# Annual Report and Financial Statements

Year ended 31 December 2012

**Registered number 05239285**

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# Company Overview

Ascent Resources plc (LSE:AST) ('Ascent' or 'the Company') is an independent oil and gas exploration and production ('E&P') company whose principal asset is in Slovenia. Additionally the Company has non-core assets for disposal in Italy and The Netherlands. Its activities span the full-cycle E&P value chain of exploration, appraisal and development through to production.

**Our strategy**

The Board firmly believes that the gas field at Petišovci in Slovenia is the Company's outstanding prospect and therefore intends to focus its resources on this project. Our strategy is therefore to focus the bulk of our available funding on bringing Petišovci into production.

The Group plans to continue its exploration programme in the longer term and take advantage of the significant possible reserves and contingent resources in the regions in which it operates.

**How we operate**

Our projects are operated through local entities and joint ventures which are able to access the best local technical knowledge to help us develop our assets effectively and efficiently.

The Company utilises a full range of advanced geophysical, geological and other state-of-the-art technology to evaluate and de-risk projects and to reap maximum benefit from its appraisal, development and production activities.

**Our people**

Ascent has a small experienced management team, implementing a defined development programme on primarily onshore projects. This is supplemented, as the need requires, with regional technical and operational expertise to ensure the highest standards are delivered on our projects.

As an important employer in our areas of operation we take our environmental and social responsibilities seriously and always strive to be a good corporate citizen.

**Our markets**

Dependency on imported gas is very high throughout the EU, particularly in Slovenia. This and the relatively buoyant price of gas in Europe, underpins our strategy of exploration, development and production in this region.

Our operations are in close proximity to existing processing facilities, intra-field and national pipelines, ensuring low cost connection and easy access to the market.

# Chairman's Statement

**Review of 2012**

The year to 31 December 2012 was very disappointing. The Company was unable to progress the Petišovci project in Slovenia as a result of the failure to receive the Joint Venture partner consents required to release the necessary bank funding. Additionally, no significant progress was made across the rest of the Company's portfolio of assets.

As a direct consequence the Company ran extremely short of funds towards the end of the year. On 24 December 2012, to allow the Company to continue to trade, new investment of £5.5 million was sourced from Henderson Global Investors ('Henderson'). Following an Open Offer £690,105 of this amount was taken up by existing shareholders on the same terms as Henderson.

**Current position**

***Focus on Petišovci***

Your Board firmly believes that the gas field at Petišovci is its outstanding prospect and is therefore focusing the Company's resources on the development of this asset.

We have now agreed all of the points of principle with our Joint Venture Partners, to ensure that the historic impasse and resultant problems should not occur in the future.

We have also commenced discussions with BNP Paribas ('BNPP') to agree a new bank facility, which better fits the requirements of this development project. The current facility expires towards the end of this month.

We expect the documentation between the Joint Venture Partners to be executed in the next few weeks and anticipate the discussions on the associated bank facility to be completed by the end of the summer.

An important step in the process has already been completed with the recent acquisition by a consortium led by Petrol one of our local partners, of Nafta Geoterm, a company based in Lendava. Nafta Geoterm owns and operates easement rights necessary for Petišovci development and operates pipelines and facilities necessary for handling oil and gas production from the field. This is a key component in the processing and transport of natural gas, allowing harmonised access to infrastructure and a more rapid development of the Petišovci oil and gas field.

***Disposal of non-core assets***

In line with the Company's new strategy we have already sold our interest in our producing Hungarian assets for €450,000 (£379,395), which was broadly equivalent to the revenues we expected to receive before the field became non-commercial. We expect to have concluded a sale of our Dutch assets shortly and have received an offer for our Italian assets.

**Funding**

***Development funding***

As set out in the circular relating to the open offer, the £5.5 million funding received from shareholders will allow the Company to operate through to the fourth quarter of 2013. We will therefore need to raise additional funding later this year to allow the progress at Petišovci to continue. We will consider new funding from both industry and financial sources. The terms on which the required funding will be available will depend on the progress we can report over the summer months.

***Cost savings***

The events of the past twelve months have highlighted the need to operate in a manner designed to make the most of our financial resources. We have identified and begun to implement significant cost savings, in part from reduced headcount and focusing on just one asset, which we expect on an annualised basis, will result in cost reductions approaching £400,000.

**Management and staffing**

Leonard Reece was appointed Chief Executive Officer in September 2012 with a mandate to focus on bringing the Petišovci asset into production. However, it was not until the departure of the previous Chief Executive that he had a free hand to push through the required actions both at Petišovci and, since the first quarter of 2013, with our new strategy for our other assets.

Despite the distractions of dealing with the lack of funding and the dispersed nature of our asset portfolio Leonard has managed in short time to make substantial progress, establishing strong working relationships with the authorities in Slovenia and with our partners, staff and contractors alike.

Additional financial and operational staff have been identified and recruited, so that once the required consents and funding are in place the project will be able to move forward without delay.

**Outlook**

I conclude this Chairman's Statement with the message that in the past few months we have made and are continuing to make real progress at our Petišovci asset, which remains well regarded by the industry and offers the opportunity to significantly enhance shareholder value.

Clive Carver
Chairman
22 May 2013

## Operations Review

### Petišovci Project, Slovenia

The Petišovci Tight Gas Project is located in a 98 $km^2$ area in Slovenia close to the Hungarian and Croatian borders. The project targets the development of substantial tight gas reservoirs that are known to be in Miocene clastic reservoirs.

Ascent has a 75% interest and Geoenergo d.o.o. ('Geoenergo'), the concessionaire of the Petišovci Exploitation Concession, has a 25% interest in the Petišovci Joint Venture. Geoenergo is a company jointly owned by Nafta Lendava d.o.o., the Slovenian state oil company, and Petrol d.d., Slovenia's leading energy trading enterprise.

There are three structural highs present in the project area, over which Ascent and its Joint Venture Partners acquired 3D seismic in 2009 and 2010. Shallow conventional Upper Miocene oil and gas reservoirs in the three principal structures within the project area have historically been exploited in the area since the 1940s, but are now essentially depleted. By contrast, in the deeper, lower permeability, Middle Miocene reservoirs, only a small percentage of the recoverable gas has been produced to date. These deeper Middle Miocene reservoirs were first put on production in 1972 but, due to the limited hydraulic stimulation (fracturing) capabilities at the time, they produced limited volumes of gas from area. Since then, there have been major advances in stimulation techniques which, in conjunction with modern 3D seismic methods, now make efficient commercial development of these low permeability reservoirs possible. Ascent's early acquisition of 3D seismic over the whole project area in 2009 has proved vital to the success of the new Pg-11A and Pg-10 wells drilled in 2011, mainly by guiding the wells into zones of better reservoir quality, which are evident as high amplitudes on the 3D data.

In late 2010/early 2011 the Pg-11 well ('Pg-11') was drilled. It was the first deep well to be drilled in the project area for 22 years and it evaluated previously unproduced reservoirs that are deeper in the Middle Miocene section. Later in 2011, Pg-11A, a sidetrack of Pg-11, and the Pg-10 well ('Pg-10') were drilled, completed and successfully fracture stimulated. Pg-11A is proven productive from the deeper 'K' sands and Pg-10 from the 'F' sands. Advances in hydraulic fracturing methodology in the last twenty years contributed to flow rates of over 8 MMscfd from Pg-10, productivity over three times greater than previously achieved. The fracture stimulation in three stages of Pg-11A resulted in a more modest flow rate of slightly above 2 MMscfd which should be commercial.

The most recent independent report by RPS of GIIP (gas initially in place) defined a gross P50 estimate of 456 Bcf and a mean of 592 Bcf for the Slovenian part of the project. The well results also confirmed the gas productivity, through an open-hole test of the shallowest 'A' sands. The evaluation work included extensive coring and state-of-the-art electric-line log acquisition, the analysis of which has provided important new data that has been invaluable in planning the redevelopment of the reservoirs.

Leading on from the well results, a two phase redevelopment was designed. This redevelopment plan takes into consideration the existing infrastructure as well as the expected productivity of gas in the longer term.

Phase 1: After the recompletion of Pg-10 and Pg-11A with custom designed production strings, it is planned that gas from these wells will be brought on-stream via dedicated well-site facilities, through the modified, existing, gas central processing plant ('CPP') and, from there, to the national gas pipeline terminal. Previously, gas produced from the Petišovci wells was processed at a local methanol plant, but this is currently shut down. The modifications to the CPP are therefore required to upgrade the gas to the national pipeline specifications; these will reduce the $CO^2$ content from approximately 3% to less than 1.5%, remove the condensate in the gas for sale separately and ensure dew point control by dehydration. The Phase 1 maximum production rate is set at 8,000 $m^3$ per hour, approximately equal to 7 MMscfd. In May 2012 the Company announced it had secured a €15 million facility from BNP Paribas ('BNPP') to enable Phase 1 to move ahead and for production to commence. Unfortunately this facility was subject to the obtaining of certain consents from its Joint Venture Partners and additional signatories to the Joint Venture Agreement. The consents from four additional signatories to the Joint Venture Agreement have yet to be secured. The Company continues to apply pressure at a number of levels in order to secure a resolution to the current impasse.

Phase 2: Once the medium term performance of the wells is established, and subject to obtaining the necessary consents, a new 'greenfield' processing facility will be designed. It will perform the same function as the modified existing CPP but will be of substantially higher capacity. This will necessitate enlarged gas export capacity and modifications to the national grid connection. It is estimated that 30 or more new wells are expected to be required to maintain these flow rates for a period of over 10 years and to be able to maximise the recovery from the reservoirs. The Phase 2 facility is expected to take at least 30 months to design, permit, construct and commission, and during this

time the first of the new wells will be drilled.

**Assets For Disposal**

**Frosinone and Strangolagalli, Latina Valley, Italy**

The Strangolagalli concession lies in a proven oil producing area. The project involves the redevelopment of the Ripi field, originally developed in the late 1960s without the benefit of any seismic data. The oil is of good quality from shallow reservoirs less than 1,000 m deep. Seismic was acquired in 2010 so that drilling based on the interpretation of the acquired data can be planned. A drilling permit has yet to be issued.

As with Strangolagalli, the Frosinone exploration licence targets shallow oil lying at less than 1,000 m. New 2D seismic acquisition is needed to follow up on satellite reconnaissance undertaken in 2011 that confirmed existing targets and identified new ones.

Ascent Resources Italia srl ('ARI') has a 50% interest in the Strangolagalli concession and an 80% interest in the Frosinone concession.

North Sea Block M10/M11, Netherlands

The M10/M11 blocks are located in the shallow waters off the north coast of the Netherlands in the southern North Sea. The licence area includes three structures, all of which contain gas discovery wells with gas present in the Slochteren unit of the Rotligendes sandstones.

A conceptual development plan has been prepared and a final appraisal well is needed for the Terschelling Noord discovery, a structure that lies partly within the M10/M11 licence area and partly in the area to the south, to confirm reservoir parameters for the detailed project design.

Ascent holds a 54% interest in the project along with its partners EBN B.V. with 40% and GTO Ltd with the remaining 6%.

**Back-in Rights**

**Hermrigen and Linden, Switzerland**

The exploration permits cover undeveloped discoveries made by Elf Aquitaine in 1972 and 1982 with a combined estimated gas resource base of over 360 Bcf. As the original Hermrigen well was drilled before gas pipeline infrastructure was built in the area, the discovery has remained unappraised. eCORP is the operator of the project and, despite selling its interest in 2010, Ascent retains various back-in rights on any successful outcome of six conventional appraisal prospects, provided relevant apportioned costs are covered.

eCorp has reported that detailed operational planning, initiated after receiving permits, revealed that the selected surface location for the Hermrigen-2 well entailed an unacceptable health risk to local residents due to the existence of poisonous gas (hydrogen sulphide) underground. This had also been discovered during the drilling of the Hermrigen-1 well. No feasible alternative surface location has been identified, however recently acquired additional 2D seismic confirmed closure in another prospect in the Seeland-Frienisberg permit area. This prospect is being discussed as a possible substitute to the Hermrigen-2 well.

# Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 December 2012 ('the year').

**Principal activities**

The principal activities of the Group comprise gas and oil exploration and production. The Company is registered in England and Wales and is listed on the AIM Market of the London Stock Exchange.

The Group has its headquarters in London and has gas and oil interests in Europe in Hungary, Slovenia, Italy and The Netherlands. The Group operates its own undertakings both through subsidiary companies and joint ventures. The subsidiary undertakings affecting the Group's results and net assets are listed in Note 12 to the Financial Statements.

**Business review**

The Companies Act 2006 requires the Company to set out in the Directors' Report a fair review of the business of the Company during the financial year ended 31 December 2012 including an analysis of the position of the business at the end of the financial year and a description of the principal risks and uncertainties facing the Company (the 'Business Review'). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duties under section 172 of the Companies Act 2006, being the duty to promote the success of the Company. The Chairman's Statement and the Group Operations Review, set out on pages 5-6, together with the Corporate Responsibility Statement, corporate governance statements and Principal Risks and Uncertainties section of the Annual Report, which are incorporated herein by reference, are considered to fulfil the requirements of the Business Review.

***Principal risks and uncertainties***

The Group operates in an industry characterised by a range of business risks. The Company maintains a risk register that categorises risks under the headings: Strategic, Operations, Financial, Compliance and Knowledge. The key risks and uncertainties faced by the Group are summarised below.

- *Strategic* – the achievement of corporate objectives is dependent on the strategy followed by the Group, as well as the interaction with stakeholders and shareholders, good governance and an understanding of economic and market dynamics. This risk is mitigated by the expertise of the Company's Directors and specialists.
- *Operations* – the operations of the Group may be adversely affected by its ability to find and develop adequate gas and oil reserves, to develop and exploit new gas and oil acreage, and to recruit and retain management and staff with the right technical skills. This risk is mitigated through the experience and expertise of the Company's specialists and consultants, the application of appropriate technology and the selection of appropriate prospective exploration and development assets.
- Financial – the Group's ability to meet its obligations and achieve objectives is influenced by its liquidity, gearing, movements in commodity prices and costs, movements in foreign exchange, funding and financial reporting requirements. Foreign exchange risk is mitigated by close monitoring of exchange rate movements and holding cash reserves with a variety of different institutions in a variety of currencies being Euro, US Dollar, Hungarian Forint and British Pound. All other financial risks are mitigated by the expertise of the Company's financial staff.
- Compliance – the Group must comply with a range of corporate, legal and industry regulations and the nature of its operations necessitates strong controls around contractual arrangements, especially in respect of areas such as joint venture agreements. This risk is mitigated by the expertise of the Company's Directors and advisers.
- Knowledge – the Group is dependent on the efficient and effective operation of its information systems and the management and reporting of project data and reserves information is key. Loss of key personnel may also lead to the potential loss of corporate 'intellectual property'. This risk is mitigated by ensuring all Company information is both readily available to the relevant Company employees and is securely maintained on a regularly backed up, password protected IT system.

