Rathlin Energy (UK) Limited

Directors' report and financial statements

Registered number 06478035

For the year ended

31 December 2010

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Directors' report

The Directors present their Directors report and financial statements for the year ended 31 December 2010

Principal activities and business review

The principal activity of the Company is the business of exploration development and production of petroleum and natural gas The Company acquired petroleum exploration and development licences north of the Humber River These licences were acquired in return for a work commitment The work commitment requires the Company to perform detailed geological and geophysical analysis on the area over the next two years, shooting a minimum of 10 km2 of new 3D seismic in year three Depending on results, the Company in the fourth year is required to drill an exploratory well or forfeit the licences The Company has incurred licensing, geological and geophysical costs during the period The results for the period are shown on page 5

Future Developments

In May 2008 the UK Department of Business Enterprise and Regulatory Reform awarded the Company certain exploration and development licenses These licenses require the Company to perform certain work commitments over the six year license term In the first two years, the Company was required to perform detailed geological and geophysical analysis on the area In year three the Company was required to shoot a minimum of 10 km2 of new 3D seismic and interpret the results In the fourth year, depending on the results of the 3D seismic the Company is required to either commit to drilling an exploratory well or forfeit the licenses The seismic program was completed in the first quarter of 2011 and the Company has initiated the process of acquiring the necessary surface access, drilling licenses and permits with the intention to drill an exploratory well in early 2012

Proposed dividend

The Directors do not recommend the payment of a dividend

Directors

The Directors who held office during the year were as follows

John A Hodgins
David A Montagu-Smith
Robert C Standley

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information

Auditors

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

By order of the board

David Montagu-Smith

David Montagu-Smith
Director

20-22 Bedford Row
London
WC1R 4JS
21 September 2011

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 financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements, 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 company and to prevent and detect fraud and other irregularities

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Rathlin Energy (UK) Limited

We have audited the financial statements of Rathlin Energy (UK) Limited for the year ended 31 December 2010 set out on pages 5 to 11 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 Directors' Responsibilities Statement set out on page 2, 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 web-site at www frc org uk/apb/scope/UKNP

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

Independent auditor's report to the members of Rathlin Energy (UK) Limited *(continued)*

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, or returns adequate for our audit have not been received from branches not visited by us or
- the 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

AE Burman (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

21 September 2011

Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Profit and Loss Account

for the year ended 31 December 2010

	Note	2010	2009
		£	£
Administrative expenses	*2 3*	(100,926)	(72 710)
Loss on ordinary activities before taxation		(100,926)	(72 710)
Tax on loss on ordinary activities	*5*	-	-
Loss for the financial year	*10 11*	(100,926)	(72 710)

A statement of total recognised gains and losses has not been included as part of these financial statements as the company made no gains or losses in the period other than disclosed above in the profit and loss account

A note on historical cost gains and losses has not been included as part of the financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis

The results stated above are all derived from continuing operations

Balance Sheet

at 31 December 2010

	Note	2010 £	2010 £	2009 £	2009 £
Fixed assets					
Intangible oil and gas assets - Exploration Expenditure	*6*		**1,519,714**		504 378
			1,519,714		504 378
Current assets					
Debtors	*7*	**182,850**		36 106	
Cash		**1,312,418**		4 142	
		1,495,268		40 248	
Creditors amounts falling due within one year	8	**(3,160,726)**		(589 444)	
Net current liabilities			**(1,665,458)**		(549 196)
Net liabilities			**(145,744)**		(44 818)
Capital and reserves					
Called up share capital	*9*		**853**		853
Share premium account	*10*		**84,389**		84 389
Profit and loss account	*10*		**(230,986)**		(130 060)
Shareholders' deficit	*11*		**(145,744)**		(44 818)

These financial statements were approved by the board of directors on 21 September 2011 and were signed on its behalf by

David Montagu-Smith

David Montagu-Smith
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards (UK Generally Accepted Accounting Practice), including the Statement of Recommended Practice Accounting for oil and gas exploration, development, production and decommissioning activities" (SORP), published by the Oil Industry Accounting Committee, except where explicitly disclosed otherwise

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds of its size

As the Company is a wholly owned subsidiary of Connaught Oil & Gas Ltd the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of this group The consolidated financial statements of Connaught Oil & Gas Ltd , within which the Company is included, can be obtained from the address given in note 12

The financial statements have been prepared on the going concern basis not withstanding net liabilities of £145,744 *(2009 net assets of £44,818)* and net current liabilities of £1,665,458 *(2009 £549,196)* which the Directors believe to be appropriate for the following reason The Company is reliant for its working capital on funds provided to it by the Company s ultimate parent undertaking, which has provided the Company with an undertaking that it will for at least 12 months from the date of approval of these financial statements 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 This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so Based on this undertaking the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

