

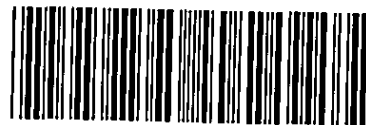
Cuadrilla Resources Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 7147040

Year ended 31 December 2011

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Professional advisers

Auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Solicitors

Peachey & Co LLP
95 Aldwych
London
WC2B 4JF

Bankers

HSBC Bank plc
8 Canada Square
London
E14 5HQ

Insurance broker and risk advisors

Willis Group
Willis Building
51 Lime Street
London
EC3M 7DQ

Directors' report

The directors of Cuadrilla Resources Holdings Limited (the "Company") present their directors' report and the audited financial statements for year ended 31 December 2011

Principal activities

The principal activity of the Company is a holding company of a group of subsidiaries that are involved in the exploration and appraisal of onshore oil and gas projects in Europe, and services related thereto

Business review

The Company and its subsidiaries (together referred to as the "Group") has continued its exploration programme at a number of sites in Europe, with the principal focus being the Bowland basin in Lancashire

Results and proposed dividends

The result for the year is a loss of \$12,285,000 (2010 loss \$17,638,000) The Directors do not recommend the payment of a dividend

Principal risks and uncertainties

As an oil and gas exploration group, Cuadrilla is exposed to and manages a variety of risks The key risks are assessed as follows

- Exploration and appraisal risk is mitigated by seeking to develop a diverse portfolio of assets in known hydrocarbon producing regions in politically stable European countries The assessment of resources and reserves is inherently uncertain and this risk is managed by the collection and extensive analysis of geological and seismic data, geomechanical studies, physical and chemical laboratory analyses and reservoir engineering data The Group has developed its own team of professional in-house experts and seeks external support from experienced consultants
- Liquidity risk is managed by the Board who review the Group's cash flow forecasts to satisfy themselves that the Group will be able to meet its external liabilities as they fall due and that required monetary injections from shareholders are identified and available as required
- Capital risk - The Group is exposed to capital risk as currently the Group has no borrowings and is 100% equity financed The capital structure is monitored by the Board to ensure that it meets the business plan
- Legislation risk – Through its drilling, completion, hydraulic fracture stimulation and well testing operations, the Group is exposed to planning, licensing, regulatory, environmental and other legislative risks The Board places considerable importance on maintaining the highest standards and developing successful working relationships with local and national government authorities
- Currency, interest rate and credit risks – The Board does not consider that these risks are significant at this stage
- Other challenges include
 - Operational risks (equipment failure, successful project delivery)
 - The availability of skilled and experienced staff
 - Litigation

Directors' report

(continued)

Share capital

On 2 March 2011, the Company issued shares of \$10,925,000 to a fund managed by Riverstone Holdings LLC

The Company carried out three equity funding rounds in July, August and September 2011 and a total of \$20,170,000 of share capital was issued to existing shareholders

In December 2011, the Company received cash in advance of shares to be issued of \$1,977,000

Post balance sheet events

During January 2012, the Company issued share capital of \$5,042,000 to existing shareholders. This completed the equity funding round for which some shares had been paid for during the year.

The Company carried out another two equity funding rounds in February and May 2012 and a total of \$20,170,000 share capital was issued to existing shareholders.

Going concern

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

Management have reviewed the forecast cash requirements of the Group for the 12 months following the date of approval of these financial statements and have satisfied themselves that the Group will be able to meet external liabilities as they fall due and that the required monetary injections have been identified and are available should they be needed.

Directors

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

Lord John Browne of Madingley

Allan Campbell

Dennis Carlton

Anthony Carruthers (appointed 19 April 2012)

Roy Franklin (appointed 24 January 2012)

Anthony Kelly

N John Lancaster Jr

Mark Miller

Mark Tonkin (resigned 17 January 2012)

Haroun van Hóvell tot Westerflier

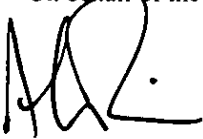
Disclosure of information to auditor

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

Auditor

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

On behalf of the board



Andrew Price
Company Secretary

Cuadrilla House
Stowe Court
Stowe Street
Lichfield
Staffordshire
WS13 6AQ

19 June 2012

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Independent auditor's report to the members of Cuadrilla Resources Holdings Limited

We have audited the financial statements of Cuadrilla Resources Holdings Limited for the year ended 31 December 2011 set out on pages 8 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, 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 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 of the parent company's affairs as at 31 December 2011 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 EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Independent auditor's report to the members of Cuadrilla Resources Holdings Limited *(continued)*

