assets to join the ranks of the revenue generating Development and Production Projects.

### Hungary, Nyírség - Penészlek Area Development

(45.23% interest through PetroHungaria kft ('PetroHungaria'))

Discovered by the 2006 PEN-104 well drilled by the Ascent subsidiary PetroHungaria, this well commenced gas sales in August 2008. This small scale development involved the rehabilitation of an existing but abandoned pipeline and the construction of a purpose-made production and gas processing facility. In addition to the prematurely abandoned Penészlek gasfield which had produced gas between 1983 and 1989, there were two undeveloped gas discoveries, namely PEN-12 and PEN-9. In November 2008, PetroHungaria acquired a 100 square km 3-D seismic survey with a view to assessing these discoveries and to determine the remaining potential of the Penészlek gasfield.

The results of the 3-D seismic were very encouraging, not only did they confirm the potential of the PEN-9 and PEN-12 discoveries but also confirmed new prospects south of the PEN-12 discovery and south east of the PEN-102 suspended well drilled by PetroHungaria in 2006. The analysis of the structurally complex Penészlek gasfield is still on-going.

In January 2009 a compressor failure in the Hungarian gas supply infrastructure caused high pipeline pressure and consequently production was put on hold. Whilst repairs to the compressor were underway, the Company took the opportunity to sidetrack the PEN-104 well as 3-D seismic indicated that a 450m sidetrack would substantially increase the potential recoverable gas in addition to reducing the amount of water produced. The drilling of this sidetrack was completed very efficiently and production recommenced at PEN-104A sidetrack well in April.

It is intended to mobilise a rig into the area later this year to drill another three wells and permitting for these wells and for pipelines, in order to put them immediately on production, is underway.

The geological and geophysical work necessary to justify the redevelopment of the Penészlek gasfield and the exploration of the other prospects identified by the 3-D seismic is nearly complete.

## Redevelopment Projects

In the region formed by south west Hungary and south east Slovenia, Ascent is working on three redevelopment projects and in Italy's Latina Valley, Ascent is working with Pentex on the permitting and future acquisition of a shallow high resolution seismic survey as a precursor to a redevelopment of the Ripi oilfield.

### Hungary, Bajcsa Gasfield Redevelopment

(38.73% interest through a 77.46% holding in ZalaGasCo kft ('ZGC'))

The Bajcsa redevelopment project involves the rehabilitation of a low permeability gasfield that has been partially depleted by using conventional vertical wells. Following the completion of extensive geological, petrophysical, core analysis and reservoir engineering studies over the past 18 months a decision on the drilling of a horizontal well as a horizontal sidetrack of an existing well will be made shortly.

The project is a 50:50 joint venture with MOL RT, Hungary's leading oil and gas company, and the project is operated by them with technical input from ZGC.

As a redevelopment project, any production can be immediately transported to market through the existing facilities and pipelines with no investment required.

Work on the Bajcsa field has confirmed gas in at least two of seven identified reservoirs and considerable effort has been spent in the planning stages of this project in order to establish the most efficient way to develop

# Operations Review

these gasfields. It is now the Company's expectation that drilling will commence in the second half of 2009.

Following the analysis of the results of the first well, a number of similar wells are envisaged.

### Slovenia, Petişovci Redevelopment

(45% interest in Dolina and 15.75% interest in Globoki through Nemmoco Slovenia Corporation ('NSC'))

Operations in Slovenia are conducted through Ascent's wholly owned subsidiary NSC, which maintains an office in Lendava, the closest town to the projects. The Petişovci Dolina Project comprises a series of shallow oil and gas bearing reservoirs that have been extensively developed of the past 50 years. The Petişovci Globoki Project, which lies beneath the Petişovci Dolina, comprises deeper low permeability gas reservoirs that have been partially developed over the past 30 years.

The next phase of the work programme will be the acquisition of a 3-D seismic survey over these fields and extending to the south over nearby prospects. Some of the joint venture partners have declined to participate in this work and so NSC has a 75% participating interest with the remaining 25% with Geoenergo who is the concession holder.

Permitting of the seismic is in progress and operations are planned to commence during the summer.

Further work will be decided depending on the results of the seismic but the workover of existing wells and the drilling of new wells both for the deep gas and the shallow targets are both planned.

### Italy, Strangolagalli, Ripi Redevelopment

(50% interest through Ascent Resources Italia s.r.l)

The Ripi field is an oilfield which has produced oil for more than 50 years from shallow flysch sediments between 400m and 800m deep. The development of the field has never relied on seismic as the original wells were drilled before seismic was generally available.

Ascent and field operator Pentex Italia Ltd have designed and commissioned a special high resolution seismic survey which targets the shallow layers. The permitting for this survey is nearly complete and the acquisition is planned to commence shortly. The seismic will also provide information about the deeper underlying structures.

The results will determine the future work programme which is planned to include the deepening of existing wells, short horizontal recompletions as well as new shallow producers.

## Appraisal Projects

### Switzerland, Frienisberg-Seeland Permit

(90% interest through wholly owned subsidiary PEOS AG)

The Hermrigen-1 well was drilled by Elf Aquitaine in 1982 and discovered and tested gas in a secondary target. The well never reached its deeper primary target due to mechanical problems in the thick layer of Triassic salt and anhydrite that lie between. The well had been designed as an oil exploration well and Elf did not pursue the gas discovery.

Following extensive analysis of the geological and seismic data and further geochemical analyses, Ascent have designed an appraisal well for the original gas discovery which will also have the capability to drill down to the primary target of the Hermrigen-1 well. The well location has been presented to the local administration and, subject to construction consent, the drilling can proceed. It is planned to use the Perazzoli, low environmental impact, HH-200 drilling rig.

The Company is currently seeking co-venturers for this project.

### Italy, Latina Valley Frosinone Exploration Permit

(80% interest through Ascent Resources Italia s.r.l.)

Ascent acquired over 30km of 2-D seismic data in June 2008 following the drilling of Anagni-1 well, which penetrated a porous, reservoir quality carbonate structure. The interpretation and mapping of the seismic data has provided an appraisal well location for the Anagni-1 discovery. The appraisal well will be relatively shallow and having located a suitable drillsite, drilling can proceed as soon as the construction permits are issued.

The Anagni-1 well had extensive shows in Miocene and Cretaceous dolomitised carbonate formations but was abandoned after extensive testing had only produced very small quantities of oil in conjunction with large volumes of formation water.

### Netherlands, Blocks M10/M11.
(27% interest through Ascent Resources (Netherlands) B.V.)

Geological, geophysical and reservoir engineering studies have confirmed the prospectivity of a number of structures in addition to the two gas discovery wells which tested gas from Rotliegendes sandstones with the bock boundaries. Appraisal wells for the M10-1, the M11-1 or the nearby TEN-1 gas discoveries are being considered.

## Exploration Projects

### Italy, Po Valley, Cento and Bastiglia Exploration Permit.
(50% interest through Ascent Resources Italia s.r.l.)

Located in the prolific Po valley, the Gazzata-1 well, targeting the Gazzata gas structure, was spudded in May 2009 with drilling expected to be completed shortly. Gazzata-1 is funded and, under the terms of the farm-out agreement with Otto Energy Limited ('Otto'), funding for a second well will be provided if a significant discovery of hydrocarbons is made. Otto has taken a 50% interest in the project in return for paying the costs of one firm and one follow-up contingent well.

The region between Milan to the west and between Venice and Ravenna to the east is the second largest onshore gas producing area in Europe with some 130 oil and gasfields already discovered. The vast majority of these fields are in the Pliocene sandstones which are the target of the Gazzata-1 well.

Recent discoveries nearby have relied on the AVO (amplitude versus offset) processing of the seismic data and the Gazzata prospect seismic exhibits these attributes over a large area. The Italian gas market is strong and prices achieved are some of the highest in Europe. A discovery here would be particularly valuable to the Company.

The Cento and Bastiglia Permit is one of the largest in the region and there are a variety of different targets for the on-going exploration work for which additional seismic will need to be acquired.

### Hungary, Nyírség – Panhandle
(15.08% interest through wholly owned Ascent Hungary Ltd)

3-D seismic has already been acquired and processed for this exploration project in the western 'panhandle' of the Nyírség permits. The results indicate a prospect for which the well permitting process is on-going and for which a rig is expected to be available to drill in the 3rd Quarter 2009.

The prospect has multiple stacked targets in the Pannonian sands and Miocene tuffaceous sediments, the producing reservoirs in the nearby Penészlek area, and in the close-by Hajdúnánás discoveries a few kilometres to the north.

### Slovenia, East Slovenian Exploration Project
(40% interest through wholly owned Nemmoco Slovenia Corporation)

The East Slovenia exploration project lies to the north of the Petişovci oil and gas redevelopment projects. Encompassing 864 square km in three blocks within the Pomurje Regional Exploration Area, some 65 exploration wells have been drilled in the past 50 years with nearly half of them reporting good shows of oil or gas.

The acquisition of a 200 square km seismic survey is in tender and permitting is underway. It is expected that the acquisition will take place this summer and at least one exploration well and at least one appraisal well to be drilled subsequently.

### Switzerland, Bern Canton, Linden Exploration Permit
(90% interest through wholly owned subsidiary PEOS AG)

The Linden-1 well was drilled by Elf Aquitaine in 1972 and tested gas at the time. Ascent was awarded the permit in August 2005 and in April 2008 the permit was extended to 2011. The Company is currently considering an appraisal well at this location.

# Operations Review

### Switzerland, Vaud Canton, Gros de Vaud Exploration Permit
(90% interest through wholly owned subsidiary PEOS AG)

The Vaud Concession is situated north of Lausanne and was awarded to Ascent in May 2006 and an extension to June 2010 was awarded earlier this year. Previous drilling in the area includes the Essertine-1 discovery in 1962, which produced small amounts of oil on test. Ascent remains open to the possibility of drilling an appraisal well in this location and is also considering the exploration of nearby Triassic gas prospects.

### Italy, Latium Coast, Fiume Arrone Exploration Permit
(56% interest through Ascent Resources Italia, s.r.l.)

Arrone-1, which was drilled in August 2007, found sub-commercial gas and the well was subsequently abandoned. An application for a licence extension has been submitted to the authorities.

### Netherlands, Blocks P4, M8
(27% interest held through Ascent Resources (Netherlands) B.V.)

Situated offshore of the Netherlands, Ascent was awarded exploration licences for these blocks in November 2006. The Company has since completed a preliminary geoscience programme to establish the hydrocarbon potential of the area.