***Key performance indicators***

The Directors consider a range of financial and non-financial key performance indicators. Financial indicators are principally focussed on the regular review of major projects, comparing actual costs with budgets and projections. More detailed assessments are also made of un-risked and risked net present values ('NPVs'), project rates of return and investment ratios such as 'success case investment efficiency'. Monthly trading and cash movements are also reviewed for each of the Group companies. Specific exploration-related key performance indicators include: the probability of geological success *(Pg)*, the probability of commerciality or completion *(Pc)* and the probability of economic success *(Pe).*

***Future developments***

The Company has identified the European gas market as a relatively stable and secure arena in which to compete. The European market continues to be a net importer of gas whilst diversity of supply is central to the energy security strategy of most nations. The Company continues to seek to exploit the market through the identification and exploration of gas reserves near to core industrial and residential conurbations. It competes in the European gas and oil exploration and production sector by seeking to realise value rapidly from its assets, minimising risk through spreading investment over a range of European countries.

***Financial risk management***

Details of the Group's financial instruments and its policies with regard to financial risk management are given in Note 28 of the Financial Statements.

**Results and dividends**

The loss for the year after taxation was £6.0 million (2011: £6.3 million). The Directors do not recommend the payment of a dividend.

**Post balance sheet events**

**Approval of the Henderson Facility**

As detailed in Note 16, the Company secured a £5.5m convertible loan in the year with Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, 'Henderson'). In order to draw down on the full loan amount, Ascent was required to publish a circular seeking shareholder approval for (i) the issue of the new shares required on conversion of the loan notes; and (ii) a whitewash resolution waiving the Takeover code requirement for an offer to be made by Henderson if Henderson's shareholding in the Company exceeds 30% of the total voting rights. Shareholder approval was required as Henderson would hold approximately 1.25 billion Ordinary Shares, representing 58% of the total voting rights of Ascent If the loan instrument were to be fully converted by Henderson.

On 30 April 2013 the resolution was successfully passed at a General Meeting of shareholders and therefore this contingent liability was extinguished.

**Disposal of interest in PetroHungaria kft**

On 25 April 2013 the Company announced that it had agreed to dispose of its 48.66% interest in PetroHungaria kft, which held its interest in the Penészlek field, to their Joint Venture Partners, DualEx Energy International, Swede Resources and Geomega for a cash consideration of €450,000 which was received on 13 May 2013.

**Repayment of the Yorkville Facility**

Following the completion of the Open Offer funding, the Company repaid the remaining balance of £786,677 due under the Yorkville facility on 17 May 2013.

**Directors**

The Directors of the Company that served during the year, and subsequently, were as follows:

Leonard John Reece (appointed 17 September 2012)
Clive Nathan Carver (appointed 24 December 2012)
Nigel Sandford Johnson Moore
William Cameron Davies
Jeremy Eng (resigned 14 December 2012)
John Patrick Kenny (resigned 30 April 2013)
Scott James Richardson Brown (resigned 30 April 2013)
William Graham Cooper (resigned 30 April 2013)

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

**Directors' interests**

The beneficial and non-beneficial interests in the issued share capital of the Company were as follows:

| ***Ordinary shares of 0.1p each.*** | **At 31 December 2012** | **At 31 December 2011** |
|---|---|---|
| Leonard Reece | **-** | **N/A** |
| Clive Carver | **-** | **N/A** |
| Nigel Moore | **119,500** | **119,500** |
| Cameron Davies | **150,000** | **150,000** |
| John Kenny | **700,000** | **700,000** |
| Scott Richardson Brown | **200,000** | **200,000** |
| Graham Cooper | **-** | **-** |

Details of Directors' share options and remuneration are set out in Note 5 to the Financial Statements under the heading 'Directors' remuneration'.

**Directors' emoluments**

For details of Directors' emoluments and share options please see Note 5 of the Financial Statements.

**Third party indemnity provision**

The Company has provided liability insurance for its Directors. The annual cost of the cover is not material to the Group. The Company's Articles of Association allow it to provide an indemnity for the benefit of its Directors which is a qualifying indemnity provision for the purposes of the Companies Act 2006.

**Share capital**

Details of changes to share capital in the period are set out in Note 21 to the Financial Statements.

As at 16 May 2013 the Company has been notified of the following significant interests in its ordinary shares, being a holding of 3% and above:

| | Number of ordinary shares | % |
|---|---|---|
| Henderson Global Investors | 174,797,641 | 15.19 |
| EnQuest PLC | 160,903,958 | 13.98 |
| Barclays Stockbrokers Limited | 74,015,404 | 6.18 |
| Lombard Odier Asset Management (Europe) Limited | 71,165,224 | 6.09 |
| TD Direct Investing | 64,507,726 | 5.60 |
| Halifax Share Dealing | 64,191,801 | 5.58 |
| Selftrade | 44,811,704 | 3.89 |
| Hargreaves Lansdowne | 44,263,148 | 3.85 |
| Seren Capital Management Ltd | 38,715,000 | 3.7 |

**Shareholder communications**

The Company has a website, www.ascentresources.co.uk, for the purposes of improving information flow to shareholders, as well as potential investors.

**Charitable and political contributions**

No charitable or political contributions were made by the Group during 2012 or 2011.

**Supplier payment policy and practice**

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

At 31 December 2012, the Group had an average of 155 days (2011: 35 days) purchases owed to trade creditors. At 31 December 2012, the Company had an average of 77 days (2011: 139 days) purchases owed to trade creditors.

**Employees**

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

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

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

**Disclosure of information to auditors**

In the case of each person who was a Director at the time this report was approved:

- so far as that Director was aware there was no relevant available information of which the Company's auditors were unaware; and
- that Director had taken all steps that the Director ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**Going Concern**

The Financial Statements of the Group are prepared on a going concern basis.

On 24 December 2012 the Group entered into an agreement with Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, 'Henderson') for the subscription by Henderson of convertible loan notes of up to £5.5 million in principal. This loan was secured to provide funding for existing debts and to cover overheads through much of 2013.

On 29 May 2012 the Group secured a €15 million (£12 million) facility from BNPP. This was secured in order to finance the primary capital expenditure requirements of the Group, being the Petišovci project in Slovenia. However due to various problems obtaining consents from signatories to the Joint Venture Agreement, the Group was unable to draw down on the loan, and the loan will expire on 29 May 2013. However, BNPP have remained supportive and we would hope to be able to enter into a new loan should the aforementioned issues be resolved, although there can be no certainty of this.

Existing cash resources are sufficient to meet overheads for the 6 months from the publication of this report. In order to fund the core work programme and overheads for the required 12 month period further funds will be required. The Group has a SEDA facility in place which could bridge this gap; drawdowns on this facility are dependent upon both liquidity and the prevailing share price additionally we would look at issuing equity to existing or new investors.

The Directors have also undertaken a Strategic Review as announced at the end of 2012, which might enable them to consider non-equity financing such as farm-in agreements or asset sales. These options are currently under negotiation with various counterparties and on this basis the Directors are confident of the Group's ability to continue as a going concern.

However, there can be no guarantee over the outcome of these negotiations and as a consequence there is a material uncertainty of the Group's ability to raise additional finance, which casts significant doubt on the Group's ability to continue as a going concern. Further, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors however, remain confident of the Group's ability to operate as a going concern given the funding discussions that have and continue to take place and in light of the significant recent support from Henderson.

**Auditors**

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of BDO LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

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

**Clive Carver**
Chairman
22 May 2013

# Board of Directors

**Clive Carver (52)**
***Non-executive Director***

Clive Carver has worked in the City since 1986 and focussed exclusively on the small cap sector since 1994. He is the Executive Chairman of Roxi Petroleum plc, an AIM listed oil and gas exploration and production company operating in Kazakhstan, where he served as Non-executive Chairman from 2006 to May 2012. He is also Non-executive Chairman of Lochard Energy Group plc. Clive is a Fellow of the Institute of Chartered Accountants in England and Wales and is a qualified Corporate Treasurer.

**Leonard Reece (63)**
***Chief Executive Officer***

Leonard Reece has over thirty years of E&P sector experience, of which over twenty years were at Managing Director and CEO level. His most recent role was as CEO of Valhalla Oil and Gas AS, a private Norwegian oil company, where he was responsible for identifying, acquiring and developing commercially successful oil and gas assets. He previously held the position of Managing Director of Spectrum Energy and Information Technology Ltd, which provides multi-client surveys and high quality seismic imaging services. His extensive commercial and managerial experience will be of significant value, as Ascent rationalises and progresses the assets in its portfolio.

**Nigel Moore (69)**
***Non-executive Director***
*Chairman of the Audit Committee and member of the Remuneration Committee*

Nigel Moore is a Chartered Accountant and was a former partner at Ernst & Young for 30 years until 2003. For the last ten years at Ernst & Young he specialised in the oil and gas sector, advising a wide range of client companies, providing significant input to strategic options, new opportunities and helping to deliver shareholder value. Nigel is also on the Boards of Hochschild Mining plc, JKX Oil and Gas plc and Vitec Group plc.

**Cameron Davies (69)**
***Non-executive Director***
*Chairman of the Remuneration Committee and member of the Audit Committee*

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

# Directors and Advisers

| | |
|---|---|
| **Directors** | Clive Carver<br>Leonard Reece<br>Nigel Moore<br>Cameron Davies |
| **Secretary** | John Bottomley |
| **Registered Office** | One America Square<br>Crosswall<br>London EC3N 2SG |
| **Nominated Adviser and Broker** | finnCap Ltd<br>60 New Broad Street<br>London EC2M 1JJ |
| **Auditors** | BDO LLP<br>55 Baker Street<br>London W1U 7EU |
| **Solicitors** | Taylor Wessing LLP<br>5 New Street Square<br>London<br>EC4A 3TW |
| **Bankers** | Barclays Corporate Bank<br>1 Churchill Place<br>London<br>E14 5HP |
| **Share Registry** | Computershare Investors Services Plc<br>The Pavilions<br>Bridgwater Road<br>Bristol BS13 8AE |
| **Company's registered number** | 05239285 |

# Summary of Group Net Oil and Gas Reserves

**Net Reserves and Resources by country**

| | Net Proven + Probable Reserves (Bcfe) | Net Attributable Contingent Resources (Bcfe) | | | Net Attributable Prospective Resources (Bcfe) | | |
|---|---|---|---|---|---|---|---|
| | | 1-C | 2-C | 3-C | Low | Best | High |
| Hungary(3) | - | 0.4 | 18.6 | 74.8 | - | - | - |
| Netherlands(5) | - | 41.0 | 44.2 | 51.0 | 9.7(6) | 10.9(6) | 12.2(6) |
| Switzerland(4)(a) | - | 2.0 | 4.8 | 9.5 | 78.0 | 156.0 | 304.0 |
| Italy(4)(b) | 0.1(2) | - | 2.0(2) | - | - | 87.0(2)(6) | - |
| Slovenia(3) | - | 90.0 | 171.0 | 320.3 | - | - | - |
| Net Attributable at 31 December 2012 | 0.1 | 133.4 | 240.6 | 455.6 | 87.7 | 253.9 | 316.2 |

(1) These figures are all quoted as gas equivalent, assuming a conversion factor from oil to gas of 1 stb = 6,000 scf

(2) Evaluated as oil, converted to gas equivalent

(3) These figures are based on RPS gas-in-place estimates with a management assumption of a 50% recovery factor

(4) These figures are based upon independent evaluations provided by:
  (a) Tracs International
  (b) RPS and Peal Petroleum srl

(5) These figures are based upon Management evaluations of the gas-in-place in the M11-1 structure in the M11 licence area, the Terschelling Noord structure, both in the M10 licence area and the open acreage to the south of that area, and assuming a 50% recovery factor

(6) Risked

Proven Reserves are those quantities of petroleum which can be estimated with reasonable certainty to be commercially recoverable, from known reservoirs and under current economic conditions, operating methods and government regulations. There is at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those unproven reserves which are more likely than not to be recoverable. There is at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proven plus probable reserves.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent resources may include, for example, projects for which there are currently no viable markets or where commercial recovery is dependent on technology under development or where evaluation of the accumulation is insufficient to clearly assess commerciality.

Prospective Resources are those quantities of petroleum which are estimated to be potentially recoverable from undiscovered accumulations.

## Summary of Ascent Resources plc's Licence Interests as at 31st December 2012

| Permit | Subsidiary | Working Interest (%) | Permit Area Gross ($km^2$) | Net ($km^2$) | Status |
|---|---|---|---|---|---|
| **Hungary** | | | | | |
| Lovászi[(1)] | Ascent Hungary Limited | 50.00 | 90 | 45 | Gas exploration and exploitation |
| **Italy** | | | | | |
| Frosinone | Ascent Resources Italia srl | 80.00 | 858 | 686 | Oil exploration |
| Fiume Arrone | Ascent Resources Italia srl | 70.00 | 358 | 251 | Gas exploration |
| Strangolagalli | Ascent Resources Italia srl | 50.00 | 41 | 21 | Oil exploitation |
| **Slovenia** | | | | | |
| Petišovci Exploitation Concession | Ascent Slovenia Limited | 75.00 | 98 | 73 | Oil & gas exploitation |
| **Switzerland** | | | | | |
| Seeland-Frienisberg | | [(2)] | 364 | - | Gas appraisal |
| Linden | | [(2)] | 330 | - | Gas appraisal |
| Gros de Vaud | | [(2)] | 736 | - | Oil & gas exploration |
| **The Netherlands** | | | | | |
| M10/M11 | Ascent Resources NL BV | 54.00 | 110 | 59 | Gas exploration and appraisal |

(1) The Lovászi Area of Mutual Interest ('AMI') consists of four Mining Plots (Exploitation Concessions) and a part of an exploration licence
(2) Option to acquire between 22.5% and 45% interest in up to 6 conventional discoveries.

## Glossary

| | | | |
|---|---|---|---|
| M | Thousand* | $km^2$ | Square kilometres |
| MM | Million* | $m^3$ | Cubic metres |
| B | Billion* | cf | Cubic feet |
| | | scf | Standard cubic feet |
| | | scfd | Standard cubic feet per day |

* These are 'oilfield' units, as commonly used in the oil and gas industry. Other units conform to the Système International d'unités (SI) convention

P90 (P50; P10) Reserves: at least a 90% (50%;10%) probability that the quantities will equal or exceed the estimate. This is a measure of uncertainty not geological or commercial risk

Prospect: a potential trap which geologists believe may contain hydrocarbon resources

Reservoirs: a subsurface body of rock having sufficient porosity and permeability to store and transmit hydrocarbons

Production string: string of drill pipe or of tubing run into a well

Miocene: a geological epoch of the Neogene Period that extended from about 13 to 25 million years ago.

