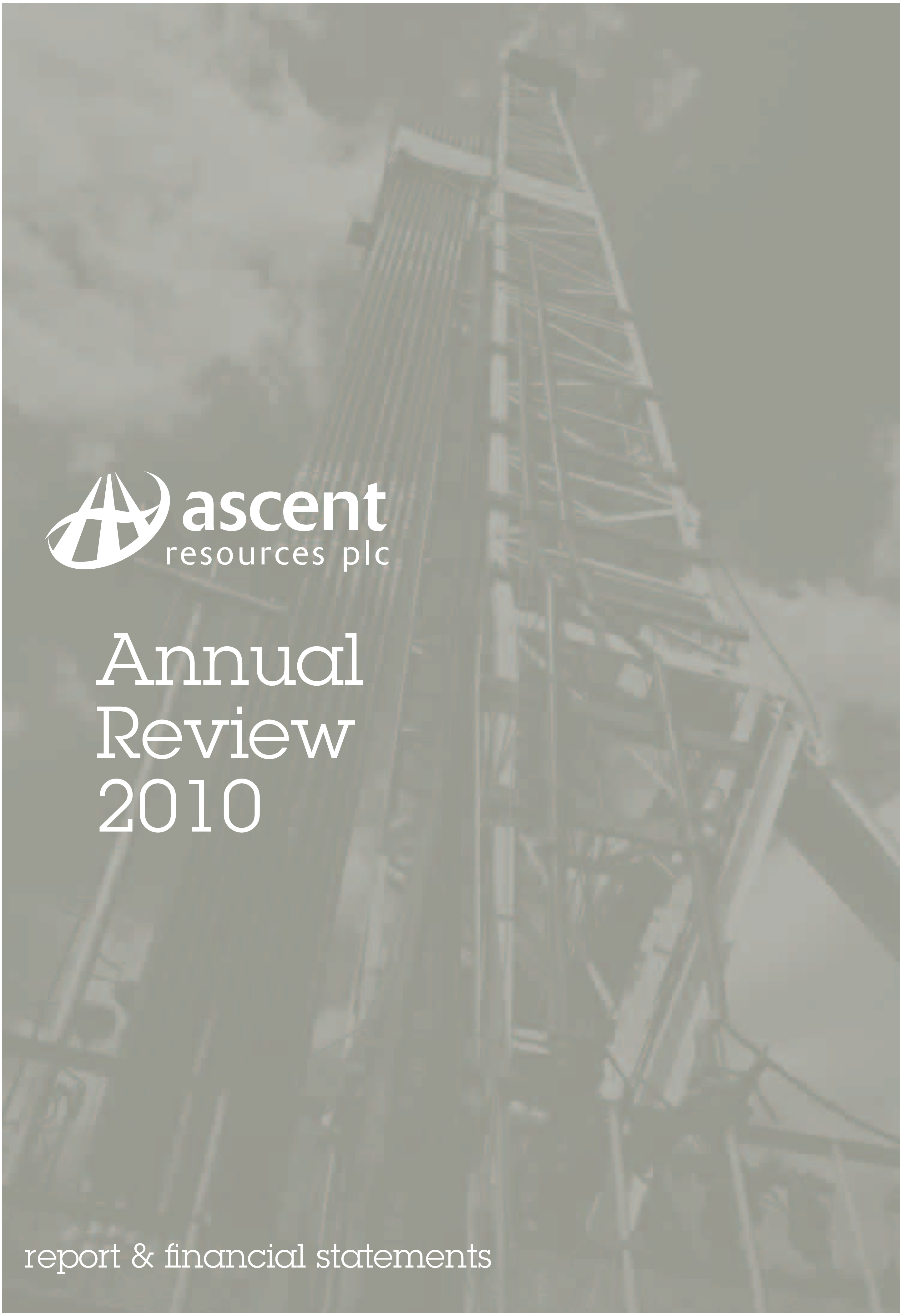
ascent
resources plc

# Annual Review 2010

report & financial statements



ascent resources plc

# Annual Review 2010

report & financial statements

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# OPERATIONS REVIEW

## UNITED KINGDOM
**Head Office**
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Tel: 020 7251 4905
www.ascentresources.co.uk

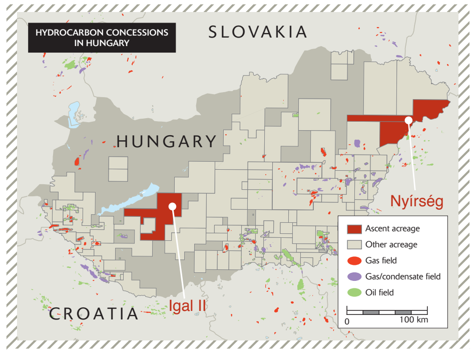
## THE NETHERLANDS
**Ascent Resources NL BV (100%)**
54% of M10/11 gas exploration

## SLOVENIA
**Ascent Slovenia Limited (100%)**
75% Petišovci Project
(Post acquisition in February 2011)

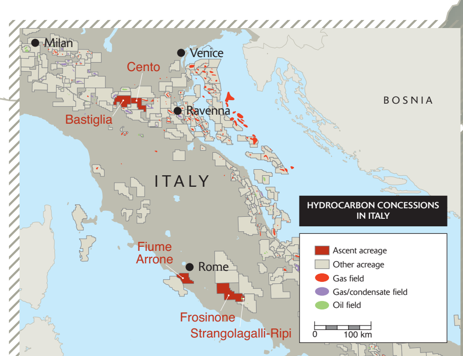
## SWITZERLAND
**PEOS AG (0%)**
45% Back-in rights for first 3 conventional discoveries
22.5% Back-in rights for second 3 conventional discoveries

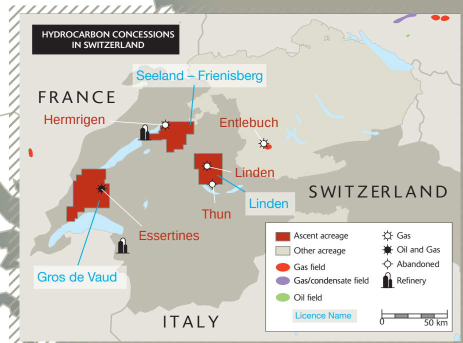
## ITALY
**Ascent Resources Italia srl (100%)**
100% Cento and Bastiglia exploration permits
76% Fiume Arrone gas exploration
80% Frosinone exploration permit
50% Strangolagalli-Ripi development

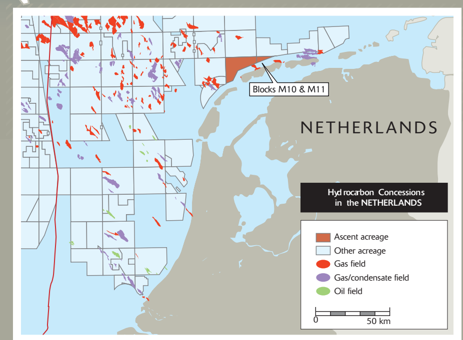
## HUNGARY
**PetroHungaria kft (48.776%)**
100% Nyírség-Penészlek gas development
**Ascent Resources Hungary Ltd (100%)**
50% Lovászi/Ujfalu gas development
**Pelsolaj kft (60%)**
60% Igal II gas exploration








Ascent Resources plc ("Ascent") is a multi-project oil and gas exploration company, with interests in five European countries: Slovenia, Hungary, Switzerland, Italy and the Netherlands. The Company focuses primarily on low cost, onshore oil and gas assets with high upside potential. Modern exploration and development techniques are utilised to maximise profitability, whilst operating through local entities with local employees provides substantial advantages leading to greater efficiency and know-how.

Ascent's balanced portfolio targets projects which are in areas with a proven hydrocarbon system and largely in areas with existing or nearby infrastructure, either pipelines for gas or refineries for oil. The Company has three core projects and a large portfolio of other assets to be matured for inclusion in the core portfolio after the completion of early stage, geological and geophysical work programmes and by following an asset-management (farm-out/farm-down) strategy.

## CORE PROJECTS

### Petišovci/Lovászi/Ujfalu – Slovenia / Hungary
(Petišovci - 75% interest / Lovászi/Ujfalu – 50% interest)

A phased exploration and development programme at the Petišovci-Lovászi tight gas project, which straddles the Slovenian Hungarian border, commenced during 2009 with the acquisition of 3-D seismic. The conclusion of Phase 1 in the coming months, will provide the project with two fully evaluated modern wells from which the overall re-development of the Petišovci Globocki reservoir can be planned and a third state-of-the-art well in the Hungarian part of the project area.

The first well is the 3,050m Pg-11 well, the drilling and evaluation of which was completed post year end in February 2011. This was the first well to be drilled in 22 years on the project area, which has an independent P50 estimate of gas-in-place estimate of 412 Bcf. (11.7 Bm3; 68.7 MMboe).

The primary objectives of the Pg-11 appraisal well were satisfied with gas confirmed by logs in all of the six Middle Miocene Badenian reservoirs. In addition, and unexpectedly, gas and condensate were sampled from the Lower Miocene Karpatian reservoir, which it is hoped will contribute to an increase in the gas-in-place estimates. Gas also flowed for the first time from the shallowest 'A' sands.

These results substantially de-risk the project and underpin its commercial potential.

In April 2011 we commenced phase two of the Pg-11 well by drilling the sidetrack Pg-11A. The purpose was to fully delineate the Karpatian reservoir which was unexpectedly encountered whilst drilling Pg-11 and to log & test part of the well to gather more data to determine any exploitation strategy.

Whilst Pg-11 was drilled in the eastern part of the field, the second appraisal well, Pg-10, is planned for the western part of the field and the drilling location is under construction so that the rig can move there immediately from the Pg-11 location.

It is intended to complete both of these wells so that production can commence later in 2011. As carbon dioxide ($CO_2$) is present, a $CO_2$ scrubber might be necessary so that the gas can be sold in to the Geoplin national pipeline network that has a maximum $CO_2$ concentration limit of 1.5%

Phase 2 of the project will commence in 2012 after the data from Phase 1 is fully integrated into the geological model and the redevelopment of the field has been fully planned. At the present time we think between 10 and 15 wells will be required to develop the reserves in the Slovenian half of the project.

Outside of the Petišovci field area but within the project area, a number of exploration targets are present and plans for these wells are also being considered for the 2012 drilling campaign. Additional wells, depending on the outcome of the Ujfalu III exploration and appraisal well, will also be considered in the Hungarian half of the project area.

## Hermrigen/Essertines/Linden – Switzerland

(45% back-in right on any success for three conventional appraisal prospects and a 22% back-in right for a further three conventional secondary prospects for apportioned cost of drilling)

In April 2010 Ascent sold its 100% owned Swiss subsidiary, PEOS AG ('PEOS'), to eCORP Europe International Ltd. ('eCORP'), for a cash consideration of €8 million, but retained various back-in options on specific potentially successful discoveries. The projects held within PEOS are estimated by Tracs International to contain gross contingent conventional resources in excess of 600Bcf. of gas.

THE COMPANY HAS THREE CORE PROJECTS AND A LARGE PORTFOLIO OF OTHER ASSETS TO BE MATURED FOR INCLUSION IN THE CORE PORTFOLIO AFTER THE COMPLETION OF EARLY STAGE, GEOLOGICAL AND GEOPHYSICAL WORK PROGRAMMES AND BY FOLLOWING AN ASSET-MANAGEMENT (FARM-OUT/ FARM-DOWN) STRATEGY.

As part of the transaction, eCORP has irrevocably committed to drill the Hermrigen-2 appraisal well prior to October 2011, however, as the site construction permit has not yet been issued, the drilling rig contract is not yet in place.

Management estimate gross contingent reserves of potentially 150Bcf. in the Muschelkalk and Bunter layers of the Hermrigen prospect. eCORP will fund the entire cost of the Hermrigen-2 well and, if successful, Ascent has the retrospective right to participate by paying 45% of the conventional well cost to earn a 45% interest in the conventional discovery. Ascent has no rights to any unconventional gas development or gas storage project should it be undertaken by eCorp. Ascent retains the equivalent rights for the appraisal of the Essertines 1 and Linden 1 appraisal wells should eCORP elect to drill these prospects. Should eCorp elect not to drill these wells Ascent retains the option, subject to certain conditions, to fund their development in its own right.

Additionally, Ascent and eCORP have identified a further three prospects in the licence areas held by PEOS. Should eCORP elect to drill these additional prospects, Ascent has the right to 22.5% of any successful conventional discovery by paying 22.5% of the drilling costs post discovery. Again, should eCorp elect not to drill these wells Ascent retains the option, subject to certain conditions, to fund their development in its own right.

## Frosinone/Strangolagalli – Italy

(80% interest in Frosinone and 50% interest in Strangolagalli)

At the Frosinone Exploration Licence, two wells, Anagni-1 and Fontana 1, were historically drilled with good oil shows. During the period, a satellite reconnaissance survey was commissioned and the results not only show potential in the existing prospects but have also revealed new targets which are substantially larger. New 2-D seismic is planned for these new prospects and acquisition is scheduled for the 3rd quarter 2011.

Work has been ongoing at the Strangolagalli Concession. Seismic has been acquired over the Ripi oilfield, a proven oil producing area, and permitting is on-going for four redevelopment wells based on this new seismic data. Subject to permitting and financing, a suitable rig is available to drill two wells later in 2011.

# OTHER PROJECTS

## Penészlek project - Eastern Hungary

(48.8% interest)

Production commenced at the Penészlek project from the PEN-105 well in March 2010 and later from the PEN-101 well in May 2010. Both wells are still producing over 1.5 MMscfd of gas, currently generating gross revenue of approximately €300,000 per month. A fully automated production facility is being used, located close to PEN-101, to keep overheads low and profitability high. Production is anticipated to continue for about 12 months with PEN-105 sidetrack targeted this summer as one segment of the field becomes fully depleted.

The long-standing PEN-9 project in the northern part of the newly issued Mining Plot (Production Concession) is still under consideration. PEN-9 tested gas when it was originally drilled in 1985 but certain restrictions have so far prevented re-entry and testing of this well; hopefully these restrictions will be surpassed in the near future.

## Cento-Bastiglia – Po Valley, Italy

(100% interest)

The same satellite reconnaissance as used for Frosinone was commissioned over this area and over the Fiume Arrone project (Ascent 70%). In Cento-Bastiglia, a number of leads have been identified and seismic will be required to confirm the depth and prospectivity of these leads.

## M10/M11 – the Netherlands

(54% interest)

Ascent continues to strengthen its portfolio of non-core, longer term projects. In July 2010, Ascent, through its subsidiary Ascent Resources (Netherlands) BV ('ARN'), increased its interest in the M10/11 block in the southern North Sea off the Netherlands' coast, to 54%. The M10/11 appraisal project is in the shallow waters off the north coast of the Netherlands. The discovery well, M11-1 was drilled by Nederlandse Aardolie Maatschappij ('NAM') in 1985. The area benefits from good quality 3-D seismic coverage and in addition to the discovery in the Rotligendes sandstones, a number of other prospects and leads have been identified. Ascent and the other project partners are considering the drilling of an appraisal well for the Terschelling Noord discovery which was also drilled by NAM in 1992. This structure lies partly within the M10/11 licence area and partly in the area to the south.

The Ministry of Economic Affairs is considering ARN's request for an extension to the expiration date of these licences.