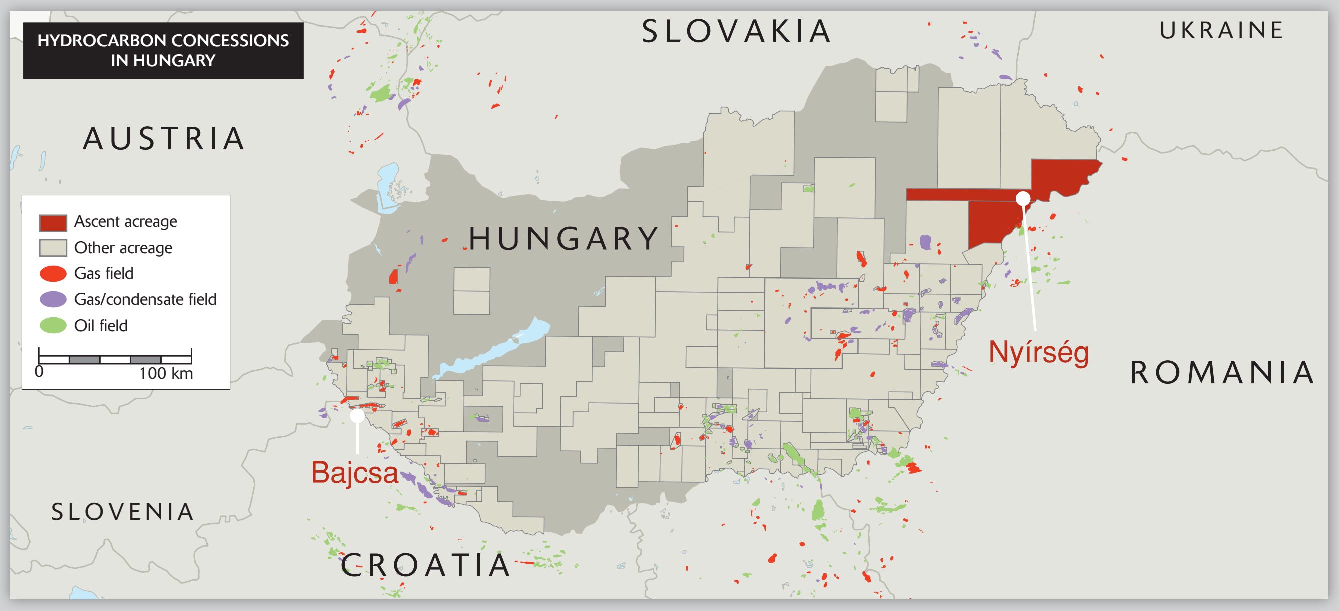
## Other Enterprises

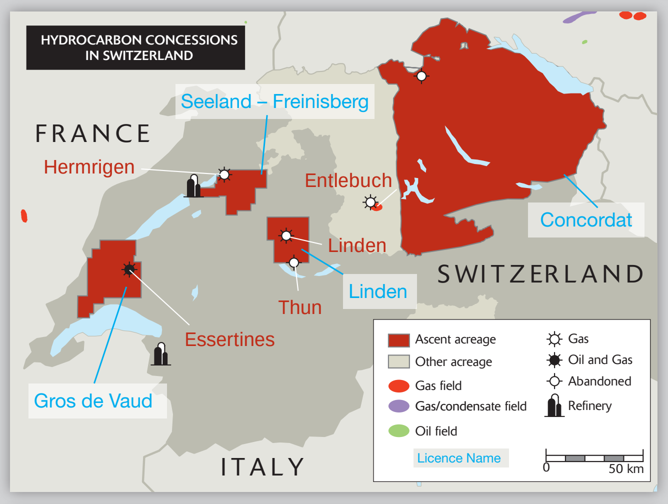
### San Severina Asset Management

This joint venture with the Swiss fund targets minority (25%) interests in worldwide producing and development projects, particularly where there is the opportunity of exploration upside. Ascent receives a 20% carry in invested projects.

### Perazzoli Drilling
(22.5% interest held through 50% owned subsidiary Ascent Drilling Limited)

Ascent's 22.5% stake in Perazzoli Drilling allows preferential access to rigs in Europe. Perazzoli currently operates three rigs with various capacities – 40 tonne, 100 tonne and a 200 tonne capacity HH200 hydraulic rig. This rig fleet has the depth range capable of drilling three quarters of the exploration and development type wells for oil, gas and coal bed methane in Europe.


HYDROCARBON CONCESSIONS IN HUNGARY
SLOVAKIA
UKRAINE
AUSTRIA
HUNGARY
ROMANIA
SLOVENIA
CROATIA
Nyírség
Bajcsa
Ascent acreage
Other acreage
Gas field
Gas/condensate field
Oil field
0
100 km


HYDROCARBON CONCESSIONS IN SWITZERLAND
FRANCE
SWITZERLAND
ITALY
Seeland – Freinisberg
Hermrigen
Entlebuch
Concordat
Linden
Linden
Thun
Essertines
Gros de Vaud
Ascent acreage
Other acreage
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Gas/condensate field
Oil field
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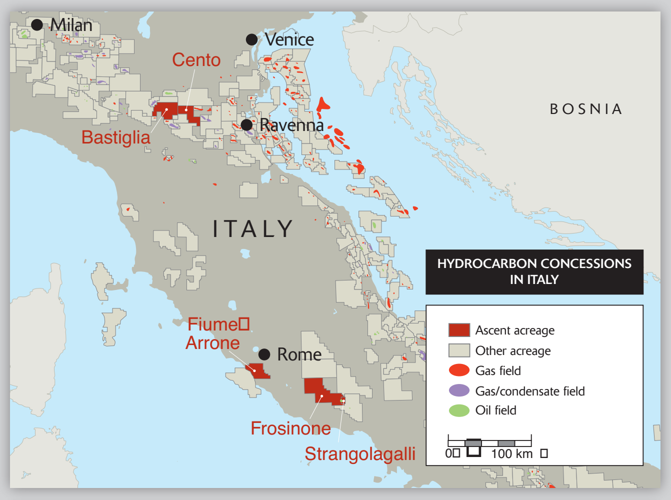
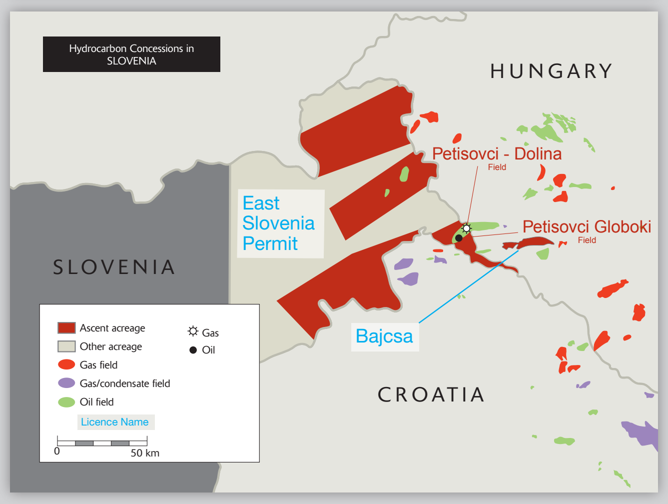
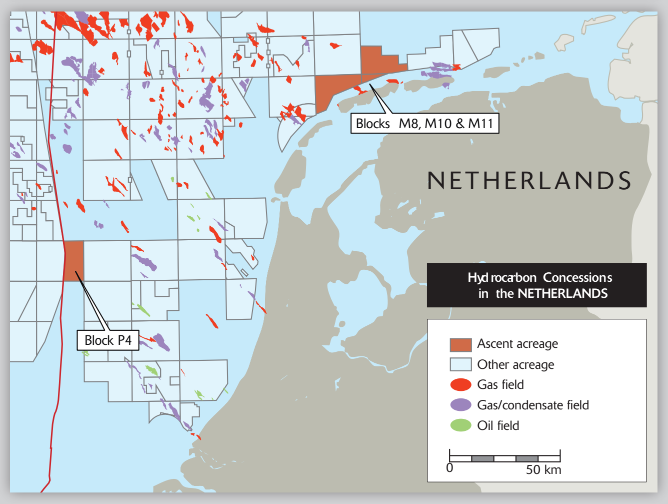
Oil and Gas
Abandoned
Refinery
0
50 km


Milan
Venice
Cento
Ravenna
Bastiglia
BOSNIA
ITALY
Fiume
Arrone
Rome
Frosinone
Strangolagalli
HYDROCARBON CONCESSIONS IN ITALY
Ascent acreage
Other acreage
Gas field
Gas/condensate field
Oil field
100 km


Hydrocarbon Concessions in SLOVENIA
HUNGARY
SLOVENIA
CROATIA
East Slovenia Permit
Petisovci - Dolina
Field
Petisovci Globoki
Field
Bajcsa
Ascent acreage
Other acreage
Gas field
Gas/condensate field
Oil field
Licence Name
Gas
Oil
0
50 km


Blocks M8, M10 & M11
NETHERLANDS
Block P4
Hydrocarbon Concessions in the NETHERLANDS
Ascent acreage
Other acreage
Gas field
Gas/condensate field
Oil field
0
50 km

# 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 (2) | 0.2 | 2.2 | 3.5 | 5.8 | Not | Not | Not |
| Hungary (2) | 0.9 | 8.8 | 10.8 | 16.8 | Reported | Reported | Reported |
| Netherlands (1)(a) | – | 3.7 | 8.8 | 18.8 | – | – | – |
| Netherlands (2) | – | – | – | – | 7 | 11 | 18 |
| Switzerland (1)(b) | – | 4.0 | 9.6 | 19.1 | 157 | 313 | 609 |
| Net Attributable at 31 December 2008 | 1.4 | 16.6 | 29.5 | 55.6 | 164 | 324 | 627 |

(1) These figures are based upon independent evaluations provided by:
(a) ERC Energy Resource Consultants Limited and Equipoise Solutions
(b) 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 |
| **Italy** | | | | | |
| Cento | Ascent Resources Italia srl | 50.00 | 357 | 178 | 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** | | | | | |
| Petişovci Dolina | Nemmoco Slovenia Corp | 45.00 | 90 | 41 | Oil & Gas redevelopment |
| Petişovci Globoki | Nemmoco Slovenia Corp | 15.75 | 90 | 14 | Gas redevelopment |
| Eastern Exploration | Nemmoco Slovenia Corp | 40.00 | 864 | 346 | Gas exploration |
| **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 |
| Concordat | PEOS AG | 35.00 | 7,235 | 2,532 | 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 |

**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 (67)

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 (50)

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 26-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. Previously he worked for a successful petroleum engineering consultancy business. He started his career with Schlumberger and after earning a Masters degree in petroleum engineering worked for Premier, Tullow, Lundin and other independent operators.

## Simon Cunningham (34)

Finance Director

Simon Cunningham, a certified accountant, has extensive energy and resources experience having held senior corporate finance roles with diversified engineering services group Ausenco Limited, international renewable energy provider Energy Developments Limited and independent power producer NRG Energy Inc.

Prior to joining Ascent Resources he served as the Chief Financial Officer of Reverse Corp Limited, a telecommunications provider with operations in the United Kingdom and Australia where he was responsible for all aspects of the finance, treasury, investor relations, investment analysis and company secretarial functions.

