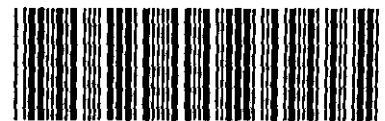


Registered No: SC 278913

Champion Exploration (UK) Limited

Report and Financial Statements
31 December 2008

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COMPANIES HOUSE

Champion Exploration (UK) Limited

Registered No: SC 278913

Directors

Jonathan B Rudney
Howard A Settle

Secretary

MD Secretaries Limited
Pacific House
70 Wellington Street
Glasgow
G2 6SB

Auditors

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Registered Office

McGrigors LLP
Johnstone House
52-54 Rose Street
Aberdeen
AB10 1UD

Directors' Report

The directors present their report and accounts for the year ended 31 December 2008.

Results and dividends

The company made a loss after tax during the year to 31 December 2008 of US \$22,496,000 (2007 – loss of US \$1,000). 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 February/March 2009 the Company participated in the drilling of Well 48/25c-6 (the 'Vulcan Well'). These accounts [see Note 6] include \$ 9,629,000 paid for in 2008, and treated as a prepayment of those Well costs at 31 December 2008. The Well was plugged and abandoned as non-commercial on completion of the drilling activities in March 2009, those prepayments being then included within the final cost of the Well.

b) The Company relinquished its remaining acreage in Licence P1096 [Block 19/2] on 28 February 2009.

Future developments

The company plans to obtain reserves and production in the UK, and continues to look for opportunities to do so.

Directors

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

Directors qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Auditors

The comparative figures for 2007 contained in these accounts have not been audited. The accounts for 2007 and previously were produced on a non audited basis, because, in the directors' opinion, the company was entitled to exemption from audit by virtue of section 249a(1) of the Companies Act 1985, and that no members required the company to obtain or perform an audit in accordance with section 249b(2).

During 2008, Ernst & Young LLP were appointed as the company's auditor.

Ernst & Young LLP will be re-appointed as the company's auditor in connection with the elective resolution passed by the Company under Section 386 of the Companies Act 1985.

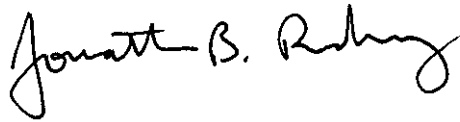
Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' Report

These accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985.

By order of the Board:

A handwritten signature in black ink, appearing to read 'Jonathan B. Rudney', with a stylized, cursive script.

Jonathan B Rudney
Director

17 June 2009

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; and
- 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.

Independent auditor's report

to the members of Champion Exploration (UK) Limited

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 12. These financial statements have been prepared on the basis of the accounting policies set out therein.

The corresponding figures for the year ended 31 December 2007 are unaudited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditor's report

to the members of Champion Exploration (UK) Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Aberdeen

17 June 2009

Champion Exploration (UK) Limited

Profit and loss account

for the year ended 31 December 2008

	Notes	2008 \$000	2007 \$000
Turnover		-	-
Production costs		-	-
Gross profit		-	-
Exploration expenditure written off	5	(22,563)	-
Operating and administration expenses		(60)	(1)
Exchange gains		154	-
Operating loss	2	(22,469)	(1)
Interest income		27	-
Loss on ordinary activities before taxation		(22,442)	(1)
Tax on loss on ordinary activities	3	(54)	-
Loss for the year	10	(22,496)	(1)

All activities of the company relate to continuing operations.

Statement of total recognised gains and losses

for the year to 31 December 2008

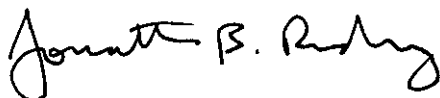
There are no recognised gains or losses attributable to the shareholders, other than the loss for the year of US \$22,496,000 (2007 - loss of US \$1,000).

Balance sheet

at 31 December 2008

		2008	Restated 2007
	Notes	\$000	\$000
Fixed assets			
Intangible assets	4	-	-
		-	-
Current assets			
Debtors and prepayments	5	9,738	-
Cash at bank and in hand		706	-
		10,444	-
Creditors: amounts falling due within one year	6	(406)	-
Net current assets		10,038	-
Creditors: amounts falling due in more than one year	7	(32,534)	-
Total net liabilities		(22,496)	-
Capital and reserves			
Called up share capital	8	-	-
Capital contributions	9	11,087	11,087
Profit and loss account	9	(33,583)	(11,087)
	9	(22,496)	-

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



Jonathan B Rudney
Director

17 June 2009

Notes to the financial statements

for the year ended 31 December 2008

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 ultimate parent undertaking has agreed to fund the company to enable it to meet 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.

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

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 2008 is £1 - \$ 1.4479 (2007: £1 - \$1.9973).

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 2008

2. Operating loss

Operating loss is stated after charging:

	2008 \$000	2007 \$000
Auditors remuneration - audit	23	-
- taxation services	20	-

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

a) Analysis of tax on profit on ordinary activities

	2008 \$000	2007 \$000
<i>Current taxation</i>		
UK corporation tax – current year	54	-
Current tax charge for the year	54	-
<i>Deferred corporation tax</i>		
UK deferred corporation tax	-	-
Total tax charge for the year	54	-

b) Factors affecting the tax charge for the year

The tax assessed on the loss on ordinary activities for the year is different from the standard rate of corporation tax in the UK of 50% (2007: 50%).