# ACQUISITIONS

In September 2010, Ascent acquired a 60% interest in the 1,990 sq. km. Igal-II exploration permit in Central Hungary through its 60% equity interest in Hungarian company Pelsolaj kft ('Pelsolaj'). The exploration permit, to the south east of Lake Balaton, was acquired from Winstar Resources Limited in exchange for a 4% net profit interest derived from future production from the permit area.

Initial exploration will concentrate on a 300 sq. km. area known for pre-Pannonian sediments, which are highly prospective for oil and where a number of shallow leads, circa 1,000 metres, have already been identified. 40km of new 2-D seismic was acquired in September 2010 and drilling locations are under consideration which will be located between three old wells in which the prospective formations have been shown to be present. Importantly, a number of discoveries in similar geological structures nearby produce good quality oil at rates typically in excess of 100 bopd per well.

# CHAIRMAN'S STATEMENT

**I am pleased to report that 2010 was a year of solid progress for Ascent both operationally and in terms of positioning the Company for steady near- and long-term growth in shareholder value.**

Our strategy remains to combine lower risk field redevelopment projects in areas with existing infrastructure with selected higher risk exploration projects all designed to provide a balanced risk/reward profile with good potential upside. To this end, we have a diversified portfolio of principally onshore, hydrocarbon exploration, redevelopment and appraisal interests across five European countries: Slovenia, Hungary, Switzerland, Italy and the Netherlands. We are initiating relatively simple development models to advance these projects, utilising the latest technology and working with local organisations in each country to increase efficiency. As a result of the work undertaken during 2010 and 2011, we anticipate ramping up production towards the end of 2011 and beyond.

Our primary near-term objective is to advance the Petišovci/Lovászi/Ujfalu tight gas project in Slovenia/Hungary. We now hold a 75% interest in the Petišovci asset, having acquired a further 48.75% from EnQuest PLC post year end in return for a 22.5% equity stake in Ascent and a nil cost option of 150,903,958 additional shares, and a 50% interest in the Lovászi and Ujfalu assets. During the year we had independently verified P50 gas in place estimates for the entire project of 412 Bcf. (11.7 Bm3; 68.7 MMboe) and for that reason we consider it relatively low-risk. The challenge for us in 2011 is not so much finding the gas, which we know is there, but how to unlock this gas in a commercial manner given it is largely a tight gas asset.

Phase 1 of the project's development programme included the drilling of Pg-11 well in December 2010 to define the main project parameters. On completion of drilling in February 2011, we were able to confirm gas in all of the six Middle Miocene Badenian reservoirs as well as, most excitingly and unexpectedly, the Lower Miocene Karpatian reservoir, which we hope will increase the gas in place estimate by in excess of 100 Bcf.. The data collected, in conjunction with the full 3-D seismic which we acquired during the year across the whole project area, has led us to believe that we can extract the gas using modern drilling techniques, either by drilling horizontally or by fraccing. In order to determine the right method to use, Phase 2 of the programme is currently underway with a deeper horizontal sidetrack to enable us to fully delineate the Lower Miocene Karpatian reservoir and depending on these results we may follow this up with a sidetrack well in the Middle Miocene. Subsequently in the late summer of 2011 we plan to drill another well, Pg-10. Following this, if successful, it is hoped that production can commence before the end of the year. To achieve this target, a simple pipeline connection and a $CO_2$ reduction plant is required to connect any producing wells in the project to the national pipeline network.

Going forward, our development plan envisages 10-15 more wells being drilled over a three- to four-year period. It is estimated that if production from the wells is in line with current projections, that net operating cash flow from the first well brought on stream during 2011 could be €3 million in 2011 rising to €10 million in 2012 and €24 million for the period 2013-2015, based on €7 Mscf. gas pricing. The project's net CapEx however is not inconsiderable requiring in excess of €150m to develop the entire field.

We are also focussed on two other core projects: Hermrigen/Essertines/Linden in Switzerland and Frosinone/Strangolagalli in Italy. The Swiss project is another known oil and gas discovery, which was unexploited due to the low price of gas in 1982 and lack of pipeline infrastructure at that time. We consider that this is also a low risk project as Ascent sold its 90% interest to eCORP in April 2010 for €8 million, whilst retaining a 45% back-in right on any success for three conventional appraisal prospects and a 22.5% back-in right for a further three secondary conventional prospects for apportioned cost. eCORP anticipates drilling the Hermrigen well in the summer of 2011 once the permit is received.

Finally, the Frosinone/Strangolagalli oil exploration and redevelopment project in Italy has also been making headway. New seismic was shot last year in the Strangolagalli Concession and this year a latest generation satellite reconnaissance survey was commissioned, enabling us to plan a new three-well drilling programme for 2011/2012. Further seismic has been commissioned at the Frosinone Exploration Licence to identify drilling locations. We are currently exploring our options in terms of financing an exploration programme but as all the drilling would be targeting reservoirs about 1000 metres deep, costs should be relatively low, yet the upside could be significant for a Company of our size.

Also on the theme of finance, production continues at our 48.8% held Penészlek project in Hungary, where we are currently §generating gross gas sales of approximately €300,000 per month. The strong European gas market conditions have been working in our favour; with over 50% of European gas imported and forecast to rise to circa 75% in line with the declining North Sea production, we anticipate these favourable pricing conditions to continue. Production at Penészlek is expected to continue for about another 12 months with another sidetrack well, PEN-105, targeted for the summer of 2011 prior to the field being fully depleted.

"WITH A STRONG TEAM IN PLACE AS WELL AS A SOLID INVESTOR BASE, A HEALTHY BALANCE SHEET AND AN EXCITING PORTFOLIO OF DIVERSIFIED ASSETS, THE OUTLOOK FOR 2011 AND BEYOND IS HIGHLY ENCOURAGING."

The self-financing Penészlek project is useful as it provides the Company with cashflow for overheads, however post the year end in March 2011, it was necessary to raise additional funds by way of a placing in order to progress our core Petišovci/Lovászi/Ujfalu project. We were therefore very pleased to raise £17 million, before expenses, primarily with high quality institutional investors. This has provided the capital to significantly advance our Petišovci/Lovászi/Ujfalu project and we believe that if successful the money could be enough to get us to production/cash flow generation before the year end.

On a corporate level, we have made a number of changes. In September 2010 we appointed finnCap Ltd as the Company's Nominated Adviser and Broker to strengthen our profile within the fund and wealth management arena. Earlier in the same month we also made changes to our Board with the appointment of Dr. Cameron Davies as a Non-executive Director. Cameron is an international energy sector specialist and the former Chief Executive of Alkane Energy plc. He has an excellent track record of exploration success and growing profits in a quoted energy company. He brings with him the technical skills and broad network of international energy industry contacts which will be invaluable in progressing Ascent's extensive portfolio of European oil and gas development and exploration assets.

At the same time, both Legal Director Malcolm Groom and Non-executive Director Jonathan Legg, who had been with the Company since 2005, stepped down from the Board to focus on other commitments. At the end of 2010, Simon Cunningham, our Finance Director, also stepped down from the Board to re-locate to Australia. I would like to take this opportunity to thank them all for their work during their long association with Ascent.

Simon was replaced by Scott Richardson Brown as Executive Finance Director, who had been appointed in November 2010 as a Non-executive Director. Scott is a qualified Chartered Accountant and subsequent to his experience as an auditor has spent over 10 years working with AIM, FTSE 250 and FTSE 100 companies, both in a corporate finance advisory role and, recently, as Corporate Finance and Investor Relations Director of CSR plc.

Additionally, post the year end, as part of the agreement with EnQuest PLC, Graham Cooper was nominated to join our Board as a Non-executive Director in February 2011. Graham brings with him a wealth of experience which will be very valuable to the Company. EnQuest will also provide technical support to Ascent for the Petišovci Project, as well as for the evaluation of future European business development opportunities.

With a strong team in place as well as a solid investor base, a healthy balance sheet and an exciting portfolio of diversified assets, the outlook for 2011 and beyond is highly encouraging. Having proved up our core portfolio we are now focussed on extracting value from it and in line with this, aggressive work programmes are underway. The Petišovci/Lovászi/Ujfalu tight gas project is particularly promising, which in tandem with our other projects, will, I am confident, create real and lasting value for our shareholders.

John Kenny
Chairman

# BOARD OF DIRECTORS

## John Kenny (69)
### 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 (52)
### 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 27-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.

## Scott Richardson Brown (35)
### Finance Director

Scott Richardson Brown is a qualified Chartered Accountant with wide experience working with AIM, FTSE 250 and FTSE 100 companies. Beginning his career at Coopers & Lybrand's (later PricewaterhouseCoopers) in the Banking and Capital Markets division, Scott then became a Partner in the Corporate Broking/Finance division of Oriel Securities Limited where he gained significant experience in a range of sectors including oil and gas. His most recent role prior to joining Ascent was that of Corporate Finance and Investor Relations Director for CSR plc, a FTSE 250 semiconductor company, where, in addition to the day-to-day capital and corporate finance activities, he managed a number of corporate transactions.

## Nigel Moore (67)
### 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 Sylvan Energy LLC, a US based exploration company.

## Cameron Davies (67)
### Non-Executive Director
#### Chairman of the Remuneration Committee

Cameron Davies is an international energy sector specialist and the former Chief Executive of Alkane Energy plc. He has an excellent track record of exploration success and growing profits in a quoted energy company. Beginning his career as a geologist, Dr. Davies has over 35 years' experience in the oil and gas sectors. He founded AIM listed Alkane Energy plc in 1994 and managed the business from original concept through venture capital funding and an IPO, to become a profitable operator of gas to power generation plants using Coal Mine Methane as fuel. He has a PhD from Imperial College, is a Fellow of the Geological Society of London and a member of the European Petroleum Negotiators Group, the London Energy Group and the PESGB.

## Graham Cooper (54)
### Non-Executive Director
#### Member of the Audit and Remuneration Committees

Graham Cooper has over 30 years' oil and gas technical and commercial experience, gained mainly in upstream positions. A geologist and petrophysicist by background, his career has mainly focussed on Europe, with the exception of four years in the Middle East. Graham is Head of Business Development at EnQuest PLC. Prior to this Graham worked for Conoco and Shell in various senior technical and business development roles including VP Commercial for Global Exploration at Shell's headquarters in The Hague. Graham has exceptional deal-making skills and experience and was assessed a 'Champion Deal Leader' by Shell's Commercial Academy in 2007. Graham served as a Director on the Board of the Association of International Petroleum Negotiators, from 2007 to 2011.



## SUMMARY OF GROUP NET OIL AND GAS RESERVES

Net Gas Reserves and Gas Resources by country

| | Net Proven + Probable Reserves (Bcf) | Net Attributable Contingent Resources (Bcf) | | | Net Attributable Prospective Resources (Bcf) | | |
|---|---|---|---|---|---|---|---|
| | | Low | Best | High | Low | Best | High |
| **Hungary (1)** | 1.3 | - | - | - | - | - | - |
| **Hungary (2)** | - | - | - | - | - | 19 | - |
| **Netherlands (3)(a)** | - | 3.7 | 8.8 | 18.8 | - | - | - |
| **Netherlands (4)** | - | - | - | - | 7 | 11 | 18 |
| **Switzerland (3)(b)** | - | 2.0 | 4.8 | 9.5 | 78 | 156 | 304 |
| **Italy (3)(c)** | 0.1 | - | 2.0 | - | - | 87 | - |
| **Slovenia (3)(d)** | - | - | - | - | 31 | 59 | 102 |
| **Net Attributable at 31 December 2010** | 1.4 | 5.7 | 15.6 | 28.3 | 116 | 332 | 424 |

(1) These figures are based upon Management evaluations of the Penészlek Mining Plot
(2) These figures are based upon Management evaluations of the Lovászi Project Area
(3) These figures are based upon independent evaluations provided by:
 (a) ERC Energy Resource Consultants Limited and Equipoise Solutions
 (b) Tracs International
 (c) RPS Energy
 (d) Troy-Ikoda Limited
(4) These figures are based upon management evaluations of the Terschelling Noord structure in the M10 licensed area and the open acreage to the south of that area

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 2 JUNE 2011

| Permit | Subsidiary | Working Interest (%) | Permit Area Gross (sq km) | Net (sq km) | Status |
|---|---|---|---|---|---|
| **Hungary** | | | | | |
| Nyírség | PetroHungaria kft | 48.78** | 2,483 | 1,211 | Gas exploration & development |
| Bajcsa | ZalaGasCo kft | 49.00 | 27 | 13 | Gas redevelopment |
| Lovászi | Ascent Hungary Limited | 50.00 | 90 | 45 | Gas redevelopment |
| Igal II | Pelsolaj kft | 60.00 | 1,990 | 1,194 | Gas exploration |
| **Italy** | | | | | |
| Cento | Ascent Resources Italia srl | 100.00 | 357 | 357 | Gas exploration |
| Bastiglia | Ascent Resources Italia srl | 100.00 | 471 | 471 | 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** | | | | | |
| Petišovci Dolina | Ascent Slovenia Limited | 75.00 | 36 | 27 | Oil & Gas redevelopment |
| Petišovci Globoki | Ascent Slovenia Limited | 75.00 | 36 | 27 | Gas redevelopment |
| Petišovci extension area | Ascent Slovenia Limited | 75.00 | 62 | 47 | Oil & Gas development |
| **Switzerland** | | | | | |
| Seeland-Frienisberg | | * | 364 | - | Gas appraisal |
| Linden | | * | 330 | - | Gas appraisal |
| Gros de Vaud | | * | 736 | - | Oil & Gas exploration |
| **The Netherlands** | | | | | |
| M10/M11 | Ascent Resources NL BV | 54.00 | 211 | 57 | Gas exploration & appraisal |

* 22.5% - 45% option to acquire conventional discovery
** Weighted average across a number of wells

## GLOSSARY

| | |
|---|---|
| **Bbl** | Barrel |
| **Bbls** | Barrels |
| **Bpd** | Barrels per day |
| **Bopd** | Barrels oil per day |
| **MMBbl** | Million barrels |
| **MBpd** | Thousand barrels per day |
| **MMBpd** | Million barrels per day |
| **MBopd** | Thousand barrels oil per day |
| **MMBopd** | Million barrels oil per day |
| **BOE** | Barrels oil equivalent |
| **MMBoe** | Million Barrels oil equivalent |
| **MMBoepd** | Million Barrels oil equivalent per day |
| **Mcf** | Thousand cubic feet |
| **MMcfepd** | Million cubic feet equivalent per day |
| **MMcfpd** | Million cubic feet per day |
| **MMscfd** | Million Standard cubic feet of gas per day |
| **Bcf** | Billion cubic feet |
| **Bcfe** | Billion cubic feet equivalent |
| **Bcfpd** | Billion cubic feet per day |
| **Tcf** | Trillion cubic feet |
| **Tcfe** | Trillion cubic feet equivalent |

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

**The Directors present their Directors' Report and Financial Statements for the year ended 31 December 2010 (the "year").**

## 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 AIM Market of the London Stock Exchange.

The Group has its headquarters in London and has gas and oil interests in Europe, principally in Slovenia, Hungary, Switzerland, Italy 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 14 to the financial statements.

## BUSINESS REVIEW

The Companies Act 2006 requires the Company to set out in the Directors' Report a fair review of the business of the Company during the financial year ended 31 December 2010 including an analysis of the position of the business at the end of the financial year and a description of the principal risks and uncertainties facing the Company (the 'Business review'). The purpose of the Business review is to enable shareholders to assess how the Directors have performed their duties under section 172 of the Companies Act 2006, being the duty to promote the success of the Company. The Chairman's Statement and the Group Operations Review set out on pages 6-9 together with the Corporate Responsibility Statement, Corporate Governance Statements and Uncertainties section of the Annual Report, which are incorporated herein by reference are considered to fulfil 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.

