

Champion Exploration (UK) Limited

formerly Champion II (UK) Limited

Report and Financial Statements

Registered No SC 278913



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Directors

Jonathan B Rudney
Howard A Settle

Secretary

MD Secretaries Limited
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Directors report

The directors present their report and accounts for the year ended 31 December 2007

Results and dividends

The company made a loss after tax during the year to 31 December 2007 of US \$1,000 (2006 – loss of US \$1,337,000) No dividends were paid in respect of the year

Principal activity and review of the business

The principal activity of the company is oil and gas exploration and production This business of the company is expected to continue for the foreseeable future

Post balance sheet events

a) In March 2008 a Farm Out Agreement with Century Exploration (UK) Limited, ["Century"], a company also referred to in Note 9) ["Related Party transactions"] was entered into in respect of Licence P007 whereby the Company would acquire 32.50% of Century's working interests in Licence P007 [Block 48/25c, Northwest Vulcan area], for \$162,500 and carrying a portion of Century's costs in an initial exploration well which is to be drilled later in 2008

b) In May 2008 the Company concluded another agreement with Century, farming in to acquire a 5% of Century's working interest in Licence P1208 [Blocks 9/22, 23c] for \$1,425,000

d) In June 2008 the Company concluded another agreement with Century, farming in to acquire a 50% working interest (from Century's 75% working interest) in Licence P1096 [Block 19/2] for \$ 250,000, and carrying Century's interest in an initial exploration well to be drilled later in 2008

Transaction a) is yet to be completed, awaiting consents from Esso Exploration & Production (UK) Ltd

Future developments

The company has active plans to obtain reserves and production through exploration drilling in the North Sea.

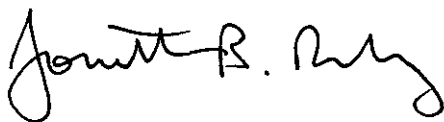
Directors

The directors who served during the period are shown on page 1

Auditors

Members have not required an audit to be performed, in accordance with section 249B(2) of the Companies Act 1985

By order of the Board



Jonathan B Rudney
Director

15 September 2008

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent
- state whether 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

Profit and loss account

for the year ended 31 December 2007

	Notes	2007 US \$000	2006 US \$000
Turnover			
Production costs		—	—
Gross profit			
Exploration expenditure written off	4		(1,336)
Operating and administration expenses		(1)	(1)
Operating profit/(loss)	2	(1)	(1,337)
Net interest income			
Loss on ordinary activities before taxation		(1)	(1,337)
Tax on loss on ordinary activities	3		
Loss for the year	8	(1)	(1,337)

All activities of the company relate to continuing operations

Statement of total recognised gains and losses

for the year to 31 December 2007

There are no recognised gains or losses attributable to the shareholders, other than the loss for the year of US \$1,000 (2006 loss of US \$1,337,000)

Balance sheet

at 31 December 2007

	Notes	2007 US \$000	2006 US \$000
Fixed assets			
Intangible assets	4	—	—
Current assets			
Debtors	5	—	—
Cash at bank and in hand		—	—
Creditors amounts falling due within one year	6	(11,087)	(11,086)
Net current liabilities		(11,087)	(11,086)
Total net liabilities		(11,087)	(11,086)
Capital and reserves			
Called up share capital	7	—	—
Profit and loss account	8	(11,087)	(11,086)
	8	(11,087)	(11,086)

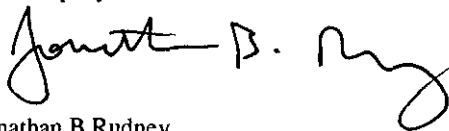
These accounts are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities

In the directors opinion the Company is entitled to the exemption from audit conferred by section 249a(1) of the Companies Act 1985, for the year ended 31 December 2007

No members have required the Company to obtain an audit of its accounts for the year in question in accordance with section 249b(2)

The directors acknowledge their responsibility for

- 1 ensuring that the Company keeps accounting records which comply with section 221, and
- 2 preparing accounts which give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of its results for the year then ended, in accordance with section 226, and which otherwise comply with the requirements of the Companies Act relating to accounts so far as applicable to the Company



Jonathan B Rudney
Director

15 September 2008

Notes to the financial statements

for the year ended 31 December 2007

1. Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with the applicable UK accounting standards. The accounts have been prepared on the going concern basis because the parent undertaking has agreed to fund the company to enable it to pay its liabilities as and when they fall due for at least 12 months subsequent to the date of the director's report