Opinion on other matter 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



Peter Meehan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

(s) Peter 2012

Consolidated income statement and comprehensive income
for the year ended 31 December 2011

	<i>Note</i>	2011 \$000	2010 \$000
Revenue	<i>1,2</i>	3,694	227
<i>Cost of sales</i>		<i>(3,412)</i>	<i>(329)</i>
Gross profit/(loss)		282	(102)
<i>Operating expenses</i>		<i>(6,251)</i>	<i>(8,579)</i>
<i>Administrative expenses</i>		<i>(6,338)</i>	<i>(8,976)</i>
Operating loss	<i>1,3</i>	(12,307)	(17,657)
<i>Financial income</i>	<i>6</i>	24	19
Loss before tax		(12,283)	(17,638)
<i>Taxation</i>	<i>7</i>	(2)	-
Loss for the year		(12,285)	(17,638)

The results above relate to continuing operations

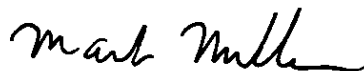
The Group has no other income or expenses recognised in the year, other than those shown in the 'Consolidated Income Statement and Comprehensive Income' above

The accompanying notes on pages 11 to 33 form an integral part of these financial statements

Balance sheets
at 31 December 2011

	<i>Note</i>	Group 2011 \$000	2010 \$000	Company 2011 \$000	2010 \$000
Non-current assets					
Property, plant and equipment	8	37,105	40,545	-	-
Intangible assets	9	34,161	10,500	-	-
Investments in subsidiaries	10a	-	-	26,421	26,421
Investments in jointly controlled entities	10b	2,540	-	-	-
		<u>73,806</u>	<u>51,045</u>	<u>26,421</u>	<u>26,421</u>
Current assets					
Inventories	11	224	340	-	-
Trade and other receivables	12	8,350	2,760	75,943	44,319
Cash at bank		3,839	9,013	-	-
		<u>12,413</u>	<u>12,113</u>	<u>75,943</u>	<u>44,319</u>
Total assets		<u>86,219</u>	<u>63,158</u>	<u>102,364</u>	<u>70,740</u>
Current liabilities					
Trade and other payables	13	(10,601)	(8,327)	(114)	(44)
Non-current liabilities					
Provisions	15	(1,431)	(1,431)	-	-
Total liabilities		<u>(12,032)</u>	<u>(9,758)</u>	<u>(114)</u>	<u>(44)</u>
Net assets		<u>74,187</u>	<u>53,400</u>	<u>102,250</u>	<u>70,696</u>
Equity attributable to equity holders of the parent					
Share capital	16	161,952	130,857	161,952	130,857
Other reserves	16	(48,701)	(50,678)	(55,251)	(57,228)
Retained losses	16	(39,064)	(26,779)	(4,451)	(2,933)
Total equity		<u>74,187</u>	<u>53,400</u>	<u>102,250</u>	<u>70,696</u>

These financial statements were approved by the board of directors on **19 June 2012** and were signed on its behalf by



Mark Miller
Director

Company registered number 7147040

The accompanying notes on pages 11 to 33 form an integral part of these financial statements

Consolidated cash flow statement
for the year ended 31 December 2011

	Group 2011 \$000	2010 \$000
Cash flows from operating activities		
Loss before tax for the year	(12,283)	(17,638)
Adjustments for		
Depreciation and amortisation	4,466	1,897
Foreign exchange losses	104	311
Share based payment expenses	-	630
Financial income	(24)	(19)
Increase in trade and other receivables	(5,590)	(1,662)
Decrease/(increase) in inventories	116	(269)
Increase in trade and other payables	5,030	4,724
Other non-cash movements	(3,502)	(924)
	(11,683)	(12,950)
Tax paid	(2)	-
Net cash outflow from operating activities	(11,685)	(12,950)
Cash flows from investing activities		
Acquisition of joint venture	(2,540)	-
Acquisition of property, plant and equipment	(3,763)	(19,252)
Capitalised exploration expenditure	(20,173)	(8,298)
Acquisition of other intangible assets	(5)	(27)
Interest received	24	19
Net cash outflow from investing activities	(26,457)	(27,558)
Cash flows from financing activities		
Proceeds from the issue of share capital	31,095	47,208
Proceeds from shares to be issued	1,977	-
Net cash inflow from financing activities	33,072	47,208
 Net (decrease)/ increase in cash	 (5,070)	 6,700
Cash at 1 January	9,013	2,624
Effect of exchange rate fluctuations on cash held	(104)	(311)
Cash at 31 December	3,839	9,013

