

Dart Energy (Forth Valley) Limited

**Directors' report and financial
statements**

Registered number SC298739

For the year ended

30 June 2012



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Directors and officers

Directors

D Bain
M Lappin
J McGoldrick
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

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

Bankers

Citibank International plc
Canada Square
Canary Wharf
London
E14 5LB

Directors' report for the year ended 30 June 2012

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2012.

Principal activities

The principal activity of the company during the year was to pursue coal bed methane development on the Petroleum Exploration and Development Licence ("PEDL") 133 licence. The company holds a 100% interest in the PEDL 133 licence area to c.1,100 metres and a 49% interest in any other hydrocarbon bearing zones within the licence area below c.1,100 metres. The remaining 51% is held by a subsidiary of BG Group plc ("BG Group"). The company also holds a 100% interest in all hydrocarbon bearing zones within the PEDL 161 and PEDL 163 licence areas although no activity in relation to these licences has taken place during the current year and none is planned for the foreseeable future.

Business and financial review

PEDL 133 is the most advanced licence in Dart Energy (Forth Valley) Limited's portfolio with both CBM and shale gas potential. In addition, CBM reserves have been certified to-date in a small portion of the licence area.

The company has a 5-year gas sales agreement ("GSA") in place with Scottish and Southern Energy ("SSE") to deliver gas to the local gas grid, commencing no earlier than April 2013. SSE, a U.K. FTSE 100 utility company, is one of the largest utilities companies in the U.K. and is a partner in Scotia Gas Networks, a pipeline owner with an extensive pipeline network that also runs in proximity to the PEDL 133 licence area. Under the GSA, SSE will purchase gas delivered from the fourth quarter of 2013 at prevailing U.K. gas prices.

In March 2012, an amendment was agreed between the company and SSE to introduce a second phase to the GSA whereby for 5 years commencing April 2015, the company will be able to deliver additional gas to SSE on otherwise identical terms to the existing GSA.

During the year, the production well pair of Airth-1 and Airth-12 was put on pump and flowed gas. Water treatment facilities were completed and power generation equipment was commissioned. Produced gas commenced powering a 375 KW gas turbine generator and electricity was exported to the local grid.

The Field Development Plan for the Airth development was submitted to the Department of Energy and Climate Change ("DECC") for approval. Tendering for field development design and long lead equipment also commenced. Initial work on the Environmental Impact Study also commenced and a public consultation process was initiated. In addition, the company is engaging the local communities through a series of exhibitions across the licence area to promote awareness and understanding of the Airth project.

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, and also at www.dartenergyscotland.com.

Results for the year

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

Going concern

The directors believe that preparing the financial statements 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.

Directors' report for the year ended 30 June 2012 *(continued)*

Proposed dividend

The directors do not recommend the payment of a dividend (2011: £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:

D Bain	- appointed 14 October 2011
M Lappin	-- appointed 17 July 2012
J McGoldrick	- appointed 17 July 2012
S Potter	- resigned 14 October 2011
P Roles	- resigned 17 July 2012
E Uliel	

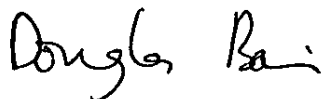
Disclosure of information to auditors

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

The auditors, 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

20 December 2012

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 Accepted 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 year. 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 Dart Energy (Forth Valley) Limited

We have audited the financial statements of Dart Energy (Forth Valley) Limited for the year ended 30 June 2012 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 Statement of Directors' Responsibilities 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 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 2012 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; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report.



Michael Timar
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
20 December 2012

Profit and loss account
For the year ended 30 June 2012

	<i>Note</i>	2012 £	2011 £
Operating loss			
Interest receivable and similar income	3	-	-
Interest payable and similar charges	4	(360,898)	(226,533)
Loss on ordinary activities before taxation	2	(360,898)	(226,533)
Tax on loss on ordinary activities	5	-	-
Loss for the financial year	12	(360,898)	(226,533)

All of the above wholly relate to continuing operations.

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

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

A statement of movement in reserves is given in note 13.

Balance sheet
As at 30 June 2012

	Note	£	2012 £	£	2011 £
Fixed assets					
Intangible assets	6		14,351,675		7,627,085
Tangible assets	7		183,000		183,000
			<u>14,534,675</u>		<u>7,810,085</u>
Current assets					
Debtors	8	1,768,107		1,785,257	
Cash at bank and in hand		39,403		23,673	
			<u>1,807,510</u>	<u>1,808,930</u>	
Creditors: amounts falling due within one year	9	(13,991,322)		(7,236,892)	
Net current liabilities			<u>(12,183,812)</u>		<u>(5,427,962)</u>
Total assets less current liabilities			<u>2,350,863</u>		<u>2,382,123</u>
Provisions for liabilities	10		(3,359,287)		(3,029,649)
Net liabilities			<u>(1,008,424)</u>		<u>(647,526)</u>
Capital and reserves					
Called up share capital	11		2		2
Profit and loss account	12		(1,008,426)		(647,528)
Total shareholders' deficit	13		<u>(1,008,424)</u>		<u>(647,526)</u>

These financial statements on pages 6 to 13 were approved by the board of directors on 20 December 2012 and were signed on its behalf by:



D Bain
 Director

Notes to the financial statements

For the year ended 30 June 2012

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 £12,183,812 (2011: £5,427,962). 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. 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 surface material.

Under the terms for transfer of BG Group's 51% interest in the PEDL 133 licence, BG Group 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).