**Knowledge** – 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 focussed 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 36 to the financial statements.

## RESULTS AND DIVIDENDS

The loss for the year after taxation was £0.1 million (2009: loss £10.6 million). The Directors do not recommend the payment of a dividend.

## POST BALANCE SHEET EVENTS

### Petišovci Project

Since the year end, the Company completed the transaction announced with EnQuest PLC on 21 December 2010 to acquire an additional 48.75% interest in the Petišovci Project in Slovenia. As compensation, EnQuest was issued, on 11 February 2011, with 150,903,958 new Ordinary Shares of 0.1p each as well as a nil cost option over 29,686,000 new Ordinary Shares of 0.1p each, exercisable subject to certain criteria related to the successful development of the project having been met.

Additionally following the year end, the Company completed the first phase of its operations at Pg-11, its initial appraisal well in the Project that spudded on 22 December 2010. The primary objectives of the well were satisfied with gas confirmed by logs in all of the six Middle Miocene Badenian reservoirs. In addition, gas and condensate were sampled from the Lower Miocene Karpatian reservoir and gas flowed for the first time from the shallowest 'A' sands. The Company spudded Pg-11A on 11 April 2011, the second phase of drilling, and at the time of writing was part way through the drilling and testing process.

### Fund Raising

It was announced on 17 March 2011 that the Company had raised £17 million before expenses by way of a placing of 340,000,000 new Ordinary Shares of 0.1p each at a price of 5 pence per share. The Directors were pleased with the support received from high quality UK institutional investors who took up the vast majority of the funds raised. The funds will primarily be used to advance the Company's flagship Petišovci/Lovási/Ujfalu project, through the drilling and completion of the Pg-11A sidetrack, the Pg-10 and Ujfalu-III wells, to capitalise on the areas where there is P50 estimated gas in place of 412 Bcf. The balance of the proceeds was raised in order to pay off existing debt and for other working capital requirements as they became due.

## 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**
(resigned 14 September 2010)

**Simon Cunningham**
(resigned 4 January 2011)

**Jonathan Victor Lewis Legg**
(resigned 14 September 2010)

**Nigel Sandford Johnson Moore**

**William Cameron Davies**
(appointed 14 September 2010)

**Scott James Richardson Brown**
(appointed Non-executive Director 2 November 2010 and Executive Finance Director on 4 January 2011)

**William Graham Cooper**
(appointed 2 February 2011)

Relevant details of the Directors, which include committee memberships, are set out on page 12.

## 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 2010 | At 31 December 2009 |
|---|---|---|
| John Kenny | 700,000 | 700,000 |
| Jeremy Eng | 5,508,372 | 3,808,557 |
| Malcolm Groom | n/a | 1,997,750 |
| Simon Cunningham | - | - |
| Jonathan Legg | n/a | 533,526 |
| Nigel Moore | 119,500 | 119,500 |
| Cameron Davies | 150,000 | - |
| Scott Richardson Brown | - | - |

Details of Directors' share options and remuneration are set out in Note 5 to the financial statements under the heading: 'Directors' remuneration'.

## DIRECTORS' EMOLUMENTS

| Director | Salary/fees | Bonus | Pension | Taxable Benefits | 2010 Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Executive Directors | | | | | |
| Jeremy Eng | 175,511 | - | 49,880 | 18,738 | 244,129 |
| Simon Cunningham | 175,000 | 30,000 | - | - | 205,000 |
| Non-executive Directors | | | | | |
| John Kenny | 30,000 | - | - | - | 30,000 |
| Cameron Davies[1] | 9,115 | - | - | - | 9,115 |
| Malcolm Groom[2] | 61,930 | - | - | - | 61,930 |
| Jonathan Legg[2] | 49,578 | - | - | - | 49,578 |
| Nigel Moore | 30,000 | - | - | - | 30,000 |
| Scott Richardson Brown[3] | - | - | - | - | - |
| Total | 531,134 | 30,000 | 49,880 | 18,738 | 629,752 |

Notes
[1]Dr Davies appointed on 14 September 2010
[2]Mr Groom and Mr Legg resigned on the 14 September 2010
[3]Mr Richardson Brown appointed on 1 November 2010

## DIRECTORS' INCENTIVE SHARE OPTIONS

| Director | As at 1 January 2010 | Granted/ (Lapsed) | As at 31 December 2010 | Date Granted | Share Price at Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| Simon Cunningham | 1,000,000 | - | 1,000,000 | 21.09.08 | 4.75p | 4.75p | 21.09.09 – 21.09.13 |
| | 1,000,000 | - | 1,000,000 | 01.10.09 | 7.70p | 7.63p | 01.10.10 - 01.10.14 |
| Jonathan Legg | 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 |
| Nigel Moore | 500,000 | - | 500,000 | 28.06.06 | 9p | 9.5p | 28.06.07 – 28.06.11 |
| | - | 500,000 | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.10 – 17.11.15 |
| | - | 500,000 | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.10 – 17.11.15 |
| Malcolm Groom | 1,000,000 | (1,000,000) | - | 28.06.05 | 5.5p | 5p | 28.06.06 – 28.06.10 |
| Jeremy Eng | 10,000,000 | (10,000,000) | - | 10.04.05 | 5p | 5p | 10.04.06 – 10.04.10 |
| | - | 5,000,000 | 5,000,000 | 17.11.10 | 5.25p | 7.313p | 17.11.10 – 17.11.15 |
| | - | 5,000,000 | 5,000,000 | 17.11.10 | 5.25p | 15p | 17.11.10 – 17.11.15 |
| Cameron Davies | - | 500,000 | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.10 – 17.11.15 |
| | - | 500,000 | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.10 – 17.11.15 |
| Scott Richardson Brown | - | 1,000,000 | 1,000,000 | 01.11.10 | 4.875p | 4.875p | 01.11.11 – 01.11.15 |
| | - | 1,000,000 | 1,000,000 | 01.11.10 | 4.875p | 7.313p | 01.11.12 – 01.11.15 |

## 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 2006.

# DIRECTORS' REPORT

## SHARE CAPITAL

Details of changes to share capital in the period are set out in Note 26 to the financial statements.

As at 12 May 2011 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 | % |
|---|---|---|
| EnQuest North Sea BV | 150,903,958 | 14.72 |
| Barclayshare Nominees Limited | 63,557,279 | 6.20 |
| State Street Nominees Limited <OM04> | 62,000,000 | 6.05 |
| TD Waterhouse Nominees (Europe) Limited <SMKTNOMS> | 60,634,115 | 5.91 |
| L R Nominees Limited <NOMINEE> | 41,657,487 | 4.06 |
| Morstan Nominees Limited <SEG> | 39,128,416 | 3.82 |
| HSDL Nominees Limited <IWEB> | 33,296,788 | 3.25 |
| HSDL Nominees Limited | 32,918,147 | 3.21 |

## 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 2010 and 2009.

## SUPPLIER PAYMENT POLICY AND PRACTICE

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

At 31 December 2010, the Group had an average of 77 days (2009: 306 days) purchases owed to trade creditors.
At 31 December 2010, the Company had an average of 144 days (2009: 163 days) purchases owed to trade creditors.

## EMPLOYEES

The Company's Board composition provides the platform for sound corporate governance and robust leadership in implementing the Company's strategies to meet its' stated goals and objectives.

The Group's employees and consultants play an integral part in executing its strategy and the overall success and sustainability of the organisation. The Group has a highly skilled and dedicated team of employees and consultants and places great emphasis on attracting and retaining quality staff. As an international oil and gas company, we facilitate the development of leadership from the communities in which we operate. There is a large pool of qualified upstream oil and gas exploration and production professionals in the areas in which we operate, and we are committed to building and developing our teams from these talent pools.

The Group holds its employees and consultants at all levels to high standards and expects the conduct of its employees to reflect mutual respect, tolerance of cultural differences, adherence to corporate code of conduct and ambition to excel in their various disciplines.

## DISCLOSURE OF INFORMATION TO 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 section 418 of the Companies Act 2006.

## GOING CONCERN

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

In common with many similar companies, the Group raises finance for their exploration and appraisal activities in discrete tranches. Ultimately, the Group 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 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' approval. 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 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 base case forecasts are prepared using estimates of planned production from 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 can continue to operate within existing facilities (including the Standby Equity Distribution agreement) for the foreseeable future. If the amount or timing of forecast inflows and outflows were to change adversely the Group may be required to reconsider discretionary exploration activity and/or seek additional bridging finance to meet any shortfall.

At the date of approving these financial statements the Group's cash position is positive, the Company has in place facilities to raise additional funds and it is trading as a going concern.

## AUDITORS

BDO LLP were appointed during the year and in accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of BDO LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved for issue by the Board of Directors and signed on its behalf

Jeremy Eng
Managing Director
2 June 2010

# CORPORATE GOVERNANCE STATEMENT

**The Directors are committed to maintaining the highest standards of corporate governance and this statement describes how the principles of the UK Corporate Governance 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 two Executive Directors and four Non-executive Directors. Each of the Executive Directors has extensive knowledge of the oil and gas industry combined with a range of general business skills. Brief biographies are set out on page 12 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. Some Non-executive Directors have been issued with share options which is contrary to the best practice guidelines in the UK Corporate Governance 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 2010 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 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, www.ascentresources.co.uk. A Nomination Committee has not been appointed given the size of the Company.

### Audit Committee

This Committee comprises three Non-executive Directors, under the Chairmanship of Nigel Moore. It meets at least twice a year and reviews the interim and annual financial statements, internal control matters and the scope and effectiveness of external audit. The external auditors have unrestricted access to the Chairman of the Audit Committee and the audit partner is invited to attend meetings. A member of the management team is also invited to attend the meeting. The Committee held two meetings during the year to review the 2009 annual financial statements and the 2010 interim report. Additionally a number of informal meetings and communications took place between the Chairman, the external auditors, Company executives and staff.

### Remuneration Committee

This Committee comprises three Non-executive Directors under the Chairmanship of Cameron Davies. 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. There is a risk and control register 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 continues to review the effectiveness of internal controls 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 and 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 and 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 and 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 and objectives is essential to improving

# CORPORATE GOVERNANCE STATEMENT

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 Ascent's operations.
- Third parties who provide materials and services (personnel and equipment) or operate facilities on Ascent's behalf have an impact on EHS and SR excellence. It is essential that third-party services are provided in a manner consistent with Ascent's EHS and SR Policy and 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 2010, the Group was Operator of several exploration projects, all of which were closely managed for maintaining the EHS and SR policy aims.

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

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

**The Directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.**

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the AIM Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.





# INDEPENDENT AUDITORS' REPORT

## Independent Auditors' Report to the Members of Ascent Resources plc

**We have audited the financial statements of Ascent Resources plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and Company statements of financial position, the consolidated and Company statements of cash flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.**

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

## Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London,
United Kingdom
2 June 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# DIRECTORS AND ADVISERS

## DIRECTORS
John Kenny
Jeremy Eng
Scott Richardson Brown
Nigel Moore
Cameron Davies
Graham Cooper

## SECRETARY
John Bottomley

## REGISTERED OFFICE
One America Square
Crosswall
London EC3N 2SG

## NOMINATED ADVISER AND BROKER
finnCap Ltd
60 New Broad Street
London EC2M 1JJ

## AUDITORS
BDO LLP
55 Baker Street
London W1U 7EU

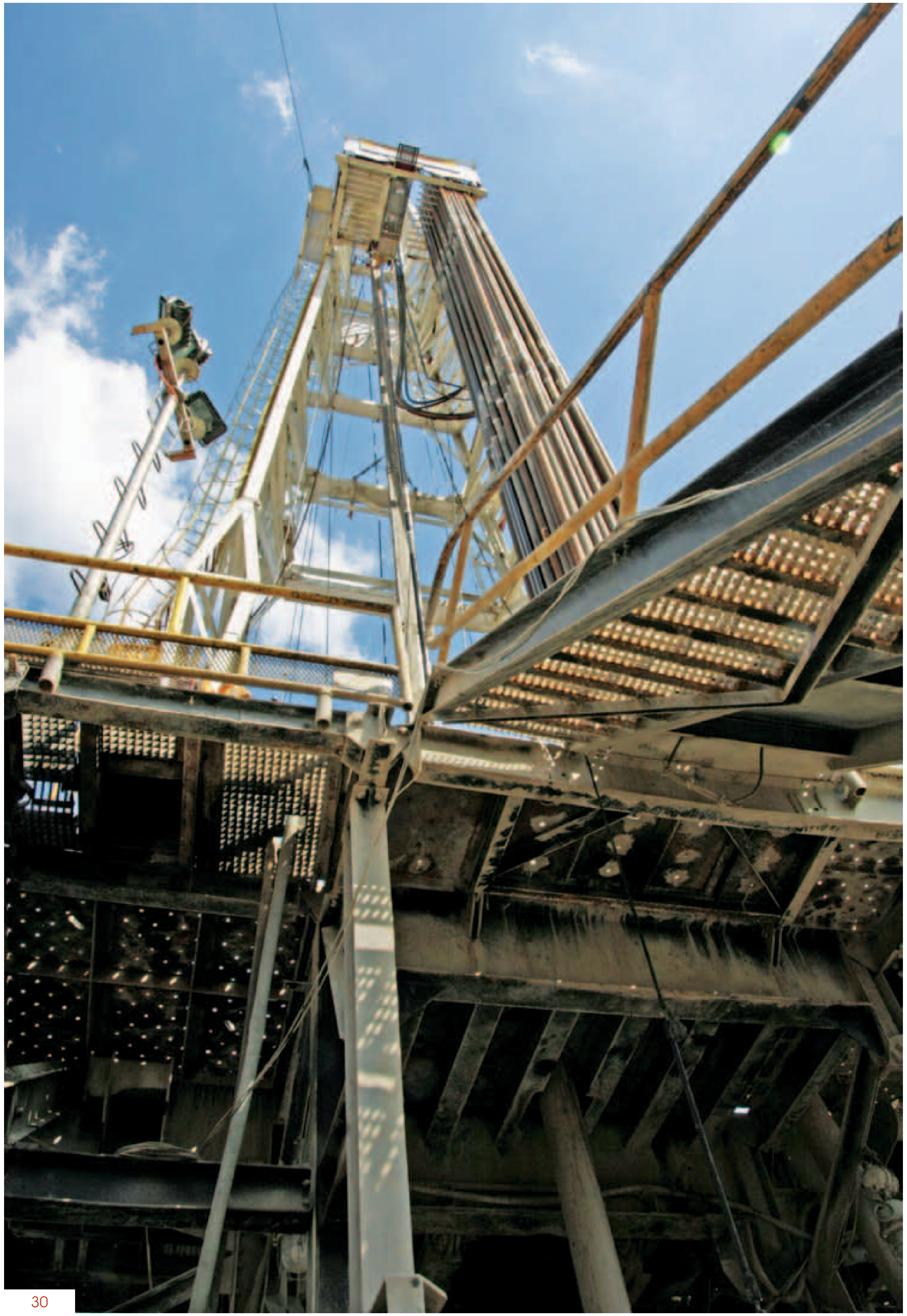
## SOLICITORS
Sprecher Grier Halberstam LLP
One America Square
Crosswall
London EC3N 2SG