The accompanying notes on pages 11 to 33 form an integral part of these financial statements

Notes to the Financial Statements *(forming part of the financial statements)*

1 Accounting policies

Cuadrilla Resources Holdings Limited (the "Company") is a company incorporated in and domiciled in the United Kingdom

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements

The parent company financial statements and the group financial statements are presented in US dollars, which is the Company's functional and presentation currency

Measurement convention

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

Going concern

The group's business activities, together with the factors likely to affect its future developments, performance and position are set out in the director's report on page 2

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

Management have reviewed the forecast cash requirements of the Group for the 12 months following the date of approval of these financial statements and have satisfied themselves that the Group will be able to meet its external liabilities as they fall due and that the required monetary injections have been identified and are available should they be needed

Notes (continued)

1 Accounting policies (continued)

Cash flow statement

The Company has not prepared a cash flow statement as it has not engaged in any cash transactions during the period. Expenses have been paid on behalf of the Company by its immediate subsidiary company, Cuadrilla Resources Limited, and settled through the intercompany current account.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled entities

Jointly controlled entities in which the Group holds an interest on a long term basis and which are jointly controlled by the Group and one or more venturers under a contractual arrangement. The consolidated financial statements are prepared using the equity method, so as to include the Group's proportionate shares of operating profit or loss, interest, taxation and net assets of joint venture companies.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate issued by Her Majesty's Revenue & Customs at the beginning of the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated to the Group's presentational currency USD at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, trade and other payables and cash.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

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

Cash

Cash comprises bank balances.

Notes (continued)

1 Accounting policies (continued)

Exploration and evaluation expenses

The Group applies the successful efforts method of accounting for exploration and evaluation expenses having regard to IFRS 6, "Exploration for and Evaluation of Mineral Resources"

Pre-licence costs and costs incurred prior to a determination process are expensed directly to the income statement as incurred

Subsequent exploration and evaluation costs directly associated with an identifiable exploration project area are capitalised as an intangible asset until the project has been evaluated. If hydrocarbons are found and, subject to further appraisal, the project is likely to be capable of commercial development, the costs continue to be carried as an asset

The costs of unsuccessful projects are written off to the income statement. This is in accordance with the successful efforts accounting policy but is also compatible with IAS 36, "Impairment of Assets", on the basis that the asset is impaired

Once appraisal is complete and commercial reserves are established then the relevant cost is transferred (following an impairment review as described below) from intangible exploration and evaluation assets to development and production assets within tangible assets. Expenditures incurred after the commerciality of the field has been established are capitalised within development and production assets

Exploration and evaluation assets are amortised from the date they are available for use

Impairment test

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

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

Decommissioning costs

Where a material liability for the removal of facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the estimated future expenditure, determined in accordance with local conditions and requirements. Discounting is used to the extent it is material. An asset, of an amount equivalent to the provision, is also added to the applicable project and depreciated as part of the cost of the asset. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and associated asset

Notes (continued)

1 Accounting policies (continued)

Property, plant and equipment

The Group applies IAS 16, "Property, Plant and Equipment", and established oil and gas industry practice to expenditures relating to properties or fields with commercial reserves. If sites are already producing, assets are carried as production assets within tangible fixed assets.

Fixed assets, including production assets, which are not subject to depletion, are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and equipment 10 years
- Fixtures and fittings 4 years
- Motor vehicles 4 years

Gas production assets are depreciated relative to the units of production.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

A review for impairment indicators is also carried out each year on the capitalised costs in production assets. This is carried out on a field or concession basis, as appropriate. Under oil and gas industry standard practice this impairment test is calculated by comparing the net capitalised cost with the net present value of future pre-tax cash flows which are expected to be derived from the field or concession discounted at an appropriate discount rate per annum.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets – computer software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the expected useful economic life of 4 years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Notes (continued)

1 Accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting, where material, the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders. Preference share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as an interest expense in profit or loss as accrued.

Revenue

Revenue is recognised at the fair value of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer in respect of services provided and gas supplied in the period.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income

Financing income is interest receivable on funds invested. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Notes (continued)

1 Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Adopted IFRS not yet applied

The Adopted IFRSs which have been issued but have not been applied by the Group in these financial statements are not expected to have a material effect on the financial statements.

