Cuadrilla Resources Limited

Directors' report and unaudited financial statements

Registered number 6472493

For the year ended 31 December 2009

Contents

Directors' report

The directors of Cuadrilla Resouces Limited (the "Company") present their directors' report and unaudited financial statements for the year ended 31 December 2009

Principal activities

The principal activity of the Company is the provision of management services to its subsidiary companies who are involved in the exploration of oil and gas

Business review

During the period, the Company expanded its activities and a number of its subsidiaries were successful in obtaining licences to explore for oil and gas

Going Concern

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of $154,000 which the directors believe to be appropriate for the following reasons

The Company is dependent for its working capital on funds provided to it by Cuadrilla Resources Corporation Limited, the Company's parent Cuadrilla Resources Corporation Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available

The Cuadrilla group was restructured in February 2010 and a new holding company was established – Cuadrilla Resources Holdings Limited On this date, Riverstone LLC committed to subscribe $58 million equity in Cuadrilla Resources Holdings Limited The Directors have reviewed the forecast cash requirements of the group for the 12 months following the date of signing these accounts and, after making appropriate enquiries, they have satisfied themselves that the group will be able to meet its external liabilities as they fall due for payment

Based on the above reasons, the directors consider that it is appropriate to prepare the financial statements on a going concern basis

Change of accounting policy and reporting currency

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and applied in accordance with the provisions of the Companies Act 2006 The previous financial statements were prepared under UK GAAP During the year, the directors re-considered the Company's accounting policies and decided that IFRS accounting policies were more appropriate on the basis that IFRS is commonly adopted by other major oil and gas exploration companies and IFRS also provides more detailed accounting guidance The comparatives have been restated under IFRS and there is no impact of the change

The Company's financial statements are presented in US dollars, which is the Company's functional and presentation currency The previous financial statements were presented in GB Pounds The directors decided to change the reporting currency of the Company to US dollars to report on a consistent basis with the functional currency The comparatives have been restated in US dollars

Research and development

The Company does not engage in any research and development

Financial instruments

The Company does not have any derivative financial instruments

Proposed dividend

The Company does not recommend the payment of a dividend

Market value of land and buildings

The Company does not own any land or buildings

Directors

The directors who held office during the period were as follows

Dennis Carlton	appointed 10th March 2009
Mark Miller	
Andrew Price	appointed 21st April 2010
Dr Peter Turner	

Political and charitable contributions

The Company made no political or charitable contributions during the period

By order of the board

Andrew Price
Director

Cuadrilla House
Stowe Court
Stowe Street
Lichfield
Staffordshire
WS13 6AQ

28th September 2010

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

The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial period Under that law they have elected to prepare 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 company and of the profit or loss of the company for that period In preparing these 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 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 Companies Act 2006 They have general responsibility for taking steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Income statement
for the year ended 31 December 2009

	Note	Year ended 31 December 2009	Restated 50 weeks ended 31 December 2008
		$000	$000
Revenue	1	1,243	-
Gross profit		1,243	-
Operating expenses		(448)	-
Administrative expenses		(795)	(157)
Operating loss	1,3	-	(157)
Financial income	6	2	1
Profit/(loss) before tax	1,5	2	(156)
Taxation	7	-	-
Profit/(loss) for the period		2	(156)

The results above relate to continuing operations

The Company has no other income or expenses recognised in the period, other than those shown in the Income Statement above

Balance sheet
at 31 December 2009

	Note	2009 $000	Restated 2008 $000
Non-current assets			
Property plant and equipment	8	84	-
Intangible assets	9	18	-
Investments in subsidiaries	10	113	-
		215	-
Current assets			
Trade and other receivables	11	30,916	108
Cash and cash equivalents		2,041	1,102
		32,957	1,210
Total assets	1	33,172	1,210
Current liabilities			
Trade and other payables	12	(33,326)	(1 366)
Total liabilities	1	(33,326)	(1 366)
Net liabilities	1	(154)	(156)
Equity attributable to equity holders of the parent			
Share capital	13	-	-
Retained losses	13	(154)	(156)
Total equity		(154)	(156)

The Company is exempt from the requirements relating to preparing audited accounts in accordance with section 477 of the Companies Act 2006