## BANKERS
Barclays Corporate Bank
1 Churchill Place
London
E14 5HP

## FINANCIAL PR
St Brides Media and Finance Ltd
38 Bow Lane
London EC4M 9AY

## SHARE REGISTRY
Computershare Investors Services Plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

## COMPANY'S REGISTERED NUMBER
05239285





ascent resources plc

# Annual Review 2010

financial statements



# Consolidated Income Statement

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 £ 000s | Year ended 31 December 2009 £ 000s |
|---|---|---|---|
| Revenue | | 1,821 | 898 |
| Cost of sales | 3 | (1,379) | (1,117) |
| **Gross profit/(loss)** | | 442 | (219) |
| Administrative expenses | 4 | (2,389) | (1,477) |
| Impairment write down of exploration costs | 13 | (3,099) | (8,528) |
| Loss from operating activities | | (5,046) | (10,224) |
| Other operating income | | 165 | – |
| Finance income | 6 | 21 | 53 |
| Finance cost | 6 | (1,127) | (510) |
| Profit on sale of investments | 7 | 5 | 127 |
| Net finance costs | | (1,101) | (330) |
| Loss before taxation from continuing operations | | (5,982) | (10,554) |
| Income tax expense | 8 | (46) | – |
| **Loss for the year from continuing operations** | | (6,028) | (10,554) |
| **Discontinued operations** | | | |
| Profit/(loss) for the year from discontinued operations | 9 | 5,899 | (68) |
| Loss for the year | | (129) | (10,622) |
| **Loss attributable to:** | | | |
| Owners of the Company | | (129) | (10,756) |
| Non-controlling interests | | – | 134 |
| **Loss for the year** | | (129) | (10,622) |
| **Loss per share** | | | |
| *Continuing operations* | | | |
| Basic and diluted loss per share | 10 | (1.18p) | (3.09p) |
| *Discontinued operations* | | | |
| Basic profit/(loss) per share | 10 | 1.15p | (0.02p) |
| Diluted profit/(loss) per share | | 1.12p | (0.02p) |
| *Total operations* | | | |
| Basic and diluted loss per share | 10 | (0.03p) | (3.11p) |

The notes on pages 41 to 79 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 £ 000s | Year ended 31 December 2009 £ 000s |
|---|---|---|---|
| Loss for the year | | (129) | (10,622) |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | 201 | (1,055) |
| Transferred to gain on disposal | | (146) | – |
| **Other comprehensive income for the year** | | 55 | (1,055) |
| **Total comprehensive income for the year** | | (74) | (11,677) |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | (74) | (11,811) |
| Non-controlling interest | | – | 134 |
| **Total comprehensive income for the year** | | (74) | (11,677) |

The notes on pages 41 to 79 are an integral part of these consolidated financial statements.



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# Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

| | Share capital £'000s | Equity reserve £'000s | Share premium £'000s | Share based payment reserve £'000s | Translation reserve £'000s | Retained earnings £'000s | Total £'000s | Non-controlling interest £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | **305** | **84** | **13,067** | **1,042** | **3,928** | **(7,816)** | **10,610** | **40** | **10,650** |
| **Comprehensive income** | | | | | | | | | |
| Loss for the year | – | – | – | – | – | (10,756) | (10,756) | 134 | (10,622) |
| **Other comprehensive income:** | | | | | | | | | |
| Currency translation differences | – | – | – | – | (1,055) | – | (1,055) | – | (1,055) |
| **Transactions with owners** | | | | | | | | | |
| Issue of shares during the year | 195 | – | 9,872 | – | – | – | 10,067 | – | 10,067 |
| Share issue costs | – | – | (399) | – | – | (1,281) | (1,680) | – | (1,680) |
| Share based payments | – | – | – | 1,454 | – | – | 1,454 | – | 1,454 |
| **Balance at 31 December 2009** | **500** | **84** | **22,540** | **2,496** | **2,873** | **(19,853)** | **8,640** | **174** | **8,814** |
| **Balance at 1 January 2010** | **500** | **84** | **22,540** | **2,496** | **2,873** | **(19,853)** | **8,640** | **174** | **8,814** |
| **Comprehensive income** | | | | | | | | | |
| Loss for the year | – | – | – | – | – | (129) | (129) | – | (129) |
| **Other comprehensive income:** | | | | | | | | | |
| Currency translation differences | – | – | – | – | 55 | – | 55 | – | 55 |
| **Transactions with owners** | | | | | | | | | |
| Convertible Loan | – | (34) | – | – | – | 84 | 50 | – | 50 |
| Purchase of non-controlling interest | – | – | – | – | – | 174 | 174 | (174) | – |
| Issue of shares during the year | 20 | – | 1,023 | – | – | – | 1,043 | – | 1,043 |
| Share based payments | – | – | – | 140 | – | – | 140 | – | 140 |
| Reserve transfer | – | – | – | (724) | – | 724 | – | – | – |
| **Balance at 31 December 2010** | **520** | **50** | **23,563** | **1,912** | **2,928** | **(19,000)** | **9,973** | **–** | **9,973** |

The notes on pages 41 to 79 are an integral part of these consolidated financial statements.

# Company Statement of Changes in Equity

for the year ended 31 December 2010

| | Share capital £000's | Equity reserve £000's | Share premium £000's | Share based payment reserve £000's | Retained earnings £000's | Total parent equity £000's |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | **305** | **84** | **13,067** | **1,042** | **(710)** | **13,788** |
| **Comprehensive income** | | | | | | |
| Loss for the year | – | – | – | – | (2,546) | (2,546) |
| **Transactions with owners** | | | | | | |
| Issue of shares during the year | 195 | – | 9,872 | – | – | 10,067 |
| Share issue costs | – | – | (399) | – | (1,281) | (1,680) |
| Share based payments | – | – | – | 1,454 | – | 1,454 |
| **Balance at 31 December 2009** | **500** | **84** | **22,540** | **2,496** | **(4,537)** | **21,083** |
| **Balance at 1 January 2010** | **500** | **84** | **22,540** | **2,496** | **(4,537)** | **21,083** |
| **Comprehensive income** | | | | | | |
| Profit for the year | – | – | – | – | 2,336 | 2,336 |
| **Transactions with owners recorded directly in equity** | | | | | | |
| **Contributions by and distributions to owners:** | | | | | | |
| Convertible loan | – | (34) | – | – | 84 | 50 |
| Issue of shares during the year | 20 | – | 1,023 | – | – | 1,043 |
| Share issue costs | – | – | – | – | – | – |
| Share based payments | – | – | – | 140 | – | 140 |
| Reserve transfer | – | – | – | (724) | 724 | – |
| **Balance at 31 December 2010** | **520** | **50** | **23,563** | **1,912** | **(1,393)** | **24,652** |

The notes on pages 41 to 79 are an integral part of these consolidated financial statements.





# Consolidated Statement of Financial Position

as at 31 December 2010

| | Notes | 31 December 2010 £ 000's | 31 December 2009* £ 000's |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 2,045 | 158 |
| Exploration and decommissioning costs | 13 | 9,536 | 10,417 |
| Investments in equity-accounted investees | 18 | – | 1,191 |
| **Total non-current assets** | | 11,581 | 11,766 |
| **Current assets** | | | |
| Inventories | 17 | 341 | 431 |
| Trading investments | 19 | – | 46 |
| Other financial assets | 15 | – | 888 |
| Trade and other receivables | 20 | 1,664 | 2,248 |
| Cash and cash equivalents | 16 | 2,048 | 4,630 |
| | | 4,053 | 8,243 |
| **Total assets** | | 15,634 | 20,009 |
| **Equity and liabilities** | | | |
| **Attributable to the equity holders of the parent company** | | | |
| Share capital | 27 | 520 | 500 |
| Equity reserve | | 50 | 84 |
| Share premium account | | 23,563 | 22,540 |
| Share based payment reserve | | 1,912 | 2,496 |
| Translation reserves | | 2,928 | 2,873 |
| Retained earnings | | (19,000) | (19,853) |
| **Total equity attributable to the shareholders of the Company** | | 9,973 | 8,640 |
| Non-Controlling interest | | – | 174 |
| **Total equity** | | 9,973 | 8,814 |
| **Non-current liabilities** | | | |
| Borrowings | 23 | – | 851 |
| Provisions | 24 | 594 | 152 |
| **Total non-current liabilities** | | 594 | 1,003 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | 2,314 | 6,601 |
| Borrowings | 23 | 2,753 | 3,591 |
| **Total current liabilities** | | 5,067 | 10,192 |
| **Total liabilities** | | 5,661 | 11,195 |
| **Total equity and liabilities** | | 15,634 | 20,009 |

The notes on pages 41 to 79 are an integral part of these consolidated financial statements.
* Certain balance sheet items have been reclassified, see note 35 for detail.

The financial statements were approved and authorised for issue by the Board of Directors on 2 June 2011 and were signed on its behalf by:

**Jeremy Eng**
*Managing Director*

# Company Statement of Financial Position

as at 31 December 2010

| | Notes | 31 December 2010 £ 000's | 31 December 2009 £ 000's |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 2 | 3 |
| Investment in subsidiaries and joint ventures | 14 | 1,970 | 1,842 |
| Intercompany receivables | 32 | 24,088 | 18,663 |
| **Total non-current assets** | | 26,060 | 20,508 |
| **Current assets** | | | |
| Trade and other receivables | 21 | 23 | 17 |
| Cash and cash equivalents | | 1,815 | 3,677 |
| **Total current assets** | | 1,838 | 3,694 |
| **Total assets** | | 27,898 | 24,202 |
| **Equity** | | | |
| Share capital | 27 | 520 | 500 |
| Equity reserve | | 50 | 84 |
| Share premium | | 23,563 | 22,540 |
| Share based payment reserve | | 1,912 | 2,496 |
| Retained loss | | (1,393) | (4,537) |
| **Total equity** | | 24,652 | 21,083 |
| **Non-current liabilities** | | | |
| Borrowings | 23 | – | – |
| **Total non-current liabilities** | | – | – |
| **Current liabilities** | | | |
| Trade and other payables | 26 | 504 | 638 |
| Borrowings | 23 | 2,742 | 2,481 |
| **Total current liabilities** | | 3,246 | 3,119 |
| **Total liabilities** | | 3,246 | 3,119 |
| **Total equity and liabilities** | | 27,898 | 24,202 |

The notes on pages 41 to 79 are an integral part of these consolidated financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 2 June 2011 and were signed on its behalf by:

**Jeremy Eng**
*Managing Director*



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# Consolidated Cash Flow Statement

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 £ 000s | Year ended 31 December 2009 £ 000s |
|---|---|---|---|
| **Cash used in operations** | | | |
| Loss for the year | | (129) | (10,756) |
| Depreciation charge | | 953 | 125 |
| Decrease/(increase) in receivables | | 1,359 | (301) |
| (Decrease)/Increase in payables | | (25) | 2,089 |
| Decrease in inventories | | 90 | 178 |
| Impairment in associate | | – | 300 |
| Profit on sale of subsidiary | | (5,899) | – |
| Profit on sale of current asset investments | | (5) | (127) |
| Revaluation of quoted securities | | – | (18) |
| Impairment of exploration expenditure | | 3,099 | 8,528 |
| Increase in decommissioning provision | | 409 | – |
| Share-based payment charge | | 140 | 173 |
| Exchange differences | | – | (66) |
| Share of profit of associate undertakings | | – | (140) |
| | | (8) | (15) |
| Finance income | | (26) | (53) |
| Finance cost | | 1,127 | 510 |
| **Net cash generated in operating activities** | | 1,093 | 442 |
| **Cash flows from investing activities** | | | |
| Interest received | | 26 | 36 |
| Payments for investing in exploration | | (9,091) | (6,031) |
| Purchase of property, plant and equipment | | (529) | (30) |
| Proceeds from disposal of subsidiary | | 7,032 | – |
| Costs of disposal of subsidiary | | (601) | – |
| Proceeds from disposal of current asset investment | | 51 | 247 |
| Proceeds from disposal of equity accounted investee | | 1,191 | – |
| **Net cash flows used in investing activities** | | (1,921) | (5,778) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (512) | (328) |
| Proceeds from loan notes | | 2,100 | – |
| Loans repaid | | (3,110) | (524) |
| Proceeds from issue of shares | | 50 | 10,067 |
| Share issue costs | | – | (399) |
| **Net cash flows (used by)/from financing activities** | | (1,472) | 8,816 |
| **Net (decrease)/increase in cash and cash equivalents for the year** | | (2,300) | 3,480 |
| Net foreign exchange differences | | (282) | (85) |
| Cash and cash equivalents at beginning of the year | | 4,630 | 1,235 |
| **Cash and cash equivalents at end of the year** | | 2,048 | 4,630 |

# Company Cash Flow Statement

for the year ended 31 December 2010

| | Notes | Year ended 31 December 2010 £ 000s | Year ended 31 December 2009 £ 000s |
|---|---|---|---|
| **Cash used in operations** | | | |
| Profit/(loss) for the year | | 2,336 | (2,546) |
| Depreciation charge | | 1 | 3 |
| (Increase)/Decrease in receivables | | (719) | 189 |
| Decrease/(increase) in payables | | 519 | (199) |
| Share-based payment | | 140 | 173 |
| (Profit)/loss on sale of subsidiary | | (5,899) | 106 |
| | | (3,622) | (2,274) |
| Finance income | | (4) | – |
| Finance cost | | 1,218 | 276 |
| **Net cash used in operating activities** | | (2,408) | (1,998) |
| **Cash flows from investing activities** | | | |
| Interest received | | 4 | – |
| Advances to subsidiaries | | (5,560) | (4,686) |
| Proceeds from disposal of subsidiary | | 7,032 | – |
| Costs of disposal of subsidiary | | (601) | – |
| **Net cash flows generated/(used) in investing activities** | | 875 | (4,686) |
| **Cash flows from financing activities** | | | |
| Interest paid | | (514) | (211) |
| Repayment of loan | | (1,728) | – |
| Receipt of loan | | 2,100 | – |
| Cash proceeds from issue of shares | | 50 | 10,067 |
| Share issue costs | | – | (399) |
| **Net cash (used by)/from financing activities** | | (92) | 9,457 |
| **Net (decrease)/increase in cash and cash equivalents** | | (1,625) | 2,773 |
| Cash and cash equivalents at beginning of the year | | 3,677 | 904 |
| Foreign exchange | | (237) | – |
| **Cash and cash equivalents at end of the year** | | 1,815 | 3,677 |





# Notes to the Financial Statements

for the year ended 31 December 2010

## 1 Accounting policies

**Reporting entity**

Ascent Resources plc ('the Company') is a company domiciled and incorporated in England. The address of the Company's registered office is One America Square, Crosswall, London, EC3N 2SG. The consolidated financial statements of the Company for the year ended 31 December 2010 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 Company is admitted to AIM, a market of the London Stock Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2010 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 2010 were approved and authorised for issue by the Board of Directors on 2 June 2011 and the Statements of Financial Position 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').

**Basis of preparation**

In publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. During the year the company made a profit of £2,336,000 (2009: loss of £2,546,000).

**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 are prepared on a going concern basis.

In common with many similar companies, the Group raises finance for its exploration and appraisal activities in discrete tranches. Ultimately, the Group 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 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 approval 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 to continue to meet their liabilities and commitments 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.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

The base case forecasts are prepared using estimates of planned production from 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 can continue to operate within existing facilities for the foreseeable future. If the amount or timing of forecast inflows and outflows were to change adversely the Group may be required to reconsider discretionary exploration activity and/or seek additional bridging finance to meet any shortfall.