Notes (continued)

2 Revenue, business and geographical segments

The Group has a single class of business which is oil and gas exploration, development and production

The Group operates in one geographical area, Europe

Revenue from external customers arises from the following

	Group 2011 \$000	2010 \$000
<i>Services for the exploration and appraisal of oil and gas assets</i>	3,523	136
<i>Electricity production from gas</i>	171	91
	<u>3,694</u>	<u>227</u>

3 Expenses and auditor's remuneration

Included in operating loss are the following

	Group 2011 \$000	2010 \$000
<i>Operating costs related directly to producing assets</i>	248	278
<i>Depreciation of tangible fixed assets</i>	4,447	1,883
<i>Operating lease charges – land and buildings</i>	544	270
<i>Share based payment charge</i>	-	630
<i>Foreign exchange losses</i>	104	311
	<u>5,343</u>	<u>3,372</u>

Auditor's remuneration

	Group 2011 \$000	2010 \$000
Audit of the parent company and consolidated financial statements	39	18
Amounts receivable by auditor and its associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	31	31
All other services	8	18
	<u>39</u>	<u>49</u>

Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	Group 2011	2010
Management and operational support	20	12

The aggregate payroll costs of these persons were as follows

	\$000	\$000
<i>Wages and salaries</i>	2,247	2,683
<i>Share based payments (See note 14)</i>	-	630
<i>Social security costs</i>	300	325
<i>Contributions to defined contribution plans</i>	51	13
	<u>2,598</u>	<u>3,651</u>

Company

The Company had no employees during the current or prior year

5 Directors' remuneration

	Year ended 31 December 2011 \$000	Period from 4 February to 31 December 2010 \$000
Directors' emoluments	703	582

The aggregate of emoluments of the highest paid director were \$363,000 (*period 4 Feb to 31 Dec 2010 \$275,000*)
The highest paid director did not hold any share options in the Company

Notes (continued)

5 Directors remuneration (continued)

	Number of directors	
	2011	2010
The number of directors who exercised share options was	-	1

No retirement benefits are accruing to directors (2010 none)

6 Finance income and expense

Recognised in loss before tax

	2011	2010
	\$000	\$000
<i>Finance income</i>		
<i>Interest income on cash balances</i>	24	19

Notes (continued)

7 Taxation

Recognised in the income statement

	2011 \$000	2010 \$000
Current tax expense	-	-
Deferred tax expense	-	-
	<hr/>	<hr/>
Total tax expense	-	-
	<hr/>	<hr/>

Reconciliation of effective tax rate

	2011 \$000	2010 \$000
Loss before tax for the year	12,283	17,638
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 26.5% (2010 28 %)	3,255	4,938
Effect of ring fence trades tax rate of 59.3% (2010 50%)	1,739	1,083
Effect of tax rates in foreign jurisdictions	(40)	(70)
Minimum foreign corporation tax payments	2	-
Depreciation in excess of capital allowances	(1,230)	(542)
Non-deductible expenses	(1,326)	(968)
Tax losses brought forward offset in the current year	1,139	-
Current year losses and pre-trading expenditure for which no deferred tax asset was recognised	(3,537)	(4,441)
	<hr/>	<hr/>
Total tax expense	2	-
	<hr/>	<hr/>

The UK Government announced on 23 March 2011 that the rate of Corporation tax would reduce from 28% to 26% from 1st April 2011. Tax has been recorded at the effective blended rate for the period of 26.5%.

The UK Government also announced on 23 March 2011 that the Supplementary Charge on UK oil and gas production would be increased from 20% to 32% from 24 March 2011, thus increasing the total ring fenced trade tax rate on UK oil and gas production from 50% to 62%. The effective blended tax rate during the period for the ring fence trade is 59.3%.

On 21 March 2012 the UK Government announced that there would be a further reduction in the main tax rate to 24% from 1 April 2012, and subsequent reductions of 1% each year down to 22% by 1 April 2014. This was substantively enacted on 26 March 2012.

It has not yet been possible to quantify the full anticipated effect of the announced changes in UK tax rates.

No provision for tax has been made as the Group has estimated accumulated tax losses and pre-trading expenditure of \$18,952,000 (2010 \$15,478,000) which are available for offset against future taxable income. A deferred tax asset has not been recognised as it is uncertain when the Group will be able to utilise the losses and pre-trading expenditure. The Group also has an unrecognised deferred tax asset in respect of property, plant and equipment of \$1,482,000 (2010 \$459,000).