## Malcolm Groom (58)

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.

## Jonathan Legg (56)

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.

## Nigel Moore (65)

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 2008.

**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 and the Netherlands. The Group operates in its own undertakings and through subsidiary companies and through 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 2008 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 6-13 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 37 to the financial statements.

**Results and dividends**

The loss for the year after taxation was £2,860,038 (2007: loss £2,129,982). The Directors have not recommended the payment of a dividend.

**Post balance sheet events**

On 20 April 2009, Ascent subsidiary PetroHungaria kft , successfully completed and tested the PEN-104A side track of the PEN-104 gas producing well in the Penészlek area of the Nyírség permits of eastern Hungary. The Company production at the well re-commenced following disassembling of the drilling rig and reconnection of the flow line.

On 13 May 2009, Ascent entered into an agreement with GEM Global Yield Fund Limited ('GEM') whereby GEM has made available to the Company an equity line of credit of up to £5 million. The Facility will be used to assist in funding the Company's exploration projects not covered by production revenue, and if appropriate, to finance investments in additional exploration projects that are outside the investment profile of the Ascent/San Severina asset management joint venture. Under the terms of the Facility, the Company is able to make draw downs of cash, at times of its choosing, by issuing new ordinary shares to GEM. The equity line is available for three years from 13 May 2009 and draw downs cannot be called by GEM. The Company may issue a subscription notice requesting GEM to subscribe for a number of shares up to a maximum of 5 times the average daily trading volume in the 15 trading days immediately preceding the date of the subscription notice. GEM has the right to buy between 50% and 130% of the subscribed shares and can buy up to 200% with Company consent. The shares will be priced at a 9% discount to the average closing mid price of the shares over the 15 trading days immediately following the issue of the subscription notice. Furthermore, the Company has issued warrants to GEM over 15,000,000 shares which are exercisable at 10.16p for a period of five years from the date of issue.

On 20 May 2009, Ascent started drilling the Gazzata-1 well near the city of Modena in Italy's Po Valley. The drilling to evaluate the primary target, a large gas prospect that is estimated to be at a depth of 2,100m, is expected to be completed shortly.

On 21 May 2009 Ascent farmed-out one half of its 80% participation in the Eastern Slovenian Exploration Project to Aspect Energy International, a subsidiary of Denver based Aspect Holdings LLC ('Aspect'). The Eastern Slovenian Exploration Project is situated on the eastern edge of the Pannonian Basin, covering 864 square kilometres of the 2,473 square kilometre Pomurje Regional Exploration Area, adjacent to the Hungarian and Croatian borders. The exploration licence is held by Nafta Geoterm d.o.o., a subsidiary of state-owned energy and petrochemicals conglomerate Nafta Lendava d.o.o., which retains a 20% carried interest.

On 1 June 2009 Ascent announced that through its asset management business with San Severina Holdings SA ('San Severina'), the Swiss based investment company, it is to be assigned an interest in the Jolly Ranch Project ('the Project'), an oil and gas development in Colorado in the United States of America. San Severina has agreed to purchase a 20% interest in the Project and will transfer 20% of their interest (a 4% interest in the Project) to Ascent on completion, which is expected to occur during June 2009. The other partners in the Project are the operator, Running Foxes Petroleum Inc, and Nighthawk Production LLC, a wholly owned subsidiary of Nighthawk Energy plc, each of whom will retain a 40% interest.

On 8 June 2009 Ascent announced it had issued 17,350,000 shares to GEM under the terms of the Equity Credit Line facility announced on 14 May. The price of the subscription is 7.4 pence per Ordinary Share.

**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 | Resigned 26 August 2008 |
| Simon Cunningham | Appointed 26 August 2008 |
| Jonathan Victor Lewis Legg | |
| Patrick Anthony Francis Heren | Resigned 24 September 2008 |
| Nigel Sandford Johnson Moore | |

Relevant details of the Directors, which include committee memberships, are set out on pages 16-17.

# DIRECTORS' REPORT *(continued)*

**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 2008 | At 31 December 2007 |
|---|---|---|
| John Patrick Kenny | 700,000 | 700,000 |
| Jeremy Eng | 2,000,000 | 2,000,000 |
| Malcolm David John Groom | 1,597,705 | 1,597,705 |
| Simon Cunningham | – | – |
| Jonathan Victor Lewis Legg | 533,526 | 533,526 |
| 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 26 to the financial statements.

As at 8 June 2009 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 | % |
|---|---|---|
| Ronald Bruce Rowan | 25,000,000 | 8.20 |
| Pershing Nominees Limited | 24,752,857 | 8.12 |
| Credit Suisse Client Nominees (UK) Ltd | 23,833,439 | 7.82 |
| TD Waterhouse Nominees (Europe) Ltd | 22,389,035 | 7.35 |
| Pershing Nominees Limited | 22,265,000 | 7.31 |
| L R Nominees | 20,216,204 | 6.63 |
| Barclayshare Nominees Limited | 16,340,165 | 5.36 |
| HSDL Nominees Limited | 9,760,177 | 3.20 |
| HSBC Global Custody Nominee (UK) Ltd (1) | 9,667,508 | 3.17 |

**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 2008 and 2007.

**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 2008, the Group had an average of 240 days (2007: 143 days) purchases owed to trade creditors. At 31 December 2008, the Company had an average of 82 days (2007: 58 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 statements of the Group and Company are prepared on a going concern basis.

In common with many similar companies, the Group and Company raise finance for their exploration and appraisal activities in discrete tranches. Ultimately, the Group and Company must either raise additional tranches of funding and/or generate sufficient net cash flows from operations.

The Directors are of the opinion that the Group and Company will have sufficient cash to fund its activities based on forecast cash flow information for a period 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 secured appropriate levels of financing for the Group and Company to continue to meet their liabilities as they fall due for at least the next twelve months.

In preparing base and sensitised 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 relates to the ability of the Company to raise funds, when needed, under the terms of the £5m Equity Credit Facility signed 13 May 2009. The facility allows the Company, at its sole discretion (but subject to certain conditions), to issue capital for payment in accordance with the terms of the agreement. To date the Company has issued shares and received £1.3m under this Facility (see note 35). The number of shares that can be issued and their issue price (and therefore the total amount of funding receivable) is determined based on a formula utilising the price and trading volumes of the Company's shares in the period leading up to the issue of the requested capital draw down. In this respect there is uncertainty as to the amount of additional funding that the Company can draw down.

For the purposes of assessing going concern the Directors have considered long term historic trading volumes and a share price significantly less than that at the date of signing the accounts as the basis of assumptions for the usage of the facility. However, a significant reduction in trading volumes or a significant fall in share price below the discounted price assumed in the forecast could adversely affect the timing or availability of additional funding under this facility. Whilst the Directors consider the assumptions to be suitably prudent and that it is unlikely that movements in volumes or share price will adversely affect the timing or availability of additional funding, there can be no certainty in this matter. If the Company is unable to draw down funds under this agreement in the amounts and at the times forecast it will be necessary to raise additional funds and / or achieve asset disposals, and therefore the Group and Company may not be able to meet its liabilities as they fall due.

The base forecasts are based upon estimates of planned production from existing producing fields, future gas prices and estimates of costs for planned exploration activities. On a number of projects certain assumptions have also been made with regard to working capital management and matching cash inflows from cash calls to cash outflows.

Accordingly, the Directors have also prepared sensitised forecasts to reflect the risk that production volumes and gas prices may be lower than estimated and exploration costs may be higher. These forecasts indicate that the Group and Company can continue to operate within existing facilities (including the Equity Credit Facility) for the foreseeable future, though, in the absence of asset divestments, additional farm-in agreements and exploration success, the headroom is limited. If the amount or timing of forecast inflows and outflows were to change adversely the Group and Company may be required to reconsider discretionary exploration activity and/or seek additional bridging finance to meet any shortfall.

These matters indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern. However, at the date of approving these financial statements, the Group's and Company's cash position is positive, the Company has in place facilities to raise additional funds and it is trading as a going concern.

**Auditors**

KPMG Audit Plc have expressed their willingness to continue as the auditors. 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*
12 June 2009

# 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 three 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. Brief biographies are set out on pages 16-17 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 2008 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.

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 of the Company.

*(a) Audit Committee*

This Committee comprises two 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 of the audit partner is normally invited to attend meetings. A member of the management team is also invited to attend meeting. The Committee held two meetings during the year to review the 2007 annual financial statements and the 2008 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 two Non-Executive Directors under the Chairmanship of Jonathan Legg since January 2008. 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.

**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 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 continue to review the effectiveness of internal control 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 Ascents' 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 2008, the Group was Operator of several exploration projects, all of which were closely managed for maintaining the EHS&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 Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law, the Directors are also responsible for preparing a Directors' Report that complies with that law.

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

# 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 2008 which comprise Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Recognised Income and Expenses, 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 25.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements have been 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

**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 2008 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 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited 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 exploration and appraisal activities in discrete tranches and the Group had net operating cash outflows in each of the years ended 31 December 2007 and 2008. It incurred a net loss of £2.86m during the year ended 31 December 2008. In particular, to finance their operations over the next twelve months, the Group and Company, in the absence of asset divestments, additional farm-in agreements and exploration success, are reliant on the receipt of additional funds under a £5 million equity credit facility the terms of which mean that the amount of draw down is not wholly within the control of the company. 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  12 June 2009**

*Chartered Accountants*
*Registered Auditor*

# Consolidated Income Statement

## for the year ended 31 December 2008

| | Notes | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|---|
| Revenue | | 1,475 | 253 |
| Cost of sales | 2 | (4,328) | (2,225) |
| Impairment of exploration assets | | (3,240) | (1,335) |
| Operating expenditure | | (1,088) | (890) |
| **Gross loss** | | (2,853) | (1,972) |
| Other operating income | 3 | – | 35 |
| Administrative expenses | 4 | (1,727) | (2,939) |
| **Operating loss** | | (4,580) | (4,876) |
| Finance income | 7 | 160 | 756 |
| Finance expense | 7 | (473) | (123) |
| Profit on sale of investments | 8 | 1,985 | 2,113 |
| Share of profit of associate companies | 15 | 88 | – |
| **Loss before tax** | | (2,820) | (2,130) |
| Taxation | 9 | – | – |
| **Loss for the year** | | (2,820) | (2,130) |
| Attributable to: | | | |
| Equity holders of the Company | | (2,860) | (2,130) |
| Minority interests | 15 | 40 | – |
| **Loss for the year** | | (2,820) | (2,130) |
| **Loss per share** | | | |
| *From total operations* | 10 | | |
| Basic and fully diluted loss per share | | (0.94)p | (0.74)p |
| Fully diluted loss per share | | (0.94)p | (0.70)p |