**New and amended Standards effective for 31 December 2010 year-end adopted by the Group:**
The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2010. Except as noted, the implementation of these standards is not expected to have a material effect on the Group.

| Standard | Effective date | Impact on initial application |
|---|---|---|
| IAS 27 - Amendment - Consolidated and Separate Financial Statements | 1 Jul 2009 | The amendment affects the acquisition of subsidiaries achieved in stages and disposals of interests. Amendment does not require the restatement of previous transactions. |
| IFRS 3 - Revised - Business Combinations | 1 Jul 2009 | The revision to IFRS 3 introduced a number of changes in accounting for acquisition costs and recognition of intangible assets in business combinations. The revised standard does not require the restatement of previous business combinations. |
| IAS 39 – Amendment - Financial Instruments: Recognition and Measurement: Eligible Hedged Items | 1 Jul 2009 | The amendment clarifies the principles for determining eligibility of hedged items. |
| IFRS 2 - Amendment - Group Cash-settled Share-based Payment Transactions | 1 Jan 2010 | The amendment clarifies that where a parent (or another group entity) has an obligation to make a cash-settled share-based payment to another group entity's employees or suppliers, the entity receiving the goods or services should account for the transaction as equity –settled. |
| Improvements to IFRSs (2009) | Generally 1 January 2010 | The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The improvements did not have any impact on the current or prior years' financial statements. |
| IFRIC 17 - Distributions of Non-cash Assets to Owners | 1 Jan 2010 | The interpretation provides guidance on how to measure distribution of assets other than cash. |
| IFRIC 18 - Transfer of Assets from Customers | 1 Jan 2010 | The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property that it must use to provide the customer with on-going access to goods or services. |
| IFRIC 9/ IAS 39 - Amendment - Embedded Derivative | 1 Jan 2010 | The amendment clarifies the treatment of embedded derivatives in host contracts that are classified out of fair value through profit or loss. |
| IFRIC 16 - Hedges of a Net Investment in a Foreign Operation | 1 Jan 2010 | The interpretation provides guidance for application of hedge accounting in foreign operations. |





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

No other IFRS issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

(ii) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

| Standard | Description | Effective date |
|---|---|---|
| IAS 32 | Amendment – Classification of Right Issues | 1 Feb 2010 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 Jul 2010 |
| IFRS 1 | Amendment – First Time Adoption of IFRS | 1 Jul 2010 |
| IAS 24 | Revised – Related Party Disclosures | 1 Jan 2011 |
| IFRIC 14 | Amendment – IAS 19 Limit on a defined benefit asset | 1 Jan 2011 |
| IFRS 7 * | Amendment – Transfer of financial assets | 1 Jul 2011 |
| IFRS 1 * | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters | 1 Jul 2011 |
| | Improvements to IFRSs (2010) * | 1 Jan 2011 |
| IAS 12 * | Deferred Tax: Recovery of Underlying Assets | 1 Jan 2012 |
| IFRS 9 * | Financial instruments | 1 Jan 2013 |
| IFRS 10 * | Consolidated Financial Statements | 1 Jan 2013 |
| IFRS 11 * | Joint Arrangements | 1 Jan 2013 |
| IFRS 12 * | Disclosure of Interests in Other Entities | 1 Jan 2013 |
| IFRS 13 * | Fair Value Measurement | 1 Jan 2013 |

The Group has not yet assessed the impact of IFRS 9. Except for the amended disclosure requirements of IAS 24 (the above revised standards), amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.
** Not yet endorsed by European Union.*

Except for the adoption of IFRS 3 Revised, which would materially affect the presentation and financial impact of a business combination, the above standards, interpretations and amendments will not significantly affect the Group's results or financial position. The adoption of IFRS 9 will eventually replace IAS 39 in its entirety and consequently may have a material affect the presentation, classification, measurement and disclosures of the Group's financial instruments.

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board.

**Critical accounting estimates and assumptions**
The preparation of the consolidated financial statements in conformity with IFRSs 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 recorded 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 amortised in the financial statements. Management judgement is particularly required when assessing the substance of transactions that have a complicated structure or legal form.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

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

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

(b) *Decommissioning provision* – the cost of decommissioning is estimated by reference to operators and internal specialist staff (see Note 24);

(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 23);

(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;

(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 34).

(g) *Commercial reserves* – Commercial reserves are proven and probable oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a unit of e basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

**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 using the proportional consolidation 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 their accounting policies used into line with those used by the Group.

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

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests. Before this date, unfunded losses in such subsidiaries were attributed entirely to the Group. In accordance with the transitional requirements of IAS 27 (2008), the carrying value of non-controlling interests at the effective date of the amendment has not been restated.

Where the Group acquires an equity interest from non-controlling parties, the excess/(shortfall) between the consideration paid and the element of the reserve for non-controlling interest that has been acquired is taken directly to retained earnings. No gain or loss is recognised through profit or loss.





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

**Business combinations**

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.

**Non-current assets held for sale and disposal groups**

Non-current assets are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from date of classification.

Non-current assets are held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets are not depreciated.

The results of operations during the year are included in the consolidated income statement up to the date of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated income statement (including the comparative period) as a single line which comprises the post tax loss of the discontinued operation. Operations are classified as discontinued when the decision is made to dispose of the operation by the Directors and the operations are actively marketed.

**Interest in jointly controlled entities**

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 2010

## 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 other comprehensive income 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.

**Increase in interests in jointly controlled entities**
When an entity acquires an additional interest in jointly controlled entities the entity's portion of identifiable net assets of the jointly controlled entity acquired is measured at cost at the date of additional investment with any surplus accounted for as goodwill.

**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 a 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 recovered 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 to the statement of comprehensive income 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**
Exploration/appraisal assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. Any impairment arising is recognised in the Income Statement for the year.

Impairment reviews on development/producing assets are carried out on each cash-generating unit identified in accordance with IAS 36 'Impairment of Assets'. Ascent's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date where there are indicators of impairment the net book value of the cash generating unit is compared with the measurable recoverable amount, which is defined as the higher of fair value less costs to sell or value in use. If the net book value is higher, then the difference is written off to the Income Statement as impairment. Forecast production profiles are determined on an asset-by-asset basis using appropriate petroleum engineering techniques.

Where there has been a charge for impairment in an earlier period, that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

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

**Depletion of developed oil and gas assets**
Costs carried in each well are depreciated on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial proven and probable oil and gas 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 proven and probable oil and gas reserves or future development costs are dealt with prospectively.

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

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

Computer and office equipment – 33% straight line.

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

**Inventories**
Inventories, including materials, equipment and inventories of gas and oil held for sale in the ordinary course of business, are stated at weighted average historical costs, 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.

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.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

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.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

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. It 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.

**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.

**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.





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

**Convertible loan notes**
Upon issue of a convertible loan where the convertible option is at a fixed rate, 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 comprise of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

**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.

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.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 1 Accounting policies *(continued)*

**Segment reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Managing Director (MD) and the Finance Director.

## 2 Segmental Analysis

The Group has five reportable segments, as described below, which are based on the geographical area that the Group activities are carried out. Each area is then subdivided into a number of different sites based on the locations of the wells. The operations and day to day running of the business is carried out on a local level and therefore managed separately. In addition, each site has different technological requirements based on their stage of development which are coordinated based on their geographical location. Each operating segment reports to the UK head office who evaluate the segments performance, decide how to allocate resources and make other operating decisions such as the purchase of material capital assets and services. Internal reports are generated and submitted to the Group's Managing Director for review on a monthly basis.

The operations of the Group as a whole are the exploration for, development and production of oil and gas reserves.

The five geographic reporting segments are made up as follows:

| | |
|---|---|
| Italy | – exploration and development |
| Hungary | – production and exploration |
| Slovenia | – exploration and development |
| Other Europe (2010 the Netherlands, 2009 The Netherlands and Switzerland) | – exploration and development |
| UK | – head office |

The cost of exploration and development works are carried out under shared licences with joint ventures and associated companies which are co-ordinated by the UK head office. Transfer prices between segments are set on an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation.

Information regarding the results of each reportable segment is included below. Initial performance is measured by the results that arise from the exploration and development works carried out. Once producing, other production performance measures are based on the production revenues achieved. This is reported to the Group's MD by the level of capitalised exploration costs and the results from studies carried out at the individual locations of the wells. The MD uses these measures to evaluate project viability within each operating segment.





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 2 Segmental Analysis *(continued)*

| **2010 External Revenue** | Italy £ 000's | Hungary £ 000's | Slovenia £ 000's | Other Europe £ 000's | UK £ 000's | Inter segment eliminations £ 000's | Total £ 000's |
|---|---|---|---|---|---|---|---|
| **Revenue by location of asset:** | | | | | | | |
| Hydrocarbons | – | 1,821 | – | – | – | – | 1,821 |
| Management fees | – | – | – | – | 205 | (205) | – |
| **Operating costs:** | | | | | | | |
| Cost of sales | – | (1,134) | – | – | (245) | – | (1,379) |
| Administrative expenses | (536) | (24) | (88) | (56) | (1,890) | 205 | (2,389) |
| Other income | 165 | – | – | – | – | – | 165 |
| **Material non-cash items:** | | | | | | | |
| Impairment of exploration assets | (14) | (1,231) | (1,854) | – | – | – | (3,099) |
| Impairment of investments | – | – | – | – | – | – | – |
| Net finance costs | (52) | (187) | (4) | (1) | (857) | – | (1,101) |
| **Reportable segment loss before taxation from continuing operations** | (437) | (755) | (1,946) | (57) | (2,787) | – | (5,982) |
| Profit from discontinued operations | – | – | – | 5,899 | – | – | 5,899 |
| **Reportable segment (loss)/profit before taxation** | (437) | (755) | (1,946) | 5,842 | (2,787) | – | (83) |
| Taxation | – | (46) | – | – | – | – | (46) |
| **Reportable segment loss after taxation** | (437) | (801) | (1,946) | 5,842 | (2,787) | – | (129) |
| **Reportable segment assets** | | | | | | | |
| Carrying value of exploration assets | 3,251 | 1,965 | 4,069 | 251 | – | – | 9,536 |
| Additions to exploration assets | 393 | 2,820 | 1,908 | 200 | – | – | 5,321 |
| Additions to decommissioning asset | 208 | 22 | 201 | – | – | – | 431 |
| Total plant and equipment | – | 2,042 | – | – | 3 | – | 2,045 |
| Total non-current assets | 3,251 | 4,007 | 4,069 | 251 | 3 | – | 11,581 |
| Investments in associates | – | – | – | – | – | – | – |
| Other assets | 5,192 | 2,181 | 635 | 1,022 | 29,900 | (34,877) | 4,053 |
| **Consolidated total assets** | 8,443 | 6,188 | 4,704 | 1,273 | 29,903 | (34,877) | 15,634 |
| Reportable segmental liabilities | | | | | | | |
| Trade payables | (1,003) | (24) | (278) | – | (350) | – | (1,655) |
| External loan balances | (11) | – | – | – | (2,742) | – | (2,753) |
| Inter-group borrowings | (15,478) | (8,707) | (6,356) | (1,586) | (2,729) | 34,856 | – |
| Other liabilities | (363) | (328) | (372) | (61) | (129) | – | (1,253) |
| **Consolidated total liabilities** | (16,855) | (9,059) | (7,006) | (1,647) | (5,950) | 34,856 | (5,661) |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 2 Segmental Analysis *(continued)*

| **2009** | Italy £ 000's | Hungary £ 000's | Slovenia £ 000's | Other Europe £ 000's | UK £ 000's | Inter segment eliminations £ 000's | Total £ 000's |
|---|---|---|---|---|---|---|---|
| ***External Revenue*** | | | | | | | |
| **Revenue by location of asset:** | | | | | | | |
| Hydrocarbons | – | 898 | – | – | – | – | 898 |
| Management fees | – | – | – | – | 299 | (299) | – |
| **Operating costs:** | | | | | | | |
| Cost of sales | (287) | (284) | (226) | (15) | (305) | – | (1,117) |
| Administrative expenses | – | (141) | (28) | (5) | (1,602) | 299 | (1,477) |
| **Material non-cash items:** | | | | | | | |
| Impairment of exploration assets | (7,810) | (622) | – | (96) | – | – | (8,528) |
| Net finance costs | (106) | (141) | (145) | (1) | 63 | – | (330) |
| **Reportable segment loss before tax from continuing operations** | (8,203) | (290) | (399) | (117) | (1,545) | – | (10,534) |
| Loss from discontinued operations | (26) | – | – | (42) | – | – | (68) |
| **Reportable segment loss before and after taxation** | (8,229) | (290) | (399) | (159) | (1,545) | – | (10,622) |
| **Reportable segment assets** | | | | | | | |
| Carrying value of exploration assets | 2,730 | 3,142 | 3,954 | 591 | – | – | 10,417 |
| Additions to exploration assets | 5,400 | 1,681 | 3,709 | 27 | – | – | 10,817 |
| Externally funded | (4,584) | – | – | – | – | – | (4,584) |
| Funded by Group | 816 | 1,681 | 3,709 | 27 | – | – | 6,233 |
| Additions to decommissioning asset | – | 120 | – | – | – | – | 120 |
| Total plant and equipment | – | 109 | – | – | 49 | – | 158 |
| Total non-current assets | 2,730 | 3,251 | 3,954 | 591 | 49 | – | 10,575 |
| Investment in associates | 1,191 | – | – | – | – | – | 1,191 |
| Other assets | 3,286 | (80) | 1,331 | 12 | 22,357 | (18,663) | 8,243 |
| **Consolidated total assets** | 7,207 | 3,171 | 5,285 | 603 | 22,406 | (18,663) | 20,009 |
| Reportable segmental liabilities | | | | | | | |
| Trade payables | (2,522) | (523) | (2,807) | (378) | – | – | (6,230) |
| External loan balances | (1,405) | – | – | – | (3,037) | – | (4,442) |
| Inter-group borrowings | (9,137) | (3,571) | (2,829) | (916) | (2,210) | 18,663 | – |
| Other liabilities | (124) | (95) | – | – | (304) | – | (523) |
| **Consolidated total liabilities** | (13,188) | (4,189) | (5,636) | (1,294) | (5,551) | 18,663 | (11,195) |





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 3 Cost of sales

| | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| Operating Costs relating directly to producing assets | 402 | 173 |
| Depletion Depreciation and amortisation of producing assets | 732 | 122 |
| Other directly incurred costs | 245 | 822 |
| | 1,379 | 1,117 |

## 4 Administrative Expenses

| | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| Depreciation of plant and equipment | – | 3 |
| Employee Costs (see note 5) | 1,183 | 801 |
| Consulting charges | 128 | 178 |
| Revaluation of quoted securities | – | (18) |
| Other office costs | 1,078 | 513 |
| | 2,389 | 1,477 |

| **The following is included within Administrative Expenses:** | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| Auditors' remuneration | | |
| Current year audit of financial statements | 53 | – |
| Audit of subsidiaries pursuant to legislation | 5 | – |
| *Amounts paid to previous auditor:* | | |
| Prior year audit of financial statements | – | 100 |
| Audit of subsidiaries pursuant to legislation | – | 15 |
| | 58 | 115 |

## 5 Employees and Directors

**(a) Employees**

The average number of persons employed by the Company and Group, including Executive Directors, was:

| | Year ended 31 December 2010 Number | Year ended 31 December 2009 Number |
|---|---|---|
| Management and technical | 11 | 9 |

| | £ 000's | £ 000's |
|---|---|---|
| Wages and salaries | 903 | 625 |
| Social security costs | 107 | 91 |
| Pension costs | 49 | 78 |
| Share based payments (note 34) | 123 | 30 |
| | 1,182 | 824 |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 5 Employees and Directors *(continued)*

During the year two employees were awarded 250,000 options each, to subscribe for ordinary shares in the Company, at a price of 7.313p per share. Details of Directors' share option grants are detailed below. The Company offers all staff the opportunity to enter into a stakeholder pension scheme.