# Corporate Responsibility

Ascent operates a Management System that embodies Environmental, Health, Safety ('EHS') and Social Responsibility ('SR') principles. This system defines objectives to be met by Ascent, its subsidiaries, affiliates, associates and operated joint ventures (hereinafter collectively referred to as Ascent) in the management of EHS and SR.

The policy of the Board of Ascent is to be fully accountable for the necessary practices, procedures and means being in place so as to ensure that each EHS and SR objective is demonstrated in full and that continuous improvement practices are operating to ensure that the required practices, procedures and means are being monitored, refined and optimised as necessary. The Board will accordingly review and report regularly to external stakeholders as to the achievement of the objectives of this policy.

In accordance with this policy, the Executive Directors of Ascent are directly and collectively responsible to the Board for demonstrating that the EHS and SR objectives are attained throughout Ascent. The Executive Directors have adopted Management System Guidelines as guidance for demonstrating this.

The objectives of the Environment, Health, Safety and Social Responsibility Policy are:

- Ascent shall manage all operations in a manner that protects the environment and the health and safety of employees, third parties and the community.
- The Executive Directors provide the vision, establish the framework, set the objectives and provide the resources for responsible management of Ascent's operations.
- Leadership and visible commitment to continuous improvement are critical elements of successful operations.
- A process that measures performance relative to policy aims and objectives is essential to improving performance. Sharing best practices and learning from each other promotes improvement.
- Effective business controls ensure the prevention, control and mitigation of threats and hazards to business stewardship.
- Risk identification, assessment and prioritisation can reduce risk and mitigate hazards to employees, third parties, the community and the environment. Management of risk is a continuous process.
- Safe, environmentally sound operations rely on well-trained motivated people. Careful selection, placement, training, development and assessment of employees, and clear communication and understanding of responsibilities are critical to achieving operating excellence.
- The use of internationally recognised standards, procedures and specifications for design, construction, commissioning, modifications and decommissioning activities is essential for achieving operating excellence.
- Operations within recognised and prudent parameters are essential to achieving clear operating excellence. This requires operating, inspection and maintenance procedures, and information on the processes, facilities and materials handled, together with systems to ensure that such procedures have been properly communicated and understood.
- Adhering to established safe work practices, evaluating and managing change, and providing up-to-date procedures to manage safety and health risks contribute to a safe workplace for employees and third parties.
- The minimisation of environmental risks and liabilities are integral parts of Ascent's operations.
- Third parties who provide materials and services (personnel and equipment) or operate facilities on Ascent's behalf have an impact on EHS and SR excellence. It is essential that third-party services are provided in a manner consistent with Ascent's EHS and SR Policy and Management System Guidelines.
- Compliance with regulatory requirements and company guidelines must be periodically measured and verified as part of the continuous improvement process.
- Preparedness and planning for emergencies are essential to ensuring that all necessary actions are taken if an incident occurs, to protect employees, third parties, the public, the environment, the assets and brand of Ascent.

- Effective reporting, incident investigation, communication and lessons learned are essential to attaining and improving performance.
- Open and honest communication with the communities, authorities and stakeholders with which Ascent operates builds confidence and trust in the integrity of Ascent.

During 2012, the Group was Operator of several exploration projects, all of which were closely managed for maintaining the EHS and SR policy aims.

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

## Statement of Directors' Responsibilities

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

In preparing these financial statements the Directors are required to:

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

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

**Website publication**

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

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

We have audited the financial statements of Ascent Resources Plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Cash Flows and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

**Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter – Going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Company's ability to continue as a going concern. Further funds will be required to finance the Company's planned work programme. While the Directors are confident of being able to acquire the finance necessary to meet both capital and administrative obligations and liabilities as they fall due, a significant uncertainty exists given that sufficient facilities are not currently in place.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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

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

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

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

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

*[Signature]*

*Scott Knight (senior statutory auditor)*

*For and on behalf of BDO LLP, statutory auditor*

*London*

*United Kingdom*

*22 May 2013*

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

# Consolidated Income Statement

**for the year ended 31 December 2012**

| | Notes | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|---|
| Revenue | 2 | **1,684** | 2,105 |
| Cost of sales | 3 | **(1,217)** | (1,711) |
| **Gross profit** | | **467** | 394 |
| Administrative expenses | 4 | **(2,810)** | (2,625) |
| Impairment write down of exploration costs and producing assets | 9, 11 | **(2,978)** | (3,471) |
| Loss from operating activities | | **(5,321)** | (5,702) |
| Other operating income | | **41** | - |
| Finance income | 6 | **318** | 282 |
| Finance cost | 6 | **(1,002)** | (830) |
| Net finance costs | | **(684)** | (548) |
| Loss before taxation | | **(5,964)** | (6,250) |
| Income tax expense | 7 | **(60)** | (48) |
| **Loss for the year** | | **(6,024)** | (6,298) |
| **Loss attributable to:** | | | |
| Owners of the Company | | **(6,032)** | (6,295) |
| Non-controlling interests | | **8** | (3) |
| **Loss for the year** | | **(6,024)** | (6,298) |
| **Loss per share** | | | |
| Basic and diluted loss per share | 8 | **(0.58)p** | (0.68)p |

*The notes on pages 29 to 61 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Comprehensive Income

**for the year ended 31 December 2012**

| | Notes | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|---|
| Loss for the year | | **(6,024)** | (6,298) |
| **Other comprehensive income** | | | |
| Foreign currency translation differences for foreign operations | | **(616)** | (210) |
| **Other comprehensive income for the year** | | **(616)** | (210) |
| **Total comprehensive loss for the year** | | **(6,640)** | (6,508) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the Company | | **(6,648)** | (6,505) |
| Non-controlling interest | | **8** | (3) |
| **Total comprehensive loss for the year** | | **(6,640)** | (6,508) |

*The notes on pages 29 to 61 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Changes in Equity

**for the year ended 31 December 2012**

| | Share capital £ '000s | Equity reserve £ '000s | Share premium £ '000s | Share-based payment reserve £ '000s | Translation reserve £ '000s | Retained earnings £ '000s | Total £ '000s | Non-controlling interest £ '000s | Total equity £ '000s |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2011** | **520** | **50** | **23,563** | **1,912** | **2,928** | **(19,000)** | **9,973** | **-** | **9,973** |
| **Comprehensive income** | | | | | | | | | |
| Loss for the year | - | - | - | - | - | (6,295) | (6,295) | (3) | (6,298) |
| **Other comprehensive income** | | | | | | | | | |
| Currency translation differences | - | - | - | - | (210) | - | (210) | - | (210) |
| **Total comprehensive income** | | | | | **(210)** | **(6,295)** | **(6,505)** | **(3)** | **(6,508)** |
| **Transactions with owners** | | | | | | | | - | |
| Convertible Loan | - | (50) | - | - | - | 50 | - | - | - |
| Purchase of non-controlling interest | - | - | - | - | - | | - | - | - |
| Issue of shares during the year net of costs | 506 | - | 28,635 | - | - | - | 29,141 | - | 29,141 |
| Share-based payments | - | - | - | 2,823 | - | - | 2,823 | - | 2,823 |
| **Balance at 31 December 2011** | **1,026** | **-** | **52,198** | **4,735** | **2,718** | **(25,245)** | **35,432** | **(3)** | **35,429** |
| | | | | | | | | | |
| **Balance at 1 January 2012** | **1,026** | **-** | **52,198** | **4,735** | **2,718** | **(25,245)** | **35,432** | **(3)** | **35,429** |
| **Comprehensive income** | | | | | | | | | |
| Loss for the year | - | - | - | - | - | (6,032) | (6,032) | 8 | (6,024) |
| **Other comprehensive income** | | | | | | | | | |
| Currency translation differences | - | - | - | - | (616) | - | (616) | - | (616) |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **(616)** | **(6,032)** | **(6,648)** | **8** | **(6,640)** |
| **Transactions with owners** | | | | | | | | | |
| Transfer to non-current liabilities | - | - | - | (2,307) | - | - | (2,307) | - | (2,307) |
| Convertible Loan | - | - | - | - | - | - | - | - | - |
| Share-based payments | - | - | - | (527) | - | 593 | 66 | - | 66 |
| **Balance at 31 December 2012** | **1,026** | **-** | **52,198** | **1,901** | **2,102** | **(30,684)** | **26,543** | **5** | **26,548** |

*The notes on pages 29 to 61 are an integral part of these consolidated financial statements.*

# Company Statement of Changes in Equity

**for the year ended 31 December 2012**

| | Share capital £ '000s | Equity reserve £ '000s | Share premium £ '000s | Share-based payment reserve £ '000s | Retained earnings £ '000s | Total parent equity £ '000s |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2011** | **520** | **50** | **23,563** | **1,912** | **(1,393)** | **24,652** |
| **Comprehensive income** | | | | | | |
| Loss and total comprehensive income for the year | - | - | - | - | (16,809) | (16,809) |
| **Transactions with owners** | | | | | | |
| Convertible loan | - | (50) | - | - | 50 | - |
| Issue of shares during the year net of costs | 506 | - | 28,635 | - | - | 29,141 |
| Share-based payments | - | - | - | 2,823 | - | 2,823 |
| **Balance at 31 December 2011** | **1,026** | **-** | **52,198** | **4,735** | **(18,152)** | **39,807** |
| | | | | | | |
| **Balance at 1 January 2012** | **1,026** | **-** | **52,198** | **4,735** | **(18,152)** | **39,807** |
| **Comprehensive income** | | | | | | |
| Loss and total comprehensive income for the year | - | - | - | - | (10,638) | (10,638) |
| **Transactions with owners** | | | | | | |
| Transfer to non-current liabilities | - | - | - | (2,307) | - | (2,307) |
| Convertible loan | - | - | - | - | - | - |
| Share-based payments | - | - | - | (527) | 191 | (336) |
| **Balance at 31 December 2012** | **1,026** | **-** | **52,198** | **1,901** | **(28,599)** | **26,526** |

*The notes on pages 29 to 61 are an integral part of these consolidated financial statements.*

# Consolidated Statement of Financial Position

**As at 31 December 2012**

| | Notes | **31 December 2012 £ '000s** | 31 December 2011 £ '000s |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **181** | 734 |
| Exploration and evaluation costs | 11 | **32,203** | 33,834 |
| **Total non-current assets** | | **32,384** | 34,568 |
| **Current assets** | | | |
| Inventories | | **136** | 264 |
| Trade and other receivables | 13 | **916** | 1,269 |
| Cash and cash equivalents | | **3,452** | 2,906 |
| | | **4,504** | 4,439 |
| **Total assets** | | **36,888** | 39,007 |
| **Equity and liabilities** | | | |
| **Attributable to the equity holders of the Parent Company** | | | |
| Share capital | 21 | **1,026** | 1,026 |
| Share premium account | | **52,198** | 52,198 |
| Share-based payment reserve | | **1,901** | 4,735 |
| Translation reserves | | **2,102** | 2,718 |
| Retained earnings | | **(30,684)** | (25,245) |
| | | **26,543** | 35,432 |
| **Total equity attributable to the shareholders of the Company** | | | |
| Non-Controlling interest | | **5** | (3) |
| **Total equity** | | **26,548** | 35,429 |
| **Non-current liabilities** | | | |
| Borrowings | 16 | **3,554** | 435 |
| Provisions | 17 | **540** | 524 |
| Other non-current liabilities | 18 | **2,307** | - |
| **Total non-current liabilities** | | **6,401** | 959 |

**Ascent Resources plc**

## Consolidated Statement of Financial Position (continued)

**As at 31 December 2012**

| | | | |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 19 | **1,704** | 2,463 |
| Borrowings | 16 | **2,235** | 156 |
| **Total current liabilities** | | **3,939** | 2,619 |
| **Total liabilities** | | **10,340** | 3,578 |
| **Total equity and liabilities** | | **36,888** | 39,007 |

*The notes on pages 29 to 61 are an integral part of these consolidated financial statements.*

The financial statements were approved and authorised for issue by the Board of Directors on 22 May 2013 and were signed on its behalf by:

**Clive Carver**
**Chairman**
22 May 2013

# Company Statement of Financial Position

**As at 31 December 2012**

| | Notes | **31 December 2012 £ '000s** | 31 December 2011 £ '000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **4** | 5 |
| Investment in subsidiaries and joint ventures | 12 | **14,419** | 16,023 |
| Intercompany receivables | 25 | **16,776** | 22,185 |
| **Total non-current assets** | | **31,199** | 38,213 |
| **Current assets** | | | |
| Trade and other receivables | 14 | **56** | 35 |
| Cash and cash equivalents | | **3,211** | 2,317 |
| **Total current assets** | | **3,267** | 2,352 |
| **Total assets** | | **34,466** | 40,565 |
| **Equity** | | | |
| Share capital | 21 | **1,026** | 1,026 |
| Equity reserve | | **-** | - |
| Share premium | | **52,198** | 52,198 |
| Share-based payment reserve | | **1,901** | 4,735 |
| Retained loss | | **(28, 599)** | (18,152) |
| **Total equity** | | **26,526** | 39,807 |
| **Non-Current liabilities** | | | |
| Borrowings | 16 | **3,065** | 435 |
| Other non-current liabilities | 18 | **2,307** | - |
| **Total non-current liabilities** | | **5,372** | 435 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **640** | 170 |
| Borrowings | 16 | **1,928** | 153 |
| **Total current liabilities** | | **2,568** | 323 |
| **Total liabilities** | | **7,940** | 758 |
| **Total equity and liabilities** | | **34,466** | 40,565 |

*The notes on pages 29 to 61 are an integral part of these consolidated financial statements.*

These financial statements were approved and authorised for issue by the Board of Directors on 22 May 2013 and signed on its behalf by:

**Clive Carver**
**Chairman**
22 May 2013

# Consolidated Cash Flow Statement

**for the year ended 31 December 2012**

| | **Year ended 31 December 2012** | Year ended 31 December 2011 |
|---|---|---|
| **Cash flows from operations** | **£ ’000s** | £ ’000s |
| Loss before tax for the year | **(5,964)** | (6,250) |
| Tax paid | **(60)** | (48) |
| DD&A charge | **1,269** | 1,233 |
| Decrease in receivables | **353** | 395 |
| Decrease in payables | **(1,110)** | (484) |
| Increase in other long term payables | **2,323** | |
| Decrease in inventories | **128** | 77 |
| Impairment of exploration expenditure | **2,288** | 3,471 |
| Increase / (decrease) in decommissioning provision | **16** | (296) |
| Share-based payment charge / (release) | **(2,249)** | 517 |
| Exchange differences | **2** | 227 |
| | **(3,004)** | (1,158) |
| Finance income | **(318)** | (282) |
| Finance cost | **1,002** | 830 |
| **Net cash used in operating activities** | **(2,320)** | (610) |
| **Cash flows from investing activities** | | |
| Interest received | **68** | 60 |
| Payments for investing in exploration[1] | **(780)** | (12,828) |
| Purchase of property, plant and equipment | **(682)** | (1) |
| **Net cash used in investing activities** | **(1,394)** | (12,769) |
| **Cash flows from financing activities** | | |
| Interest paid and other finance fees | **(1,180)** | (157) |
| Proceeds from loans | **5,748** | - |
| Loans repaid | **(484)** | (2,708) |
| Proceeds from issue of shares[1] | **-** | 17,841 |
| Share issue costs | **-** | (751) |
| **Net cash generated from financing activities** | **4,084** | 14,225 |
| **Net increase in cash and cash equivalents for the year** | **370** | 846 |
| Effect of foreign exchange differences | **176** | 12 |
| Cash and cash equivalents at beginning of the year | **2,906** | 2,048 |
| **Cash and cash equivalents at end of the year** | **3,452** | 2,906 |

[1] There were significant non-cash transactions during the prior year. For further details please see Note 11.