# Consolidated Balance Sheet

## as at 31 December 2008

| | Notes | 31 December 2008 £ 000s | 31 December 2007 £ 000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 266 | 13 |
| Exploration and decommissioning costs | 13 | 13,146 | 9,591 |
| Investments in equity-accounted investees | 15 | 1,300 | 918 |
| **Total non-current assets** | | 14,712 | 10,522 |
| **Current assets** | | | |
| Inventories | 17 | 609 | 647 |
| Trading investments | 18 | 145 | 500 |
| Trade and other receivables | 19 | 3,582 | 3,142 |
| Cash and cash equivalents | | 1,236 | 1,323 |
| **Total current assets** | | 5,572 | 5,612 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | (4,515) | (2,131) |
| Borrowings | 24 | (562) | (448) |
| **Total current liabilities** | | (5,077) | (2,579) |
| **Net current assets** | | 495 | 3,033 |
| **Non-current liabilities** | | | |
| Borrowings | 24 | (4,525) | (3,468) |
| Provisions | 25 | (32) | (247) |
| **Total non-current liabilities** | | (4,557) | (3,715) |
| **Net assets** | | 10,650 | 9,840 |
| **Equity** | | | |
| Attributable to: | | | |
| Share capital | 26 | 305 | 305 |
| Equity reserve | 27 | 84 | 84 |
| Share premium account | 27 | 13,067 | 13,067 |
| Share based payment reserve | 27 | 1,042 | 1,191 |
| Translation reserves | 27 | 3,928 | 149 |
| Retained loss | 27 | (7,816) | (4,956) |
| Total equity attributable to shareholders of the Company | | 10,610 | 9,840 |
| Minority interest | 27 | 40 | 0 |
| **Total equity** | | 10,650 | 9,840 |

The financial statements were approved by the Board of Directors on 12 June 2009 and were signed on its behalf by:

**Jeremy Eng**
*Managing Director*

# Company Balance Sheet

## as at 31 December 2008

| | Notes | 31 December 2008 £ 000s | 31 December 2007 £ 000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 6 | 3 |
| Investment in subsidiaries and joint ventures | 16 | 1,948 | 1,975 |
| Intercompany receivables | 34 | 13,977 | 10,815 |
| Total non-current assets | | 15,931 | 12,793 |
| **Current assets** | | | |
| Trading investments | 18 | – | 500 |
| Trade and other receivables | 20 | 206 | 357 |
| Cash and cash equivalents | | 904 | 779 |
| Total current assets | | 1,110 | 1,636 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | (837) | (588) |
| Total current liabilities | | (837) | (588) |
| **Net current assets** | | 273 | 1,048 |
| **Non-current liabilities** | | | |
| Borrowings | 24 | (2,416) | (2,416) |
| **Net assets** | | 13,788 | 11,425 |
| **Equity** | | | |
| Share capital | 26 | 305 | 305 |
| Equity reserve | 28 | 84 | 84 |
| Share premium | 28 | 13,067 | 13,067 |
| Share based payment reserve | 28 | 1,042 | 1,191 |
| Translation reserve | 28 | 2,935 | – |
| Retained loss | 28 | (3,645) | (3,222) |
| **Total equity** | | 13,788 | 11,425 |

The financial statements were approved by the Board of Directors on 12 June 2009 and were signed on its behalf by:

**Jeremy Eng**
*Managing Director*

# Consolidated Cash Flow Statement

## for the year ended 31 December 2008

| | Notes | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|---|
| **Cash used in operations** | | | |
| Loss before tax | | (2,860) | (2,130) |
| Depreciation charge | | 560 | 1 |
| Increase in receivables | | (369) | (688) |
| (Decrease)/increase in payables | | 103 | (350) |
| Increase in inventories | | – | (196) |
| Profit on sale of tangible fixed assets | | – | (3) |
| Profit on sale of subsidiary | | (1,363) | (2,113) |
| Profit on sale of current asset investments | | (621) | – |
| Revaluation of quoted securities | | 454 | 60 |
| Impairment of asset held for sale | | – | 148 |
| Impairment of exploration expenditure | | 3,240 | 1,331 |
| Amortisation of decommissioning costs | | 336 | 4 |
| (Increase)/decrease in decommissioning provision | | (214) | – |
| Share-based payment charge | | (149) | 398 |
| Exchange differences | | 611 | (649) |
| Share of profit of associate undertakings | | (88) | – |
| **Cash used in operations** | | 360 | (4,187) |
| Financial income | | (160) | (107) |
| Financial expense | | 374 | 123 |
| **Net cash used in operating activities** | | (146) | (4,171) |
| **Cash flows from investing activities** | | | |
| Finance income | | 160 | 107 |
| Payments for investing in exploration | | (4,602) | (5,915) |
| Increase in payables | | 2,282 | – |
| Acquisition of property, plant and equipment | | (813) | (14) |
| Proceeds from disposal of subsidiary | | 1,582 | 944 |
| Proceeds from disposal of current asset investment | | 659 | 1,399 |
| Proceeds from sale of plant and equipment | | – | 159 |
| Acquisition of associated undertaking | | – | (918) |
| Acquisition of subsidiaries | | (20) | – |
| Cash acquired with subsidiaries | | – | (25) |
| Net cash received from a minority shareholder of a subsidiary undertaking | | 40 | – |
| **Net cash flows used in investing activities** | | (712) | (4,263) |
| **Cash flows from Financing activities** | | | |
| Finance expense | | (374) | (123) |
| Proceeds from loans | | 2,103 | 3,388 |
| Loans repaid | | (1,070) | (305) |
| Proceeds from issue of shares | | – | 5,047 |
| Share issue costs | | – | (190) |
| **Net cash flows from financing activities** | | 659 | 7,817 |
| **Net decrease in cash and cash equivalents for the year** | | (199) | (617) |
| Net foreign exchange differences | | 110 | – |
| Cash and cash equivalents at beginning of the year | | 1,324 | 1,941 |
| **Cash and cash equivalents at end of the year** | | 1,235 | 1,324 |

# Company Cash Flow Statement

for the year ended 31 December 2008

| | Notes | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|---|
| **Cash used in operations** | | | |
| Loss before tax | | (423) | (1,075) |
| Depreciation charge | | 1,669 | 2 |
| Decrease/(increase) in receivables | | 195 | 12 |
| Increase in payables | | 249 | 353 |
| Profit/(loss) on sale of current asset investments | | (608) | – |
| Profit on sale of subsidiary | | (1,614) | (692) |
| Share based payment | | (149) | 398 |
| Revaluation of quoted securities | | – | 60 |
| Exchange differences | | 2,950 | – |
| **Cash used in operations** | | 2,269 | (941) |
| Tax paid | | | – |
| Financial income | | (14) | (35) |
| Financial expense | | 216 | 39 |
| **Net cash used in operating activities** | | 2,471 | (936) |
| **Cash flows from investing activities** | | | |
| Finance income | | 14 | 35 |
| Payments for investing in exploration | | (1,645) | – |
| Acquisition of property, plant and equipment | | (7) | (4) |
| Acquisition of intangible assets | | – | (250) |
| Acquisition of subsidiary | | (20) | (117) |
| Proceeds from disposal of subsidiary | | 1,583 | – |
| Advances to subsidiaries | | (2,663) | (7,211) |
| Proceeds from sale of current asset investment | | 608 | 1,399 |
| **Net cash flows used in investing activities** | | 2,130 | (6,148) |
| **Cash flows from financing activities** | | | |
| Finance expense | | (216) | (39) |
| Loans received | | – | 2,500 |
| Cash proceeds from issue of shares | | – | 5,047 |
| Share issue costs | | – | (190) |
| **Net cash from financing activities** | | (216) | 7,318 |
| **Net increase in cash and cash equivalents** | | 125 | 234 |
| Cash and cash equivalents at beginning of the year | | 779 | 545 |
| **Cash and cash equivalents at end of the year** | | 904 | 779 |

# Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2008

| | Notes | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|---|
| Loss for the year | 27 | (2,860) | (2,130) |
| Currency translation differences | 27 | 3,779 | 154 |
| **Total recognised income/ (expense) for the year** | | 919 | (1,976) |
| **Attributable to:** | | | |
| Equity holders of the Company | | 879 | (1,976) |
| Minority interests | | 40 | – |
| Total recognised income/ (expense) for the year | | 919 | (1,976) |

# Company Statement of Recognised Income and Expense

for the year ended 31 December 2008

| | Notes | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|---|
| **Attributable to the equity holders of Ascent Resources plc** | | | |
| Loss for the year | 28 | (423) | (1,075) |
| Currency translation differences | 28 | 2,935 | – |
| **Total recognised expense for the year** | | 2,512 | (1,075) |

# Notes to the Financial Statements

for the year ended 31 December 2008

**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 2008 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and joint ventures. The parent company financial statements present information about the Company as a separate entity and not about its group.

The consolidated financial statements of the Group for the year ended 31 December 2008 are available from the Company's website at www.ascentresources.co.uk.

**Statement of compliance**

The Group's and Company's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 12 June 2009 and the Balance Sheets were signed on behalf of the Board by Jeremy Eng

Both the Parent Company financial statements and the Group financial statements give a true and fair view and have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

## 1 Accounting policies

**Basis of preparation**

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.

**Measurement Convention**

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 financial statements are presented in sterling and have been rounded to the nearest thousand (£ 000s) except where otherwise indicated.

The principal accounting policies set out below have been consistently applied to all periods presented.

**Going Concern**

The financial statements of the Group and Company are prepared on a going concern basis.

In common with many similar companies, the Group and Company raise finance for their exploration and appraisal activities in discrete tranches. Ultimately, the Group and Company must either raise additional tranches of funding and/or generate sufficient net cash flows from operations.

The Directors are of the opinion that the Group and Company will have sufficient cash to fund its activities based on forecast cash flow information for a period 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 secured appropriate levels of financing for the Group and Company to continue to meet their liabilities as they fall due for at least the next twelve months.

In preparing base and sensitised 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 relates to the ability of the Company to raise funds, when needed, under the terms of the £5m Equity Credit Facility signed 13 May 2009. The facility allows the Company, at its sole discretion (but subject to certain conditions), to issue capital for payment in accordance with the terms of the agreement. To date the Company has issued shares and received £1.3m under this Facility (see note 35). The number of shares that can be issued and their issue price (and therefore the total amount of funding receivable) is determined based on a formula utilising the price and trading volumes of the

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

Company's shares in the period leading up to the issue of the requested capital draw down. In this respect there is uncertainty as to the amount of additional funding that the Company can draw down.

For the purposes of assessing going concern the Directors have considered long term historic trading volumes and a share price significantly less than that at the date of signing the accounts as this basis of assumptions for the usage of the facility. However, a significant reduction in trading volumes or a significant fall in share price below the discounted price assumed in the forecast could adversely affect the timing or availability of additional funding under this facility. Whilst the Directors consider the assumptions to be suitably prudent and that it is unlikely that movements in volumes or share price will adversely affect the timing or availability of additional funding, there can be no certainty in this matter. If the Company is unable to draw down funds under this agreement in the amounts and at the times forecast it will be necessary to raise additional funds and / or achieve asset disposals, and therefore the Group and Company may not be able to meet its liabilities as they fall due.

