Cuadrilla Resources Holdings Limited

Directors' report and consolidated financial statements

Registered number 7147040

Year ended 31 December 2010

Contents

Professional advisers

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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 2010

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

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

During the year, the Group completed its capital expenditure programme to purchase oil and gas plant and machinery, including a drill rig and stimulation fleet The machinery has been successfully used in the United Kingdom where exploration will continue into the current year

Incorporation

The Company was incorporated on 4 February 2010

Capital reorganisation

On the 15 February 2010, this Company was interposed between Cuadrilla Resources Corporation Limited and its shareholders through a share for share exchange (see share capital below) The Company was formed solely to act as a parent undertaking to companies already in the Group

The Company balance sheet and accompanying notes at 31 December 2010 relate to Cuadrilla Resources Holdings Limited

Share capital

On 15 February 2010, the Company issued shares of $83,649,000 in order to acquire 100% of the share capital of Cuadrilla Resources Corporation Limited

On 15 February 2010, equity of $37,075,000 was issued to a new shareholder, Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, with a commitment to subscribe a further $20,925,000 of equity

Results and proposed dividends

The result for the year is a loss of $17,638,000 *(2009 loss $8,063,000)* The Directors do not recommend the payment of a dividend

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 during the year were as follows

Lord John Browne of Madingley	appointed 15 February 2010
Allan Campbell	appointed 15 February 2010
Dennis Carlton	appointed 15 February 2010
Anthony Kelly	appointed 15 February 2010
N John Lancaster Jr	appointed 12 May 2010
Mark Miller	appointed 9 November 2010
Mark Tonkin	appointed 15 February 2010
Haroun van Hövell tot Westerflier	appointed 15 February 2010
Hubert Ashton	appointed 4 February 2010, resigned 15 February 2010
Gregory Beard	appointed 15 February 2010, resigned 12 May 2010
Chris Cornelius	appointed 15 February 2010, resigned 9 November 2010

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

Mark Miller

Mark Miller
Director

Cuadrilla House
Stowe Court
Stowe Street
Lichfield
Staffordshire
WS13 6AQ

17 May 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 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 2010 set out on pages 7 to 31 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

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 4 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/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 2010 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the 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

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 Cuadrilla Resources Holdings 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

17 MAY 2011

PN Meehan, Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Consolidated income statement and comprehensive income

for the year ended 31 December 2010

	Note	*2010*	*2009*
		$000	***$000***
Revenue	*1,2*	***227***	*7*
Depreciation of production assets		***(41)***	*(17)*
Decommissioning charge		***(95)***	-
Other cost of sales		***(193)***	-
Gross loss		***(102)***	*(10)*
Operating expenses		***(8,579)***	*(2,105)*
Administrative expenses		***(8,976)***	*(1,974)*
Operating loss	*1,3*	***(17,657)***	*(4,089)*
Financial income	*6*	***19***	*2*
Financial expenses	*6*	-	*(3,976)*
Net financing income/(expense)		***19***	*(3,974)*
Loss before tax		***(17,638)***	*(8,063)*
Taxation	*7*	-	-
Loss for the year		***(17,638)***	*(8,063)*

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 10 to 31 form an integral part of these financial statements

Balance sheets
at 31 December 2010

	Note	*Group 2010 $000*	*2009 $000*	*Company 2010 $000*
Non-current assets				
Property, plant and equipment	*8*	***40,545***	*667*	*-*
Intangible assets	*9*	***10,500***	*1,265*	*-*
Investments in subsidiaries	*10*	*-*	*-*	***26,421***
		51,045	*1,932*	***26,421***
Current assets				
Inventories	*11*	***340***	*71*	*-*
Trade and other receivables	*12*	***2,760***	*25 883*	***44,319***
Cash at bank		***9,013***	*2,624*	*-*
		12,113	*28,578*	***44,319***
Total assets	*1*	***63,158***	*30 510*	***70,740***
Current liabilities				
Trade and other payables	*13*	***(8,327)***	*(34 509)*	***(44)***
Non-current liabilities				
Provisions	*15*	***(1,431)***	*(1 431)*	*-*
Total liabilities		***(9,758)***	*(35,940)*	***(44)***
Net assets/(liabilities)	*1*	***53,400***	*(5 430)*	***70,696***
Equity attributable to equity holders of the parent				
Share capital	*16*	***130,857***	*188*	***130,857***
Share premium	*16*	*-*	*3 523*	*-*
Reserves	*16*	***(50,678)***	*-*	***(57,228)***
Retained losses	*16*	***(26,779)***	*(9,141)*	***(2,933)***
Total equity		***53,400***	*(5 430)*	***70,696***