**(b) Directors' and key management remuneration**

| | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| Fees and emoluments | 562 | 449 |
| Social security costs | 50 | 35 |
| Pension costs | 49 | 78 |
| Share-based payments (see note 34) | 121 | 28 |
| | 782 | 590 |

Pension costs relate to payments made to a director's own personal pension plan.

**(c) Directors' remuneration**

**2010**

| Director | Salary/fees £ | Bonus £ | Pension £ | Taxable Benefits £ | 2010 Total £ |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| J Eng | 175,511 | – | 49,880 | 18,738 | 244,129 |
| S Cunningham | 175,000 | 30,000 | – | – | 205,000 |
| **Non-executive Directors** | | | | | |
| J Kenny | 30,000 | – | – | – | 30,000 |
| C Davies[1] | 9,115 | – | – | – | 9,115 |
| M D J Groom[2] | 61,930 | – | – | – | 61,930 |
| J V L Legg[2] | 49,578 | – | – | – | 49,578 |
| N S J Moore | 30,000 | – | – | – | 30,000 |
| S Richardson Brown[3] | – | – | – | – | - |
| **Total** | **531,134** | **30,000** | **49,880** | **18,738** | **629,752** |



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# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 5 Employees and Directors *(continued)*

**2009**

| Director | Salary/fees £ | Bonus £ | Pension £ | Taxable Benefits £ | 2010 Total £ |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| J Eng | 160,324 | – | 78,000 | 18,738 | 257,062 |
| S Cunningham | 183,750 | – | – | – | 183,750 |
| **Non-executive Directors** | | | | | |
| J Kenny | 13,000 | – | – | – | 13,000 |
| M D J Groom[2] | 65,550 | – | – | – | 65,550 |
| J V L Legg[2] | 12,000 | – | – | – | 12,000 |
| N S J Moore | 14,000 | – | – | – | 14,000 |
| **Total** | **448,624** | **–** | **78,000** | **18,738** | **545,362** |

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

**2010**

| Director | As at 1 January 2010 | Granted/ Lapsed | As at 31 December 2010 | 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 |
| | 1,000,000 | – | 1,000,000 | 01.10.09 | 7.70p | 7.63p | 01.10.10 – 01.10.14 |
| J V L Legg[2] | 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 |
| | – | 500,000 | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.10 – 17.11.15 |
| | – | 500,000 | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.10 – 17.11.15 |
| M D J Groom[2] | 1,000,000 | (1,000,000) | – | 28.06.05 | 5.5p | 5p | 28.06.06 – 28.06.10 |
| J Eng | 10,000,000 | (10,000,000) | – | 10.04.05 | 5p | 5p | 10.04.06 – 10.04.10 |
| | – | 5,000,000 | 5,000,000 | 17.11.10 | 5.25p | 7.313p | 17.11.10 – 17.11.15 |
| | – | 5,000,000 | 5,000,000 | 17.11.10 | 5.25p | 15p | 17.11.10 – 17.11.15 |
| C Davies[1] | – | 500,000 | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.10 – 17.11.15 |
| | – | 500,000 | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.10 – 17.11.15 |
| S Richardson Brown[3] | – | 1,000,000 | 1,000,000 | 01.11.10 | 4.875p | 4.875p | 01.11.11 – 01.11.15 |
| | – | 1,000,000 | 1,000,000 | 01.11.10 | 4.875p | 7.313p | 01.11.12 – 01.11.15 |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 5 Employees and Directors *(continued)*

**2009**

| Director | As at 1 January 2009 | Granted/ Lapsed | As at 31 December 2009 | 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 |
| | – | 1,000,000 | 1,000,000 | 01.10.09 | 7.70p | 7.63p | 01.10.10 – 01.10.14 |
| J V L Legg | 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 |
| 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 | 40p | 23.09.06 – 23.09.09 |

Notes
[1]Mr Davies appointed on 14th September 2010
[2]Mr Groom and Mr Legg resigned on the 14th September 2010
[3]Mr Richardson Brown appointed on 1st November 2010
[4]Mr Cunningham resigned on 4th January 2011

## 6 Finance income and costs recognised in loss

| | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| **Financial income** | | |
| Income on bank deposits | 13 | 36 |
| Foreign exchange movements realised | 8 | 17 |
| | 21 | 53 |
| **Financial cost** | | |
| Interest payable on borrowings | (375) | (393) |
| Foreign exchange movements realised | (752) | (117) |
| | (1,127) | (510) |

## 7 Profit on sale of investments

| | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| *Sale of current asset investments* | | |
| Shares held in Leni Gas and Oil plc | 5 | 127 |
| | 5 | 127 |

Further details on the disposal of subsidiaries are set out in Note 29.





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 8 Income tax expense

| | Year ended 31 December 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| Current tax expense | 46 | – |
| Total tax expense for the year | 46 | – |

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 2010 £ 000's | Year ended 31 December 2009 £ 000's |
|---|---|---|
| **Reconciliation of effective tax rate:** | | |
| Loss for the year | (83) | (10,622) |
| Income tax using the Company's domestic tax rate 28% (2009: 28%) | (23) | (2,976) |
| Effects of: | | |
| Current tax | – | – |
| Current year losses for which no asset recognised | 1,564 | 713 |
| Change in unrecognised temporary differences | 37 | 2,023 |
| Effect of tax rates in foreign jurisdictions | 250 | 390 |
| Other non-taxable items | 2 | (74) |
| Other non-deductible expenses | (1,747) | (22) |
| Utilisation of losses brought forward | – | (8) |
| Capital (losses)/gains | (37) | (46) |
| Total tax expense for the year | 46 | – |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 9 Discontinued operations

The profit on sale of investments relates to the sale of Ascent's 100% owned Swiss subsidiaries, PEOS AG, SEAG and Borona holdings Limited to eCORP Europe International Ltd., for a cash consideration of €8 million, together with various farm-in options on certain potentially successful discoveries. The cash consideration consists of €5 million payable immediately, with €3 million payable on completion of agreed commercial conditions which were met during the year.

The loss on sale of equity accounted investees relates to the sale of Ascent's 45% interest in Italian drilling contractor Perazzoli Drilling srl for a consideration of £1.19 million in addition to the return of a £441,000 deposit. The Company's original interest was purchased to provide priority access, and ensure optimal contract terms for drilling services. These advantages will be retained through a five year service alliance with Perazzoli, which provides for a 30% discount on €10 million of drilling services to Ascent and first call on uncommitted drilling units.

| **Profit on sale of subsidiary** | £ 000's |
|---|---|
| Sale proceeds | 7,032 |
| Less pre-disposal carrying values | |
| Exploration costs | (539) |
| Liabilities | 7 |
| Less costs of disposal | (601) |
| Total gain on disposal of discontinued operations | 5,899 |

| **Loss on sale of equity accounted investees** 31 December 2010 | £ 000's |
|---|---|
| Sales proceeds | 1,191 |
| Less carrying value of investment | (1,191) |
| Loss on disposal | – |

| **Result of discontinued operations** | 31 December 2010 £ 000's | 31 December 2009 £ 000's |
|---|---|---|
| **Switzerland** | | |
| Loss for the year | – | (42) |
| Gain from selling discontinued operations after tax | 5,899 | – |
| **Perazzoli Drilling** | | |
| Share of profit of equity accounted investees | – | 274 |
| Impairment of equity accounted investee | – | (300) |
| Gain/(loss) from discontinued operations | 5,899 | (68) |

The cash flow statement includes the following amounts relating to discontinued operations

| **Result of discontinued operations** | 31 December 2010 £ 000's | 31 December 2009 £ 000's |
|---|---|---|
| Operating activities | – | 232 |
| Investing activities | 6,431 | (281) |
| Net cash (used in) discontinued operations | 6,431 | (49) |



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Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 10 Loss per share

| | 31 December 2010 £ 000's | 31 December 2009 £ 000's |
|---|---|---|
| **Loss** | | |
| (Loss)/profit for the purposes of basic earnings per share being net loss attributable to equity shareholders | | |
| From continuing operations | (6,028) | (10,554) |
| From discontinued operations | 5,899 | (68) |
| From total operations | (129) | (10,622) |
| Profit/(Loss) for the purposes of diluted earnings per share being adjusted net loss attributable to equity shareholders | | |
| From continuing operations | (6,013) | (10,554) |
| From discontinued operations | 5,899 | (68) |
| From total operations | (114) | (10,622) |

| **Number of shares** | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 513,383,470 | 341,433,823 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 518,634,913 | 341,433,823 |

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares. Dilutive shares arise from share options and the convertible loan notes held by the Company. 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, warrants and convertible bonds. Further details of the dilutive effect of potentially issuable shares are details in the notes 5 and 34.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 11 Property, Plant and Equipment – Group

| | Computer and equipment £ 000s | Developed oil and gas assets £ 000s | Total £ 000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2009 | 67 | 786 | 853 |
| Additions | – | 30 | 30 |
| Effects of movements in exchange rates | (3) | (83) | (86) |
| At 31 December 2009 | **64** | **733** | **797** |
| At 1 January 2010 | 64 | 733 | 797 |
| Transfer from exploration assets | – | 2,437 | 2,437 |
| Additions | – | 529 | 529 |
| Effects of movements in exchange rates | (2) | (111) | (113) |
| **At 31 December 2010** | **62** | **3,588** | **3,650** |
| At 1 January 2009 | 12 | 575 | 587 |
| Depreciation for the year | 3 | 122 | 125 |
| Effects of movements in exchange rates | – | (73) | (73) |
| At 31 December 2009 | **15** | **624** | **639** |
| At 1 January 2010 | 15 | 624 | 639 |
| Depreciation for the year | 1 | 952 | 953 |
| Effects of movements in exchange rates | – | 13 | 13 |
| **At 31 December 2010** | **16** | **1,589** | **1,605** |
| **Carrying amounts** | | | |
| **At 31 December 2010** | **46** | **1,999** | **2,045** |
| At 31 December 2009 | 49 | 109 | 158 |





Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 12 Property, Plant and Equipment – Company

| | Plant and equipment £ 000s |
|---|---|
| **Cost** | |
| At 1 January 2009 and December 2009 | 11 |
| Additions | 1 |
| **At 31 December 2010** | **12** |
| **Depreciation** | |
| At 1 January 2009 | 5 |
| Depreciation for the year | 3 |
| At 31 December 2009 | **8** |
| At 1 January 2010 | 8 |
| Depreciation for the year | 2 |
| **At 31 December 2010** | **10** |
| **Carrying amounts** | |
| **At 31 December 2010** | **2** |
| At 31 December 2009 | 3 |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 13 Exploration and decommissioning costs – Group

| Group | Italy £ 000's | Hungary £ 000's | Slovenia £ 000's | Other locations £ 000's | Total £ 000's |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2009 | 12,469 | 4,507 | 274 | 693 | 17,943 |
| Additions | 816 | 1,681 | 3,709 | 27 | 6,233 |
| Additions to decommissioning asset | – | 120 | – | – | 120 |
| Effects of movements in exchange rates | (856) | (136) | (29) | (33) | (1,054) |
| **At 31 December 2009*** | **12,429** | **6,172** | **3,954** | **687** | **23,242** |
| At 1 January 2010 | 12,429 | 6,172 | 3,954 | 687 | 23,242 |
| Additions | 393 | 2,798 | 1,908 | 200 | 5,299 |
| Disposals | – | (261) | – | – | (261) |
| Assets disposed of with subsidiaries | – | – | – | (539) | (539) |
| Transfer to property, plant and equipment | – | (2,437) | – | – | (2,437) |
| Impairment | – | – | (1,853) | – | (1,853) |
| Additions to decommissioning asset | 208 | 22 | 201 | – | 431 |
| Effects of movements in exchange rates | (411) | (290) | (141) | 11 | (831) |
| **At 31 December 2010** | **12,619** | **6,004** | **4,069** | **359** | **23,051** |
| **Impairment** | | | | | |
| At 1 January 2009 (as restated) | 1,889 | 2,376 | – | – | 4,265 |
| Charge for the year | 7,810 | 700 | – | 96 | 8,606 |
| Effects of movements in exchange rates | – | (46) | – | – | (46) |
| **At 31 December 2009*** | **9,699** | **3,030** | **–** | **96** | **12,825** |
| At 1 January 2010 | 9,699 | 3,030 | – | 96 | 12,825 |
| Charge for the year | 14 | 1,231 | – | – | 1,245 |
| Disposal | – | (74) | – | – | (74) |
| Effects of movements in exchange rates | (345) | (132) | – | (4) | (481) |
| **At 31 December 2010** | **9,368** | **4,055** | **–** | **92** | **13,515** |
| **Carrying value** | | | | | |
| **At 31 December 2010** | **3,251** | **1,949** | **4,069** | **267** | **9,536** |
| **At 31 December 2009*** | **2,730** | **3,142** | **3,954** | **591** | **10,417** |

* Certain balances have been reclassified, see note 35 for further detail.

'Other Europe' includes the Netherlands and Switzerland.



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# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 13 Exploration and decommissioning costs – Group *(continued)*

For the purposes of impairment testing the intangible oil and gas assets are allocated to the Groups cash generating units, which represent the lowest level within the Group at which the intangible oil and gas assets are measured for internal management purposes, which is not higher than the Group's operating segments as reported in note 2.

The amounts for intangible exploration assets represent costs incurred on active exploration projects. These amounts are written off to the income statement as an impairment expense unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of intangible exploration assets will ultimately be recovered, is inherently uncertain.

The impairment charge for the year in Hungary of £1,231,000 relates to the abandonment of the Bajcsa Gasfield redevelopment (£342,000) and the plugging and abandonment of the PEN 106 well at the Peneszlek development (£889,000). Both impairments were due to no recoverable oil and gas reserves being found. Impairment reviews were performed on the other Hungarian well sites with all costs deemed fully recoverable and therefore no impairment charge has been recognised in relation to these assets.

The impairment charge in the year in Slovenia relates to the abandonment of our East Slovenian exploration project. No recoverable and oil gas reserves were found, so the carrying value of the asset was written off in full.

The impairment charge in the year in Italy of £14,000 relates to the impairment of historic costs related to general seismic activity in Italy. These costs related to interests on which work is no longer being undertaken and were therefore written off.

The transfer in the year to tangible assets relates to the Pen 101 and Pen 105 wells in Hungary. Both wells went on production in the year and have therefore been transferred in accordance with Ascent's accounting policies.