The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies regime

These financial statements were approved by the board of directors on 28th September 2010 and were signed on its behalf by

Andrew Price
Director

Cash flow statement

for the year ended 31 December 2009

	2009	2008
	$000	$000
Cash flows from operating activities		
Profit/(loss) for the year	2	(156)
Adjustments for		
Depreciation, amortisation and impairment	18	-
Foreign exchange (gains)/losses	(199)	69
Financial income	(2)	(1)
	(181)	(88)
Increase in trade and other receivables	(30,808)	(108)
Increase in trade and other payables	31,960	1,366
	971	1,204
Interest paid	-	-
Tax paid	-	-
Net cash from operating activities	971	1,204
Cash flows from investing activities		
Purchases of property, plant and equipment	(97)	-
Purchases of intangible assets	(23)	-
Interest received	2	1
Acquisition of subsidiaries, net of cash acquired	(113)	-
Net cash from investing activities	(231)	1
Cash flows from financing activities		
Proceeds from the issue of share capital	-	-
Repurchase of own shares	-	-
Net cash from financing activities	-	-
Net increase in cash and cash equivalents	740	1,205
Cash and cash equivalents at start of period	1,102	-
Effect of exchange rate fluctuations on cash held	199	(103)
Cash and cash equivalents at 31 December	2,041	1,102

Notes
(forming part of the financial statements)

1 Accounting policies

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

Change of accounting policy and reporting currency

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and applied in accordance with the provisions of the Companies Act 2006 The previous financial statements were prepared under UK GAAP During the year, the directors re-considered the Company's accounting policies and decided that IFRS accounting policies were more appropriate on the basis that IFRS is commonly adopted by other major oil and gas exploration companies and IFRS also provides more detailed accounting guidance The comparatives have been restated under IFRS and there is no impact of the change

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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 Company'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 1

Notwithstanding that at the period end the Company had net liabilities of $154,000 the statutory accounts have been prepared on a going concern basis, which the directors believe to be appropriate for the following reasons

The Company is dependent for its working capital on funds provided to it by Cuadrilla Resources Corporation Limited, the Company's parent Cuadrilla Resources Corporation Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available

The Cuadrilla group was restructured in February 2010 and a new holding company was established – Cuadrilla Resources Holdings Limited On this date, Riverstone LLC committed to subscribe $58 million equity in Cuadrilla Resources Holdings Limited The Directors have reviewed the forecast cash requirements of the group for the 12 months following the date of signing these accounts and, after making appropriate enquiries, they have satisfied themselves that the group will be able to meet its external liabilities as they fall due for payment

Based on the above reasons, the directors consider that it is appropriate to prepare the financial statements on a going concern basis

Foreign currency

Transactions in foreign currencies are translated to the functional currencies of Company at the foreign exchange rate issued at 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 Foreign currency gains and losses are reported on a net basis within administrative costs

Notes *(continued)*

1 Accounting policies *(continued)*

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables and trade and other payables

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

Property, plant and equipment

Tangible fixed assets are classified as property, plant and equipment These 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 Land is not depreciated The estimated useful lives are as follows

- Fixtures, fittings and equipment 4 years
- Motor vehicles 4 years

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

Revenue

Revenue is recognised at the fair value of the consideration received or receivable from subsidiaries in respect of management services supplied during the period once the risks and rewards of the supply have been transferred

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

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 goodwill, 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

Notes *(continued)*

2 Business and geographical segments

The Company has a single class of business which is the provision of management services to its subsidiary companies who are involved in the exploration of oil and gas in Europe

All sales are management charges to subsidiaries

3 Staff numbers and costs

The average number of persons (including executive directors) employed by the Company during the period was

	Number of employees Company 2009	2008
Management	5	-

The aggregate payroll costs of these persons were as follows

	2009 $000	*2008 $000*
Wages and salaries	*156*	-
Social security costs	*17*	-
Contributions to defined contribution plans	*3*	-
	176	-

4 Directors' remuneration

	2009 $000	2008 $000
Directors' emoluments	83	-
Amounts paid to third parties in respect of directors' services	-	-

No retirement benefits accrued to any of the directors under defined benefit pension schemes