The base forecasts are based upon estimates of planned production from existing producing fields, future gas prices and estimates of costs for planned exploration activities. On a number of projects certain assumptions have also been made with regard to working capital management and matching cash inflows from cash calls to cash outflows.

Accordingly, the Directors have also prepared sensitised forecasts to reflect the risk that production volumes and gas prices may be lower than estimated and exploration costs may be higher. These forecasts indicate that the Group and Company can continue to operate within existing facilities (including the Equity Credit Facility) for the foreseeable future, though, in the absence of asset divestments, additional farm-in agreements and exploration success, the headroom is limited. If the amount or timing of forecast inflows and outflows were to change adversely the Group and Company may be required to reconsider discretionary exploration activity and/or seek additional bridging finance to meet any shortfall.

These matters indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern. However, at the date of approving these financial statements the Group's and Company's cash position is positive, the Company has in place facilities to raise additional funds and it is trading as a going concern.

**Adoption of IFRSs in issue but not yet effective**

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not adopted early. Those that may be applicable to the Group are as follows:

*International Accounting Standards (IAS / IFRSs) and (Effective date)*

IFRS 1 First time Adoption of International Financial Reporting Standards and Consolidated and Separate Financial Statements (1 January 2009)

IFRS 2 Amendment to IFRS 2 – Vesting Conditions and Cancellations (1 January 2009)

IFRS 3 Business Combinations - revised January 2008 (1 July 2009 – not yet endorsed )

IFRS 8 Operating Segments (1 January 2009)

IAS 1 Presentation of Financial Statements - revised September 2007 (1 January 2009)

IAS 23 Borrowing Costs - revised March 2007 (1 January 2009)

IAS 27 Consolidated and Separate Financial Statements - revised January 2008 (1 July 2009)

IAS 32 Financial Instruments: Disclosure and Presentation and IAS 1 Presentation of Financial Statements (1 January 2009)

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

Improvements to IFRSs – May 2008 (1 January 2009)
IAS 39 Financial Instruments: Recognition and Measurement (1 January 2009)

*International Financial Reporting Interpretations Committee (IFRIC)*
IFRIC 13 Customer Loyalty Programmes (1 July 2008)

IFRIC 15 Agreements for the construction of real estate (1 January 2009 – not yet endorsed)

IFRIC 16 Hedges of a net investment in a foreign operation (1 October 2008 – not yet endorsed)

The impact on the Group's financial statements of the future standards, amendments and interpretations is still under review, but the Group does not currently expect any of these changes to have a material impact on the results or the net assets of the Company or the Group.

**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 Group'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.

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). The carrying of value of the Anagni site in Italy is £8,046,039 at 31 December 2008. If that asset were to be fully impaired the impact of this on the Group financial statements would be significant.

(b) *Decommissioning provision* – the cost of decommissioning is estimated by reference to operators and internal specialist staff (see Note 25);

(c) *Convertible loan notes* – management assessed the fair value of the liability component at issue and continue to review the appropriateness of the amortisation period annually (see Note 24);

(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 30);

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

(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 36).

(g) *GEM Global Yield Fund GEM)* – Under the terms of this facility management assesses the timing of its draw downs of cash, and assesses the impact of any decision whether to issue a subscription notice requesting GEM to subscribe for shares in the Company.

**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, associates and joint ventures 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's 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, 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.

**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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

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 cost 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.

**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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

**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 Group'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 of the Company 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. They are released into the income statement upon disposal.

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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

**Equity-settled 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.

**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.

**Non-derivative financial instruments**

Non-derivative financial instruments comply of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payable.

**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 classified as held-for-trading are revalued at each balance sheet date. Trading investments are initially measured at fair value, 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 1 Accounting policies *(continued)*

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 less 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.

**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 when the fair value of the assets is assessed as less than the carrying amount of the asset.

**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.

**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 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Operating Costs relating directly to producing assets | 204 | 165 |
| DD&A of producing assets | 556 | – |
| Impairment losses (see Note 13) | 3,240 | 1,335 |
| Other directly incurred costs | 328 | 725 |
| | 4,328 | 2,225 |

## 3 Other operating income

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Fees for technical services | – | 13 |
| Profit on sale of investments | – | 22 |
| | – | 35 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 4 Administrative expenses

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Depreciation of plant and equipment | 4 | 22 |
| Provision for bad debts | – | 559 |
| Employee Costs (see note 6) | 342 | 721 |
| Consulting charges | 906 | 865 |
| Profit on sale of fixed assets | (1) | (25) |
| Provision for reduction in value of quoted securities | 321 | 50 |
| Impairment in assets held for sale | – | 148 |
| Share based payment charge | – | 361 |
| Other office costs | 155 | 238 |
| | 1,727 | 2,939 |

## 5 Auditor's remuneration

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Audit of 2008 financial statements | 89 | – |
| Review of 2008 half-yearly reports | 20 | 25 |
| Audit of 2007 financial statements | 50 | 105 |
| Audit of subsidiaries pursuant to legislation | 39 | 43 |
| | 198 | 173 |
| Fees payable to the Company's auditor for other services: Tax Services | – | 49 |

## 6 Employees and Directors

**(a) Employees**

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

| | Year ended 31 December 2008 Number | Year ended 31 December 2007 Number |
|---|---|---|
| Management and technical | 6 | 6 |

| | £ 000s | £ 000s |
|---|---|---|
| Wages and salaries | 587 | 460 |
| Social security costs | 50 | 183 |
| Pension costs | 84 | 40 |
| Share based payments (see note 36) | (379) | 38 |
| | 342 | 721 |

All staff included above represents 'key management personnel' in the Company. During the year three members of staff were granted 1,000,000, 1,000,000 and 75,000 options to subscribe for ordinary shares in the Company at 11p, 4.75p and 6p respectively. The Company offers all staff the opportunity to enter into a stakeholder pension scheme.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 6 Employees and Directors *(continued)*

**(b) Directors' remuneration**

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Fees and emoluments | 314 | 244 |
| Social security costs | 24 | 160 |
| Pension costs | 84 | 40 |
| Share-based payments (see note 36) | (371) | – |
| | 51 | 444 |

In addition to the above, £44,865 (2007: £42,902) 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.

During the year the Group reversed part of its provision for National Insurance Contributions payable on directors' share options following a reduction in the Group share price from 17.5p as at 31 December 2007 to 2.38p as at 31 December 2008.

**(c) Highest paid director**

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Fees and emoluments | 94 | 135 |
| Social security costs | 1 | 1 |
| Pension costs | 84 | 40 |
| | 179 | 176 |

**(d) Directors' Incentive Share Options**

| Director | As at 1 January 2008 | Awarded | Lapsed | As at 31 December 2008 | Date Granted | Share Price at Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|---|
| S Cunningham | – | 1,000,000 | – | 1,000,000 | 21.09.08 | 4.75p | 4.75p | 21.09.09 – 21.09.13 |
| 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 |
| 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 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 7 Finance income and expenses

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| **Financial income** | | |
| Bank interest receivable | 160 | 107 |
| Exchange gain | – | 649 |
| | 160 | 756 |
| **Financial expense** | | |
| Interest payable on bank loans and overdrafts | (374) | (123) |
| Exchange loss | (99) | – |
| | (473) | (123) |

## 8 Profit on sale of investments

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| *Sale of subsidiary company* | | |
| Compania Petrolifera de Sedano sl | 44 | 1,421 |
| Teredo Oils Limited | 38 | – |
| *Part disposal of subsidiary company* | | |
| PetroHungaria kft | 1,123 | – |
| ZalaGasCo kft | 158 | – |
| *Sale of investments* | | |
| D9 (Netherlands) | 424 | – |
| Szolnok (Hungary) | 184 | – |
| *Sale of current asset investments* | | |
| Shares held in Leni Gas and Oil plc | 14 | – |
| *Sale of assets held for resale* | | |
| Millennium International Corporation Limited | – | 672 |
| Afren Plc | – | 20 |
| | 1,985 | 2,113 |

Further details on the disposal of subsidiaries are set out in Note 31.

## 9 Taxation

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Current tax | – | – |
| Deferred tax | – | – |
| Total tax expense for the period | – | – |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 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 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| Loss before taxation | (2,820) | (2,130) |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%) | (804) | (639) |
| Effects of: | | |
| Current tax | – | – |
| Net increase in unrecognised losses carried forward | 387 | 765 |
| Other temporary differences not recognised | – | 126 |
| Effect of tax rates in foreign jurisdictions | 158 | 81 |
| Other non-taxable items | (667) | (427) |
| Other non-deductible expenses | 1,163 | 94 |
| Utilisation of losses brought forward | (90) | – |
| Capital gains/(losses) | 175 | – |
| Total tax expense for the year | – | – |

## 10 Loss per share

| | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s |
|---|---|---|
| **Losses** | | |
| Losses for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders | 2,860 | 2,130 |

| **Number of shares** | Year ended 31 December 2008 Number | Year ended 31 December 2007 Number |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 304,782,042 | 289,478,538 |
| Weighted average number of ordinary shares for the purposes of dilutive earnings per share | 304,782,042 | 303,210,722 |