# Company Cash Flow Statement

**for the year ended 31 December 2012**

| | **Year ended 31 December 2012** | Year ended 31 December 2011 |
|---|---|---|
| **Cash flows from in operations** | **£ '000s** | £ '000s |
| Loss for the year | **(10,640)** | (16,809) |
| Depreciation charge | **2** | 1 |
| Decrease in receivables | **6,792** | 11,833 |
| Increase in payables | **145** | 218 |
| Increase in other long term payables | **2,307** | - |
| Write off of investment | **1,668** | 190 |
| Share-based payment | **(2,235)** | 516 |
| Foreign exchange | **(415)** | - |
| | **(2,376)** | (4,051) |
| Finance income | **(196)** | (59) |
| Finance cost | **274** | 251 |
| **Net cash generated from / (used in) operating activities** | **(2,298)** | (3,859) |
| **Cash flows from investing activities** | | |
| Interest received | **160** | 59 |
| Advances to subsidiaries | **(1,404)** | (9,905) |
| Investment in PPE | **(1)** | (4) |
| Addition to investment | **(64)** | - |
| **Net cash flows used in investing activities** | **(1,309)** | (9,850) |
| **Cash flows from financing activities** | | |
| Interest paid | **(315)** | (140) |
| Repayment of loan | **(484)** | (2,700) |
| Proceeds from loans | **5,300** | - |
| Cash proceeds from issue of shares [1] | **-** | 17,841 |
| Share issue costs | **-** | (751) |
| **Net cash generated from financing activities** | **4,501** | 14,250 |
| **Net increase in cash and cash equivalents** | **894** | 541 |
| Cash and cash equivalents at beginning of the year | **2,317** | 1,815 |
| Effects of foreign exchange differences | **-** | (39) |
| **Cash and cash equivalents at end of the year** | **3,211** | 2,317 |

[1] There were significant non-cash transactions during the prior year. For further details please see Note 11.

# Notes to the Financial Statements

## 1 Accounting policies

**Reporting entity**

Ascent Resources plc ('the Company' or 'Ascent') is a company domiciled and incorporated in England. The address of the Company's registered office is One America Square, Crosswall, London EC3N 2SG. The consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and joint ventures. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Company is admitted to AIM, a market of the London Stock Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2012 are available from the Company's website at www.ascentresources.co.uk.

**Statement of compliance**

The Group's and Company's financial statements for the year ended 31 December 2012 were approved and authorised for issue by the Board of Directors on 22 May 2013 and the Statements of Financial Position were signed on behalf of the Board by Clive Carver.

Both the Parent Company financial statements and the Group financial statements give a true and fair view and have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('IFRSs').

**Basis of preparation**

In publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

**Measurement Convention**

The financial statements have been prepared under the historical cost convention except for available-for-sale financial assets and financial instruments which are measured at fair value through profit and loss. The financial statements are presented in sterling and have been rounded to the nearest thousand (£ '000s) except where otherwise indicated.

The principal accounting policies set out below have been consistently applied to all periods presented.

**Going Concern**

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

On 24 December 2012 the Group entered into an agreement with Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, 'Henderson') for the subscription by Henderson of convertible loan notes of up to £5.5 million in principal. This loan was secured to provide funding for existing debts and to cover overheads through much of 2013.

On 29 May 2012 the Group secured a €15 million (£12 million) facility from BNPP. This was secured in order to finance the primary capital expenditure requirements of the Group, being the Petišovci project in Slovenia. However, due to various problems obtaining consents from signatories to the Joint Venture Agreement, the Group was unable to draw down on the loan and the loan expires on 29 May 2013. Nevertheless, BNPP have remained supportive and we would hope to be able to enter into a new loan should the aforementioned issues be resolved, although there can be no certainty of this.

Existing cash resources are sufficient to meet overheads for the 6 months from the publication of this report. In order to fund the core work programme and overheads for the required 12 month period further funds will be required. The Group has a SEDA facility in place which could bridge this gap; drawdowns on this facility are dependent upon both liquidity and the prevailing share price; additionally we would look at issuing equity to existing or new investors.

The Directors have also undertaken a Strategic Review, as announced at the end of 2012, which might enable them to consider non-equity financing such as farm-in agreements or asset sales. These options are currently under negotiation with various counterparties and on this basis the Directors are confident of the Group's ability to continue as a going concern.

However, there can be no guarantee over the outcome of these negotiations and as a consequence there is a material uncertainty of the Group's ability to raise additional finance, which may cast significant doubt on the Group's ability to continue as a going concern. Further, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors, however, remain confident of the Group's ability to operate as a going concern given the funding discussions that have and continue to take place and in light of the significant recent support from Henderson.

**New and amended Standards effective for 31 December 2012 year end adopted by the Group:**

i. The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2012. The adoption of these standards and amendments has had no material effect on the groups accounting policies.

| Standard | Effective date | Impact on initial application |
|---|---|---|
| IFRS 7 Amendment – Transfer of Financial Asset | 1 July 2012 | None |
| IFRS 1 Amendment – Severe hyperinflation and removal of fixed dates | 1 July 2012 | None |
| IAS 12 Amendment – Recovery of Underlying Assets | 1 January 2012 | None |

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

| Standard | Description | Effective date |
|---|---|---|
| IAS 1 | Presentation of items of other comprehensive income (amendments to IAS 1) | 1 July 2012 |
| IFRS 10 | Consolidated Financial Statements | 1 January 2014 |
| IFRS 11 | Joint Arrangements | 1 January 2014 |
| IFRS 13 | Fair Value Measurement | 1 January 2013 |
| IAS 27 | Amendments: Separate Financial Statements | 1 January 2013 |
| IAS 28* | Amendments: Investments in Associates and Joint Ventures | 1 January 2013 |
| IAS 19* | Employee Benefits | 1 January 2013 |
| IFRS 7 | Disclosures—Offsetting Financial Assets and Financial Liabilities | 1 January 2013 |
| IFRS 1* | Amendment – Government Loans | 1 January 2013 |
| | Improvements to IFRS (2009 – 2011 cycle) | 1 January 2013 |
| IFRS 10 | Amendments – Transition Guidance | 1 January 2014 |
| IFRS 11 | Amendments – Transition Guidance | 1 January 2014 |
| IFRS 12* | Amendments – Transition Guidance | 1 January 2013 |
| IFRIC 20 | Interpretation – Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2014 |
| IAS 32 | Amendment – Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| IFRS 10 | Amendments – Investment Entities | 1 January 2014 |
| IFRS 12 | Amendments – Investment Entities | 1 January 2014 |
| IAS 27* | Amendments – Investment Entities | 1 January 2014 |
| IFRS 9* | Financial instruments | 1 January 2015 |

* Not yet endorsed by European Union

The Group has not yet assessed the impact of IFRS 9 or IFRS 13. Except for the adoption of IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures which would both materially affect the presentation and financial impact of several of Ascent's subsidiaries, the above standards, interpretations and amendments will not significantly affect the Group's results or financial position. The adoption of IFRS 9 will eventually replace IAS 39 in its entirety and consequently may have a material effect on the presentation, classification, measurement and disclosures of the Group's financial instruments.

**Critical accounting estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on practical experience and

various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recorded in the period in which the estimate is revised.

**Critical judgements in applying the Group's accounting policies**

The application of the Group's accounting policies may require management to make judgements, apart from those involving estimates, which can have a significant effect on the amounts amortised in the financial statements. Management judgement is particularly required when assessing the substance of transactions that have a complicated structure or legal form.

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

(a) *Oil and gas assets* – exploration and evaluation costs are initially classified and held as intangible fixed assets rather than being expensed. The carrying value of intangible exploration and evaluation assets are then determined. Management considers these assets for impairment at least annually based on an estimation of the recoverability of the cost pool from future revenues of the related oil and gas reserves (see Note 11);

(b) Decommissioning provision – the cost of decommissioning is estimated by reference to operators and internal specialist staff (see Note 17);

(c) Convertible loan notes – management assessed the fair value of the liability component at issue and continue to review the appropriateness of the amortisation period annually (see Note 16);

(d) Basis of consolidation – management consider the Company's ability to exert financial and operational control, as well as the level of voting rights and representation on the Board as a basis of consolidation;

(e) Share-based payments – management assesses the fair value of each option using an appropriate pricing model based on option and share prices, volatility and the life of the option (see Note 27).

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

**Basis of consolidation**

The financial statements comprise the consolidation of the accounts of the Company and its subsidiary undertakings and incorporate the results of its share of jointly controlled entities using the proportional consolidation method of accounting. Consistent accounting policies have been used to prepare the consolidated financial statements.

Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of undertakings acquired or disposed of are consolidated from or to the date when control passes to or from the Group. For the Company's financial statements only, investments in subsidiary undertakings are stated at cost less provision for impairment.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies they use into line with those used by the Group.

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

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

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

Jointly controlled operations are arrangements in which the Group holds an interest on a long term basis which are jointly controlled by the Group and one or more ventures under a contractual arrangement. The Group's exploration, development and production activities are sometimes conducted jointly with other companies in this way. Since

these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests.

**Business combinations**

On acquisition, the assets, liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over net fair values of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the net fair values of the identifiable assets, liabilities and contingent liabilities acquired (ie discount on acquisition) is credited to profit and loss in the period of acquisition.

**Interest in jointly controlled entities**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Where a company undertakes its activities under a joint venture arrangement directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with the other ventures are recognised in the financial statements of the relevant Group Company and classified according to their nature.

Similarly, income from the sale and use of the Group's share of the output of jointly controlled assets and its share of joint venture expenses, are recognised in the financial statements of the relevant Group Company and classified according to their nature.

**Increase in interests in jointly controlled entities**

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

**Oil and Gas Exploration Assets**

The Group follows the 'successful efforts' method of accounting for exploration and evaluation costs. All licence/project acquisitions, exploration and appraisal costs incurred or acquired on the acquisition of a subsidiary, are accumulated in respect of each identifiable project area. These costs, which are classified as intangible fixed assets are only carried forward to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Pre-licence/project costs are written off immediately. Other costs are also written off unless commercial reserves have been established or the determination process has not been completed. Thus accumulated cost in relation to an abandoned area are written off in full to the statement of comprehensive income in the year in which the decision to abandon the area is made.

When production commences the accumulated costs for the relevant area of interest are transferred from intangible fixed assets to Property, Plant and Equipment as 'Developed oil and gas assets'.

**Impairment of oil and gas exploration assets**

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

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

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

Where there has been a charge for impairment in an earlier period that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted future net cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be

increased to the lower of its original carrying values or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

**Impairment of developed oil and gas assets**

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

**Depletion of developed oil and gas assets**

Costs carried in each well are depreciated on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial proven and probable oil and gas reserves at the end of the period plus production in the period. Costs in the unit of production calculation include the net book value of capitalised costs plus estimated future development costs.

Changes in estimates of commercial proven and probable oil and gas reserves or future development costs are dealt with prospectively.

**Decommissioning costs**

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

**Property, plant and equipment assets other than oil and gas assets**

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

Computer and office equipment – 33% straight line.

**Revenue recognition**

Oil and gas sales revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the Group's share of oil and gas supplied in the period. Revenue is recognised when the risks and rewards of ownership are transferred to the purchaser of the oil or gas.

**Inventories**

Inventories, including materials, equipment and inventories of gas and oil held for sale in the ordinary course of business, are stated at weighted average historical costs, less provision for deterioration and obsolescence or, if lower, net realisable value.

**Foreign currency**

The Group's strategy is focussed on developing oil and gas projects across Europe funded by shareholder equity and other financial assets which are principally denominated in Sterling. The functional currency of the Company is Sterling.

Transactions in foreign currency are translated to the respective functional currency of the Group entity at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date. Exchange gains and losses on short-term foreign currency borrowings and deposits are included with net interest payable.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Sterling at the average rate ruling during the period. Foreign exchange

differences arising on retranslation are recognised directly in a separate component of equity. They are released into the income statement upon disposal.

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

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

Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating loss.

**Taxation**

The tax expense represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on the estimated taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the expected tax rate applicable to annual earnings.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

**Equity-settled share-based payments**

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options and shares allocated determined using the Binomial method. The value of the charge is adjusted to reflect expected and actual levels of vesting. Charges are not adjusted for market related conditions which are not achieved. Where equity instruments are granted to persons other than directors or employees, the consolidated income statement is charged with the fair value of any goods or services received.

Grants of options in relation to acquiring further shares in licence areas are treated as additions to Slovenian exploration costs at Group level and increases in Investments at Company level.

**Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Convertible loan notes**

Upon issue of a convertible loan where the convertible option is at a fixed rate, the net proceeds received from the issue of convertible loan notes are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not re-measured.

Subsequent to the initial requisition the liability component is measured at amortised cost using the effective interest method.