5 Expenses

Included in profit/ (loss) for the period are the following

	2009 $000	2008 $000
Depreciation of plant and equipment	13	-
Amortisation of intangible assets	5	-
Operating lease charges – land and buildings	66	8
Foreign exchange (gains)/ losses	(199)	69

Notes *(continued)*

6 Finance income

Recognised in income statement

	2009 $000	2008 $000
Finance income – interest income on cash balances	2	1

7 Taxation

Recognised in the income statement

	2009 $000	2008 $000
Current tax expense	-	-
Deferred tax expense	-	-
Total tax expense	-	-

Reconciliation of effective tax rate

	2009 $000	2008 $000
Profit/(loss) for the period	2	(156)
Total tax expense (including tax on discontinued operations and equity accounted investees)	-	-
Profit excluding taxation	2	(156)
Tax using the UK corporation tax rate of 28%	(1)	44
Tax losses brought forward offset in the current year	1	-
Current year losses for which no deferred tax asset was recognised	-	(44)
Total tax expense	-	-

No provision for tax has been made as the Company has estimated accumulated tax losses of $154,000 which are available for offset against future taxable income A deferred tax asset has not been recognised as it is uncertain when the Company will be able to utilise the losses

Notes *(continued)*

8 Property, plant and equipment

	Fixtures, fittings & equipment	*Motor vehicles*	*Total*
	$000	*$000*	*$000*
Cost			
Balance at 1 January 2009	-	-	-
Additions	72	25	97
Balance at 31 December 2009	72	25	97
Depreciation			
Balance at 1 January 2009	-	-	-
Depreciation charge for the year	(10)	(3)	(13)
Balance at 31 December 2009	(10)	(3)	(13)
Net book value			
At 1 January 2009	-	-	-
At 31 December 2009	**62**	**22**	**84**

The depreciation charge is recognised within administrative costs for the year

9 Intangible assets

	Software
	$000
Cost	-
At 1 January 2009	
Additions	46
Balance at 31 December 2009	46
Amortisation	
At 1 January 2009	-
Amortisation charge for the year	(28)
Balance at 31 December 2009	(28)
Net book value	
At 1 January 2009	-
At 31 December 2009	**18**

The amortisation charge is recognised within administrative costs for the year

Notes *(continued)*

10 Investments in subsidiaries

	2009 $000
Cost and net book value	
Balance at start of period	-
Additions	*113*
At 31 December	*113*

Details of the Company's principal subsidiaries at 31 December 2009 are as follows

	Country of Incorporation	Nature of business	Class of shares held	Ownership
Cuadrilla Well Services Limited	**UK**	*Services for oil and gas exploration*	*Ordinary*	**100%**
Elswick Resources Limited	**UK**	*Electricity production*	*Ordinary*	**100%**
Bowland Resources Limited	**UK**	*Oil and gas exploration*	*Ordinary*	**100%**
Bolney Resources Limited	**UK**	*Oil and gas exploration*	*Ordinary*	**100%**
Tanglewood Resources Limited	**UK**	*Oil and gas exploration*	*Ordinary*	**100%**
Susquehanna Natural Resources Co	**USA**	*Oil and gas exploration*	*Ordinary*	**100%**
Hardenburg Resources BV	**Netherlands**	*Oil and gas exploration*	*Ordinary*	**100%**
Brabant Resources BV	**Netherlands**	*Oil and gas exploration*	*Ordinary*	**100%**
Cuadrilla Resources Deutschland GmbH	**Germany**	*Oil and gas exploration*	*Ordinary*	**100%**
Cuadrilla Austria GmbH	**Austria**	*Oil and gas exploration*	*Ordinary*	**100%**

11 Trade and other receivables

	2009 $000	2008 $000
Current		
Trade receivables due from related parties	**22,324**	-
Prepayments	**8,435**	-
Other debtors	**157**	*108*
	30,916	*108*

All trade and other receivables are current

Notes *(continued)*

12 Trade and other payables

	2009	2008
	$000	$000
Current		
Trade payables	***6,349***	*26*
Amounts due to immediate parent company	***26,951***	*1,336*
Accrued expenses	***26***	*4*
	33,326	*1,366*