These financial statements were approved by the board of directors on 17 May 2011 and were signed on its behalf by

Andrew Price
Company Secretary

Company registered number 7147040

The accompanying notes on pages 10 to 31 form an integral part of these financial statements

Consolidated cash flow statement
for the year ended 31 December 2010

	Group 2010 $000	2009 $000
Cash flows from operating activities		
Loss for the year	**(17,638)**	(8,063)
Adjustments for		
Depreciation and amortisation	**1,897**	36
Foreign exchange losses/(gains)	**311**	(218)
Share based payment expenses	**630**	-
Financial income	**(19)**	(2)
Financial expense	**-**	3,976
(Increase)/decrease in trade and other receivables	**(1,662)**	4,850
Increase in inventories	**(269)**	(71)
Increase in trade and other payables	**4,724**	16,923
Other non-cash movements	**(924)**	-
	(12,950)	17,431
Interest paid	**-**	-
Tax paid	**-**	-
Net cash (outflow)/inflow from operating activities	**(12,950)**	17,431
Cash flows from investing activities		
Interest received	**19**	2
Acquisition of property, plant and equipment	**(19,252)**	(19,939)
Capitalised exploration expenditure	**(8,298)**	(293)
Acquisition of other intangible assets	**(27)**	(2)
Net cash outflow from investing activities	**(27,558)**	(20,232)
Cash flows from financing activities		
Proceeds from the issue of share capital	**47,208**	85
Net cash inflow from financing activities	**47,208**	85
Net increase/(decrease) in cash	**6,700**	(2,716)
Cash at 1 January	**2,624**	5,122
Effect of exchange rate fluctuations on cash held	**(311)**	218
Cash at 31 December	**9,013**	2,624

The accompanying notes on pages 10 to 31 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

Basis of preparation

Cuadrilla Resources Holdings Limited was incorporated on 4 February 2010 On 15 February 2010 this Company was interposed between Cuadrilla Resources Corporation Limited and its shareholders through a share for share exchange The Company was formed solely to act as a parent undertaking to companies already in the Group and was effective from 15 February 2010 IFRS 3, "Business Combinations", has not been applied as this business combination falls outside the scope of this standard The transfer of ownership has therefore been accounted for in accordance with the principles of merger accounting since the members of Cuadrilla Resources Corporation Limited at the date of the share transfer and their rights relative to each other were unchanged The members therefore had a continuing interest in the business, both before and after the incorporation of Cuadrilla Resources Holdings Limited

Under the principles of merger accounting, the assets and liabilities of Cuadrilla Resources Corporation Limited and its subsidiaries have been brought in at their book values

These are the first financial statements for the Company, from its incorporation until 31 December 2010 The Group financial statements are for the year to 31 December 2010 The comparative figures represent the results of Cuadrilla Resources Corporation Limited and its subsidiaries for the year ended 31 December 2009

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 Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, 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

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 cost pool 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

• Gas production assets	3 to 5 years
• Plant and equipment	10 years
• Fixtures and fittings	4 years
• Motor vehicles	4 years

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)*

Share based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options The fair value of the options granted is measured as the strike price

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

Financing expenses

Financing expenses are net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy)

Foreign currency gains and losses are reported on a net basis

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 following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated

- Revised IAS 24 'Related Party Disclosure' (mandatory for the year commencing on or after 1 January 2011)
- Improvements to IFRSs (issued May 2010) (mandatory for the year commencing on or after 1 July 2010 or 1 January 2011)

Notes *(continued)*

2 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

3 Expenses and auditors' remuneration

Included in operating loss are the following

	Group 2010 $000	2009 $000
Operating costs related directly to producing assets	278	51
Depreciation of producing assets	41	17
Decommissioning of producing assets	95	-
Other depreciation	1,747	13
Operating lease charges – land and buildings	270	169
Share based payment charge	630	-
Foreign exchange losses/(gains)	311	(218)

