

Dart Energy (Forth Valley) Limited
(Formerly Composite Energy (Forth Valley) Limited)

**Directors' report and financial
statements**

Registered number SC298739

30 June 2011



Contents

	Page
Directors and officers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report to the members of Dart Energy (Forth Valley) Limited	5
Profit and loss account	7
Balance sheet	8
Notes	9

Directors and officers

Directors

D Bain
P Roles
E Uliel

Independent auditors

PricewaterhouseCoopers LLP
Chartered accountants and statutory auditors
141 Bothwell Street
Glasgow
G2 7EQ

Solicitors

Maclay Murray & Spens LLP
66 Queens Road
Aberdeen
AB15 4YE

Registered office

The registered office changed during the year to;

Laurel House
Laurelhill Business Park
Polmaise Road
Stirling
United Kingdom
FK7 9JQ

The previous address was;
66 Queens Road
Aberdeen
AB15 4YE

Bankers

The Royal Bank of Scotland plc
40 Albyn Place
Aberdeen
AB10 1YN

Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2011.

Change of name

On 27 June 2011 the company changed its name from Composite Energy (Forth Valley) Limited to Dart Energy (Forth Valley) Limited.

Parent company

On 28 February 2011, Dart Energy Limited, an Australian Listed Company, acquired a 100% shareholding of the immediate parent company Composite Energy Limited. On 27 June 2011 Composite Energy Limited changed its name to Dart Energy (Europe) Limited.

Principal activities

The principal activity of the company during the year was to test the coals on the Petroleum Exploration and Development Licence ("PEDL") 133 licence, and evaluate well completion and production techniques. The Company holds a 100% interest in the coal bed methane interest within the PEDL 133 licence area and 49% interest in any other hydrocarbon bearing zones within the licence area. The remaining 51% is held by a subsidiary of BG Group plc.

During the period ended 30 June 2009, the company acquired a 50% interest in the assets and obligations relating to PEDL's 161 & 163 from its parent company, Dart Energy (Europe) Limited. The company benefits from an agreement with a subsidiary of BG Group plc, which provides sufficient funding to test the coals on Licences 161 & 163. Under the terms of the arrangement, BG Group received a 50% interest in each of the Licences, in return for meeting the costs of an agreed work programme.

Business and financial review

PEDL 133 is the most advanced licence in Dart Europe's portfolio with both CBM and shale gas resources present. Prior to the acquisition of Composite Energy, over £20 million had been invested in the licence with 14 exploration, appraisal and development CBM wells drilled. Dart Energy has made significant progress evaluating the CBM potential of PEDL 133 including detailed technical review of available data, planning a pilot project that will enable early gas commercialisation and conducting geological and engineering studies required to move to full field development as early as 2012.

In June 2011, NSAI conducted an independent reserve certification on PEDL 133 and the reserve estimates (2P 43 Bcf, 3P 81 Bcf) are believed to be the most sizeable CBM reserves certification to date in a European context.

In July 2011, Dart Energy signed a 5-year Gas Sales Agreement with SSE Energy, a UK FTSE 100 utility company. The GSA is sized to deliver current 2P reserves during the term and has no minimum delivery requirement. SSE will purchase gas delivered at prevailing UK gas prices, which are currently in the region of 60p/therm. Prior to physical connection to the national gas grid anticipated in 2Q 2013 and delivery of gas under the GSA, a pilot-to power project has been planned.

The Airth 12 pilot well is being drilled in 4Q 2011 and has been designed as a multilateral well accessing four seams. A small population of initial volumes from the Airth 12 pilot well will supply 375KW power generator located on-site and connected to the local electricity grid. Connection to the local gas grid is anticipated during 1H 2013.

Dart Energy (Forth Valley) Limited has no direct employees, with all management and operational services being provided by Dart Energy (Europe) Limited.

Additional details of the business of the Dart Group and of the Board and Executive team can be found on the company's website: www.dartenergy.com.au

Results for the year

The results for the year are set out in the profit and loss account on page 6.

Directors' report *(continued)*

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Dart Energy Limited. The directors have received confirmation that Dart Energy Limited intends to support the company for at least one year after these financial statements are signed.