## 14 Investment in subsidiaries and jointly controlled entities – Company

| | Shares in subsidiary undertakings £ 000s |
|---|---|
| At 1 January 2010 | **1,842** |
| Additions | **245** |
| Impairment in year | **(58)** |
| Sold in year | **(59)** |
| **At 31 December 2010** | **1,970** |

During 2010 the Company divested its interests in PEOS AG, SEAG and Borona Holdings Limited as part of the Swiss disposal. This is explained in more detail in note 9 discontinued operations.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 14 Investment in subsidiaries and jointly controlled entities – Company *(continued)*

| Name of company | Principal activity | Country of incorporation | % of share capital held 2010 | % of share capital held 2009 |
|---|---|---|---|---|
| Nemmoco Slovenia Corporation | Oil and Gas exploration | British Virgin Islands | 100% | 100% |
| Borona Holdings Ltd | Oil and Gas exploration | Cyprus | 0% | 100% |
| Ascent Production Ltd | Holding company | England | 100% | 100% |
| Ascent Drilling Ltd | Holding company | England | 100% | 50% |
| Ascent Hungary Ltd | Holding company | England | 100% | 100% |
| PetroHungaria kft (Joint Venture) | Oil and Gas exploration | Hungary | 48.8% | 45.23% |
| Pelsolaj kft (Joint Venture) | Oil and Gas exploration | Hungary | 60% | 0% |
| ZalaGasCp lft (Joint Venture) | Oil and Gas exploration | Hungary | 77.45% | 77.45% |
| Ascent Resources Italia srl | Oil and Gas exploration | Italy | 100% | 100% |
| Ascent Netherlands BV | Oil and Gas exploration | Netherlands | 100% | 100% |
| PEOS AG | Oil and Gas exploration | Switzerland | 0% | 100% |
| SEAG (Joint Venture) | Oil and Gas exploration | Switzerland | 0% | 90% |

PEOS AG, SEAG and Borona Holdings Limited were disposed in the year as part of Ascent's disposal of its Swiss operations. See note 9 for further details.

Ascent's holding in Petrohungaria increased from 45.23% to 48.8% following Leni Gas' exit from the project. Their interest in the project was apportioned between the remaining partners in the project.

Ascent's holding in Ascent Drilling Ltd increased from 50% to 100% in the year following the acquisition of Malcolm Groom's holding in the company for the issue of 15,529,981 shares. For more details see Note 32, related party transactions.

60% of the share capital in Pelsolaj kft was acquired in the year as part of the set up procedure for Ascent's new joint venture in Hungary.

The legal form of PetroHungaria kft, Pelsolaj kft and ZalaGasCo kft are limited liability companies of what is in substance joint venture agreements between the Group and its partners.

## 15 Other financial assets – Group and Company

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Held to maturity financial assets | – | 888 |

The 2009 balance of £888,000 relates to an interest bearing deposit account held in Italy used as collateral for an external loan balance held with Cassa Di Risparmio de Cen to Bank. This deposit was used to pay off a large proportion of the loan balance in 2010.

## 16 Cash and cash equivalents – Group

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Cash and cash equivalents | 1,247 | 4,630 |
| Cash | 801 | – |
| Total cash and cash equivalents | 2,048 | 4,630 |





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 16 Cash and cash equivalents – Group *(continued)*

| **Cash and cash equivalents – Company** | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Cash and cash equivalents | 1,014 | 3,677 |
| Restricted cash | 801 | – |
| Total cash and cash equivalents | 1,815 | 3,677 |

The 2010 balance of £801,000 held in Ascent's Group and Company financial statements relates to a letter of credit deposited by Ascent in relation to our drilling of the Pg-11 well in Slovenia. This cash was held in escrow to guarantee payment of our drilling contractor's invoices.

## 17 Inventories – Group

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Equipment and spares | 341 | 431 |

## 18 Interest in equity-accounted investee

The Company had disposed of its holding in Perazzoli Drilling srl ('Perazzoli') during the year, which it acquired through a subsidiary company Ascent Drilling Limited, in December 2007. For further details see Note 9. Details of the investment as at 31 December 2010 were as follows:

| Name of company | Principal activity | Country of incorporation | % of share capital held (2010) | % of share capital held (2009) |
|---|---|---|---|---|
| Perazzoli Drilling srl | Drilling rig owner and contractor | Italy | 0% | 45% |

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| At 1 January | 1,191 | 1,300 |
| Share of profit for the year | – | 274 |
| Impairment provision | – | (300) |
| Net exchange differences | | (83) |
| Disposal (see note 9 for further details) | (1,191) | – |
| At 31 December | – | 1,191 |

As at 31 December 2009 the Group held its indirect interest in Perazzoli drilling via its 50% owned interest in Ascent Drilling Limited. The Group had historically controlled the interest in Perazzoli via this 50% interest, therefore Ascent Drillings entire stake in Perazolli was consolidated within the 2009 Group financial statements, with a non-controlling interest being recognised in respect of the 50% interest in Ascent Drilling held by then Director Mr Malcolm Groom.

During 2010 to facilitate the disposal of Perazolli Driling srl, the Group acquired Mr Malcolm Groom's stake in the company and also settled the debt owed to Mr Groom by Ascent Drilling Limited in exchange for share consideration of 15,529,981 Ascent shares at 5.105p (market value at the date of the transaction). The acquisition of the non-controlling interest has been treated as a transaction within equity in accordance with the Groups accounting policy.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

Thereafter, the 45% interest in Perazzoli held by the Group was sold for a consideration of €1.35 million (approximately £1.2million) to a major shareholder of Perazzoli. The Company's original stake in Perazzoli was purchased to provide priority access, and to ensure optimal contract terms for drilling services. These advantages will be retained through a five year service alliance with Perazzoli, which provides for a 30% discount on €10 million of drilling services to Ascent and first call on uncommitted drilling units. This transaction was approved at an Extraordinary General Meeting of the Company on 12 March 2010.

## 19 Trading investments – Group

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| At 1 January | 46 | 145 |
| Revaluation of fixed asset investment | – | 18 |
| Disposals | (46) | (117) |
| **At 31 December** | – | 46 |

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.

## 20 Trade and other receivables – Group

| | 2010 £ 000's | 2009* £ 000's |
|---|---|---|
| Trade receivables | 471 | 39 |
| VAT recoverable | 867 | 1,277 |
| Other receivables | 203 | 451 |
| Prepayments and accrued income | 123 | 481 |
| | 1,664 | 2,248 |

* Certain balances have been reclassified, see note 35 for detail.

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:

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Not past due | 471 | – |
| Past due 1-30 days | – | – |
| Past due 31-120 days | – | 39 |
| **Total** | 471 | 39 |

There was no bad debt provision as at 31 December 2010 (2009: £nil)

## 21 Trade and other receivables – Company

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| VAT recoverable | 7 | 8 |
| Prepayments | 16 | 9 |
| | 23 | 17 |





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 22 Deferred tax

There is deferred tax charge of £37,000 recognised in the accounts for the Group, but none for company in the year (2009: £nil for group and company). Details of net deferred tax assets not recognised are set out below.

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| **Group** | | |
| Tax losses | (16,457) | (11,744) |
| Unrecorded deferred tax asset | 4,937 | 3,523 |
| **Company** | | |
| Tax losses | (4,830) | (3,376) |
| Unrecorded deferred tax asset | 1,449 | 1,012 |

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

## 23 Borrowings

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| **Group** | | |
| *Current* | | |
| Convertible loan note | 2,742 | 2,481 |
| Bank loan | 11 | 554 |
| Other loans (see note 32) | – | 556 |
| | 2,753 | 3,591 |
| *Non-current* | | |
| Convertible loan note | – | – |
| Bank loan | – | 851 |
| Other loans (see note 32) | – | – |
| | – | 851 |
| Group non-current borrowings are repayable as follows: | | |
| In the first year | – | – |
| In the second year | – | 554 |
| In the third to fifth year | – | 297 |
| | – | 851 |
| **Company** | | |
| Convertible loan note | 2,742 | 2,481 |

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% (2009 and 2008: 5.2%).

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 23 Borrowings *(continued)*

**Bank loan**

The Group has a loan outstanding with Cassa Di Risparmio de Cento Bank. The Loan expires on 5 June 2012. Interest is calculated by reference to the three month Euribor rate plus a margin of 1%.

**Convertible loan note**

| | Group and 2010 £ 000's | Group and 2009 £ 000's |
|---|---|---|
| Fair value of consideration received | 2,100 | 2,500 |
| Equity component | (50) | (84) |
| | 2,050 | 2,416 |
| Liability brought forward | 2,481 | – |
| Liability on initial recognition | 2,050 | 2,416 |
| Interest expense | 43 | 65 |
| Repayment | (1,748) | – |
| Deferral of set up costs | (84) | – |
| Liability at 31 December | 2,742 | 2,481 |

a) 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 loan note was extinguished on 13 November 2010 and the amount partially repaid.

b) On 19 November 2010, the Company secured a one year loan facility of £2.1m with YA Global Master SPV Ltd to contribute to the financing of the Pg-11 evaluation well on the Petišovci-Lovaszi project area. The one year loan facility was drawn down following completion of certain conditions precedent, including (inter alia) provision of security over Ascent's interest in its Hungarian subsidiary. The loan carries an interest rate of 6% per cent. per annum, payment of which will be covered from cashflow from Ascent's existing production. During the term of the facility, Yorkville has the right to convert the outstanding loan balance into shares in Ascent at prices ranging from 8.4p-10.5p. The loan is secured by a charge over Ascent's assets.

## 24 Provisions – Group

| **Decommissioning** | £000's |
|---|---|
| At 1 January 2009 | 32 |
| Provisions made during the year | 120 |
| **At 31 December 2009** | 152 |
| At 1 January 2010 | 152 |
| Provisions made during the year | 442 |
| **At 31 December 2010** | 594 |

The amount provided for decommissioning costs represents the Group's share of site restoration costs for the Frosinone and Fiume Arrone projects in Italy, the Penèzlek field in Hungary and the Petišovci field in Slovenia. The most recent estimate is that the year-end provision will become payable between 2011 and 2012.





Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 25 Trade and other payables – Group

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Trade payables | 1,655 | 6,230 |
| Tax and social security payable | 92 | 17 |
| Other creditors | 148 | 115 |
| Accruals and deferred income | 419 | 239 |
| | 2,314 | 6,601 |

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:

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Not past due | 743 | 5,284 |
| Past due greater than 120 days | 912 | 946 |
| | 1,655 | 6,230 |

## 26 Trade and other payables – Company

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| Trade payables | 350 | 377 |
| Tax and social security payable | 15 | 16 |
| Accruals and deferred income | 139 | 245 |
| | 504 | 638 |

At 31 December 2010 and 31 December 2009, all Company trade payables were classed as not past due.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. As at 31 December 2010, there was tax and social security payable on share based payments of £Nil (2009: £8,000).

## 27 Called up share capital

| | 2010 £ 000's | 2009 £ 000's |
|---|---|---|
| **Authorised** | | |
| 10,000,000,000 ordinary shares of 0.10p each | 10,000 | 10,000 |
| **Allotted, called up and fully paid** | | |
| **519,780,299** (2009: 500,132,042) ordinary shares of 0.10p each | 520 | 500 |

**Reserve description and purpose**

The following describes the nature and purpose of each reserve within owners' equity:

- Share capital: Amount subscribed for share capital at nominal value.
- Equity reserve: Amount of proceeds on issue of convertible debt relating to the equity component i.e. option to convert the debt into share capital.
- Share premium: Amounts subscribed for share capital in excess of nominal value less costs of shares associated with share issues.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 27 Called up share capital *(continued)*

- Share based payment reserve: Value of share options granted and calculated with reference to a bionomial pricing model (see note 34). When options lapse or are exercised, amounts are transferred from this account to retained earnings.
- Translation reserve: Exchange movements arising on the retranslation of net assets of operation into the presentation currency.
- Retained earnings: Cumulative net gains and losses recognised in consolidated income.

**Shares issued during the year**

***The GEM Facility***
On 13 May 2009 the Company entered into an agreement with GEM Global Yield Fund ('GEM') whereby GEM made available to the Company an equity line of credit of up to £ 5 million ('the Facility'). This was amended to £10 million in October 2009. The purpose of the facility is to provide additional working capital for the Company and the Group.

Under the terms of the facility, the Company can make draw downs of cash, at times of its choosing, by issuing new ordinary shares to GEM. The facility is available for three years from 13 May 2009. 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 are 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.

No shares were issued in the year in relation to this facility.

**Convertible loan note**
On 19 November 2010, the Company secured a one year loan facility of £2.1m with YA Global Master SPV Ltd to contribute to the financing of the Pg-11 evaluation well on the Petišovci-Lovászi project area. A finance fee for setting up the loan note was settled via the issue of 3,118,276 Ascent shares.

**Sale of Perazzoli Drilling**
During the year, the group disposed its interest in Perazzoli. The Company issued 15,529,981 Ascent shares at 5.105p in return for the 50% interest in Ascent Drilling Limited held by then Director Mr Malcolm Groom and the settlement of the debt owed to Mr Groom by Ascent Drilling Limited.

**Conversion of options**
During the year, Jeremy Eng, Managing Director of Ascent, exercised options over 1,000,000 ordinary shares of 0.1p each in the Company at a price of 5.0p per share.

***Other matters***

**The SEDA facility**
On 19 November 2010 the Company entered into an agreement with YA Global Master SPV Ltd ('Yorkville'), an investment fund managed by Yorkville Advisors LLC. The purpose of the agreement is to provide additional working capital for the Company and the Group.

Under the terms of the agreement, Ascent may draw down on funds over a period of up to three years in exchange for the issue of new shares in the Company. The shares issued by the Company will be at a 5% discount to the prevailing market price during the ten day pricing period of a draw down. The Company may also set a minimum price for each draw down. The maximum advance that may be requested is 200% of the average daily trading volume of Ascent shares multiplied by the volume weighted average price of such shares for each of the ten trading days prior to the draw down request.

3,118,276 shares were issued in the year in relation to this facility to cover initial financing fees in relation to setting up the convertible loan note.



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# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 28 Operating lease arrangements

At the balance sheet date, the Group had no outstanding commitments under non-cancellable operating leases (2009: £nil).

## 29 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.

At 31 December 2010 the Group had exploration and expenditure commitments of £0.5 million (2009 - £1.1m).

## 30 Contingent liabilities

At the balance sheet date there were no contingent liabilities (2009: £nil) in respect of litigation, overseas taxes and guarantees.

## 31 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 2010 £ 000's | Services provided by Ascent Resources plc 2010 £ 000's | Cash advances 2009 £ 000's | Services provided by Ascent Resources plc 2009 £ 000's |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Ascent Production Ltd | 422 | (453) | (244) | 53 |
| PetroHungaria kft | 622 | 83 | 547 | 28 |
| Ascent Italia srl | 886 | 113 | 1,622 | 187 |
| SEAG Borona JV | – | (150) | – | 15 |
| Ascent Drilling Ltd | 529 | 4 | (3) | 6 |
| PEOS AG | (47) | (327) | (2) | 309 |
| Ascent Gabon Ltd | – | – | 66 | (70) |
| Ascent Netherlands BV | 28 | 83 | (18) | 69 |
| Ascent Resourses Slovenia | 2,768 | 341 | 2,071 | 134 |
| Ascent Hungary Limited | – | 913 | – | 182 |
| ZalaGasCo kft | (573) | (4) | 290 | (160) |
| Pelsolaj kft | – | 187 | – | – |
| | 4,635 | 790 | 4,329 | 753 |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 32 Related party transactions *(continued)*

| *(b) Group Companies* Balances at the year end | Cash advances 2010 £ 000's | Trading balance 2010 £ 000's | Cash advances 2009 £ 000's | Trading balance 2009 £ 000's |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Ascent Production Ltd | 178 | 192 | (244) | 646 |
| PetroHungaria kft | 3,157 | 1,119 | 2,535 | 1,036 |
| Ascent Italia srl | 9,591 | 1,007 | 8,705 | 894 |
| SEAG Borona JV | – | – | – | 150 |
| Ascent Drilling Ltd | 1,085 | 35 | 556 | 31 |
| PEOS AG | – | – | 47 | 327 |
| Ascent Netherlands BV | (530) | 1,033 | (558) | 950 |
| Ascent Resourses Slovenia | 5,087 | 852 | 2,318 | 511 |
| Ascent Hungary Ltd | – | 1,095 | – | 182 |
| ZalaGasCo kft | – | – | 573 | 4 |
| Pelsolaj kft | – | 187 | – | – |
| | 18,568 | 5,520 | 13,932 | 4,731 |

The Directors have considered whether any of the intercompany balances should be impaired and are recoverable given the current status of the projects that these balances should all be ultimately recoverable.