Notes (continued)

8 Property, plant and equipment – Group

	Gas production assets \$000	Plant and equipment \$000	Fixtures & fittings \$000	Motor vehicles \$000	Total \$000
Cost					
Balance at 1 January 2010	601	-	73	25	699
Additions	-	41,500	100	161	41,761
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	601	41,500	173	186	42,460
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2011	601	41,500	173	186	42,460
Additions	13	825	43	126	1,007
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	614	42,325	216	312	43,467
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation, depletion and impairment					
Balance at 1 January 2010	(17)	-	(12)	(3)	(32)
Depreciation charge for the year	(136)	(1,687)	(28)	(32)	(1,883)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	(153)	(1,687)	(40)	(35)	(1,915)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2011	(153)	(1,687)	(40)	(35)	(1,915)
Depreciation charge for the year	(137)	(4,203)	(50)	(57)	(4,447)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	(290)	(5,890)	(90)	(92)	(6,362)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 1 January 2010	584	-	61	22	667
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010 and 1 January 2011	448	39,813	133	151	40,545
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011	324	36,435	126	220	37,105
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Company

The Company has no property, plant and equipment

Notes (continued)

9 Intangible assets – Group

	<i>Exploration & evaluation costs \$000</i>	<i>Software \$000</i>	<i>Total \$000</i>
Cost			
Balance at 1 January 2010	1,247	46	1,293
Additions	9,222	27	9,249
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	10,469	73	10,542
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2011	10,469	73	10,542
Additions	23,675	5	23,680
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	34,144	78	34,222
	<hr/>	<hr/>	<hr/>
Amortisation			
Balance at 1 January 2010	-	(28)	(28)
Amortisation for the year	-	(14)	(14)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	-	(42)	(42)
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2011	-	(42)	(42)
Amortisation for the year	-	(19)	(19)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	-	(61)	(61)
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 January 2010	1,247	18	1,265
	<hr/>	<hr/>	<hr/>
At 31 December 2010 and 1 January 2011	10,469	31	10,500
	<hr/>	<hr/>	<hr/>
At 31 December 2011	34,144	17	34,161
	<hr/>	<hr/>	<hr/>

Company

The Company has no intangible assets

Notes (continued)

10a Investments in subsidiaries

Company

Shares in group undertakings

	2011 \$000
<i>At 1 January 2011</i>	26,421
<i>Additions in the year</i>	-
<i>Balance at 31 December 2011</i>	<i>26,421</i>

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

Company	Country of Incorporation	Nature of business	Class of shares held	Ownership
<i>Cuadrilla Resources Limited</i>	UK	<i>Management services to subsidiaries</i>	Ordinary	100%
Group				
<i>Cuadrilla Well Services Limited</i>	UK	<i>Services for oil and gas exploration</i>	Ordinary	100%
<i>Elswick Resources Limited</i>	UK	<i>Electricity production</i>	Ordinary	100%
<i>Bowland Resources Limited</i>	UK	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Bolney Resources Limited</i>	UK	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Tanglewood Resources Limited</i>	UK	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Susquehanna Natural Resources Co</i>	USA	<i>Services for oil and gas exploration</i>	Ordinary	100%
<i>Hardenburg Resources BV</i>	Netherlands	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Brabant Resources BV</i>	Netherlands	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Cuadrilla Resources Deutschland GmbH</i>	Germany	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Cuadrilla Austria GmbH</i>	Austria	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Cuadrilla Poland Sp Z o o</i>	Poland	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Cuadrilla Morava SRO</i>	Czech Republic	<i>Oil and gas exploration</i>	Ordinary	100%
<i>Cuadrilla Hungary Limited</i>	UK	<i>Investment holding</i>	Ordinary	100%
<i>Cuadrilco Limited</i>	UK	<i>Not trading</i>	Ordinary	100%

10b Investments in jointly controlled entities

Group

	2011 \$000
<i>At 1 January 2011</i>	-
<i>Additions in the year</i>	2,540
<i>Balance at 31 December 2011</i>	<i>2,540</i>

During the year, the Company acquired 29.33% of the ordinary share capital of Delta Hungary Hydrocarbons Kft, a company registered in Hungary. The investment is considered to be a joint venture due to the contractual relationship with other shareholders which give joint control.