Basis of preparation

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Proposed dividend

The directors do not recommend the payment of a dividend (2010 £nil).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

KG Lough	- resigned 27 February 2011
ST Fraser	- resigned 27 February 2011
CD Bousfield	- resigned 27 February 2011
S Potter	- appointed 27 February 2011 / resigned 14 October 2011
P Roles	- appointed 27 February 2011
E Uliel	- appointed 27 February 2011
D Bain	- appointed 14 October 2011

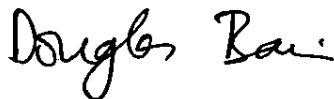
Disclosure of information to auditors

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

Independent auditors

During the year KPMG LLP resigned as auditors and PricewaterhouseCoopers LLP appointed in their place. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution regarding their reappointment will be proposed at the Annual General Meeting.

On behalf of the board



D Bain
Director

Laurel House
Stirling
FK7 9JQ

14 December 2011

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 prepared the financial statements in accordance with United Kingdom Generally Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Independent auditors' report to the members of

We have audited the financial statements of Dart Energy (Forth Valley) Limited for the year ended 30 June 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

we have not received all the information and explanations we require for our audit



Michael Timar

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Glasgow

14 December 2011

Profit and loss account
for the year ended 30 June 2011

	<i>Note</i>	2011 £	2010 £
Operating result			
Other interest receivable and similar income	3	-	2,519
Interest payable and similar charges	4	(226,533)	(182,396)
Loss on ordinary activities before taxation		(226,533)	(179,877)
Tax on loss on ordinary activities	5	-	-
Loss for the financial year	12	(226,533)	(179,877)

All of the above wholly relate to continuing operations.

There were no recognised gains or losses other than the loss for the financial period reported above and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical costs equivalents

A statement of movement in reserves is given in note 12.

Balance sheet

As at 30 June 2011

	Note	£	2011 £	£	2010 £
Fixed assets					
Intangible assets	6		7,627,085		6,726,720
Tangible assets	7		183,000		183,000
			<u>7,810,085</u>		<u>6,909,720</u>
 Current assets					
Debtors	8	1,785,257		143,399	
Cash at bank and in hand		23,673		6,570	
			<u>1,808,930</u>	<u>149,969</u>	
Creditors: amounts falling due within one year	9	(7,236,892)		(5,857,802)	
			<u>(5,427,962)</u>	<u>(5,707,833)</u>	
Net current liabilities					
Total assets less current liabilities			2,382,123		1,201,887
 Provisions for liabilities	10		(3,029,649)		(1,622,880)
			<u>(647,526)</u>	<u>(420,993)</u>	
Net liabilities					
 Capital and reserves					
Called up share capital	11		2		2
Profit & loss account	12		(647,528)		(420,995)
			<u>(647,526)</u>	<u>(420,993)</u>	
Total shareholders' deficit	13		<u>(647,526)</u>	<u>(420,993)</u>	

These financial statements on pages 7 to 14 were approved by the board of directors on 14 December 2011 and were signed on its behalf by:



D Bain
Director

Notes to the financial statements

For the year ended 30 June 2011

1 Accounting policies

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

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The company has taken advantage of the exemption in FRS 1 (revised 1996) 'Cash flow statements' from the requirement to present a cash flow statement on the grounds that it is a small company.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £5,427,962 which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided by Dart Energy Limited. Dart Energy Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and has set aside funds within its budget to meet the anticipated expenditure by the Company. In addition, it has confirmed it will not seek repayment of the amounts currently made available. The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on this parent company support the directors believe that it remains appropriate to prepare the financial statements on the going concern basis.

Exploration and development expenditure

Oil and gas activities

Oil and gas activities are accounted for in accordance with Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" issued by the Oil Industry Accounting Committee dated 7 June 2001.

(a) Pre-production costs

Expenditure on pre-licence, licence acquisition, appraisal and development activities in advance of production are capitalised using the full cost accounting method and carried within cost pools based on geographical area.

(b) Other costs

All other costs, such as relating to development activities, are capitalised using the full cost accounting method and carried within cost pools based on production areas. Cost pools, which represent wells and infrastructure connected to a point of market access, will be amortised over the economic reserves connected to that production system.

(c) Amortisation of capitalised costs

All expenditure will be carried within cost pools until the wells commence production when capitalised costs will be depreciated on a unit of production basis specific to each cost pool.