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 2008

## 11 Property, Plant and Equipment – Group

| | £ 000s |
|---|---|
| **Cost** | |
| At 1 January 2007 | 203 |
| Additions | 14 |
| Disposals | (179) |
| Net exchange differences | 2 |
| At 31 December 2007 | **40** |
| At 1 January 2008 | 40 |
| Additions | 813 |
| **At 31 December 2008** | **853** |
| **Depreciation** | |
| At 1 January 2007 | 26 |
| Charge for the year | 22 |
| Disposals | (22) |
| Net exchange differences | 1 |
| At 31 December 2007 | **27** |
| At 1 January 2008 | 27 |
| Charge for the year | 560 |
| Disposals | – |
| Net exchange differences | – |
| **At 31 December 2008** | **587** |
| **Net book value** | |
| **At 31 December 2008** | **266** |
| **At 31 December 2007 and 1 January 2008** | **13** |
| **At 1 January 2007** | **177** |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 12 Property, Plant and Equipment – Company

| | £ 000s |
|---|---|
| **Cost** | |
| At 1 January 2007 | – |
| Additions | 4 |
| Disposals | – |
| Net exchange differences | – |
| At 31 December 2007 | **4** |
| At 1 January 2008 | 4 |
| Additions | 7 |
| Disposals | – |
| Net exchange differences | – |
| **At 31 December 2008** | **11** |
| **Depreciation** | |
| At 1 January 2007 | – |
| Charge for the year | 2 |
| At 31 December 2007 | **2** |
| At 1 January 2008 | 2 |
| Charge for the year | 3 |
| **At 31 December 2008** | **5** |
| **Net book value** | |
| **At 31 December 2008** | **6** |
| **At 1 January 2008 and 31 December 2007** | **3** |
| **At 1 January 2007** | – |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 13 Exploration costs – Group

| Group | Italy £ 000s | Hungary £ 000s | Other locations £ 000s | Total £ 000s |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2007 | 2,543 | 1,246 | 682 | 4,471 |
| Additions | 4,718 | 69 | 1,391 | 6,178 |
| Additions relating to decommissioning asset | 246 | – | – | 246 |
| Disposals relating to decommissioning asset | (121) | – | – | (121) |
| Transfers between areas | 397 | – | (397) | – |
| Net exchange differences | 304 | 107 | – | 411 |
| **At 31 December 2007** | **8,087** | **1,422** | **1,676** | **11,185** |
| At 1 January 2008 | 8,087 | 1,422 | 1,676 | 11,185 |
| Additions | 2,361 | 1,772 | 115 | 4,248 |
| Disposals | – | – | (1,028) | (1,028) |
| Additions to decommissioning asset | 54 | 32 | – | 86 |
| Net exchange differences | 1,967 | 448 | 204 | 2,619 |
| **At 31 December 2008** | **12,469** | **3,674** | **967** | **17,110** |
| **Impairment** | | | | |
| At 1 January 2007 | 10 | 243 | – | 253 |
| Charge for the year | – | 303 | 1,028 | 1,335 |
| On disposals | (14) | – | – | (14) |
| Decommissioning charge for the year | 4 | 20 | – | 20 |
| Net exchange differences | – | – | – | – |
| **At 31 December 2007** | **–** | **566** | **1,028** | **1,594** |
| At 1 January 2008 | – | 566 | 1,028 | 1,594 |
| Charge for the year | 1,574 | 1,666 | – | 3,240 |
| On disposals | – | – | (1,028) | (1,028) |
| Decommissioning charge for the year | 315 | 22 | – | 337 |
| Net exchange differences | – | (178) | – | (179) |
| **At 31 December 2008** | **1,889** | **2,076** | **–** | **3,964** |
| **Net book value** | | | | |
| **At 31 December 2008** | **10,581** | **1,598** | **967** | **13,146** |
| **At 1 January 2008 and 31 December 2007** | **8,087** | **855** | **648** | **9,591** |
| **At 1 January 2007** | **2,930** | **1,004** | **284** | **4,219** |

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

The impairment charge for the year relates to the Szolnok site in Hungary and the Arrone site in Italy. A decommissioning charge has been made in the year in respect to the PEN-104 site in Hungary and the Anagni and Arrone sites in Italy.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 14 Exploration costs – Company

| | £ 000s |
|---|---|
| **Cost** | |
| **At 1 January 2007** | **397** |
| Intra-group transfers | (397) |
| **At 31 December 2007** | – |
| **At 1 January 2008** | – |
| Additions | 1,666 |
| **At 31 December 2008** | **1,666** |
| **Impairment** | |
| At 1 January 2007 | – |
| Charge for the year | – |
| **At 31 December 2007** | – |
| **At 1 January 2008** | – |
| Charge for the year | **1,666** |
| **At 31 December 2008** | – |
| **Net book value** | |
| **At 31 December 2008** | – |
| **At 1 January 2008 and 31 December 2007** | – |
| **At 1 January 2007** | **397** |

## 15 Interest in associates

The Company has an indirect holding in Perazzoli Drilling Srl, which was acquired by Ascent Drilling Limited during December 2007.

Details of the associate undertaking as at 31 December 2008 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% |

| | £ 000s |
|---|---|
| At 1 January 2008 | 918 |
| Share of profit | 88 |
| Net exchange differences | 294 |
| **At 31 December 2008** | **1,300** |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 15 Interest in associates – *continued*

**Aggregate amounts relating to associates**

The summarised financial information of the associate company set out below is as at 31 December 2008.

| | 2008<br>£ 000s |
|---|---|
| Assets | 13,487 |
| Liabilities | (7,681) |
| Revenues | 5,806 |
| Profit | 235 |

## 16 Investment in subsidiaries and jointly controlled entities

| | Shares in subsidiary undertakings<br>£ 000s |
|---|---|
| At 1 January 2008 | **1,975** |
| Additions | **20** |
| Disposals | **(47)** |
| **At 31 December 2008** | **1,948** |

Details of the Company's subsidiary undertakings and jointly controlled entities as at 31 December 2008 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 (Joint Venture) | Oil and Gas exploration | Hungary | 45.23% |
| ZalaGasCo kft | Oil and Gas exploration | Hungary | 77.45% |
| Ascent Resources Italia srl | Oil and Gas exploration | Italy | 100% |
| Ascent Netherlands BV | Oil and Gas exploration | Netherlands | 100% |
| PEOS AG | Oil and Gas exploration | Switzerland | 100% |
| SEAG (Joint Venture) | Oil and Gas exploration | Switzerland | 90% |

The legal rules governing foreign investments in Hungary outlaws the setting up of joint venture agreements in that country. Therefore the legal form of both PetroHungaria kft and ZalaGasCo kft are limited liability companies of what is in substance joint venture agreements between the Group and its partners. Where the Group maintains a minimum of 50% interest share of capital held in an entity, this constitutes control of that entity.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 17 Inventories – Group

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| Equipment and spares | 609 | 647 |

## 18 Trading investments

| | Group £ 000s | Company £ 000s |
|---|---|---|
| At 1 January 2008 | 500 | 500 |
| Additions | | |
| Revaluation of fixed asset investment | (317) | – |
| Disposals | (38) | – |
| Transfer | – | (500) |
| **At 31 December 2008** | **145** | – |

The Group has not designated any financial assets as financial assets at fair value through profit and loss other than those classified as held for trading.

The above trading investments 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.

## 19 Trade and other receivables – Group

| | 2008 £ 000s | 2007 £ 000 |
|---|---|---|
| Trade receivables | 31 | 361 |
| VAT recoverable | 880 | 1,281 |
| Other receivables | 160 | 285 |
| Prepayments and accrued income | 1,555 | 97 |
| Bond | 956 | 1,118 |
| | 3,582 | 3,142 |

A bond is held with the Cento Bank Italia as security for a bank loan. The original loan was for €2,000,000. During the year this loan was repaid and another loan for €2,500,000 was taken out. This is set out in Note 24.

The trade and other receivables, cash and trading investments represent the maximum credit exposure to the Group and Company. The aging of unimpaired trade receivables were:

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| Not past due | – | 211 |
| Past due 0-30 days | – | – |
| Past due 31-120 days | 31 | 150 |
| **Total** | 31 | 361 |

There was no bad debt provision as at 31 December 2008 (2007: £nil)

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 20 Trade and other receivables – Company

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| Trade receivables | 4 | 281 |
| VAT recoverable | 25 | 46 |
| Prepayments | – | 6 |
| Other receivables | 177 | 24 |
| | 206 | 357 |

The aging of unimpaired trade receivables were:

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| Not past due | 4 | 281 |

## 21 Deferred tax

There is no deferred tax charge for both the Group and Company in the year (2007:£ nil). Details of net deferred tax assets not recognised are set out below.

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| **Group** | | |
| Tax charge/(losses) | (6,329) | (2,213) |
| **Company** | | |
| Tax losses | (2,124) | (343) |

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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 22 Trade and other payables – Group

| | 2008<br>£ 000s | 2007<br>£ 000s |
|---|---|---|
| Trade payables | 3,867 | 1,580 |
| Tax and social security payable | 107 | 277 |
| Accruals and deferred income | 541 | 274 |
| | 4,515 | 2,131 |

As at 31 December 2008, there is no tax and social security payable on share based payments (2007: £229,358).

## 23 Trade and other payables – Company

| | 2008<br>£ 000s | 2007<br>£ 000s |
|---|---|---|
| Trade payables | 505 | 179 |
| Tax and social security payable | 43 | 242 |
| Accruals and deferred income | 289 | 167 |
| | 837 | 588 |

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

As at 31 December 2008, there is no tax and social security payable on share based payments (2007: £229,358).

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 24 Borrowings

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| **Group** | | |
| *Current* | | |
| Bank loans | 562 | 448 |
| *Non-current* | | |
| Convertible loan note | 2,416 | 2,416 |
| Bank loan | 1,512 | 593 |
| Other loans (see Note 34(b)) | 597 | 459 |
| | 5,087 | 3,916 |
| Group non-current borrowings are repayable as follows: | | |
| In the second year | 3,928 | 3,468 |
| In the third to fifth year inclusive | 597 | – |
| | 4,525 | 3,468 |
| **Company** | | |
| *Non-current* | | |
| Convertible loan note | 2,416 | 2,416 |

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 5.2% (2007: 4.8%).

**Bank loan**

The Group has a loan outstanding with Cassa Di Risparmio de Cento Bank. The Loan expires on 5 June 2012, the interest is calculated by reference to the three month Euribor rate plus a margin of 1%. The loan is secured by a long term bond (see Note 19).

**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. 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 loan 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.

| | £ 000s |
|---|---|
| Nominal value of the loan notes issued | 2,500 |
| Equity component (see Note 27) | (84) |
| **Total liability component at 31 December 2007 and 2008** | 2,416 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 25 Provisions – Group

| **Decommissioning** | £000 s |
|---|---|
| At 1 January 2008 | 247 |
| Provisions made during the year | 32 |
| Utilised | (247) |
| At 1 January 2008 | 247 |
| Provisions made during the year | 32 |
| Utilised | (247) |
| **At 31 December 2008** | 32 |

The amount provided for decommissioning costs represents the Group's share of site restoration costs for the Frosinone and Fiume Arrone projects in Italy and the Penészlek field in Hungary. The decommissioning liabilities in 2007 were in respect of the Frosinone and Fiume Arrone projects in Italy. The most recent estimate is that the year-end provision will become payable in 2010.