Notes (continued)

11 Inventories

	Group	
	2011	2010
	\$000	\$000
<i>Raw materials and consumables</i>	224	340

12 Trade and other receivables

	Group		Company	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Current				
<i>Trade receivables</i>	25	152	-	-
<i>Trade receivables from related parties (note 21)</i>	2,141	226	-	-
<i>Prepayments</i>	3,375	421	24	14
<i>Loans to related parties (note 21)</i>	1,161	1,275	-	-
<i>Other receivables</i>	500	686	30	13
<i>Other receivables from related parties (note 21)</i>	1,148	-	75,889	44,292
	8,350	2,760	75,943	44,319

Group

Prepayments include deposits paid in respect of equipment for the exploration and evaluation programme of \$2,712,000 (2010 \$nil)

13 Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Current				
<i>Trade payables</i>	8,831	4,675	-	-
<i>Social security and other taxes</i>	426	72	-	-
<i>Accrued expenses</i>	1,344	3,580	114	44
	10,601	8,327	114	44

Notes (continued)

14 Employee benefits

Defined contribution plans

The Group does not operate any pension plans, but contributes to employee's personal pension schemes

The total expense relating to these schemes in the current year was \$51,000 (2010 \$13,000)

Company

The Company does not operate or contribute to any pension schemes

Share-based payments – Group

The total share based payment expense recognised for the year was \$nil (2010 \$630,000) There are no options outstanding at either year end

Share-based payments – Company

The Company does not operate any share schemes

15 Provisions

<i>Group</i>	<i>Decommissioning \$000</i>
<i>Balance at 1 January 2011 and 31 December 2011</i>	<i>1,431</i>
	<hr/>
<i>Included in</i>	
<i>Non-current liabilities</i>	<i>1,431</i>
<i>Current liabilities</i>	<i>-</i>
	<hr/>
	<i>1,431</i>
	<hr/>

Decommissioning costs are expected to be incurred after five years Discounting is used to the extent it is material

Notes (continued)

16 Capital and reserves

Reconciliation of movement in capital and reserves – Group

	Issued share capital \$000	Share premium \$000	Shares to be issued \$000	Merger reserve \$000	Retained losses \$000	Total equity \$000
Balance at 1 January 2010	188	3,523	-	-	(9,141)	(5,430)
Total recognised income and expense	-	-	-	-	(17,638)	(17,638)
New shares issued on insertion of new group holding company	83,350	(32,672)	-	(50,678)	-	-
New shares issued	47,319	29,149	-	-	-	76,468
Balance at 31 December 2010	130,857	-	-	(50,678)	(26,779)	53,400
Balance at 1 January 2011	130,857	-	-	(50,678)	(26,779)	53,400
Total recognised income and expense	-	-	-	-	(12,285)	(12,285)
New shares issued	31,095	-	-	-	-	31,095
Shares to be issued	-	-	1,977	-	-	1,977
Balance at 31 December 2011	161,952	-	1,977	(50,678)	(39,064)	74,187

Reconciliation of movement in capital and reserves – Company

	Issued share capital \$000	Shares to be issued \$000	Merger reserve \$000	Retained losses \$000	Total parent equity \$000
Balance at incorporation on 4 February 2010	-	-	-	-	-
Total recognised income and expense	-	-	-	(2,933)	(2,933)
Share exchange with previous group holding company	-	-	(57,228)	-	(57,228)
Issue of shares	130,857	-	-	-	130,857
Balance at 31 December 2010	130,857	-	(57,228)	(2,933)	70,696
Balance at 1 January 2011	130,857	-	(57,228)	(2,933)	70,696
Total recognised income and expense	-	-	-	(1,518)	(1,518)
New shares issued	31,095	-	-	-	31,095
Shares to be issued	-	1,977	-	-	1,977
Balance at 31 December 2011	161,952	1,977	(57,228)	(4,451)	102,250

The merger reserve arose in February 2010, when the shares of Cadrilla Resources Corporation Limited were exchanged for shares in the Company. Since the share for share exchange did not change the members and their rights, the transfer of ownership was accounted for in accordance with the principles of merger accounting.

In December 2011, the Company received cash in advance of shares to be issued of \$1,977,000. The shares were issued in January 2012.

Notes (continued)

17 Capital and reserves – issued share capital

The issued share capital of the Company at 31 December 2011 is as follows

Number of shares (000)

	On incorporation 4 February 2010	Additions	At 31 December 2010	Additions	At 31 December 2011
<i>Allotted, called up and fully paid</i>					
Deferred shares of \$0.01 each	10	-	10	-	10
Ordinary 'A' shares of \$0.01 each	-	30,737	30,737	7,200	37,937
Ordinary 'B' shares of \$0.01 each	-	19,875	19,875	-	19,875
Ordinary 'C' shares of \$0.01 each	-	6,902	6,902	981	7,883
'A' 8% cumulative preference shares of \$2.79 each	-	26,821	26,821	11,116	37,937
'B' 0% preference shares of \$2.79 each	-	19,875	19,875	-	19,875
	10	104,210	104,220	19,297	123,517