Notes to the financial statements (continued)
For the year ended 30 June 2012

1 Accounting policies (continued)

(e) Impairment

If expenditure is judged to be impaired, the capitalised costs of intangible assets are 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 Loss on ordinary activities before taxation

	2012 £	2011 £
<i>Auditors' remuneration:</i>		
Audit of these financial statements	11,625	10,800

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

The company has no employees (2011: none). The directors did not receive any emoluments in respect of their services to the company (2011: £nil).

3 Interest receivable and similar income

	2012 £	2011 £
Interest on BG Group funded decommissioning provision	40,196	12,805
Allocated to development asset	(40,196)	(12,805)
	-	-

Notes to the financial statements (continued)

For the year ended 30 June 2012

4 Interest payable and similar charges

	2012 £	2011 £
Interest on intercompany loan	360,898	226,533
Unwinding of the discount on decommissioning provision	79,638	108,660
Capitalised within development asset	(79,638)	(108,660)
	<u>360,898</u>	<u>226,553</u>

5 Tax on loss on ordinary activities

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

Factors affecting the tax credit for the year

The current tax credit for the year is lower (2011: lower) than the standard rate of tax for the ring fenced gas trade of 30% (2011: 30%). The differences are explained below:

	2012 £	2011 £
Loss on ordinary activities before tax	(360,898)	(226,533)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK for ring fenced gas trade of 30% (2011: 30%)	(108,269)	(67,960)
Effects of:		
Difference between capital allowances and depreciation	(1,939,831)	(339,611)
Ring fence – losses carried forward	2,048,100	407,571
Current tax credit for the year	<u>-</u>	<u>-</u>

The main CT rate for ring fenced companies of 30% has been applied in 2012. The supplementary rate is not applicable as the company will qualify for the small field 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.

The elements of deferred taxation are as follows:	2012 £	2011 – Restated £
Difference between accumulated depreciation and amortisation and capital allowances	(3,753,969)	(1,814,138)
Losses carried forward	4,393,876	2,522,334
Deferred tax asset	<u>639,907</u>	<u>708,196</u>
Unprovided	<u>639,907</u>	<u>708,196</u>

Notes to the financial statements (continued)
For the year ended 30 June 2012

6 · Intangible fixed assets

	2012 £
<i>Cost</i>	
At beginning of year	7,627,085
Additions	6,724,590
At end of year	14,351,675

The intangible assets shown represent exploration expenditure incurred in relation to licence PEDL 133. The additions during the year relate primarily to drilling the Airth-12 production well, preparations for the Field Development Plan and management services provided by Dart Energy (Europe) Limited relating to technical and administrative support.

7 Tangible fixed assets

	Land £
<i>Cost and net book value</i>	
At beginning and end of year	183,000

8 Debtors

	2012 £	2011 £
Trade debtors	-	264,151
Amounts owed by group undertaking	76,403	-
Other debtors	1,691,704	1,521,106
	1,768,107	1,785,257

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

Included in other debtors is £1,542,705 (2011: £1,502,509) due from BG Group in respect of their share of the decommissioning and restoration provision, capped at £1,490,000 plus interest.

9 Creditors: amounts falling due within one year

	2012 £	2011 £
Trade creditors	151,537	33,364
Amounts owed to parent undertaking	13,614,595	7,200,125
Accruals	225,190	3,403
	13,991,322	7,236,892

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

Notes to the financial statements *(continued)*
For the year ended 30 June 2012

10 Provisions for liabilities

	Decommissioning and Restoration Provision £
At beginning of year	3,029,649
Increase in provision	250,000
Unwinding of the discount (note 4)	79,638
At end of year	3,359,287

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, 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 Group's liability for the decommission cost associated with PEDL 133 was capped at £1,490,000 plus interest, for all sites outwith the Arns area where BG Group is liable for their full share on an uncapped basis. Included in the year end decommissioning and restoration provision is £1,542,705 due from BG Group (2011: £1,502,509).

11 Called up share capital

	2012 £	2011 £
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
<i>Allotted and fully paid</i>		
Ordinary shares of £1 each	2	2

12 Profit and loss account

	£
At beginning of year	(647,528)
Loss for the financial year	(360,898)
At end of year	(1,008,426)

Notes to the financial statements (continued)
For the year ended 30 June 2012

13 Reconciliation of movement in shareholders' deficit

	2012 £	2011 £
Loss for the financial year	(360,898)	(226,533)
Net increase in shareholders' deficit	(360,898)	(226,533)
Shareholders' deficit at beginning of year	(647,526)	(420,993)
Shareholders' deficit at end of year	(1,008,424)	(647,526)

14 Capital commitments

At 30 June 2012, the company had committed to purchasing equipment at a cost of £469,784 (2011: £24,541). No provision has been made in the financial statements.

15 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 'Related Party Disclosures' not to report details of transactions with fellow subsidiaries where the group's holding is 100% and which are included in the statutory consolidated financial statements of Dart Energy Limited.

16 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 2012. The consolidated financial statements of Dart Energy Limited are available to download from www.dartenergy.com.au.

17 Subsequent events

On 28 August 2012 the company became party, as a guarantor, to a US\$100,000,000 loan agreement with HSBC Limited Singapore Branch, principally entered into by Dart Energy International Limited, a fellow group company. The facility is structured to provide working capital funding of US\$10,000,000 and up to a further US\$90,000,000 of development funding. As part of this funding arrangement the company has provided security by way of a floating charge over all of the assets of the company and has entered into a share pledge agreement assigning the right, title and interest in the shares of the company to HSBC Limited Singapore Branch in the event of default. Control of the company however remains with Dart Energy (Europe) Limited and ultimately with Dart Energy Limited.