## 26 Called up share capital

| | 2008 £ 000s | 2007 £ 000s |
|---|---|---|
| **Authorised** | | |
| 10,000,000,000 ordinary shares of 0.10p each | 10,000 | 10,000 |
| **Allotted, called up and fully paid** | | |
| **304,782,042** (2007: 304,782,042) ordinary shares of 0.10p each | 305 | 305 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 27 Reconciliation of movements in Group equity

| | Share capital £ 000s | Equity reserve £ 000s | Share premium £ 000s | Share based payment reserve £ 000s | Translation reserve £ 000s | Retained earnings £ 000s | Total parent equity £ 000s | Minority interest £ 000s | Total equity £ 000s |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | 265 | – | 7,944 | 793 | (5) | (2,826) | 6,171 | – | 6,171 |
| Loss for the year | – | – | – | – | – | (2,130) | (2,130) | – | (2,130) |
| Issue of shares during the year | 40 | – | 5,313 | – | – | – | 5,353 | – | 5,353 |
| Share issue costs | – | – | (190) | – | – | – | (190) | – | (190) |
| Issue of convertible loan notes | – | 84 | – | – | – | – | 84 | – | 84 |
| Exchange differences on translation of foreign operations | – | – | – | – | 154 | – | 154 | – | 154 |
| Share based payment | – | – | – | 398 | – | – | 398 | – | 398 |
| **Balance at 31 December 2007** | **305** | **84** | **13,067** | **1,191** | **149** | **(4,956)** | **9,840** | **–** | **9,840** |
| **Balance at 1 January 2008** | **305** | **84** | **13,067** | **1,191** | **149** | **(4,956)** | **9,840** | **–** | **9,840** |
| Loss for the year | – | – | – | – | – | (2,860) | (2,860) | 40 | (2,820) |
| Exchange differences on translation of foreign operations | – | – | – | – | 3,779 | – | 3,779 | – | 3,779 |
| Share based payments granted during the year | – | – | – | 68 | – | – | 68 | – | 68 |
| Share based payments lapsed during the year | – | – | – | (217) | – | – | (217) | – | (217) |
| **Balance at 31 December 2008** | **305** | **84** | **13,067** | **1,042** | **3,928** | **(7,816)** | **10,610** | **49** | **10,650** |

During the year there was a reduction in the share based payment reserve following the expiry of 5,950,000 share options, which was partially offset by the granting of 2,075,000 options and the reversal of part of the provision for National Insurance contributions (see Note 6). The Group maintains its subsidiary company accounts in currencies other than sterling (Euro and Forint). The strengthening of the Euro relative to sterling gave rise to a large exchange gain on the translation of the Group's foreign operations.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 28 Reconciliation of movements in Company equity

| | Share capital £ 000s | Equity reserve £ 000s | Share premium £ 000s | Share based payment reserve £ 000s | Translation reserve £ 000s | Retained earnings £ 000s | Total parent equity £ 000s |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | 265 | – | 7,944 | 793 | – | (2,148) | 6,854 |
| Loss for the year | – | – | – | – | – | (1,074) | (1,074) |
| Issue of shares during the period | 40 | – | 5,313 | – | – | – | 5,353 |
| Share issue costs | – | – | (190) | – | – | – | (190) |
| Issue of convertible loan notes | – | 84 | – | – | – | – | 84 |
| Share based payments | – | – | – | 398 | – | – | 398 |
| Balance at 31 December 2007 | 305 | 84 | 13,067 | 1,191 | – | (3,222) | 11,425 |
| **Balance at 1 January 2007** | 305 | 84 | 13,067 | 1,191 | – | (3,222) | 11,425 |
| Loss for the year | – | – | – | – | – | (423) | (423) |
| Exchange differences on translation of foreign operations | – | – | – | – | 2,935 | – | 2,935 |
| Share based payments granted during the year | – | – | – | 68 | – | – | 68 |
| Share based payments lapsed during the year | – | – | – | (217) | – | – | (217) |
| **Balance at 31 December 2008** | **305** | **84** | **13,067** | **1,042** | **2,935** | **(3,645)** | **13,788** |

## 29 Operating lease arrangement

At the balance sheet date, the Group had no outstanding commitments under non-cancellable operating leases (2007: £nil).

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 30 Acquisition of Subsidiaries

**(a) Petroswiss Limited**

On 13 May 2008 the Group acquired 100 per cent of the issued share capital of Petroswiss Limited. Petroswiss Limited held a 35% interest in the Concordat exploration permit in Switzerland. Since the acquisition date Petroswiss did not generate any revenue and incurred a loss of £12,610. Post acquisition the Petroswiss licence interest was assigned to PEOS AG, a wholly owned subsidiary of the Company.

| | Book value £ 000s | Fair value adjustments £ 000s | Fair value £ 000s |
|---|---|---|---|
| **Net assets acquired:** | | | |
| Plant, property and equipment | 69 | (49) | 20 |
| | 69 | (49) | 20 |
| Total consideration | | | 20 |
| Satisfied by: | | | |
| Cash | | | 20 |
| Net cash inflow arising on acquisition: | | | |
| Cash and cash equivalents acquired | | | – |

## 31 Disposal of invesments

a) On 15 July 2008 the Group completed its disposal of 7.27% of its interest in PetroHungaria kft and 14.54% of ZalaGasCo kft for a cash consideration of €2,000,000. The net profit to the Group on disposal was the Euro equivalent of £1,279,850.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 32 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<br>£ 000s | 2006<br>£ 000s |
|---|---|---|
| Not more than one year | – | 2,175 |
| Between one and two years | – | 328 |
| | – | 2,503 |

## 33 Contingent liabilities

At the balance sheet date there were no contingent liabilities (2007: £nil) in respect of litigation, overseas taxes and guarantees.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 34 Related party transactions

***(a) Group Companies***

Transactions and inter-company balances between the Company and its subsidiaries have been eliminated on consolidation. Intercompany balances are unsecured, have no fixed term and are interest free. A summary of transactions in the year and the year end balances follows.

| Transactions in the year | Cash advances 2008 £ 000s | Services provided by Ascent Resources plc 2008 £ 000s | Cash advances 2007 £ 000s | Services provided by Ascent Resources plc 2007 £ 000s |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Ascent Production Ltd | (64) | 593 | (414) | – |
| Teredo Oils Ltd | (36) | (173) | 3 | 21 |
| Borona Holdings Ltd | – | 205 | – | 173 |
| PetroHungaria kft | 440 | 410 | 475 | 329 |
| Ascent Italia srl | 1,647 | (1,040) | 4,365 | 1,186 |
| SEAG Borona JV | – | 33 | – | 8 |
| Ascent Drilling Ltd | 129 | 10 | 430 | 14 |
| PEOS AG | 49 | 10 | – | 2 |
| Ascent Gabon Ltd | (18) | 20 | (48) | 13 |
| Ascent Netherlands BV | (240) | 298 | (300) | 583 |
| Nemmoco Slovenia Corporation | 164 | 278 | 83 | 100 |
| ZalaGasCo kft | 283 | 163 | – | – |
| **Held for resale** | | | | |
| Ayoopco Ltd | – | – | 221 | – |
| | 2,354 | 808 | 4,814 | 2,429 |

| Balances at the year end | Cash advances 2008 £ 000s | Trading Balance 2008 £ 000s | Cash advances 2007 £ 000s | Trading Balance 2007 £ 000s |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Ascent Production Ltd | – | 593 | 64 | – |
| Teredo Oils Ltd | – | – | 37 | 173 |
| Borona Holdings Ltd | – | 396 | – | 191 |
| PetroHungaria kft | 1,988 | 1,009 | 1,547 | 599 |
| Ascent Italia srl | 7,083 | 669 | 5,436 | 1,747 |
| SEAG Borona JV | – | 135 | – | 101 |
| Ascent Drilling Ltd | 559 | 63 | 430 | 15 |
| PEOS AG | 49 | 18 | – | 8 |
| Ascent Gabon Ltd | (66) | 70 | (48) | 49 |
| Ascent Netherlands BV | (540) | 881 | (300) | 583 |
| Nemmoco Slovenia Corporation | 247 | 377 | 83 | 100 |
| ZalaGasCo kft | 283 | 163 | – | – |
| **Held for resale** | | | | |
| Ayoopco Ltd | – | – | – | – |
| | 9,603 | 4,374 | 7,249 | 3,566 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 34 Related party transactions *(continued)*

***(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. The Company did not trade with JKX during the year (2007: £58,212) and no amounts were owed to JKX at the year (2007: £14,346).

*MDJ Groom*

Malcolm Groom owns a 50% shareholding in Ascent Drilling Limited and at the year-end date had an outstanding loan balance of £597,286 (€625,000) due from Ascent Drilling Limited. The loan is unsecured has no fixed term and is interest free.

Ascent Drilling Limited 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. Ascent Drilling Limited made a profit of £88,213 in the year to 31 December 2008 (2007:£20,078).

***(c) Other related party transactions***

*Perazzoli Drilling srl*

During the year Ascent Resources Italia srl purchased no drilling rig services (2007: £44,069) from the Group associate company Perazzoli Drilling srl ('Perazzoli'). At the year end there was no outstanding balance payable by Ascent Resources Italia srl to Perazzoli (2007: £44,069). During the year Ascent Resources Italia srl made prepayments valued at £477,828 (2007:£0) towards the purchase costs of a drilling rig.

## 35 Post balance sheet events

On 20 April 2009, Ascent subsidiary PetroHungaria kft ('PetroHungaria'), successfully completed and tested the PEN-104A side track of the PEN-104 gas producing well in the Penészlek area of the Nyírség permits of eastern Hungary. The Company production at the well commenced following disassembling of the drilling rig and reconnection of the flow line.

On 13 May 2009, Ascent entered into an agreement with GEM Global Yield Fund Limited ('GEM') whereby GEM has made available to the Company an equity line of credit of up to £5 million ('the Facility'). The Facility will be used to assist in funding the Company's exploration projects not covered by production revenue, and if appropriate, to finance investments in additional exploration projects that are outside the investment profile of the Ascent/San Severina asset management joint venture. Under the terms of the Facility, the Company is able to make draw downs of cash, at times of its choosing, by issuing new ordinary shares to GEM. The equity line is available for three years from 13 May 2009 and draw downs cannot be called by GEM. The Company may issue a subscription notice requesting GEM to subscribe for a number of shares up to a maximum of 5 times the average daily trading volume in the 15 trading days immediately preceding the date of the subscription notice. GEM has the right to buy between 50% and 130% of the subscribed shares and can buy up to 200% with Company consent. The shares will be priced at a 9% discount to the average closing mid price of the shares over the 15 trading days immediately following the issue of the subscription notice. Furthermore, the Company has issued warrants to GEM over 15,000,000 shares which are exercisable at 10.16p for a period of five years from the date of issue. The warrants will constitute equity based payments in accordance with IFRS 2.

On 20 May 2009, Ascent started drilling the Gazzata-1 well near the city of Modena in Italy's Po Valley. The drilling to evaluate the primary target, a large gas prospect that is estimated to be at a depth of 2,100m is expected to be completed shortly.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 35 Post balance sheet events *(continued)*

On 21 May Ascent has farmed out one half of its 80% participation in the Eastern Slovenian Exploration Project to Aspect Energy International, a subsidiary of Denver based Aspect Holdings LLC ('Aspect'). The Eastern Slovenian Exploration Project is situated on the eastern edge of the Pannonian Basin, covering 864 square kilometres of the 2,473 square kilometre Pomurje Regional Exploration Area, adjacent to the Hungarian and Croatian borders. The exploration licence is held by Nafta Geoterm d.o.o., a subsidiary of state-owned energy and petrochemicals conglomerate Nafta Lendava d.o.o., which retains a 20% carried interest.