However, where, at inception, the conversion option is such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan does not meet the definition of a compound financial instrument. In such cases, the convertible loan (the host contract) is a

hybrid financial instrument and the option to convert is an embedded derivative. Attached options (options entered into in consideration for entering into the host contract) on similar terms are also embedded derivatives. The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date, the embedded derivatives are measured at fair value with changes in fair value recognised in the income statement as they arise. The method used for revaluation is the Black Scholes method. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise of investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans are recorded at fair value less any directly attributable costs, with subsequent measurement at amortised cost. Finance costs are accounted for on an accruals basis in the income statement using the effective interest method.

**Equity**

Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

**Investments and loans**

Shares and loans in subsidiary undertakings are shown at cost. Provisions are made for any permanent diminution in value when the fair value of the assets is assessed as less than the carrying amount of the asset. Intercompany loans are repayable on demand but are included as non-current as the realisation is not expected in the short term.

**Pension costs**

Contributions are made to the individual pension scheme of a director’s choice and are charged to the Income Statement as they become payable.

**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Chief Executive Officer (‘CEO’).

## 2 Segmental Analysis

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

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

The five geographic reporting segments are made up as follows:

| | |
|---|---|
| Italy | - exploration and development |
| Hungary | - production and exploration |
| Slovenia | - exploration and development |
| The Netherlands | - exploration and development |
| UK | - head office |

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

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

**2 Segmental Analysis (continued)**

All revenue in the year derives from one customer.

| **2012** | **Italy** | **Hungary** | **Slovenia** | **Netherlands** | **UK** | **Inter-segment eliminations** | **Total** |
|---|---|---|---|---|---|---|---|
| ***External Revenue*** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** |
| **Revenue by location of asset:** | | | | | | | |
| Hydrocarbons | - | 1,576 | 13 | - | - | - | **1,589** |
| Stock sale | 18 | 11 | 66 | - | - | - | **95** |
| Intercompany sales | 199 | - | - | - | 280 | (479) | **-** |
| **Total revenue** | **217** | **1,587** | **79** | - | **280** | **(479)** | **1,684** |
| **Operating costs:** | | | | | | | |
| Other Income | 41 | - | - | - | - | - | **41** |
| Cost of sales | (167) | (1,201) | - | - | - | 151 | **(1,217)** |
| Administrative expenses | 1,124 | 2,501 | (823) | (38) | (7,092) | 1,518 | **(2,810)** |
| **Material non-cash items:** | | | | | | | |
| Impairment of exploration and oil and gas assets | (1,836) | (1,142) | - | - | - | - | **(2,978)** |
| Impairment of investments | - | - | - | - | (1,564) | 1,564 | **-** |
| Net finance costs | (88) | (28) | (531) | - | (37) | - | **(684)** |
| **Reportable segment (loss)/profit before tax from continuing operations** | **(709)** | **1,717** | **(1,275)** | **(38)** | **(8,413)** | **2,754** | **(5,964)** |
| Taxation | (4) | (56) | - | - | - | - | **(60)** |
| **Reportable segment (loss)/profit after taxation** | **(713)** | **1,661** | **(1,275)** | **(38)** | **(8,413)** | **2,754** | **(6,024)** |
| **Reportable segment assets** | | | | | | | |
| Carrying value of exploration assets | - | 96 | 33,687 | 204 | **-** | **-** | **33,987** |
| Additions to exploration assets | 103 | - | 945 | 83 | - | - | **1,131** |
| Total plant and equipment | - | 176 | - | - | 4 | **-** | **180** |
| **Total non-current assets** | **103** | **272** | **34,632** | **287** | **4** | **-** | **35,298** |
| Other assets | 713 | 513 | (1,705) | 887 | 21,654 | (20,472) | **1,590** |
| **Consolidated total assets** | **816** | **785** | **32,927** | **1,174** | **21,658** | **(20,472)** | **36,888** |
| Reportable segmental liabilities | | | | | | | |
| Trade payables | (556) | (112) | (133) | - | (169) | - | **(970)** |
| External loan balances | (796) | - | - | - | (4,993) | - | **(5,789)** |
| Inter-group borrowings | (82) | (375) | (16,576) | (1,270) | (1,434) | 19,737 | **-** |
| Other liabilities | (28) | (295) | (548) | (2) | (2,782) | 74 | **(3,581)** |
| **Consolidated total liabilities** | **(1,462)** | **(782)** | **(17,257)** | **(1,272)** | **(9,378)** | **19,811** | **(10,340)** |

**2 Segmental Analysis (continued)**

| **2011** | **Italy** | **Hungary** | **Slovenia** | **Netherlands** | **UK** | **Inter-segment eliminations** | **Total** |
|---|---|---|---|---|---|---|---|
| ***External Revenue*** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** |
| **Revenue by location of asset:** | | | | | | | |
| Hydrocarbons | - | 1,972 | - | - | - | - | **1,972** |
| Stock sale | 133 | - | - | - | - | - | **133** |
| Intercompany sales | 487 | - | - | - | 278 | (765) | **-** |
| **Total revenue** | 620 | 1,972 | - | - | 278 | (765) | **2,105** |
| **Operating costs:** | | | | | | | |
| Cost of sales | (380) | (1,645) | - | - | - | 314 | **(1,711)** |
| Administrative expenses | (553) | (254) | (312) | (50) | (1,569) | 113 | **(2,625)** |
| Other income | - | - | - | - | - | - | **-** |
| **Material non-cash items:** | | | | | | | |
| Impairment of exploration assets | (1,750) | (1,599) | - | (122) | - | - | **(3,471)** |
| Impairment of investments | - | - | - | - | (190) | 190 | **-** |
| Net finance costs | (5) | (62) | (30) | - | (451) | - | **(548)** |
| **Reportable segment loss before tax from continuing operations** | **(2,068)** | **(1,588)** | **(342)** | **(172)** | **(1,932)** | **(148)** | **(6,250)** |
| **Reportable segment loss before taxation** | **(2,068)** | **(1,588)** | **(342)** | **(172)** | **(1,932)** | **(148)** | **(6,250)** |
| Taxation | - | (48) | - | - | - | - | **(48)** |
| **Reportable segment loss after taxation** | **(2,068)** | **(1,636)** | **(342)** | **(172)** | **(1,932)** | **(148)** | **(6,298)** |
| **Reportable segment assets** | | | | | | | |
| Carrying value of exploration assets | 1,834 | 504 | 31,374 | 122 | **-** | **-** | **33,834** |
| Additions to exploration assets | 418 | 183 | 27,671 | (18) | - | - | **28,254** |
| Additions to decommissioning asset | - | - | 203 | - | - | - | **203** |
| Total plant and equipment | **-** | 730 | - | - | 4 | **-** | **734** |
| **Total non-current assets** | **1,834** | **1,234** | **31,374** | **122** | **4** | **-** | **34,568** |
| Other assets | 6,489 | 2,220 | 1,229 | 1,023 | 48,631 | (55,153) | **4,439** |
| **Consolidated total assets** | **8,323** | **3,454** | **32,603** | **1,145** | **48,635** | **(55,153)** | **39,007** |
| Reportable segmental liabilities | | | | | | | |
| Trade payables | (564) | (42) | (550) | - | (94) | - | **(1,250)** |
| External loan balances | (3) | - | - | - | (588) | - | **(591)** |
| Inter-group borrowings | (7,216) | (5,998) | (18,660) | (1,199) | (2,751) | 35,824 | **-** |
| Other liabilities | (52) | (244) | (1,497) | (1) | (6,547) | 6,503 | **(1,838)** |
| **Consolidated total liabilities** | **(7,835)** | **(6,284)** | **(20,707)** | **(1,200)** | **(9,980)** | **42,327** | **(3,679)** |

## 3 Cost of sales

| | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|
| Operating costs relating directly to producing assets | **433** | 348 |
| Depletion, depreciation and amortisation of producing assets | **579** | 1,233 |
| Other directly incurred costs | **205** | 130 |
| | **1,217** | 1,711 |

## 4 Administrative Expenses

| | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|
| Employee costs (see Note 5) | **1,108** | 1,427 |
| Operating lease costs | **17** | 16 |
| Share based payment charge | **71** | 516 |
| Consultancy costs | **645** | 195 |
| Other office costs | **969** | 471 |
| | **2,810** | 2,625 |

| **The following is included within Administrative Expenses:** | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|
| **Auditors' remuneration** | | |
| Fees payable to the Company's auditor for the audit of the Company's financial accounts | **53** | 68 |
| Fees payable to the Company's auditor and its associates for other services | | |
| Other assurance services | **-** | 3 |
| Audit of the Company's subsidiaries pursuant to legislation | **2** | 5 |
| | **55** | 76 |

## 5 Employees and Directors

### (a) Employees

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

| | **Year ended 31 December 2012 Number** | Year ended 31 December 2011 Number |
|---|---|---|
| Management and technical | **11** | 11 |
| | **£ ’000s** | £ ’000s |
| Wages and salaries | **928** | 776 |
| Social security costs | **63** | 85 |
| Pension costs | **35** | 58 |
| Share-based payments (Note 27) | **68** | 493 |
| Taxable benefits | **14** | 15 |
| | **1,108** | 1,427 |

### (b) Directors’ and key management remuneration

| | **Year ended 31 December 2012 £ ’000s** | Year ended 31 December 2011 £ ’000s |
|---|---|---|
| Fees and emoluments | **532** | 426 |
| Social security costs | **46** | 34 |
| Pension costs | **35** | 59 |
| Share-based payments (Note 27) | **68** | 476 |
| Taxable benefits | **14** | 15 |
| Total key management remuneration | **695** | 1,010 |

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

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group’s key management are the Directors of Ascent Resources plc.

**(c) Directors' remuneration**

**2012**

| Director | Salary/fees | Bonus | Pension | Taxable Benefits | 2012 Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **Executive Directors** | | | | | |
| J Eng | 184,870 | - | 35,302 | 14,192 | 234,364 |
| S Richardson Brown | 184,100 | - | - | - | 184,100 |
| L Reece[1] | 73,337 | - | - | - | 73,337 |
| **Non-executive Directors** | | | | | |
| J Kenny | 30,000 | - | - | - | 30,000 |
| C Davies | 30,000 | - | - | - | 30,000 |
| N Moore | 30,000 | - | - | - | 30,000 |
| G Cooper | - | - | - | - | - |
| C Carver | - | - | - | - | - |
| **Total** | **532,307** | **-** | **35,302** | **14,192** | **581,801** |

2011

| Director | Salary/fees | Bonus | Pension | Taxable Benefits | 2011 Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| J Eng | 161,626 | - | 58,881 | 15,187 | 235,694 |
| S Richardson Brown | 173,878 | - | - | - | 173,878 |
| S Cunningham | - | - | - | - | - |
| **Non-executive Directors** | | | | | |
| J Kenny | 30,000 | - | - | - | 30,000 |
| C Davies | 30,000 | - | - | - | 30,000 |
| N Moore | 30,000 | - | - | - | 30,000 |
| G Cooper | - | - | - | - | - |
| **Total** | **425,504** | **-** | **58,881** | **15,187** | **499,572** |

The highest paid Director in the year ended 31 December 2012 was Jeremy Eng earning £234,364 (2011: Jeremy Eng earning £235,694).

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

2012

| Director | As at 1 January 2012 | Granted/ (Lapsed) | Exercised | As at 31 December 2012 | Date Granted | Share Price at Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|---|
| N Moore | 500,000 | - | - | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11– 17.11.15 |
| | 500,000 | - | - | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.11 – 17.11.15 |
| C Davies | 500,000 | - | - | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11 – 17.11.15 |
| | 500,000 | - | - | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.11 – 17.11.15 |
| J Kenny | 500,000 | - | - | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11 – 17.11.15 |
| | 500,000 | - | - | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.11 – 17.11.15 |
| L Reece[1] | - | - | - | - | - | - | - | - |
| S Richardson Brown | 1,000,000 | - | - | 1,000,000 | 01.11.10 | 4.875p | 4.875p | 01.11.11 – 01.11.15 |
| | 1,000,000 | - | - | 1,000,000 | 01.11.10 | 4.875p | 7.313p | 01.11.12 – 01.11.15 |
| | 2,500,000 | - | - | 2,500,000 | 07.09.11 | 3.16p | 5p | 30.06.12 - 07.09.16 |
| | 2,500,000 | - | - | 2,500,000 | 07.09.11 | 3.16p | 12p | 30.06.12 - 07.09.16 |

2011

| Director | As at 1 January 2011 | Granted/ (Lapsed) | As at 31 December 2011 | Date Granted | Share Price at Grant | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| N Moore | 500,000 | (500,000) | - | 28.06.06 | 9p | 9.5p | 28.06.07 – 28.06.11 |
| | 500,000 | - | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11 – 17.11.15 |
| | 500,000 | - | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.11 – 17.11.15 |
| J Eng | 5,000,000 | - | 5,000,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11 – 17.11.15 |
| | 5,000,000 | - | 5,000,000 | 17.11.10 | 5.25p | 15p | 17.11.11 – 17.11.15 |
| C Davies | 500,000 | - | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11 – 17.11.15 |
| | 500,000 | - | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.11 – 17.11.15 |
| J Kenny | 500,000 | - | 500,000 | 17.11.10 | 5.25p | 7.313p | 17.11.11 – 17.11.15 |
| | 500,000 | - | 500,000 | 17.11.10 | 5.25p | 15p | 17.11.11– 17.11.15 |
| S Richardson Brown | 1,000,000 | - | 1,000,000 | 01.11.10 | 4.875p | 4.875p | 01.11.11 – 01.11.15 |
| | 1,000,000 | - | 1,000,000 | 01.11.10 | 4.875p | 7.313p | 01.11.12 – 01.11.15 |
| | - | 2,500,000 | 2,500,000 | 07.09.11 | 3.16p | 5p | 30.06.12 - 07.09.16 |
| | - | 2,500,000 | 2,500,000 | 07.09.11 | 3.16p | 12p | 30.06.12 - 07.09.16 |

Notes to tables in (c) and (d) above

1 – Leonard Reece appointed 17 September 2012

## 6 Finance income and costs recognised in loss for the year

| | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|
| **Finance income** | | |
| Income on bank deposits | **35** | 60 |
| Foreign exchange movements realised | **250** | 190 |
| Revaluation of derivative instrument | **33** | 32 |
| | **318** | 282 |
| **Finance cost** | | |
| Interest payable on borrowings | **(868)** | (267) |
| Unwinding of rehabilitation provision | **(23)** | (23) |
| Foreign exchange movements realised | **(111)** | (540) |
| | **(1,002)** | (830) |

## 7 Income tax expense

| | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|
| Current tax expense | **58** | 38 |
| Deferred tax expense | **2** | 10 |
| Total tax expense for the year | **60** | 48 |

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

| **Reconciliation of effective tax rate:** | **Year ended 31 December 2012 £ '000s** | Year ended 31 December 2011 £ '000s |
|---|---|---|
| **Loss for the year** | **(6,640)** | (6,250) |
| Income tax using the Company's domestic tax rate at 24.5% (2011: 26.49%) | **(1,626)** | (1,656) |
| Effects of: | | |
| Current tax | **-** | - |
| Current year losses for which no asset recognised | **721** | 1,137 |
| Change in unrecognised temporary differences | **(6)** | 3 |
| Effect of tax rates in foreign jurisdictions | **(106)** | 136 |
| Other non-taxable items | **(505)** | (3,737) |
| Other non-deductible expenses | **1,632** | 4,221 |
| Utilisation of losses brought forward | **(50)** | (46) |
| Other | **-** | (10) |
| Capital(losses)/gains | **-** | - |
| **Total tax expense for the year** | **60** | 48 |

## 8 Loss per share

| Loss | **31 December 2012 £ ’000s** | 31 December 2011 £ ’000s |
|---|---|---|
| Loss for the purposes of basic earnings per share being net loss attributable to equity shareholders<br>From total operations | **(6,032)** | (6,295) |
| Loss for the purposes of diluted earnings per share being adjusted net loss attributable to equity shareholders<br>From total operations | **(6,032)** | (6,295) |
| **Number of shares** | | |
| | **Number** | Number |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **1,025,509,722** | 922,336,699 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **1,025,509,722** | 922,336,699 |

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares. Dilutive shares arise from share options and the convertible loan notes held by the Company. A calculation is done to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to outstanding share options, warrants and convertible bonds. Further details of the dilutive effect of potentially issuable shares are in Notes 5 and 27. In both 2012 and 2011 share options were not dilutive due to the loss in the year.