The difference is explained below:

	2008 \$000	2007 \$000
(Loss) on ordinary activities before tax	(22,442)	(1)
(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK	(11,221)	(1)
Non taxable income	(678)	-
Depreciation in excess of capital allowances	11,281	-
Unrelieved tax losses carried forward	708	-
Pre-trading expenditure	-	1
Other factors	(36)	-
	54	-

Notes to the financial statements

for the year ended 31 December 2008

c) Deferred taxation

The deferred tax asset not recognised in the accounts is as shown below:

	2008	2007
	\$000	\$000
Depreciation in excess of capital allowances	16,824	5,543
Tax losses carried forward	709	-
	<u>17,533</u>	<u>5,543</u>

4. Intangible assets

	2008	2007
	\$000	\$000
At 1 January	-	-
Additions in the period	22,563	-
Exploration expenditure written off	(22,563)	-
	<u>-</u>	<u>-</u>
At 31 December	-	-

Exploration expenditure includes farm-in fees, prospect and licence fees, geological studies, and drilling costs. The expenditure in 2008 comprised \$1,252,000 spent on Licence P007 (Block 48/25c), \$19,886,000 on Licence P1096 (Block 19/2) and \$1,425,000 on Licence P1208 (Blocks 9/22, 9/23c).

5. Debtors

	2008	2007
	\$000	\$000
Trade debtors	1	-
Recoverable costs owed by Related Parties	106	-
Other debtors	2	-
Prepaid Well costs on the Vulcan Well	9,629	-
	<u>9,738</u>	<u>-</u>

6. Creditors: amounts falling due within one year

	2008	Restated 2007
	\$000	\$000
Trade creditors – Related Parties	11	-
Trade creditors – other	135	-
Current taxation	54	-
Accruals	206	-
	<u>406</u>	<u>-</u>

Notes to the financial statements

for the year ended 31 December 2008

7. Creditors: amounts falling due in more than one year

	2008	2007
	\$000	\$000
Amounts owed to parent company	32,534	-
	<u>32,534</u>	<u>-</u>

8. Share capital

	2008	Authorised 2007
	\$	\$
1,000 ordinary shares of £1 each	1,786	1,786
	<u>1,786</u>	<u>1,786</u>

	Allotted, called up and fully paid 2008		2007	
	No.	\$	No.	\$
Ordinary shares of £1 each	1	2	1	2
	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>

9. Reconciliation of shareholders' funds and movements in reserves

	Share capital \$000	Capital contributions \$000	Profit and loss account \$000	Total shareholders funds \$000
Balance at 1 January 2007 (as previously reported)	-	-	(11,086)	(11,086)
Loss on ordinary activities for the year	-	-	(1)	(1)
Prior year adjustment	-	11,087	-	11,087
Balance at 31 December 2007 (as restated)	-	11,087	(11,087)	-
Loss on ordinary activities for the year	-	-	(22,496)	(22,496)
Balance at 31 December 2008	-	11,087	(33,583)	(22,496)

The prior year adjustment (and consequential restatement) arises from the reclassification of amounts previously treated as due to the previous Parent Company, now to be treated as permanent capital contributions.

10. Related party transactions

During the year, this Company ("Champion") had dealings with Century Exploration (UK) Limited ("Century"), a company owned and controlled by Century Exploration International Inc, a company registered in Delaware USA, as follows:

Notes to the financial statements

for the year ended 31 December 2008

- a) In March 2008 a Participation Agreement was concluded to jointly participate in an exploration programme with Century. For any prospect that Champion elected to participate in, the company would pay \$500,000 on a 100% basis, prorated to its actual participating interest. The prospects that this agreement covers are NW Vulcan and Aster both on Licence P007, Dolphin on Licence P1096, and Globe and Roebuck both on Licence P1208. Prospect fees of \$162,500, \$250,000 and \$25,000 were incurred relating to Licences P007, P1096 and P1208 respectively on electing to so participate therein.
- b) Also in March 2008, a Farm-Out Agreement was entered into with Century in respect of Licence P007 whereby Champion would acquire 32.50% of Century's working interest in Licence P007 [Block 48/25c, Northwest Vulcan area], in consideration for Champion paying 52% of the costs of an initial exploration well, which was drilled in February/March 2009.
- c) In May 2008 the Company concluded another agreement with Century, farming in to acquire one fifth of Century's 25% working interest in Licence P1208 [Blocks 9/22, 23c] for \$1,425,000.
- d) In June 2008 the Company concluded a fourth agreement with Century, farming in to acquire two thirds of Century's 75% working interest in Licence P1096 [Block 19/2] in consideration for carrying Century's interest in an initial exploration well drilled in September/October 2008.

The parties are "related" (for the purpose of this note) because the Directors of this Company are also the Directors of Century Exploration (UK) Limited. Neither company is a subsidiary of the other.

11. Parent undertaking and controlling party

The company is owned by Champion Exploration International, Inc., a Delaware corporation, which is owned and controlled by Champion Exploration, LLC, a Delaware limited liability company. Copies of their financial statements are available from 1537 Bull Lea Road, Suite 200, Lexington, Kentucky, 40511-1200, USA.

12. Post Balance Sheet events

- a) In February/March 2009 the Company participated in the drilling of Well 48/25c-6 (the 'Vulcan Well'). These accounts [see Note 6] include \$ 9,629,000 paid for in 2008, and treated as a prepayment of those Well costs at 31 December 2008. The Well was plugged and abandoned as non-commercial on completion of the drilling activities in March 2009, those prepayments being then included within the final cost of the Well.
- b) The Company relinquished its remaining acreage in Licence P1096 [Block 19/2] on 28 February 2009.