Auditors' remuneration

	Group 2010 $000	2009 $000
Audit of the parent company and consolidated financial statements	18	-
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	31	-
All other services	18	-

On 10 November 2010, KPMG LLP was appointed as auditor of the parent company and the UK subsidiaries for the year ended 31 December 2010 There are no audit fees for 2009 as the Group did not prepare audited financial statements

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees Group 2010	2009
Management	**12**	8

The aggregate payroll costs of these persons were as follows

	$000	$000
Wages and salaries	***2,683***	*692*
Share based payments (See note 14)	***630***	-
Social security costs	***325***	*55*
Contributions to defined contribution plans	***13***	*15*
	3,651	*762*

Company

The Company had no employees during the period

5 Directors' remuneration

In accordance with the Companies Act 2006, Cuadrilla Resources Holdings Limited is required to present the Directors' emoluments from the date of incorporation on 4 February 2010 through to 31 December 2010

	Period from 4 February to 31 December 2010 $000
Directors' emoluments	**582**

The aggregate of emoluments of the highest paid director were $275,000 The highest paid director did not hold any share options in the Company

Notes *(continued)*

5 Directors remuneration *(continued)*

	Number of directors 2010	2009
The number of directors who exercised share options was	**1**	-

No retirement benefits are accruing to directors (*2009 none)*

In order to provide a historical track record and greater transparency of Directors' emoluments, the emoluments of the Cuadrilla Resources Holdings Limited Directors' has been presented on a proforma basis, in addition to the statutory basis above, for the periods covered by these financial statements as follows

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Directors' emoluments	**2,837**	590

6 Finance income and expense

Recognised in loss before tax

	2010 $000	*2009 $000*
Finance income		
Interest income on cash balances	***19***	*2*
Total finance income	***19***	*2*

	2010 $000	*2009 $000*
Finance expense		
Net foreign exchange loss	-	*3,976*
Total finance expense	-	*3,976*

The foreign exchange loss in the year ended 31 December 2009 relates to the revaluation of shareholder cash advances which were converted into equity share capital on 15 February 2010, as described in note 21

Notes *(continued)*

7 Taxation

Recognised in the income statement

	2010	*2009*
	$000	***$000***
Current tax expense		
Deferred tax expense	-	-
	-	-
Total tax expense	-	-

Reconciliation of effective tax rate

	2010	*2009*
	$000	***$000***
Loss before tax for the period	*17,638*	*8,063*
Tax using the UK corporation tax rate of 28% (2009 28 %)	***4,938***	*2,257*
Effect of ring fence trades tax rate of 50%	***1,083***	*399*
Effect of tax rates in foreign jurisdictions	***(70)***	*(7)*
Depreciation in excess of capital allowances	***(542)***	*(13)*
Non-deductible expenses	***(968)***	*(1,411)*
Current year losses and pre-trading expenditure for which no deferred tax asset was recognised	***(4,441)***	*(1,225)*
Total tax expense	-	-

During the period, the 2010 Finance Bill was enacted which will reduce the UK Corporation Tax rate from 28% to 27% from 1st April 2011 The UK Government subsequently announced on 23 March 2011 that the rate of Corporation tax will instead reduce to 26% from 1st April 2011, with further reductions of 1% each year until the rate reaches 23% from 1st April 2014 The UK Government also announced on 23 March 2011 that the Supplementary Charge on UK oil and gas production will 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%

No provision for tax has been made as the Group has estimated accumulated tax losses and pre-trading expenditure of $15,478,000 *(2009 $3,000,000)* 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 $459,000 (*2009 $nil)*