## 9 Property, Plant and Equipment – Group

| | Computer and office equipment £ ’000s | Developed oil and gas assets £ ’000s | Total £ ’000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2011 | 62 | 3,588 | 3,650 |
| Additions | | 1 | 1 |
| Effects of movements in exchange rates | - | (437) | (437) |
| **At 31 December 2011** | **62** | **3,152** | **3,214** |
| At 1 January 2012 | 62 | 3,152 | 3,214 |
| Additions | 1 | 681 | 682 |
| Effects of movements in exchange rates | - | 155 | 155 |
| **At 31 December 2012** | **63** | **3,988** | **4,051** |
| **Depreciation and Impairment** | | | |
| At 1 January 2011 | 16 | 1,589 | 1,605 |
| Depreciation for the year | 2 | 1,231 | 1,233 |
| Effects of movements in exchange rates | - | (358) | (358) |
| **At 31 December 2011** | **18** | **2,462** | **2,480** |
| At 1 January 2012 | 18 | 2,462 | 2,480 |
| Depreciation for the year | 40 | 538 | 578 |
| Impairment | - | 694 | 694 |
| Effects of movements in exchange rates | - | 118 | 118 |
| **At 31 December 2012** | **58** | **3,812** | **3,870** |
| **Carrying amounts** | | | |
| **At 31 December 2012** | **5** | **176** | **181** |
| At 31 December 2011 | 44 | 690 | 734 |
| At 1 January 2011 | 46 | 1,999 | 2,045 |

## 10 Property, Plant and Equipment – Company

| **Cost** | **Plant and equipment £ '000s** |
|---|---|
| At 1 January 2011 | 12 |
| Additions in the year | 5 |
| **At 31 December 2011** | **17** |
| At 1 January 2012 | 17 |
| Additions in the year | 1 |
| **At 31 December 2012** | **18** |
| **Depreciation** | |
| At 1 January 2011 | 10 |
| Depreciation for the year | 2 |
| **At 31 December 2011** | **12** |
| At 1 January 2012 | 12 |
| Depreciation for the year | 2 |
| **At 31 December 2012** | **14** |
| **Carrying amounts** | |
| **At 31 December 2012** | **4** |
| At 31 December 2011 | 5 |
| At 1 January 2011 | 2 |

## 11 Exploration and evaluation costs – Group

| Group | Italy | Hungary | Slovenia | Netherlands | Total |
|---|---|---|---|---|---|
| | £ '000s | £ '000s | £ '000s | £ '000s | £ '000s |
| **Cost** | | | | | |
| At 1 January 2011 | 12,619 | 6,004 | 4,069 | 359 | **23,051** |
| Additions | 418 | 183 | 27,671 | (18) | **28,254** |
| Eliminated in disposal | - | (337) | - | - | **(337)** |
| Additions to decommissioning asset | - | - | 203 | - | **203** |
| Effects of movements in exchange rates | (287) | (392) | (569) | (7) | **(1,255)** |
| **At 31 December 2011** | **12,750** | **5,458** | **31,374** | **334** | **49,916** |
| At 1 January 2012 | **12,750** | **5,458** | **31,374** | **334** | **49,916** |
| Additions | 103 | - | 945 | 83 | **1,131** |
| Effects of movements in exchange rates | (328) | 129 | (401) | (8) | **(608)** |
| **At 31 December 2012** | **12,525** | **5,587** | **31,918** | **410** | **50,440** |
| **Impairment** | | | | | |
| At 1 January 2011 | 9,368 | 4,055 | - | 92 | **13,515** |
| Charge for the year | 1,750 | 1,599 | - | 122 | **3,471** |
| Eliminated in disposal | - | (337) | - | - | **(337)** |
| Effects of movements in exchange rates | (202) | (363) | - | (2) | **(567)** |
| **At 31 December 2011** | **10,916** | **4,954** | **-** | **212** | **16,082** |
| At 1 January 2012 | **10,916** | **4,954** | **-** | **212** | **16,082** |
| Charge for the year | 1,836 | 448 | - | - | **2,284** |
| Effects of movements in exchange rates | (227) | 93 | - | 5 | **(129)** |
| **At 31 December 2012** | **12,525** | **5,495** | **-** | **217** | **18,237** |
| **Carrying value** | | | | | |
| **At 31 December 2012** | **0** | **92** | **31,918** | **193** | **32,203** |
| At 31 December 2011 | 1,834 | 504 | 31,374 | 122 | 33,834 |
| At 1 January 2011 | 3,251 | 1,949 | 4,069 | 267 | 9,536 |

**Net**

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

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

The impairment charges in the year in Italy of £1,836,000 and in Hungary of £448,000 are as a result of Ascent writing down its assets to their net realisable value following the sale of the projects post year end. For further details see Note 26.

During the prior year, Ascent entered into an agreement with EnQuest PLC ('EnQuest') to acquire their 48.75% interest in the Petišovci project in Slovenia. As per the terms of the agreement, Ascent issued 150,903,958 new Ordinary Shares of 0.1p each in the Company to EnQuest. Additionally, at completion, Ascent granted a nil cost option over 29,686,000 new Ordinary Shares of 0.1p each in the Company to EnQuest. The cost of both the share issue and the grant of the nil cost option (£14,243,000 combined) have been treated as additions to Slovenian exploration costs in the period at Group level.

The impairment charge for the prior year in Hungary of £1,599,000 relates to the plugging of the PEN-104AA well at the Penészlek development, the write off of balances held in respect to the Pelsolaj exploration permit and an

internal assessment as to the estimated financing risks and therefore the associated carrying value of other Hungarian projects.

The impairment charge for the prior year for both Italy (£1,750,000) and the Netherlands (£122,000) relates to an internal assessment of the estimated carrying value of the Company's assets held in those countries.

## 12 Investment in subsidiaries and jointly controlled entities - Company

| | **Shares in subsidiary undertakings** |
|---|---|
| | **£ '000s** |
| At 1 January 2011 | 1,970 |
| Additions | 14,243 |
| Impairment in year | (190) |
| **At 31 December 2011** | **16,023** |
| | |
| At 1 January 2012 | 16,023 |
| Additions | 64 |
| Impairment in year | (1,668) |
| **At 31 December 2012** | **14,419** |

The impairment during the year relates to the write down of the carrying values of Ascent Italia Resources srl. The decision was taken in light of the likely realisable value from the asset.

The impairment during the prior year related to the write down of the carrying value of Ascent Production and Ascent Drilling.

| **Name of company** | **Principal activity** | **Country of incorporation** | **% of share capital held 2012** | **% of share capital held 2011** |
|---|---|---|---|---|
| Ascent Slovenia Limited | Oil and Gas exploration | British Virgin Islands | 100% | 100% |
| Ascent Resources d.o.o. | Oil and Gas exploration | Slovenia | 100% | 100% |
| Ascent Production Ltd | Holding company | England | - | 100% |
| Ascent Drilling Ltd | Holding company | England | - | 100% |
| Ascent Hungary Ltd | Holding company | England | 100% | 100% |
| PetroHungaria kft (Joint Venture) | Oil and Gas exploration | Hungary | 48.8% | 48.8% |
| Ascent Hungary kft | Oil and Gas exploration | Hungary | 60% | 60% |
| Pelsolaj kft (Joint Venture) | Oil and Gas exploration | Hungary | - | 60% |
| Ascent Resources Italia srl | Oil and Gas exploration | Italy | 100% | 100% |
| Ascent Netherlands BV | Oil and Gas exploration | Netherlands | 100% | 100% |

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

All subsidiary companies are held directly by Ascent Resources plc

The consolidated amounts recognised in the Group financial statements for joint ventures are as follows:

| | **2012** | 2011 |
|---|---|---|
| | **£000** | £000 |
| Long term assets | **950** | 1,362 |
| Current Assets | **2,109** | 2,467 |
| Long term liabilities | **(112)** | (106) |
| Current Liabilities | **(4,597)** | (4,598) |
| Income | **1,586** | 1,931 |
| Expenses | **(1,377)** | (1,972) |

There are no capital commitments in relation to the joint venture. (2011: None)

## 13 Trade and other receivables - Group

| | **2012** | 2011 |
|---|---|---|
| | **£ '000s** | £ '000s |
| Trade receivables | **339** | 316 |
| VAT recoverable | **332** | 659 |
| Other receivables | **212** | 265 |
| Prepayments & accrued income | **33** | 29 |
| | **916** | 1,269 |

Trade and other receivables, cash and trading investments represent the maximum credit exposure to the Group and Company.

There were no trade receivables past due in either year.

## 14 Trade and other receivables - Company

| | **2012** | 2011 |
|---|---|---|
| | **£ '000s** | £ '000s |
| VAT recoverable | **23** | 13 |
| Prepayments | **33** | 22 |
| | **56** | 35 |

## 15 Deferred Tax

There is a deferred tax charge of £2,000 is recognised in the accounts for the Group, but none for Company in the year (2011: £10,000 for Group, Nil for Company). Details of net deferred tax assets not recognised are set out below.

| | **2012** | 2011 |
|---|---|---|
| | **£ ’000s** | £ ’000s |
| **Group** | | |
| Total tax losses | **(24,120)** | (22,125) |
| Unrecorded deferred tax asset at 24% (2011: 26%) | **5,789** | 5,753 |
| **Company** | | |
| Total tax losses | **(7,168)** | (5,912) |
| Unrecorded deferred tax asset at 24% (2011: 26%) | **1,720** | 1,537 |

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

## 16 Borrowings

| | **2012** | 2011 |
|---|---|---|
| **Group** | **£ ’000s** | £ ’000s |
| *Current* | | |
| Loan with financial institution | **1,775** | 3 |
| Bank Loan | **307** | - |
| Convertible loan note | **153** | 153 |
| | **2,235** | 156 |
| *Non-current* | | |
| Bank Loan | **489** | - |
| Convertible loan note | **3,064** | 399 |
| Derivative liability | **1** | 36 |
| | **3,554** | 435 |
| Group non-current borrowings are repayable In the third to fifth year | **3,554** | 435 |
| **Company** | | |
| *Current* | | |
| Loan with financial institution | **1,775** | - |
| Convertible loan note | **153** | 153 |
| | **1,928** | 153 |
| *Non-current* | | |
| Convertible loan note | **3,064** | 399 |
| Derivative liability | **1** | 36 |
| | **3,065** | 435 |
| Company non-current borrowings are repayable in the second to third year | **3,065** | 435 |

The Directors consider that the carrying amount of the bank and other loans approximates to their fair value. The weighted average interest rate of the bank loan is 9% (2011: 5.2%).

**Bank loan**

a) On 27 July 2012, the Group secured a one year loan facility of £2.3 million with YA Global Master SPV Ltd ('Yorkville'), an investment fund managed by Yorkville Advisors LLC. Interest on the loan is calculated at 9% per annum. The balance of the loan was repaid in full on 16 May 2013.

b) On 4 April 2012, the Group secured a 3 year loan facility of €1.0million with Cassa Di Risparmio de Cento Bank. Interest is calculated by reference to the three month Euribor rate plus a margin of 7.5%. The loan expires on 17 July 2015

c) In 2012 The Group had a loan outstanding with Cassa Di Risparmio de Cento Bank. The Loan expired on 5 June 2012.

**Convertible loan note**

| | **Group and Company 2012 £ ’000s** | Group and Company 2011 £ ’000s |
|---|---|---|
| Fair value of consideration received | **3,000** | 463 |
| Equity component | **-** | (64) |
| Liability component on initial recognition | **3,000** | 399 |
| | | |
| Liability brought forward | **552** | 2,742 |
| Liability on initial recognition | **3,000** | 399 |
| Interest expense | **-** | 111 |
| Exchange movements | **(10)** | - |
| Repayment | **-** | (2,700) |
| Deferral of set up costs | **(325)** | - |
| Liability at 31 December | **3,217** | 552 |

a) On 24 December 2012 the Group entered into an agreement with Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, ‘Henderson’) for the subscription by Henderson of convertible loan notes of up to £5.5 million in principle. This loan was secured to provide funding for existing debts and overheads going forward. £3 million of this loan had been drawn down on at the year end. The loan has been treated as debt as at the year-end a shareholders’ resolution had yet to be passed which would have approved the loan, enabling it to become fully convertible. For further details, see note 24: Contingent Liabilities.

b) On 21 July 2011, the Company placed convertible loan notes to settle balances with existing Italian creditors to raise €552,525 (£463,023) with an option to issue a further €70,000 of convertible loan notes in the future for additional services. This was valued at £399,000 on initial recognition and has a carrying value of £389,000 at the year end.

The unsecured loan notes, which carry interest of 8.5% per annum, are convertible into ordinary shares of 0.1p each in the Company ('Ordinary Shares') at a conversion price of 12 pence per Ordinary Share on or before the 31 December 2013, reflecting a premium to the closing share price on 20 July 2011 of approx. 310%. The loan notes may be repaid for their principal value plus any outstanding interest at any time by the Company.