Issued share capital

	On incorporation 4 February 2010 \$000	Additions \$000	At 31 December 2010 \$000	Additions \$000	At 31 December 2011 \$000
<i>Allotted, called up and fully paid</i>					
Deferred shares of \$0.01 each	-	-	-	-	-
Ordinary 'A' shares of \$0.01 each	-	307	307	72	379
Ordinary 'B' shares of \$0.01 each	-	199	199	-	199
Ordinary 'C' shares of \$0.01 each	-	69	69	10	79
'A' 8% cumulative preference shares of \$2.79 each	-	74,832	74,832	31,013	105,845
'B' 0% preference shares of \$2.79 each	-	55,450	55,450	-	55,450
	-	130,857	130,857	31,095	161,952

2010 share transactions

The Company was incorporated on 4th February 2010 with an authorised share capital of 100 ordinary shares of \$1 each and these shares were issued for \$100 in cash.

On 12 February 2010, a special resolution was passed to consolidate the share capital of the Company into 4 ordinary shares of \$25 each.

On 15 February 2010, a special resolution was passed to redesignate the authorised and issued share capital into 10,000 deferred shares of \$0.01 each.

On 15 February 2010, the shareholders of Cuadrilla Resources Corporation Limited entered into an agreement under which shares of \$32,341,000 in Cuadrilla Resources Corporation Limited were acquired by Cuadrilla Resources Holdings Limited in exchange for shares of \$83,649,000 in itself. The Company issued 'A' and 'B' ordinary shares of \$0.01 each and 'A' and 'B' preference shares of \$2.79 each at par value, in exchange for the investment.

Ordinary 'C' shares of \$0.01 were issued on 15 February 2010 at par for cash.

On 15 February 2010, a fund managed by Riverstone Holdings LLC acquired 'A' ordinary shares of \$0.01 each and 'A' preference shares of \$2.79 each at par value for \$37,075,000 cash. The fund managed by Riverstone Holdings LLC acquired further 'A' preference shares of \$2.79 each at par value in November 2010 for \$10,000,000 cash.

Notes (continued)

2011 share transactions

On 2 March 2011, the Company issued 3,915,771 'A' preference shares of \$2.79 each at par value for \$10,925,000 cash to the fund managed by Riverstone Holdings LLC

The Company carried out three equity funding rounds in July, August and September 2011. The Company issued a total of 7,200,000 'A' ordinary shares of \$0.01 each, 7,200,000 'A' preference shares of \$2.79 each and 981,819 'C' ordinary shares of \$0.01 each. All shares were issued at par value to existing share holders for \$20,170,000 cash.

Post balance sheet share transactions

During January 2012, the Company issued share capital of \$5,042,000 to existing shareholders. This completed the equity funding round for which some shares had been paid in advance of issue. The Company issued 1,800,000 'A' ordinary shares of \$0.01 each, 1,800,000 'A' preference shares of \$2.79 each and 245,455 'C' ordinary shares of \$0.01 each. All shares were issued at par value to existing shareholders for cash.

During February and May 2012, the Company carried out another two equity funding rounds and issued share capital of \$20,170,000 to existing shareholders. The Company issued 7,200,000 'A' ordinary shares of \$0.01 each, 7,200,000 'A' preference shares of \$2.79 each and 981,819 'C' ordinary shares of \$0.01 each. All shares were issued at par value to existing shareholders for cash.

The terms of the shares in issue are as follows:

- The holders of ordinary 'A' and 'B' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.
- The holders of the deferred shares and the ordinary 'C' shares have restricted voting and distribution rights.
- The holders of 'A' preference shares are entitled to receive cumulative dividends when, as and if declared by the Board of Directors and are not entitled to vote at meetings of the Company. The holders of 'B' preference shares are not entitled to receive dividends or to vote at meetings of the Company.

No shares are classified as liabilities and all shares are classified as shareholders' funds.

Notes (continued)

18 Financial instruments

18 (a) Fair values of financial instruments

Trade and other receivables

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

Trade and other payables

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

Cash

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

Fair values

The fair values of financial assets and financial liabilities are considered to be the same as the carrying amounts for both the Company and the Group

18 (b) Credit risk

Financial risk management

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

Exposure to credit risk - Group

The maximum exposure to credit risk for trade receivables at the balance sheet date was \$2,166,000 (2010 \$152,000). The trade receivables are not overdue for payment and therefore the Group has no significant exposure to credit risk at 31 December 2011

Exposure to credit risk - Group

The Company has no significant exposure to external credit risk at 31 December 2011 as the most significant receivables balances are due from subsidiaries

18 (c) Liquidity risk

Financial risk management

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

Group

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

As an exploration business the Group is funded by its shareholders Lucas Cuadrilla PTY Limited and a fund managed by Riverstone Holdings LLC, who have confirmed to the Company that they will continue to provide funding to the Group to enable it to continue to execute its exploration programme and meet external liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements

Notes (continued)

18 Financial instruments (continued)

Contractually, all liabilities at 31 December 2011 fall due for payment within one year. Management have reviewed the forecast cash requirements of the Group for the following 12 months and have satisfied themselves that the Group will be able to meet its external liabilities as they fall due and that the required monetary injections have been identified and are available should they be needed.