(a) Exploration Expenditure

The Company accounts for petroleum and natural gas activities in accordance with the full cost method whereby all costs associated with the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized and charged to earnings as set out below Such costs include lease acquisition costs, geological and geophysical costs carrying charges of non-producing properties costs of drilling both productive and non-productive wells tangible production equipment costs, and general and administrative costs directly related to and necessary to exploration and development activities

All costs relating to licence and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalized as intangible oil and gas assets pending determination of the commercial potential of the relevant oil and gas properties

If prospects are subsequently deemed to be unsuccessful on completion of evaluation the associated costs are charged to the profit and loss account in the period in which that determination is made If the prospects are deemed to be commercially viable such costs are transferred to tangible oil and gas assets The status of such prospects is reviewed regularly by the Directors

In applying the full cost method petroleum and natural gas assets are evaluated at least annually to determine whether the costs are recoverable and do not exceed the fair value of the properties The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the future production of proved reserves and the lower of cost and market of unproved properties exceed the carrying amount of the petroleum and natural gas properties

Notes (continued)
(forming part of the financial statements)

1 Accounting policies (continued)

If the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows expected from the future production of proved and probable reserves and the lower of cost or market of unproved properties Cash flows are based on third party quoted forward prices adjusted for transportation and quality differentials The Company's risk-free interest rate is used to arrive at the net present value of the future cash flows Any impairment loss recorded is included in depletion and depreciation

(b) Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

(c) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

2 Notes to the profit and loss account

Auditors' remuneration

	2010	2009
	£	£
Audit of these financial statements	7,500	7 500
Amounts receivable by the auditors and their associates in respect of Other services related to taxation	9,150	-

3 Remuneration of Directors

	2010	2009
	£	£
Fees paid to Directors	-	-

The Company did not make any pension contributions in the year

Notes (continued)
(forming part of the financial statements)

4 Staff Numbers

The average number of persons employed by the Company (Directors only) during the year was as follows

	Number of employees	
	2010	2009
Staff (Directors)	**3**	3

The aggregate remuneration cost of these persons is disclosed in note 3

5 Taxation

Analysis of charge in year

	2010	2009
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	**(100,926)**	(72 710)
Current tax at 28 % *(2009 28 %)*	**(28,259)**	(20 359)
Losses carried forward	**28,259**	20 359
Total current tax charge (see above)	**-**	-

No deferred tax asset has been recognised at the period end due to the uncertainty of recovery Losses of £230,986 *(2009 £130 060)* have been carried forward

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011 This tax change became substantively enacted in July 2010

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 This change became substantively enacted on 29 March 2011 The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted

6 Intangible fixed assets

	Exploration expenditure
	£
Cost and Net Book Value	
At the beginning of the year	**504,378**
Additions	**1,015,336**
At the end of the year	**1,519,714**

Notes (continued)

(forming part of the financial statements)

There is no amortisation charge for the year

7 Debtors

	2010 £	2009 £
VAT receivable	**182,850**	36 106

8 Creditors, amounts falling due within one year

	2010 £	2009 £
Amounts owed to ultimate parent undertaking	**2,597,239**	581 944
Accruals	**563,487**	7 500
	3,160,726	589 444

9 Called up share capital

	2010 £	2009 £
Authorised		
Equity 100 000 Ordinary shares of £1 each	**100,000**	100 000
Allotted called up and fully paid		
Equity 853 ordinary shares of £1 each	**853**	853

10 Reserves

	Share premium account £	Profit and loss account £
At beginning of year	84,389	(130,060)
Loss for the year	-	(100,926)
At end of year	**84,389**	**(230,986)**

Notes (continued)
(forming part of the financial statements)

11 Reconciliation of movements in shareholders' deficit

	2010	2009
	£	£
Loss for the financial year	**(100,926)**	(72 710)
Net addition to shareholders' deficit	**(100,926)**	(72 710)
Opening shareholders funds / (deficit)	**(44,818)**	27 892
Closing shareholders' deficit	**(145,744)**	(44 818)

12 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Sunderland Holding Limited which is the immediate parent company incorporated in Jersey The ultimate parent company and ultimate controlling party is Connaught Oil & Gas Ltd incorporated in Canada

The largest and smallest group in which the results of the Company are consolidated is that headed by Connaught Oil & Gas Ltd No other group financial statements include the results of the Company The consolidated financial statements of these groups are available to the public and may be obtained from 1300, 530 8th Avenue S W Calgary, AB T2P 3S8

13 Post Balance Sheet Events

Since the year end the company have committed to the leasing of office space The expected net annual payment over the remaining six years is £40,500