(d) Future decommissioning costs

Licensees are generally required to restore oil and gas field sites at the end of the producing lives to a condition acceptable to the relevant authorities. Provision is made for decommissioning costs to the extent that the company is required to carry out such activities under its contractual commitments. The expected cost of decommissioning is management's best estimate of the Company's share of expected cost of filling the existing wells and disposing of

Notes to the financial statements (continued)

1 Accounting policies (continued)

surface material. Under the terms for transfer of BG's 51% interest in the PEDL 133 licence, BG have undertaken to meet their share of decommissioning costs associated with wells which had been drilled up to the time of transfer. The amount of this liability is capped and applies to specified wells (see note 10).

(e) Impairment

If expenditure is judged to be impaired, the capitalised costs of intangible assets is compared with the net present value of future net cash flows expected to be derived from the assets. These ceiling test values are calculated on the basis of product prices prevailing at the effective date or, if applicable, at the process specified in a sale contract and discounting at an appropriate rate.

Fixed assets and depreciation

No depreciation is provided on land

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Taxation

The charge for taxation is based on the loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

2 Notes to the profit and loss account

	2011 £	2010 £
<i>Auditors' remuneration:</i>		
Audit of these financial statements	10,800	10,300

The audit fee is borne by the parent company, Dart Energy (Europe) Limited.

The company has no employees (2010: none). The directors did not receive any emoluments in respect of their services to the company (2010: £nil).

Notes to the financial statements (continued)

3 Interest receivable and similar income

	2011 £	2010 £
Interest on intercompany loan	-	2,519
Interest on BG funded decommissioning provision	12,805	-
Allocated to development asset	(12,805)	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

4 Interest payable and similar charges

	2011 £	2010 £
Interest on intercompany loan	226,533	182,396
Unwinding of the discount on decommissioning provision	108,660	-
Capitalised within development asset	(108,660)	-
	<u>226,553</u>	<u>182,396</u>
	<u>226,553</u>	<u>182,396</u>

5 Taxation on loss on ordinary activities

There is no tax charge for the current or prior year.

Factors affecting the tax charge for the period

The current tax credit for the period is lower than (2010: lower than) the standard rate of tax for the ring fenced gas trade, 30% (2010: 50%). The differences are explained below:

	2011 £	2010 £
Loss on ordinary activities before tax	(226,533)	(179,877)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK for ring fenced gas trade of 30% (2010: 50%)	(67,960)	(89,939)
<i>Effects of</i>		
Ring fence and exploration expenditure supplement to be claimed	-	(199,506)
Difference between capital allowances and depreciation	(339,611)	(1,355,382)
Ring fence – losses carried forward	407,571	1,644,827
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The main CT rate for ring fenced companies of 30% has been applied in 2011. The supplementary rate is not applicable as the company will qualify for the small field allowance.

The ring fence and exploration expenditure supplement is based on two elements. The ring fence expenditure supplement is an additional 6% given on unused losses for companies with an oil and gas trade to compensate for time erosion on brought forward losses. The exploration expenditure supplement allows similar loss making companies to get 6% uplift on unused exploration and appraisal capital allowance. The company has ring fence tax losses available for set off against the profits of future periods. No deferred tax asset has been booked as its recoverability is dependent upon future profits arising, the likelihood of which cannot be assessed at this stage with reasonable certainty.

Notes to the financial statements (continued)

5 Taxation on loss on ordinary activities (continued)

The elements of deferred taxation are as follows:	2011	2010
	£	£
Difference between accumulated depreciation and amortisation and capital allowances	(1,814,138)	(2,499,699)
Losses carried forward	2,522,334	3,524,605
Tax relief on restoration provision	458,142	-
Other timing differences	-	(7,092)
Deferred tax asset	1,166,338	1,017,814
Provided	-	-
Unprovided	1,166,338	1,017,814

6 Intangible fixed assets

	2011
	£
Cost	
At beginning of year	6,726,720
Additions	900,365
At end of year	7,627,085

The intangible assets shown represent exploration expenditure incurred in relation to licence PEDL 133. The additions during the year relate primarily to management and operational services provided by Dart Energy (Europe) Limited in preparation for the re-commencement of drilling activities in July 2011.