Company

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

18 (d) Market risk

Financial risk management

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

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

Market risk - Foreign currency risk

Group

The Group's exposure to foreign currency risk is not considered significant since the majority of transactions are carried out in US\$.

Company

The Company's exposure to foreign currency risk is not considered significant since the Company's transactions are principally denominated in US\$.

Market risk - Interest rate risk

The Company and the Group do not have any interest bearing borrowings and so interest rate risk is not considered to be significant.

18 (e) Capital management

Group

The Group meets its day to day working capital requirements and medium term funding requirements through shareholder cash injections. The Group prepares cash flow information on a regular basis which is reviewed by directors and senior management to ensure that as far as possible it will have sufficient liquidity to meet its liabilities when due.

Company

As a holding company, the Company does not have significant day to day working capital requirements. Any funding requirements identified are met by group companies.

Notes (continued)

19 Operating leases

Non-cancellable operating lease rentals are payable as follows

	<i>Group</i> 2011 <i>\$000</i>	<i>2010</i> <i>\$000</i>
<i>Less than one year</i>	<i>232</i>	<i>138</i>
<i>Between one and five years</i>	<i>29</i>	<i>110</i>
	<hr/> 261 <hr/>	<hr/> 248 <hr/>

The Group leases land and buildings under a number of operating leases. During the year \$544,000 was recognised as an expense in the income statement in respect of these operating leases (2010: \$270,000).

Company

The Company has no operating leases.

20 Commitments

Capital commitments

Group

Capital expenditure for equipment for the exploration programme, which was contracted for at the balance sheet date but not yet incurred amounted to \$1,427,000 (31 December 2010: \$nil).

Company

The Company has no capital commitments.

Notes (continued)

21 Related parties

Group

Directors and key management loans

The Group has advanced loans to key management and directors of \$1,161,000 (2010 \$1,275,000) to enable them to participate in the equity of the company. These loans are interest free.

Joint licence operating agreements

The Group has shared interests in a number of licence areas. In cases where the Group has a joint operating partner, requests for funding from partners are made in accordance with the joint operating agreements. These contributions are recognised as a credit to exploration and evaluation assets where appropriate to ensure that costs capitalised reflect the Group's interest only. During the year ended 31 December 2011, the following transactions have taken place with partners who participate in exploration activities as follows:

	Contributions to exploration and evaluation assets		Recharge of operating costs		Receivables outstanding	
	2011	2010	2011	2010	2011	2010
	\$000	\$000	\$000	\$000	\$000	\$000
Lucas Energy (UK) Limited	8,836	2,180	647	152	1,989	59
Energie Beheer Nederland BV	-	-	906	213	152	167
	<u>8,836</u>	<u>2,180</u>	<u>1,553</u>	<u>365</u>	<u>2,141</u>	<u>226</u>

Lucas Energy (UK) Limited is a subsidiary of AJ Lucas Group Limited (see note 22).

Cash calls not yet invoiced to joint operating partners amount to \$1,148,000 (2010 none).

Subsequent to the year end, all receivables outstanding from joint operating partners have been received.

Company

Other related party transactions

	Administrative expenses incurred from	
	2011	2010
	\$000	\$000
Shareholder fees – AJ Lucas Group Limited	150	131
Shareholder fees – Riverstone Holdings LLC	150	131
	<u>300</u>	<u>262</u>
	Receivables outstanding	
	2011	2010
	\$000	\$000
<i>Subsidiaries</i>		
Cuadrilla Resources Limited	<u>75,889</u>	<u>44,292</u>

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

Notes *(continued)*

22 Ultimate parent company and parent company of larger group

The directors do not consider there to be an ultimate controlling party of Cuadrilla Resources Holdings Limited as it is jointly controlled by its shareholders

- Lucas Cuadrilla PTY Limited, a company incorporated in Australia (42%)
- Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, registered in the Cayman Islands (42%), and
- Management team (16%)

No other group financial statements include the results of the Company