On 1 June Ascent announced that through its asset management business with San Severina Holdings SA ('San Severina'), the Swiss based investment company, is to be assigned an interest in the Jolly Ranch Project ('the Project'), an oil and gas development in Colorado in the United States of America. San Severina has agreed to purchase a 20% interest in the Project and will transfer 20% of this interest (a 4% interest in the Project) to Ascent on completion, which is expected to occur during June 2009. The other partners in the Project are the operator, Running Foxes Petroleum Inc ('Running Foxes'), and Nighthawk Production LLC, a wholly owned subsidiary of Nighthawk Energy plc ('Nighthawk'), each of whom will retain a 40% interest.

On 8 June 2009 Ascent announced it had issued 17,350,000 shares to GEM Global Yield Fund Limited ('GEM') under the terms of the Equity Credit Line facility announced on 14 May. The price of the subscription is 7.4 pence per Ordinary Share.

## 36 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:

| | 2008 Number of share options | Weighted average exercise price |
|---|---|---|
| Outstanding at the beginning of the year | 29,750,000 | 16.80p |
| Granted during the period | 2,075,000 | 7.81p |
| Exercised during the period | – | – |
| Expired during the period | (5,950,000) | 14.62p |
| Outstanding at the end of the year | 25,875,000 | 16.38p |
| **Exercisable at the end of the period** | **23,800,000** | **17.13p** |

| | 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 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 36 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:

| | 2008 | 2007 |
|---|---|---|
| Share price at grant date | 4 – 11p | 9 – 20p |
| Exercise price | 4.75 – 11p | 11.75 – 30p |
| Volatility | 90% | 100% |
| Expected life | 3 – 5 years | 3 – 5 years |
| Risk free rate | 4.37 – 4.5% | 4.68 – 5.63% |
| 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.

Options outstanding at 31 December 2008 have an exercise price in the range of 4.75p and 40p and a weighted average contractual life of 3.59 years.

The Group reversed provisions of £149,498 in 2008. Total expenses of £398,117 related to equity-settled share-based payment transactions were recognised in 2007.

The Group reversed liabilities of £379,179 in 2008. A cash liability of £155,438 in respect of national insurance liability arising on share based payments was recognised in 2007.

## 37 Financial risk management

**Group and Company**

The Group's financial liabilities comprise bank loans and trade payables. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and interest risk. The risk management policies employed by the Group to manage these risks are discussed below:

**a) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group does not have any significant credit risk exposure as the Group's sole customer is the Hungarian state oil and gas company.

The Group makes allowances for impairment of receivables where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

Included in the Group's receivables balances is VAT recoverable from the state authority in Italy with a carrying amount of £627,451 (2008;£1,212,808), which is still considered recoverable.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit-rating agencies in the UK.

The carrying amount of financial assets recorded in the financial statements represents the fair value of Group's exposure to credit risk.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 37 Financial risk management *(continued)*

### b) Currency risk

TThe Group's operations are predominantly in Italy and Hungary. Foreign exchange risk arises from translating the euro earnings, assets and liabilities of the Ascent Resources Italia srl subsidiary and PetroHungaria kft joint venture into sterling. The Group manages exposures that arise from receipt of monies in a non-functional currency by matching receipts and payments in the same currency.

*Foreign currency sensitivity analysis*

The Group is mainly exposed to the currency of the European Union (Euro) and the currency of Hungary (Forint).

The Group operates internationally and is exposed to currency risk on sales, purchases, borrowings and cash and cash equivalents that are denominated in a currency other than Pounds sterling. The currencies giving rise to this are the Euro and the Hungarian Forint.

Foreign exchange risk arises from transactions and recognised assets and liabilities.

The Group does not use foreign exchange contracts to hedge its currency risk.

*Sensitivity analysis*

The following table details the Group's sensitivity to a 10% increase and decrease in the sterling against the stated currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis comprises cash and cash equivalents held at the balance sheet date. A positive number below indicates an increase in profit and other equity where the sterling weakens 10% against the relevant currency.

| | Euro currency change | | Forint currency change | |
|---|---|---|---|---|
| Group | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s | Year ended 31 December 2007 £ 000s | Year ended 31 December 2007 £ 000s |
| **Profit or loss** | | | | |
| 10% strengthening of sterling | 198 | 55 | (38) | 66 |
| 10% weakening of sterling | (198) | (55) | 38 | (66) |
| **Equity** | | | | |
| 10% strengthening of sterling | (1,418) | (1,016) | 80 | (111) |
| 10% weakening of sterling | 1,418 | 1,016 | (80) | 111 |

| | Euro currency change | | Forint currency change | |
|---|---|---|---|---|
| Company | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s | Year ended 31 December 2007 £ 000s | Year ended 31 December 2007 £ 000s |
| **Profit or loss** | | | | |
| 10% strengthening of sterling | – | – | – | – |
| 10% weakening of sterling | – | – | – | – |
| **Equity** | | | | |
| 10% strengthening of sterling | (1,045) | (715) | (55) | (38) |
| 10% weakening of sterling | 1,045 | 715 | 55 | 38 |

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 37 Financial risk management *(continued)*

*Fair values*

All financial assets and liabilities are shown in the balance sheet at their amortised costs, which approximates to underlying fair value.

*Interest bearing loans and borrowings*

The fair value is estimated at the present value of future cash flows, discounted at market rates. Fair value is not significantly different from carrying value.

*Trade and other receivables/payables*

All trade and other receivables and payables have a remaining life of less than one year. The ageing profile of the Group and Company receivable and payables are shown in notes 19, 20, 22 and 23 (above).

**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.

**d) Interest rate risk**

The Group's exposure to interest rate risk arises from cash and cash equivalents and borrowings.

Changes in market interest rates mean that investments subject to variable rates expose the Group to the risk that future associated cash flows that the fair value of the financial instrument will fluctuate.

At 31 December 2008, the Group had:

- Euro cash deposits at a sterling equivalent of: £1,022,391 (2007: £898,716 ),
- Hungarian Forint cash deposits at a sterling equivalent of: £144,302 (2007: £305,317); and
- UK Pound Sterling cash deposits of: £69,097 (2007: £119,660)

At 31 December 2008 the Group also had a Euro bond deposit at a sterling equivalent of: £955,657 (2007: £1,117,784).

At 31 December 2008, the Group had a loan of £2,500,000 at a fixed rate of 8.5% and a Euro loan at sterling equivalent of £ 2,074,300 (2007: £1,041,385 ) at variable rate of EURIBOR plus one per cent (2007: EURIBOR + 1%)

| | Weighted Average Floating Interest Rate % | Amount £ |
|---|---|---|
| *Financial assets (sterling equivalent)* | | |
| Cash in Euro | 3.85 | 858,989 |
| Cash in Sterling | 0.74 | 71,876 |
| Cash in Hungarian Forints | 1.09 | 304,925 |
| Euro bond deposit | 5.0 | 955,657 |

**e) Liquidity risk**

The Group manages the liquidity requirements by use of both short and long-term cash flow projections, supplemented by maintaining debt financing plans and active portfolio management. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

# Notes to the Financial Statements *(continued)*

for the year ended 31 December 2008

## 37 Financial risk management *(continued)*

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios (see note 1).

Following the announcement in May 2009 of a £5 million equity line of credit secured with GEM Global Yield Fund, the Group's forecasts and projections show that there is significant capacity and financial flexibility for the 12 months from the date of this Annual Report and Accounts.

**f) 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.

**g) Borrowings and Derivative Financial instruments**

Set out below is a comparison of carrying amounts and fair values of the Group's and the Company's financial instruments

| | Carrying amount | Fair value | Carrying amount | Fair value |
|---|---|---|---|---|
| Group | Year ended 31 December 2008 £ 000s | Year ended 31 December 2008 £ 000s | Year ended 31 December 2007 £ 000s | Year ended 31 December 2007 £ 000s |
| **Financial assets** | | | | |
| Cash and cash equivalent | 1,236 | 1,236 | 1,323 | 1,323 |
| Bond | 956 | 956 | 1,118 | 1,118 |
| Trading investments | 145 | 145 | 500 | 500 |
| Trade receivables | 31 | 31 | 361 | 361 |
| **Financial liabilities** | | | | |
| Trade Creditors | 3,867 | 3,867 | 1,580 | 1,580 |
| Convertible loan at fixed rate | 2,416 | 2,416 | 2,416 | 2,416 |
| Bank loan at variable rate | 2,074 | 2,074 | 1,041 | 1,041 |
| Other non-interest bearing loans | 597 | 597 | 459 | 459 |

| | Carrying amount | Fair value | Carrying amount | Fair value |
|---|---|---|---|---|
| Company | £ 000s | £ 000s | £ 000s | £ 000s |
| **Financial assets** | | | | |
| Cash and cash equivalent | 904 | 904 | 779 | 779 |
| Trade receivables | 4 | 4 | 281 | 281 |
| **Financial liabilities** | | | | |
| Trade Creditors | 3,867 | 3,867 | 179 | 179 |
| Convertible loan at fixed rate | 2,416 | 2,416 | 2,416 | 2,416 |

At 31 December 2008, the Group had a loan of £2,500,000 at a fixed rate of 8.5% and a Euro loan at sterling equivalent of £2,074,300 (2007: £1,041,385 ) at variable rate of EURIBOR plus one per cent (2007: EURIBOR + 1%).

At 31 December 2008 the Group also had a Euro bond deposit at a sterling equivalent of: £955,657 (2007: £1,117,784).

# Notice of Annual General Meeting

Notice is hereby given that the fourth 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 Thursday 23rd July 2009 at 11am 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 2008 and the report of the auditors thereon.
2. To re-appoint, as director of the Company, Mr S Cunningham, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-appointment.
3. To re-elect, as a director of the Company, Mr J Legg, who retires in accordance with Article 25.2 of the Company's Articles of Association and offers himself for re-election.
4. To re-appoint KPMG LLP as auditors to hold office until the conclusion of the next general meeting of the Company at which the accounts are laid before members and to authorise the directors to determine their remuneration.

**Special Business**

5. 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 £107,269.97 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 2010 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.

6. 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 5 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;

provided that the power in this Resolution 6 shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010 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 2009

## 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. To appoint more than one proxy you may photocopy the form of proxy. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. 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 11 am on 21st July 2009 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 11 am on 21st July 2009 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
5. **Resolution 2** – Having been appointed since the last Annual General Meeting, Simon Cunningham must retire in accordance with Article 20.2 of the Company's Articles of Association, and being eligible is offering himself for re-appointment.
6. **Resolution 3** – Article 25.2 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.
7. **Resolution 5** – 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 2010, 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 107,269,970 Ordinary Shares, which is equivalent to 33.3% of the issued share capital of the Company as at the date of this Notice.
8. **Resolution 6** – 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 approximately 29% 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 2010.

# Notes

**Your Notes**