On issue of this convertible debt, the value of the loan notes was equal to the value of the trade payables at the date of issue.

## 17 Provisions - Group

| **Decommissioning** | **Decommissioning** |
|---|---|
| | **£ '000s** |
| At 1 January 2011 | 594 |
| Used during the year | (296) |
| Provisions made during the year | 203 |
| Unwinding of discount | 23 |
| **At 31 December 2011** | **524** |
| At 1 January 2012 | 524 |
| Used during the year | (7) |
| Provisions made during the year | - |
| Unwinding of discount | 23 |
| **At 31 December 2012** | **540** |

The amount provided for decommissioning costs represents the Group's share of site restoration costs for the Penészlek field in Hungary and the Petišovci field in Slovenia. The most recent estimate is that the year-end provision will become payable between 2014 and 2020.

## 18 Other non-current liabilities - Group and Company

The other non-current liability of £2,307,000 (2011: nil) relates to the grant in 2011 of a nil cost option over 29,686,000 new Ordinary Shares of 0.1p each in the Company to EnQuest (see note 21). The options are convertible at a price of 10p each; given the current share price the Company considers it to be likely that the option will be settled in cash. As a result this has been reclassified in the year from equity to non-current liabilities. This is held at a discounted rate and repayment is due in 2015.

## 19 Trade and other payables - Group

| **Trade and other payables - Group** | **2012** | 2011 |
|---|---|---|
| | **£ '000s** | £ '000s |
| Trade payables | **971** | 1,250 |
| Tax and social security payable | **151** | 36 |
| Other creditors | **156** | 89 |
| Accruals and deferred income | **426** | 1,088 |
| | **1,704** | 2,463 |

## 20 Trade and other payables – Company

| | **2012** | 2011 |
|---|---|---|
| | **£ '000s** | £ '000s |
| Trade payables | **169** | 94 |
| Tax and social security payable | **24** | 14 |
| Accruals and deferred income | **447** | 62 |
| | **640** | 170 |

## 21 Called up share capital

| | **2012** | 2011 |
|---|---|---|
| | **£ '000s** | £ '000s |
| **Authorised** | | |
| 10,000,000,000 ordinary shares of 0.10p each | **10,000** | 10,000 |
| **Allotted, called up and fully paid** | | |
| 1,025,509,722 (2011: 1,025,509,722) ordinary shares of 0.10p each | **1,026** | 1,026 |

**Reconciliation of share capital movement**

| | **2012** | 2011 |
|---|---|---|
| **At 1 January** | **1,025,509,722** | 519,780,299 |
| EnQuest transaction | - | 150,903,958 |
| Fund raising | - | 340,000,000 |
| Settlement of invoices | - | 1,512,886 |
| Conversion of options | - | 7,250,000 |
| SEDA facility drawdown | - | 6,062,579 |
| **At 31 December** | **1,025,509,722** | 1,025,509,722 |

**Reserve description and purpose**

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

- Share capital: Amount subscribed for share capital at nominal value.
- Equity reserve: Amount of proceeds on issue of convertible debt relating to the equity component, ie option to convert the debt into share capital.
- Share premium: Amounts subscribed for share capital in excess of nominal value less costs of shares associated with share issues.
- Share-based payment reserve: Value of share options granted and calculated with reference to a binomial pricing model (see Note 30). When options lapse or are exercised, amounts are transferred from this account to retained earnings.
- Translation reserve: Exchange movements arising on the retranslation of net assets of operation into the presentation currency.
- Retained earnings: Cumulative net gains and losses recognised in consolidated income.

**Shares issued during the prior year**

***EnQuest transaction***

On 2 February 2011 the Company completed a transaction with EnQuest whereby it acquired an additional 48.75% interest in the Petišovci Project in Slovenia.

As per the terms of the Agreement, Ascent issued 150,903,958 new Ordinary Shares of 0.1p each in the Company to EnQuest which commenced trading on 11 February 2011. Additionally Ascent granted a nil cost option over 29,686,000 new Ordinary Shares of 0.1p each in the Company to EnQuest, the exercise of which was subject to certain criteria related to the successful development of the Petišovci Project which were subsequently met.

***Fund raising***

On 17 March 2011 the Company raised £17 million, before expenses, by way of a Firm Placing of 100,000,000 New Ordinary Shares at a price of 5p per share and a Conditional Placing of a further 240,000,000 New Ordinary Shares at a price of 5p per share (together the 'Placing').

As part of the transaction, the Company agreed to grant to finnCap, with effect from Admission of the Conditional Placing Shares, as part of their fee on the Placing, a warrant to subscribe for 1,500,000 Ordinary Shares, exercisable at

any time within 3 years from Admission at 7p per share. See Note 34 for details of the share-based payment charge related to this.

***Convertible Loan Note – 1***

On 21 July 2011, the Company placed convertible loan notes with existing Italian creditors to raise €552,525 with an option to issue a further €70,000 of convertible loan notes in the future for additional services.

The unsecured loan notes, which carry interest of 8.5% per annum, are convertible into ordinary shares of 0.1p each in the Company ('Ordinary Shares') at a conversion price of 12 pence per Ordinary Share on or before 31 December 2013, reflecting a premium to the closing share price on 20 July 2011 of approx 310%. The loan notes may be repaid for their principal value plus any outstanding interest at any time by the Company.

**Equity instruments issued during the year**

***Convertible Loan Note – 2***

On 24 December 2012 the Group entered into an agreement with Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, 'Henderson') for the subscription by Henderson of convertible loan notes of up to £5.5 million in principal. This loan was secured to provide funding for existing debts and overheads going forward. This was valued at £2,411,000 on initial recognition and has a carrying value of £2,411,000 at the year end.

The Convertible Loan is unsecured and the Loan Notes are convertible at any time, at the holder's option, at a conversion price, fixed at 0.5 pence ('the Conversion Price'). Each Convertible Loan Note of £1 is therefore be convertible into 200 Ordinary Shares

***Settlement of invoices***

On 20 January 2011, 1,512,886 ordinary shares were issued and allotted to satisfy some outstanding historic invoices, in aggregate totalling £114,726.

***Conversion of options***

During the prior year various, parties exercised options over a total of 7,250,000 ordinary shares of 0.1p each in the Company at prices varying from 4.75p per share to 6.75p per share

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

**Other matters**

***The Standby Equity Distribution Agreement ('SEDA') facility***

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

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

On 27 July 2012, this facility was updated. The new £10 million SEDA facility, the use of which is entirely at the discretion of the Company, maybe drawn down in exchange for the issue of new shares in the Company. The shares issued by the Company will be at a 5% discount to the prevailing market price during the ten day pricing period of a drawdown. The Company may also set a minimum price for each drawdown. The maximum advance that may be requested is 400% of the average daily trading volume ('ADTV') of Ascent's shares multiplied by the volume weighted average price of such shares for each of the twenty trading days prior to the drawdown request. For advances of 200% to 300% of the ADTV the relevant period is reduced to fifteen days, and for up to 200% of the ADTV it is priced over ten days

6,062,579 shares were issued in the prior year under the old facility at an average of 6.6p per share to raise £400,000 for the Company which assisted the Company's working capital needs following the drilling of its appraisal well Pg-11 in Slovenia.

## 22 Operating lease arrangements

At the balance sheet date, the Group had no outstanding commitments under non-cancellable operating leases (2011: £nil).

## 23 Exploration expenditure commitments

In order to maintain an interest in the oil and gas permits in which the Group is involved, the Group is committed to meet the conditions under which the permits were granted and the obligations of any joint operating agreements. The timing and the amount of exploration expenditure commitments and obligations of the Group are subject to the work programmes required as per the permit commitments. This may vary significantly from the forecast programmes based upon the results of the work performed. Drilling results in any of the projects may also cause variations to the forecast programmes and consequent expenditure. Such activity may lead to accelerated or decreased expenditure. It is the Group's policy to seek joint operating partners at an early stage to reduce its commitments.

At 31 December 2012 the Group had exploration and expenditure commitments of £Nil (2011 - £2.5 million).

## 24 Contingent liabilities

**Henderson Loan**

As detailed in Note 16, the Company secured a £5.5m convertible loan in the year with Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, 'Henderson'). In order to draw down on the full loan amount, Ascent was required to publish a circular seeking shareholder approval for (i) the issue of the new shares required on conversion of the loan notes; and (ii) a whitewash resolution waiving the Takeover code requirement for an offer to be made by Henderson if Henderson's shareholding in the Company exceeds 30% of the total voting rights. Shareholder approval was required as Henderson would hold approximately 1.25 billion Ordinary Shares, representing 58% of the total voting rights of Ascent if the loan instrument were to be fully converted by Henderson.

On 30 April 2013 the resolution was successfully passed at a General Meeting of shareholders and therefore this contingent liability was extinguished. Following completion of the Open Offer, Henderson Global Investors Limited and Henderson Alternative Investment Advisor Limited (together, 'Henderson') will be interested in 151,601,970 ordinary shares of 0.1 pence each ('Ordinary Shares'), representing 13.2% of the Company's issued share capital, and hold approximately £4.5 million of Convertible Loan Notes, which, if fully converted, would mean Henderson would hold approximately 51.2% of the total voting rights of Ascent.

If there had been a failure to pass the Resolutions or other matters preventing conversion of the loan notes, then the notes would have been treated as if converted into Phantom Shares. Any value attributable to those shares, having deducted the face value of the Notes (provided the Notes are redeemed in full and in cash on the Redemption Date) but otherwise by only deducting the amount of the Notes (if any) redeemed for cash, would have been payable as a finance fee. This Finance Fee would have been paid to the Note holders in cash on the Redemption Date or on such earlier date on which the Notes are required to be redeemed by way of compensation for the loss of the conversion right. Therefore there existed a contingent liability at 31 December 2012.

## 25 Related party transactions

***(a) Group Companies***

Transactions and intercompany balances between the Company and its subsidiaries have been eliminated on consolidation. Intercompany balances are unsecured, have no fixed term and are interest free. A summary of transactions in the year and the year end balances follows.

| **Transactions in the year** | **Cash advances** | **Services provided by Ascent Resources plc** | Cash advances | Services provided by Ascent Resources plc |
|---|---|---|---|---|
| | **2012** | **2012** | 2011 | 2011 |
| | **£ '000s** | **£ '000s** | £ '000s | £ '000s |
| **Subsidiaries** | | | | |
| Ascent Production Ltd | - | - | (178) | (192) |
| PetroHungaria kft | **(1,753)** | **(1,141)** | (1,036) | 22 |
| Ascent Italia srl | **(85)** | **(105)** | (9,424) | (902) |
| Ascent Drilling Ltd | - | - | (1,085) | (35) |
| Ascent Netherlands BV | **(362)** | **(486)** | 2 | (396) |
| Ascent Resources Slovenia | **1,893** | **1,033** | 11,596 | 714 |
| Ascent Hungary Limited | - | - | - | (810) |
| Ascent Hungary kft | **(8)** | - | 8 | - |
| Pelsolaj kft | - | **(285)** | - | (187) |
| | **(315)** | **(984)** | (117) | (1,786) |

***(b) Group Companies***

| **Balances at year end** | **Cash advances** | **Trading balance** | **Cash advances** | **Trading balance** |
|---|---|---|---|---|
| | **2012** | **2012** | **2011** | **2011** |
| | **£ '000s** | **£ '000s** | **£ '000s** | **£ '000s** |
| **Subsidiaries** | | | | |
| PetroHungaria kft | **368** | **-** | **2,121** | **1,141** |
| Ascent Italia srl | **-** | **-** | **167** | **105** |
| Ascent Netherlands BV | **(890)** | **1,123** | **(528)** | **637** |
| Ascent Resources Slovenia | **13,576** | **2,599** | **16,683** | **1,566** |
| Ascent Hungary Ltd | **-** | **-** | **-** | **285** |
| Ascent Hungary kft | **-** | **-** | **8** | **-** |
| | **13,054** | **3,722** | **18,451** | **3,734** |

The Directors have examined whether any of the intercompany balances should be impaired and whether they are recoverable given the current status of the projects. This has led to a complete write off of all Ascent Hungary and Ascent Italia receivable balances in the year. In the prior year, this led to a provision being made against the Italian and Netherlands' cash advances and the Italian and Ascent Hungary trading balances.

***(c) Directors***

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of Ascent Resources plc. Information regarding their compensation is given in Note 5.

**2012**

There were no related party transactions related to Directors other than their remuneration in 2012.

**2011**

There were no related party transactions related to Directors other than their remuneration in 2011.

***(d) Henderson Global Investors***

Henderson global Investors, who are a substantial shareholder in the Company, issued a £5.5m convertible loan to Ascent in the year. For further details see Note 16.

## 26 Events subsequent to the reporting period

**Disposal of interest in PetroHungaria kft**

On 25 April 2013 the Company announced that it had agreed to dispose of its 48.66% interest in PetroHungaria kft, which held its interest in the Penészlek field, to their Joint Venture Partners, DualEx Energy International, Swede Resources and Geomega for a cash consideration of €450,000 which was received on 13 May 2013.

**Repayment of the Yorkville Facility**

Following the successful completion of the Open Offer funding, the Company repaid the remaining balance of £786,677 due under the Yorkville facility on 17 May 2013.

## 27 Share-based payments

The Company has provided the Directors, certain employees and institutional investors with share options and warrants ('options'). Options are exercisable at a price equal to the closing market price of the Company's shares on the date of grant. The exercisable period varies and can be up to four years after which time the option lapses.

Details of the share options outstanding during the year are as follows:

| | **2012** | **2012** |
|---|---|---|
| | **Number of share options** | **Weighted average exercise price** |
| **Outstanding at 1 January 2012** | **68,453,422** | **5.55p** |
| **Granted during the year** | **3,482,578** | **8.36p** |
| **EnQuest Shares reallocated** | **(29,686,000)** | **10.00p** |
| **Expired during the year** | **(1,775,000)** | **9.61p** |
| **Outstanding at 31 December 2012** | **40,475,000** | **9.69p** |
| **Exercisable at 31 December 2012** | **40,475,000** | **9.69p** |

| | 2011 | 2011 |
|---|---|---|
| | Number of share options | Weighted average exercise price |
| Outstanding at 1 January 2011 | 30,811,157 | 8.93p |
| Granted during the year | 46,392,265 | 9.98p |
| Expired during the year | (1,500,000) | 11.17p |
| Exercised during the year | (7,250,000) | 6.08p |
| Outstanding at 31 December 2011 | 68,453,422 | 9.89p |
| Exercisable at 31 December 2011 | 36,250,000 | 10.49p |

No share options were issued in the year. The fair value of share options issued in the prior year was 2.4p.