*(c) 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 5.

*MDJ Groom*

**2010**

During the year, the group disposed its interest in Perazzoli. The Company issued 15,529,981 Ascent shares at 5.105p in return for the 50% interest in Ascent Drilling Limited held by then Director Mr Malcolm Groom and the settlement of the debt owed to Mr Groom by the Ascent Drilling Limited.

Thereafter, the 45% interest in Perazzoli held by the Group was sold for a consideration of €1.35 million (approximately £1.2million) to a major shareholder of Perazzoli. The Company's original interest was purchased to provide priority access, and ensure optimal contract terms for drilling services. These advantages will be retained through a five year service alliance with Perazzoli, which provides for a 30% discount on €10 million of drilling services to Ascent and first call on uncommitted drilling units. This transaction was approved at an Extraordinary General Meeting of the Company on 12 March 2010.

**2009**

Malcolm Groom owned a 50% shareholding in Ascent Drilling Limited and at the year-end date had an outstanding loan balance of £556,000 (2008 – £597,000) (€625,000) due from Ascent Drilling Limited. The loan was unsecured with no fixed term and is interest free. which was reported in the consolidated financial statements within borrowings.

Ascent Drilling Limited is treated as a subsidiary company. At 31 December 2009, the Company held an investment in Perazzoli Drilling srl, representing 22.5% of the share capital. Ascent Drilling Limited made a profit of £268,000 in the year to 31 December 2009 (2008:£88,000).





Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 32 Related party transactions *(continued)*

*(d) Other related party transactions*

*Perazzoli Drilling srl*

**2010**

None

**2009**

During the prior year Ascent Resources Italia srl purchased drilling rig services totalling approximately £1 million (2008: £nil) from the Group associate company Perazzoli Drilling srl ('Perazzoli'). At the year end there was an outstanding balance payable by Ascent Resources Italia srl to Perazzoli of approximately £1 million (2008: £nil). During the year ended 31 December 2009, Ascent Resources Italia srl made prepayments valued at £478,000 towards the purchase costs of a drilling rig.

## 33 Post balance sheet events

**Petišovci Project**

Since the year end, the Company completed the transaction announced with EnQuest PLC on the 21st December 2010 to acquire an additional 48.75% interest in the Petišovci Project in Slovenia. As compensation, EnQuest was issued on 11th February 2011 with 159,903,958 new Ordinary Shares of 0.1p each as well as a nil cost option over 29,686,000 new Ordinary Shares of 0.1p each, exercisable subject to certain criteria related to the successful development of the project having been met.

Additionally following the year end, the Company also completed the first phase of its operations of Pg-11, its initial appraisal well in the Project that spudded on the 22nd December 2010. The primary objectives of the well were satisfied with gas confirmed by logs in all of the six Middle Miocene Badenian reservoirs. In addition, gas and condensate were sampled from the Lower Miocene Karpatian reservoir and gas flowed for the first time from the shallowest 'A' sands. The Company spudded the second phase of drilling of Pg-11A on Monday 9th April 2011 and at the time of writing was part way through the drilling and testing process.

**Fund Raising**

It was announced on 17th March 2011 that the Company had raised £17 million before expenses by way of a placing of 340,000,000 new Ordinary Shares of 0.1p each at a price of 5 pence per share. The Directors were pleased with the support received from high quality UK institutional investors who took up the vast majority of the funds raised. The funds will primarily be used to advance the Company's flagship Petišovci/Lovási/Ujfalu project, through the drilling and completion of the Pg-11A sidetrack, the Pg-10 and Ujfalu-III wells, and capitalise on the areas P50 estimated gas in place of 412 Bcf. The balance of the proceeds was raised in order to pay off existing debt and other working capital requirements as they become due.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 34 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:

| | 2010 Number of share options | 2010 Weighted average exercise price |
|---|---|---|
| Outstanding at 1 January 2010 | 45,975,000 | 9.93p |
| Granted during the year | 15,500,000 | 10.38p |
| Expired during the year | (15,975,000) | 12.22p |
| Exercised during the year | (1,000,000) | 5p |
| Outstanding at 31 December 2010 | 44,500,000 | 9.38p |
| **Exercisable at 31 December 2010** | **28,500,000** | **8.88p** |

| | 2009 Number of share options | 2009 Weighted average exercise price |
|---|---|---|
| Outstanding at 1 January 2009 | 25,875,000 | 16.38p |
| Granted during the year | 24,600,000 | 8.65p |
| Expired during the year | (4,500,000 | 40.0p |
| Outstanding at 31 December 2009 | 45,975,000 | 9.93p |
| Exercisable at 31 December 2009 | 43,275,000 | 10.17p |

The fair value of share options issued in the year was 3.4p (2009: 6.2p)

The charge for the year was £140,000 (2009: £1,534,000)

| | 2010 | 2009 |
|---|---|---|
| Share price at grant date | 4.875 – 19p | 4 – 11p |
| Exercise price | 4.875 – 30p | 4.75 – 30p |
| Volatility | 78.7% – 167.6% | 78.7% – 167.6% |
| Expected life | 3 – 5 years | 3 – 5 years |
| Risk free rate | 0.5% – 5.75% | 1 – 4.3% |
| 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 2010 have an exercise price in the range of 4.75p and 15p and a weighted average contractual life of 3.46 years.



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Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 35 Prior year reclassification

An amount of £679,000 has been reclassified in the prior year statement of financial position between other receivables and exploration costs. The £679,000 related to oil and gas costs which were treated as prepayments as at 31 December 2009. In order to make the balances more comparable with the current year, the reclassification was required. There is no impact on the results of the prior year or the net assets at 31 December 2009.

| Company | 1 January 2009 as previously reported £ 000's | Movement for the year as previously reported £ 000's | Prior year reclassification £ 000's | 31 December 2009 as reclassified £ 000's |
|---|---|---|---|---|
| Exploration and decommissioning costs | 13,146 | (3,408) | 679 | 10,417 |
| Trade and other receivables | 2,627 | 300 | (679) | 2,248 |

## 36 Financial risk management

**Group and Company**

The Group's financial liabilities comprise bank loans, convertible loan notes, other loans and trade payables. The Group has various financial assets being trade receivables, investments held for trading 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. 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 receivables is VAT recoverable from the state authority in Italy of £0.9 million (2009; £1.3 million). The Company considers the residual balance will be fully recovered in 2011.

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 the Group's exposure to credit risk.

**b) Currency risk**

The Group's operations are predominantly in Italy, Slovenia and Hungary. Foreign exchange risk arises from translating the euro earnings, assets and liabilities of the Ascent Resources Italia SpA 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.

We often raise funds for future development through the issue of new shares in Sterling. These funds are predominantly to pay for our exploration costs abroad in Euros. As such any Sterling balances held are at risk of currency fluctuations and may prove to be insufficient to meet our planned euro requirements if there is a devaluation.

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 36 Financial risk management *(continued)*

*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, the United States Dollar 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.

| Group | Euro Currency change | | Forint Currency change | | US Dollar Currency change | |
|---|---|---|---|---|---|---|
| | Year ended 31 December 2010 | Year ended 31 December 2009 | Year ended 31 December 2010 | Year ended 31 December 2009 | Year ended 31 December 2010 | Year ended 31 December 2009 |
| | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's |
| **Profit or loss** | | | | | | |
| 10% strengthening of Sterling | 996 | 58 | 38 | 24 | – | – |
| 10% weakening of Sterling | (1,217) | (58) | (46) | (24) | – | – |
| **Equity** | | | | | | |
| 10% strengthening of Sterling | (599) | (51) | 205 | 120 | (21) | – |
| 10% weakening of Sterling | 732 | 51 | (251) | (120) | 21 | – |

| Company | Euro Currency change | | Forint Currency change | | US Dollar Currency change | |
|---|---|---|---|---|---|---|
| | Year ended 31 December 2010 | Year ended 31 December 2009 | Year ended 31 December 2010 | Year ended 31 December 2009 | Year ended 31 December 2010 | Year ended 31 December 2009 |
| | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's | £ 000's |
| **Profit or loss** | | | | | | |
| 10% strengthening of Sterling | – | – | – | – | – | – |
| 10% weakening of Sterling | – | – | – | – | – | – |
| **Equity** | | | | | | |
| 10% strengthening of Sterling | (1,595) | (1,321) | – | (385) | (21) | – |
| 10% weakening of Sterling | 1,949 | 1,321 | – | 385 | 21 | – |





Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 36 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. Financial instruments listed above valued at fair value are assessed as tier 3. Tier 3 means inputs for the asset or liability that are not based on observable market data.

*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 20, 21, 25 and 26.

**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.

The impact of rate sensitivity analyses is immaterial to the Group's results.

At 31 December 2010 the Group had a restricted Euro bond deposit at a sterling equivalent of: £Nil (2009: £888,000).

At 31 December 2010, the Group had a loan of £753,000 (2009: £2,500,000) at a fixed rate of 8.5%, another loan of £2,100,000 at a fixed rate of 6% and a Euro loan at sterling equivalent of £11,000 (2009: £1.4million) at variable rate of EURIBOR plus one per cent (2009: EURIBOR + 1%).

| Financial assets (sterling equivalent) | Weighted Average Floating Interest Rate % | 2010 Amount £ | 2009 Amount £ |
|---|---|---|---|
| Cash in Euro | 0.10% | 1,864,000 | 869,000 |
| Cash in United States Dollar | 0.00% | 158,000 | – |
| Cash in Sterling | 0.05% | 7,000 | 3,646,000 |
| Cash in Hungarian Forints | 0.15% | 19,000 | 115,000 |

# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 36 Financial risk management *(continued)*

**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.

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

The availability of £6.4 million of credit under the SEDA facility with YA Global Master SPV Ltd and the finalisation of the placing in March 2011, together with the results in the Group's forecasts and projections show 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.

Set in the foregoing is a comparison of carrying amounts and fair values of the Group's and the Company's financial instruments:

| Group | Carrying amount | Fair value | Carrying amount | Fair value |
|---|---|---|---|---|
| | Year ended 31 December 2010 | Year ended 31 December 2010 | Year ended 31 December 2009 (restated) | Year ended 31 December 2009 (restated) |
| | £ 000's | £ 000's | £ 000's | £ 000's |
| **Financial assets** | | | | |
| Cash and cash equivalents | 2,048 | 2,048 | 4,630 | 4,630 |
| Restricted cash | – | – | 888 | 888 |
| Trading investments | – | – | 46 | 46 |
| Trade receivables | 471 | 471 | 39 | 39 |
| **Financial liabilities** | | | | |
| Trade Creditors | 1,655 | 1,655 | 6,230 | 6,230 |
| Convertible loans at fixed rate | 2,742 | 2,853 | 2,481 | 2,500 |
| Bank loan at variable rate | – | – | 1,405 | 1,405 |
| Other non-interest bearing loans | – | – | 556 | 556 |





# Notes to the Financial Statements (continued)

for the year ended 31 December 2010

## 36 Financial risk management *(continued)*

| Company | Carrying amount | Fair value | Carrying amount | Fair value |
|---|---|---|---|---|
| | Year ended 31 December 2010 | Year ended 31 December 2010 | Year ended 31 December 2009 | Year ended 31 December 2009 |
| | £ 000's | £ 000's | £ 000's | £ 000's |
| **Financial assets** | | | | |
| Cash and cash equivalents | 1,815 | 1,815 | 3,677 | 3,677 |
| **Financial liabilities** | | | | |
| Trade Creditors | 350 | 350 | 377 | 377 |
| Convertible loan at fixed rate | 2,742 | 2,853 | 2,481 | 2,500 |

At 31 December 2010, the Group and the Company had a loan of £0.75 million (2009: £2.50 million) at a fixed rate of 8.5%, another pound denominated loan of £2.10m (2009: Nil) at a fixed rate of 6% and a third Euro loan at sterling equivalent of £0.01 million (2009: £1.4 million) at variable rate of EURIBOR plus one per cent (2009: EURIBOR + 1%).

At 31 December 2010 the Group also had restricted cash comprising Euro deposits at a sterling equivalent of: Nil (2009: £888,000).

# Notice of Annual General Meeting

Notice is hereby given that the 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 30th June 2011 at 2.00 pm 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 2010 and the report of the auditors thereon.
2. To re-elect, as a director of the Company, Mr William Graham Cooper, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-election.
3. To re-elect, as a director of the Company, Mr William Cameron Davies, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-election.
4. To re-elect, as a director of the Company, Mr Scott James Richardson Brown, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-election.
5. To re-elect, as a director of the Company, Mr Jeremy Eng, who retires in accordance with Article 25.2 of the Company's Articles of Association and offers himself for re-election.
6. To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:-

   THAT BDO LLP be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be determined by the directors.

**Special Business**

7. 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 551 of the Companies Act 2006 ("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 the Act) up to an aggregate nominal amount of £550,000.00 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 2012 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.

8. 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 570 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 7 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power 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 £250,000.00;



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NOTICE OF AGM

   provided that this power shall, unless previously revoked or varied by special resolution of the Company in general meeting, expire at the conclusion of the Annual General Meeting of the Company to be held in 2012. The Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors are hereby empowered to allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

9. THAT the Articles of Association of the Company be amended by the insertion of a new article as follows:
   "1.11 The liability of the members of the Company is limited."

BY ORDER OF THE BOARD
J M Bottomley,
Company Secretary

One America Square
Crosswall
London EC3N 2SG

7 June 2011

# NOTICE OF AGM

## 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 Annual 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. The Company has specified that only those members entered on the register of members at 6.00pm on 28th June 2011 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 6.00 pm on 28th June 2011 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. **Resolution 2 - 4** – Having been appointed since the last Annual General Meeting, Mr William Cooper, Mr William Davies and Mr Scott Richardson Brown must retire in accordance with Article 20.2 of the Company's Articles of Association, and being eligible are offering themselves for re-election.
5. **Resolution 5** – 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.
5. **Resolution 7** – As required by the Act, 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 2012, unless the authority is renewed or revoked prior to such time. This authority is limited to a maximum of 550,000,000 Ordinary Shares. This authority replaces the existing authorities granted at the AGM held on 28th June 2010.
6. **Resolution 8** – The Act 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 561(1) of the Act. 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 250,000,000 Ordinary Shares. This authority replaces the existing authorities granted at the AGM held on held on 28th June 2010 and expires at the conclusion of the Annual General Meeting to be held in 2012.

ascent
resources plc


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