Amounts due to the immediate parent company relate to the settlement of liabilities on behalf of the Company The amounts bear no interest and are repayable on demand See Note 1 relating to the parent company's ongoing financial support

Notes *(contınued)*

13 Capıtal and reserves

Reconcılıatıon of movement ın capıtal and reserves

	Share capıtal $000	Retaıned earnıngs $000	Total Equıty $000
Balance at ıncorporatıon	-	-	-
Total recognısed ıncome and expense	-	(156)	(156)
Balance at 31 December 2008	-	(156)	(156)
Balance at 1 January 2009			
Total recognısed ıncome and expense	-	2	2
Balance at 31 December 2009	**-**	**(154)**	**(154)**

Share capıtal

Ordınary shares

Number of shares	2009	2008
On ıssue at start of perıod	100	1
Issued durıng the perıod	-	99
On ıssue at 31 December– fully paıd	100	100

	2009 $	2008 $
Allotted, called up and fully paıd		
Ordınary shares of $1 50 each (2008 £1 each)	150	150
	150	150

The total authorısed number of ordınary shares ıs 100,000 shares (2008 100,000 shares) wıth a par value of $1 50 per share (2008 £1 per share) All ıssued shares are fully paıd

On 18 December 2009, the £1 ordınary shares were redenomınated ınto ordınary shares of $1 50 each

The holders of ordınary shares are entıtled to receıve dıvıdends as declared from tıme to tıme and are entıtled to one vote per share at meetıngs of the Company

Notes *(continued)*

14 Financial instruments

14(a) Fair value 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

Fair values

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

14(b) Credit risk

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

The Company has no significant exposure to credit risk at 31 December 2009

14(c) Liquidity risk

Financial risk management

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

The Company's most significant creditor is an intercompany balance with its parent company, which although it is repayable on demand, the parent company has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available

14(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 Company's income or the value of its holdings of financial instruments

Exposure to interest rate risks arise in the normal course of the Company's business The Company's transactions are denominated in US$ and exposure to foreign currency risk is not considered significant

14(e) Capital management

The Company is dependent for its working capital on funds provided to it by Cuadrilla Resources Corporation Limited, the Company's parent 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 for payment

Notes *(continued)*

15 Operating lease commitments

The Company leases land and buildings under a number of operating leases During the period $66,000 (2008 $8,000) was recognised as an expense in the income statement in respect of leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2009 *$000*	*2008* *$000*
Less than one year	*35*	-
Between one and five years	*21*	-
More than five years	-	-
	56	-

16 Capital commitments

Capital expenditure for plant and equipment, which was contracted for at the balance sheet date but not yet incurred amounted to $12,362,000

17 Contingencies

The Company is part of a group registration for VAT

18 Related parties

The following related party transactions took place

Other related party transactions

	Management fees 2009 $000	2008 $000
Subsidiaries	**1,243**	-

Management fees are charges for operational and administrative services provided by the Company to subsidiary companies The management fees are agreed to by both parties and are recorded at a value equivalent to the cost to the Company

	Receivables outstanding 2009 $000	2008 $000	**Payables outstanding 2009 $000**	2008 $000
Immediate parent company	**1,160**	-	**26,951**	1,336
Subsidiaries	**21,184**	-	-	-
	22,344	-	**26,951**	1,336

All intercompany accounts are current

Notes *(continued)*

19 Ultimate parent company and parent company of larger group

As at 31 December 2009, the company was a subsidiary of Cuadrilla Resources Corporation Limited, a company incorporated in Bermuda, but resident in the UK for tax purposes The controlling party of Cuadrilla Resources Corporation Limited at this time was AJ Lucas Group Limited

The group qualifies as a small group under the Companies Act and as such no consolidated financial statements are prepared into which the results of the Company are consolidated

20 Subsequent events

On 15 February 2010, Cuadrilla Resources Holdings Limited, a company incorporated in the UK, purchased the entire issued share capital of Cuadrilla Resources Corporation Limited and became the ultimate parent company of the group

Cuadrilla Resources Holdings Limited is jointly controlled by its shareholders Lucas Cuadrilla PTY Limited (40 9%), Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP (40 9%) and the management team (18 2%)