The credit for the year was £66,855 (2011: charge £2,742,227)

During the prior year, the Company entered into an agreement with EnQuest to acquire their 48.75% interest in the Petišovci project in Slovenia. As per the terms of the Agreement, Ascent granted a nil cost option over 29,686,000 new Ordinary Shares of 0.1p each in the Company to EnQuest and subsequently a charge. The cost of the grant of the nil cost option (£2,307,000) has been treated as additions to Slovenian exploration costs in the year at Group level.

The value of the options is measured by the use of a binomial pricing model. The inputs into the binomial model were as follows:

| | |
|---|---|
| Share price at grant date | 3.1p – 8.12p |
| Exercise price | 0p – 12p |
| Volatility | 100% |
| Expected life | 3 – 5 years |
| Risk free rate | 0.5% |
| Expected dividend yield | 0% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 years. The expected life is the expiry period of the options from the date of issue.

Options outstanding at 31 December 2012 have an exercise price in the range of 3.175p and 15p (31 December 2011: 3.175p and 15p) and a weighted average contractual life of 3.29 years (31 December 2011: 4.29 years).

## 28 Financial risk management

**Group and Company**

The Group's financial liabilities comprise bank loans, convertible loan notes, derivative financial liability, other loans and trade payables. All liabilities are measured at amortised cost with the exception of the derivative financial liability which is measured at fair value through the profit and loss. These are detailed in Notes 16 and 18.

The Group has various financial assets, being trade receivables and cash, which arise directly from its operations. All are classified as loans and receivables. These are detailed in Note 13.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest risk. The risk management policies employed by the Group to manage these risks are discussed below:

**a) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group does not have any significant credit risk exposure. The Group's sole customer is the Hungarian state oil and gas company.

The Group makes allowances for impairment of receivables where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit rating agencies in the UK.

The carrying amount of financial assets recorded in the financial statements represents the fair value of the Group's exposure to credit risk.

At Company level, there is the risk of impairment of intercompany receivables if the full amount is not deemed as recoverable from the relevant subsidiary company. These amounts are written down when their deemed recoverable amount is deemed less than the current carrying value.

**b) Currency risk**

The Group's operations are predominantly in Italy, Slovenia and Hungary. Foreign exchange risk arises from translating the Euro earnings, assets and liabilities of the Ascent Resources Italia srl subsidiary and PetroHungaria kft joint venture into sterling. The Group manages exposures that arise from receipt of monies in a non-functional currency by matching receipts and payments in the same currency.

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

***Foreign currency sensitivity analysis***

The Group is mainly exposed to the currency of the European Union (Euro) and the currency of Hungary (Forint).

The Group operates internationally and is exposed to currency risk on sales, purchases, borrowings and cash and cash equivalents that are denominated in a currency other than Sterling. The currencies giving rise to this are the Euro, the United States Dollar and the Hungarian Forint.

Foreign exchange risk arises from transactions and recognised assets and liabilities.

The Group does not use foreign exchange contracts to hedge its currency risk.

***Sensitivity analysis***

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the stated currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis comprises cash and cash equivalents held at the balance sheet date. A positive number below indicates an increase in profit and other equity where Sterling weakens 10% against the relevant currency.

| Group | Euro currency change | | Forint Currency change | | US Dollar Currency change | |
|---|---|---|---|---|---|---|
| | **Year ended 31 December 2012** | Year ended 31 December 2011 | **Year ended 31 December 2012** | Year ended 31 December 2011 | **Year ended 31 December 2012** | Year ended 31 December 2011 |
| | ***£ '000s*** | *£ '000s* | ***£ '000s*** | *£ '000s* | ***£ '000s*** | *£ '000s* |
| **Profit or loss** | | | | | | |
| 10% strengthening of Sterling | **(770)** | (78) | **(19)** | (59) | **(3)** | (3) |
| 10% weakening of Sterling | **1,213** | 95 | **21** | 72 | **7** | 6 |
| | | | | | | |
| **Equity** | | | | | | |
| 10% strengthening of Sterling | **(633)** | (443) | **(150)** | (160) | **38** | 39 |
| 10% weakening of Sterling | **962** | 541 | **165** | 196 | **(47)** | (48) |

| Company | Euro currency change | | Forint Currency change | | US Dollar Currency change | |
|---|---|---|---|---|---|---|
| | **Year ended 31 December 2012** | Year ended 31 December 2011 | **Year ended 31 December 2012** | Year ended 31 December 2011 | **Year ended 31 December 2012** | Year ended 31 December 2011 |
| | ***£ '000s*** | *£ '000s* | ***£ '000s*** | *£ '000s* | ***£ '000s*** | *£ '000s* |
| **Profit or loss** | | | | | | |
| 10% strengthening of Sterling | **(326)** | (4) | **-** | - | **(3)** | (3) |
| 10% weakening of Sterling | **725** | 8 | **-** | - | **7** | 6 |
| | | | | | | |
| **Equity** | | | | | | |
| 10% strengthening of Sterling | **(2,174)** | (2,060) | **-** | - | **38** | 39 |
| 10% weakening of Sterling | **2,657** | 2,517 | **-** | - | **(47)** | (48) |

***Fair values***

All financial assets and liabilities are shown in the balance sheet at their amortised costs, which approximates to underlying fair value with the exception of the derivative liability which is shown at fair value through profit and loss. Financial instruments listed above valued at fair value are assessed as tier 2. Tier 2 means inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

***Interest bearing loans and borrowings***

The fair value is estimated at the present value of future cash flows, discounted at market rates. Fair value is not significantly different from carrying value.

***Trade and other receivables/payables***

All trade and other receivables and payables have a remaining life of less than one year. The ageing profile of the Group and Company receivable and payables are shown in Notes 13, 14, 18 and 19.

**c) Interest rate risk**

The Group and Company's exposure to interest rate risk arises from cash and cash equivalents and borrowings.

At 31 December 2012 the Group and Company has GBP loans valued at £4,603,000 rates of 9% per annum and a UR loan at sterling equivalent of £390,000 and the Group has a Euro loan at sterling equivalent of £796,000 at 8.5% per annum.

At 31 December 2011 the Group and Company had Euro loans at Sterling equivalent of £553,000 at a fixed rate of 8.5% and the Group has a Euro loan at sterling equivalent of £3,000 at variable rate of Euribor + 1% .

| | | 2012 | 2011 |
|---|---|---|---|
| | **Weighted Average Floating Interest Rate** | **Amount** | **Amount** |
| *Financial assets (sterling equivalent)* | % | £000 | £000 |
| Cash in Euro | 0.10% | 312 | 2,153 |
| Cash in United States Dollar | 0.00% | 1 | 31 |
| Cash in Sterling | 0.05% | 3,061 | 706 |
| Cash in Hungarian Forints | 0.15% | 78 | 16 |
| | | 3,452 | 2,906 |

**d) Liquidity risk**

The Group and Company manages its liquidity requirements by using both short and long-term cash flow projections, supplemented by maintaining debt financing plans and active portfolio management. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

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

For further details on the Group's liquidity position, please refer to the going concern paragraph in Note 1 of these accounts.

**e) Capital management**

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to wider financial risks as the business develops.

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

| **Group** | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
|---|---|---|---|---|
| | **Year ended 31 December 2012** | **Year ended 31 December 2012** | Year ended 31 December 2011 | Year ended 31 December 2011 |
| | **£ '000s** | **£ '000s** | £ '000s | £ '000s |
| **Financial assets** | | | | |
| Cash and cash equivalents | **3,452** | **3,452** | 2,906 | 2,906 |
| Trade receivables | **420** | **420** | 316 | 316 |
| **Financial liabilities** | | | | |
| Trade Creditors | **973** | **973** | 1,250 | 1,250 |
| Convertible loans at fixed rate | **3,217** | **3,616** | 552 | 616 |

| **Company** | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
|---|---|---|---|---|
| | **£ '000s** | **£ '000s** | £ '000s | £ '000s |
| **Financial assets** | | | | |
| Cash and cash equivalent | **3,211** | **3,211** | 2,317 | 2,317 |
| Intercompany receivables | **24,275** | **24,275** | 22,185 | 22,185 |
| **Financial liabilities** | | | | |
| Trade Creditors | **169** | **169** | 94 | 94 |
| Convertible loan at fixed rate | **3,217** | **3,616** | 552 | 616 |

At 31 December 2012 the Group and Company has GBP loans valued at £4,603,000 rates of 9% per annum and a EUR loan at sterling equivalent of £390,000 and the Group has a Euro loan at sterling equivalent of £796,000 at 8.5% per annum.

At 31 December 2011 the Group and Company had Euro loans at Sterling equivalent of £553,000 at a fixed rate of 8.5% and the Group has a Euro loan at sterling equivalent of £3,000 at variable rate of Euribor + 1%.

# ASCENT RESOURCES PLC

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 05239285)*

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Ascent Resources plc (the 'Company') will be held at the offices of finnCap Limited, 60 New Broad Street, London EC2M 1JJ on Thursday 27 June 2013 at 2.30 p.m. for the following purposes:-

### Ordinary Business

1. To receive and adopt the report of the Directors and the financial statements for the year ended 31 December 2012 and the report of the auditors thereon.
2. To re-elect, as a director of the Company, Mr William Cameron Davies, who retires in accordance with Article 25.2 of the Company's Articles of Association and offers himself for re-election.
3. To re-elect, as a director of the Company, Mr Clive Carver, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-election.
4. To re-elect, as a director of the Company, Mr Leonard John Reece, who retires in accordance with Article 20.2 of the Company's Articles of Association and offers himself for re-election.
5. To re-appoint BDO LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be determined by the Directors.

### Special Business

6. To consider and, if thought fit, to pass the following resolution which is proposed as an Ordinary Resolution:-

   THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ('the Act'), in substitution for all previous powers granted to them, to exercise all the powers of the Company to allot and make offers to allot relevant securities (within the meaning of the Act) up to an aggregate nominal amount of £383,662.53 such authority shall, unless previously revoked or varied by the Company in general meeting, expire on the conclusion of the Annual General Meeting of the Company to be held in 2014 provided that the Company may, at any time before such expiry, make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.

7. To consider and, if thought fit, to pass the following resolutions, numbered 7 and 8, which are proposed as Special Resolutions:-

   THAT the Directors be and they are hereby empowered pursuant to Section 570 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 6 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:-

   (a) the allotment of equity securities in connection with an issue in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be practicable) to the respective number of Ordinary Shares in the capital of the Company held by them on the record date for such allotment, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange, in any territory; and
   (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of further equity securities up to an aggregate nominal amount of £172,648.14;

   provided that this power shall, unless previously revoked or varied by special resolution of the Company in general meeting, expire at the conclusion of the Annual General Meeting of the Company to be held in 2014. The Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors are hereby empowered to allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

8. THAT the articles of association of the Company be altered by substituting existing article 5.1 for the following new article: 5.1:-

“5.1 Every Member (except a recognised person in respect of whom the Company is not by law required to complete and have ready for delivery a certificate) shall without payment be entitled to receive within 2 months after the allotment of shares to him or lodgement of a transfer of shares to or by him (or within such other period as the conditions of issue shall provide) one certificate for all the certificated shares of each class registered or remaining registered in his name, provided that in the case of joint holders the Company shall not be bound to issue more than one certificate to all the joint holders, and delivery of such certificate to any one of them shall be sufficient delivery to all. Any two or more certificates representing shares of any one class held by any Member may at his request be cancelled and a single new certificate for such shares issued in lieu without charge. In the case of shares held jointly by several persons any such request mentioned in this Article may only be made by the joint holder who is first named in the Register. Every definitive share certificate shall be issued under the Seal (or a securities seal or, in the case of shares on a branch register, an official seal for use in the relevant territory) any of which seals may be affixed by laser printer or in such other manner as the Board having regard to the terms of issue, the Statutes and the London Stock Exchange may authorise, or signed (whether personally or otherwise and including by facsimile signature, howsoever applied) by a director and the secretary or by two Directors, and shall specify the number and class of shares to which it relates and the amount paid up thereon. No definitive certificate shall be issued representing shares of more than one class. Unless the Directors otherwise determine no definitive certificate shall be issued in respect of shares held by a recognised clearing house or a nominee of a recognised clearing house or a recognised investment exchange. Where a holder of any share has transferred a part of the shares comprised in his holding, he shall be entitled to a certificate for the balance without charge.”

## BY ORDER OF THE BOARD

J M Bottomley,
Company Secretary
3 June 2013

One America Square
Crosswall
London EC3N 2SG

**Notes**

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. To appoint more than one proxy you may photocopy the form of proxy. Please indicate the proxy holder’s name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be lodged at the offices of the Company’s registrars, Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH by hand, or sent by post, so as to be received not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be).
2. The completion and return of a form of proxy will not preclude a member from attending in person at the meeting and voting should he wish to do so.
3. The Company has specified that only those members entered on the register of members at 6.00pm on 11 June 2013 shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of £0.001 each in the capital of the Company (‘Ordinary Shares’) held in their name at that time. Changes to the register after 6.00pm on 11 June 2013 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
4. **Resolutions 2 –** Article 25.2 of the Company’s Articles of Association requires that one third of the Directors of the Company who have held office since the last Annual General Meeting, must retire and, if they are eligible, may offer themselves for re-election.
5. **Resolutions 3 and 4 -** Having been appointed since the last Annual General Meeting, both Clive Carver and Leonard John Reece must retire in accordance with Article 20.2 of the Company’s Articles of Association, and being eligible are offering themselves for re-election.
6. **Resolution 6 –** As required by the Act, this resolution, to be proposed as an Ordinary Resolution, relates to the grant to the Directors of authority to allot unissued Ordinary Shares until the conclusion of the Annual General Meeting to be held in 2014, unless the authority is renewed or revoked prior to such time. This authority is limited to a maximum of 383,662,534 Ordinary Shares. This authority replaces the existing authorities granted at the General Meeting held on 30 April 2013.
7. **Resolution 7 –** The Act requires that if the Directors decide to allot unissued Ordinary Shares in the Company the shares proposed to be issued be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders’ pre-emption rights. However, to act in the best interests of the Company the Directors may require flexibility to allot shares for cash without regard to the provisions of Section 561(1) of the Act. Therefore this resolution, to be proposed as a Special Resolution, seeks authority to enable the Directors to allot equity securities up to a maximum of 172,648,140 Ordinary Shares. This authority replaces the existing authorities granted at the General Meeting held on 30 April 2013 and expires at the conclusion of the Annual General Meeting to be held in 2014.
8. **Resolution 8** - This resolution provides for the alteration of the Company’s articles of association to allow the use of electronic means to seal the Company’s share certificates.

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