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 2009	-	-	6	-	6
Additions	124	-	67	25	216
Movement on decommissioning assets	477	-	-	-	477
Balance at 31 December 2009	601	-	73	25	699
Balance at 1 January 2010	601	-	73	25	699
Additions	-	41,500	100	161	41,761
Balance at 31 December 2010	601	41,500	173	186	42,460
Depreciation, depletion and impairment					
Balance at 1 January 2009	-	-	(2)	-	(2)
Depreciation charge for the year	(17)	-	(10)	(3)	(30)
Balance at 31 December 2009	(17)	-	(12)	(3)	(32)
Balance at 1 January 2010	(17)	-	(12)	(3)	(32)
Depreciation charge for the year	(41)	(1,687)	(28)	(32)	(1,788)
Decommissioning	(95)	-	-	-	(95)
Balance at 31 December 2010	(153)	(1,687)	(40)	(35)	(1,915)
Net book value					
At 1 January 2009	-	-	4	-	4
At 31 December 2009 and 1 January 2010	584	-	61	22	667
At 31 December 2010	**448**	**39,813**	**133**	**151**	**40,545**

Company

The Company has no property, plant and equipment

Notes *(continued)*

9 Intangible assets – Group

	Exploration & evaluation costs $000	Software $000	Total $000
Cost			
Balance at 1 January 2009	-	44	44
Additions	293	2	295
Movement on decommissioning asset	954	-	954
Balance at 31 December 2009	1,247	46	1,293
Balance at 1 January 2010	1,247	46	1,293
Additions	9,222	27	9,249
Balance at 31 December 2010	10,469	73	10,542
Amortisation			
Balance at 1 January 2009	-	(22)	(22)
Amortisation for the year	-	(6)	(6)
Balance at 31 December 2009	-	(28)	(28)
Balance at 1 January 2010	-	(28)	(28)
Amortisation for the year	-	(14)	(14)
Balance at 31 December 2010	-	(42)	(42)
Net book value			
At 1 January 2009	-	22	22
At 31 December 2009 and 1 January 2010	1,247	18	1,265
At 31 December 2010	**10,469**	**31**	**10,500**

Company

The Company has no intangible assets

Notes *(continued)*

10 Investments in subsidiaries

Company

Shares in group undertakings

	2010 $000
Additions in the period	*26,421*
Balance at 31 December 2010	***26,421***

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

	Country of Incorporation	*Nature of business*	*Class of shares held*	*Ownership*
Company				
Cuadrilla Resources Limited	*UK*	*Management services to subsidiaries*	*Ordinary*	*100%*
Group				
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*	*Services for 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%*
Cuadrilla Poland Sp Zo o	*Poland*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Resources Iberica SL	*Spain*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Morova SRO	*Czech Republic*	*Oil and gas exploration*	*Ordinary*	*100%*
Cuadrilla Hungary Limited	*UK*	*Investment holding*	*Ordinary*	*100%*
Cuadrillco Limited	*UK*	*Not trading*	*Ordinary*	*100%*

11 Inventories

	Group 2010 $000	2009 $000
Raw materials and consumables	*340*	*71*
	340	*71*

Notes *(continued)*

12 Trade and other receivables

	Group 2010 $000	2009 $000	*Company* 2010 $000
Current			
Trade receivables	152	-	-
Other receivables from related parties (note 21)	226	-	44,292
Loans to related parties (note 21)	1,275	-	-
Prepayments	421	25,710	14
Other receivables	686	173	13
	2,760	25,883	44,319

Group

Deposits paid in respect of plant and equipment purchases were $nil *(2009 $25,415,000)*

13 Trade and other payables

	Group 2010 $000	2010 $000	*Company* 2010 $000
Current			
Trade payables	4,675	6,374	-
Amounts due to related parties (note 21)	-	28,000	-
Social security and other taxes	72	12	-
Accrued expenses	3,580	123	44
	8,327	34,509	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 $13,000 *(2009 $15,000)*

Company

The Company does not operate or contribute to any pension schemes

Share-based payments – Group

On 27 August 2009, the directors approved a Discretionary Share Option Plan for certain directors and employees Under this scheme, options were granted by the Company giving the participants rights to acquire 1,100,000 "A" common shares of US$0 01 each in the capital of the Cuadrilla Resources Corporation Limited at an exercise price of CAN$0 60 per share On 15 February 2010, all options were exercised and 1,100,000 "A" common shares of US$0 01 were issued The total share based payment expense recognised for the year was $630,000 *(2009 $nil)*

There are no options outstanding at the year end

Share-based payments – Company

The Company does not operate any share schemes

15 Provisions

Group	*Decommissioning* *$000*
Balance at 1 January 2010 and 31 December 2010	***1,431***
Included in	
Non-current liabilities	*1,431*
Current liabilities	*-*
	1,431