7 Tangible assets

	Land
	£
Cost and net book value	
At beginning and end of year	183,000

Notes to the financial statements (continued)

8 Debtors

	2011 £	2010 £
Trade debtors	264,151	105,829
Other debtors	1,521,106	37,570
	<u>1,785,257</u>	<u>143,399</u>

Included in other debtors is £1,502,509 (2010: £nil) due from BG in respect of their share of the abandonment provision, capped at £1.49 million plus interest.

9 Creditors: amounts falling due within one year

	2011 £	2010 £
Bank loans and overdrafts	-	-
Trade creditors	33,364	56,542
Amounts owed to parent undertaking	7,200,125	5,125,329
Accruals	3,403	675,931
	<u>7,236,892</u>	<u>5,857,802</u>

Included in accruals is £nil (2010: £668,851) due to BG, relating to advanced funding received under the Farm-in Agreement.

The intercompany loan bears interest at a rate of 3% above Base Rate and is repayable on demand.

10 Provisions for liabilities

	Abandonment Provision £
At beginning of year	1,622,880
Utilised during year	(191,595)
Increase in provision for BG share of the abandonment cost	1,489,704
Unwinding of the discount (note 4)	108,660
	<u>3,029,649</u>
At end of year	

Decommissioning and restoration provision

The company makes full provision for the future cost of the decommissioning and restoration of exploration and evaluation facilities on a discounted basis on the installation of those facilities. The decommissioning and restoration provision relates to the total costs of cementing and plugging the existing wells and related facilities, the disposal of surface material and any costs associated with the return of the sites to their original use. The obligation is expected to be incurred in 5 to 15 years from the balance sheet date.

The provision has been created based on the company's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account of any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore,

Notes to the financial statements (continued)

10 Provisions for liabilities (continued)

the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Following the PEDL 133 licence split BG's liability for the decommission cost associated with PEDL 133 was capped at £1.49 million plus interest, for all sites outwith the Arns area where BG are liable for their full share on an uncapped basis. Included in year end abandonment provision is £1,502,509 due from BG (2010: £nil).

11 Called up share capital

	2011 £	2010 £
Authorised		
Ordinary shares of £1 each	100	100
Allotted and fully paid		
Ordinary shares of £1 each	2	2

12 Profit and loss account

	£
At beginning of year	(420,995)
Loss for the financial year	(226,533)
At end of year	(647,528)

13 Reconciliation of movement in shareholders' deficit

	2011 £	2010 £
Loss for the financial year	(226,533)	(179,877)
Net reduction to shareholders' deficit	(226,533)	(179,877)
Shareholders' deficit at beginning of year	(420,993)	(241,116)
Shareholders' deficit at end of year	(647,526)	(420,993)

14 Contingent liabilities

On 16 February 2007, the Company entered into an unlimited inter-company guarantee between, *inter alia*, the Company, Geometric Drilling Limited and Dart Energy (Europe) Limited as guarantors pursuant to which each of the guarantors agrees to guarantee all the liabilities of each of the other guarantors to The Royal Bank of Scotland plc in connection with a loan facility provided by the bank to Geometric Drilling Limited. The guarantees were discharged by the bank on 27 February 2011 following the acquisition by Dart and repayment of all group loans.

Notes to the financial statements *(continued)*

15 Commitments

(a) *Capital commitments*

At 30 June 2011, the company had committed to purchasing wellhead equipment at a cost of £24,541 (2010: £nil). The equipment was delivered on 11 August 2011. No provision has been made in the accounts.

(b) *Operating lease commitments*

At 30 June 2011, the company had no operating lease commitments, which were contracted for but for which no provision has been made.

16 Related party disclosures

The company is a wholly owned subsidiary of Dart Energy (Europe) Limited, which is the company's parent company and controlling entity. The ultimate parent company is Dart Energy Limited, a company listed on the Australian stock exchange.

Advantage has been taken of the exemption permitted under FRS 8 not to report details of transactions with fellow subsidiaries where the group's holding is 100% and which are included in the statutory consolidated accounts of Dart Energy Limited.

17 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Dart Energy (Europe) Limited.

The ultimate parent undertaking and controlling party is Dart Energy Limited, a company incorporated in Australia. Dart Energy Limited is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 30 June 2011. The consolidated financial statements of Dart Energy Limited available to download from www.dartenergy.com.aux