The company's financial statements fall within the scope of the Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee, Accounting Committee, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities", and have been prepared in accordance with the provisions, except that the company considers the disclosure of reserves to be of a sensitive nature, and has therefore not made this disclosure

Deferred taxation

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 have occurred at that date that will result in an obligation to pay more (or a right to pay less or to receive more) tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charge to tax only where the replacement assets are sold,
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which future reversal of the underlying timing differences can be deducted

Cash flow statement

The company has taken advantage of the exemption in FRS 1 from preparing a cash flow statement, on the grounds that it is a small entity

Oil and gas assets

The company applies the full cost basis of accounting for exploration and development costs. Accordingly, all expenditure in connection with the acquisition, exploration, appraisal and development of oil and gas properties are capitalised in appropriate cost pools. The costs of identifying and acquiring licences and subsequent exploration costs are capitalised as "intangible" assets. They are held outside the cost pool, and not depleted, pending determination of commercially recoverable reserves or cessation of exploration, in each exploration area, at which point they are transferred to the cost pool as "tangible assets". Where no cost pool exists, costs are written off to the profit and loss account. Costs in the pool are depleted on a unit of production basis, based on estimated commercially recoverable reserves. Any changes in estimates are accounted for prospectively.

Foreign currency translation

The company's functional currency is the US dollar and therefore these financial statements have been prepared in US dollars. The rate of exchange used for 31 December 2007 is £1 \$ 1.9973 (2006 £1 \$1.9591)

Transactions in other currencies are recorded at the rate ruling at the date of the transaction. Current assets and liabilities denominated in other currencies are revalued at the exchange rate ruling at the balance sheet date. All differences are taken to the profit and loss account.

Notes to the financial statements

for the year ended 31 December 2007

2. Operating loss

Operating loss is stated after charging

	2007 US \$000	2006 US \$000
Auditors remuneration audit		
Impairment		1,336

The company has no employees. None of the directors received any fees or remuneration for services as directors of the company during the period.

3. Taxation

Under present fiscal legislation the Company is deemed to have not yet commenced to trade.

4. Intangible assets

	2007 US \$000	2006 US \$000
At 1 January		
Additions in the period		1,336
Intangible exploration cost written off		(1,336)
	_____	_____
At 31 December	=====	=====

5. Debtors

	2007 US \$000	2006 US \$000
Trade debtors		
Recoverable costs owed by related parties		
Other debtors and prepayments		
	_____	_____
	=====	=====

Notes to the financial statements

for the year ended 31 December 2007

6. Creditors: amounts falling due within one year

	2007 US \$000	2006 US \$000
Amounts owed to parent company	11,087	8,189
Trade creditors – related Parties		2,897
Accruals		
	<u>11,087</u>	<u>11,086</u>

7. Share capital

	2007 US \$	Authorised 2006 US \$
1,000 ordinary shares of £1 each	1,786	1,786

	Allotted, called up and fully paid	
	2007 US\$	2006 US\$
No	No	No
Ordinary shares of £1 each	1	1

8. Reconciliation of shareholders funds and movements in reserves

	Share capital US\$000	Profit and loss account US\$000	Total shareholder's funds US\$000
At incorporation 26 1 2005			
Loss for the period to 31 12 2005		(9,749)	(9,749)
At 31 December 2005		(9,749)	(9,749)
Loss for the year 2006		(1,337)	(1,337)
At 31 December 2006		(11,086)	(11,086)
Loss for the year 2007		(1)	(1)
At 31 December 2007		(11,087)	(11,087)

Notes to the financial statements

for the year ended 31 December 2007

9. Related party transactions

During the year, this Company ("CHE") had the following dealings with related parties

With Century Exploration (UK) Limited ("CEU"), a company owned and controlled by Century Exploration International Inc, a company registered in Delaware USA

a) Transactions covered activities on Licence P1170 (Blocks 3/23 and 3/28c)

No additional costs were incurred in the year by CEU, the only transactions being the settlement of amounts owed to CEU at 31 December 2006

b) Transactions also covered activities on Licence P1284 (Block 9/27a)

No additional costs were incurred in the year by CEU, the only transactions being the settlement of amounts owed to CEU at 31 December 2006

10. Parent undertaking and controlling party

The company is owned by Champion Exploration International, Inc , a Delaware corporation, controlled by Champion Exploration, LLC, a Delaware limited liability company