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

	Share capital $000	Share premium $000	Merger reserve $000	Retained losses $000	Total equity $000
Balance at 1 January 2009	187	3,439	-	(1,078)	2,548
Total recognised income and expense	-	-	-	(8,063)	(8,063)
New shares issued	1	84	-	-	85
Balance at 31 December 2009	188	3,523	-	(9,141)	(5,430)
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**

Reconciliation of movement in capital and reserves – Company

	Share capital $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**

The merger reserve arose when the shares of Cuadrilla 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

Notes *(continued)*

17 Capital and reserves – share capital

The issued share capital of the Company at 31 December 2010 is as follows

	Number of shares '000	Issued share capital $000
Allotted, called up and fully paid		
Deferred shares of $0 01 each	**10**	-
Ordinary 'A' shares of $0 01 each	**30,737 ***	307
Ordinary 'B' shares of $0 01 each	**19,875***	199
Ordinary 'C' shares of $0 01 each	**6,902***	69
'A' 8% cumulative preference shares of $2 79 each	**26,821***	74,832
'B' 0% preference shares of $2 79 each	**19,875***	55,450
	104,220	130,857

**additions in the period since incorporation*

Shares classified as liabilities	-	-
Shares classified in shareholders' funds	**104,220**	130,857
	104,220	130,857

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, a special resolution was passed which gave the directors authority to allot shares in the Company to an aggregate nominal value of $141,782,350 This authority expires on 15 February 2015

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, Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP acquired 'A' ordinary shares of $0 01 each and 'A' preference shares of $2 79 each at par value for $37,075,000 cash Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP acquired further 'A' preference shares of $2 79 each at par value in November 2010 for $10,000,000 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 receive dividends or to vote at meetings of the Company

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 $152,000 *(2009 $nil)* The trade receivables are not overdue for payment and therefore the Group has no significant exposure to credit risk at 31 December 2010

Exposure to credit risk - Group

The Company has no significant exposure to external credit risk at 31 December 2010 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 Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, 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 2010 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

	Group	
	2010	*2009*
	$000	*$000*
Less than one year	***138***	*35*
Between one and five years	***110***	*21*
More than five years	**-**	-
	248	*56*

The Group leases land and buildings under a number of operating leases During the year $270,000 was recognised as an expense in the income statement in respect of operating leases *(2009 $169,000)*

Company

The Company has no operating leases

20 Commitments

Capital commitments

Group

Capital expenditure for plant and equipment, which was contracted for at the balance sheet date but not yet incurred amounted to $nil *(31 December 2009 $16,584,000)*

Company

The Company has no capital commitments

Notes *(continued)*

21 Related parties

Group

Shareholder cash advances

As at 31 December 2009, AJ Lucas Group Limited had made cash advances to the Group of $28,000,000 On 15 February 2010, these cash advances were converted into equity share capital

Directors and key management loans

The Group has advanced loans to key management and directors of $1,275,000 *(2009 $nil)* 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 cash calls 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 2010, the following transactions have taken place with partners who participate in exploration activities as follows *(2009 none)*

	Cash calls 2010 $000	Recharge of operating costs 2010 $000	Receivables outstanding 2010 $000
Lucas Energy (UK) Limited	2,180	152	59
Energie Beheer Nederland BV	-	213	167
	2,180	*365*	*226*

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

Company

Other related party transactions

	Administrative expenses incurred from 2010 $000
Shareholder fees – AJ Lucas Group Limited	131
Shareholder fees – Riverstone LLC	131
	262

	Receivables outstanding 2010 $000
Subsidiaries	
Cuadrilla Resources Limited	**44,292**

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

As at 31 December 2009, the ultimate parent company was 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

On 15 February 2010 Cuadrilla Resources Holdings Limited, a company incorporated in the UK, acquired the entire issued share capital of Cuadrilla Resources Corporation Limited through a share for share exchange and became the ultimate parent company of the 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 (40 9%)
- Riverstone/Carlyle Global Energy and Power Fund IV (Cayman) LP, registered in the Cayman Islands (40 9%), and
- Management team (18 2%)

No other group financial statements include the results of the Company