

Registered No: SC 278913 (Scotland)

**REPORT OF THE DIRECTORS AND UNAUDITED FINANCIAL
STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2011

FOR

Champion Exploration (UK) Limited

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CHAMPION EXPLORATION (UK) LIMITED

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Registered No: SC 278913 (Scotland)

CHAMPION EXPLORATION (UK) LIMITED

COMPANY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2011

Directors

Jonathan B Rudney
Howard A Settle

Secretary

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

Registered Office

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

Report of the Directors

The Directors present their report with the financial statements for the year ended 31 December 2011.

Principal activity and review of the business

The principal activity of the company was that of exploring for oil and gas.

The company had disposed of its remaining licence interests in the UK sector of the North Sea in 2010.

The company plans to obtain reserves and production in the UK, and continues to look for opportunities to do so. Regrettably none have arisen during the year.

Directors

The Directors shown below have held office during the whole of the period from 1 January 2011 to the date of this Report.

Jonathan B Rudney
Howard A Settle

Statement of Directors' Responsibilities

The directors are responsible for preparing the Report of the Directors 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). 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;
- 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.

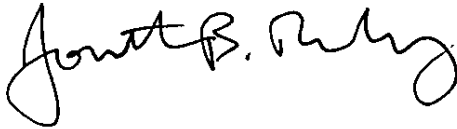
The Report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

Audit requirements

The financial statements are produced on a non audited basis, because, in the directors' opinion, the company is entitled to exemption from audit by virtue of section 477 of the Companies Act 2006, and that no members required the company to obtain or perform an audit in accordance with section 476 of that Act.

Report of the Directors

On behalf of the Board:

A handwritten signature in black ink, appearing to read 'Jonathan B. Rudney', written in a cursive style.

Jonathan B Rudney
Director

19 July 2012

Profit and loss account

for the year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>\$000</i>	<i>2010</i> <i>\$000</i>
Turnover		-	-
Production costs		-	-
		<u>-</u>	<u>-</u>
Gross profit		-	-
Exploration expenditure written off	5		1
Operating and administration expenses		(18)	(15)
Exchange gains (losses)		1	(13)
		<u>-</u>	<u>-</u>
Operating loss	2	(17)	(27)
Interest income		-	-
		<u>-</u>	<u>-</u>
Loss on ordinary activities before taxation		(17)	(27)
Tax credits (charges) on loss on ordinary activities	3	-	-
		<u>-</u>	<u>-</u>
Loss for the year	10	(17)	(27)
		<u><u>-</u></u>	<u><u>-</u></u>

The notes form part of these financial statements

Balance sheet

at 31 December 2011

	Notes	2011 \$000	2010 \$000
Fixed assets			
Intangible assets	4	-	-
		<u>-</u>	<u>-</u>
Current assets			
Debtors and prepayments	5	5	-
Cash at bank and in hand		308	332
		<u>312</u>	<u>332</u>
Creditors: amounts falling due within one year	6	(1)	(3)
		<u>312</u>	<u>329</u>
Net current assets			
Creditors: amounts falling due in more than one year	7	(356)	(356)
		<u>(44)</u>	<u>(27)</u>
Total net liabilities		<u>(44)</u>	<u>(27)</u>
Capital and reserves			
Called up share capital	8	-	-
Capital contributions	9	45,272	45,272
Profit and loss account	9	(45,316)	(45,299)
	9	<u>(44)</u>	<u>(27)</u>

The company is entitled to exemption from audit under section 477 of the Companies Act 2006 for both the years ending 31 December 2010 and 31 December 2011.

The members have not required the company to obtain an audit of its financial statements for the year ended 31 December 2011 in accordance with Section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities for :

- (a) ensuring that the company keeps accounting records which comply with Sections 386 and 387 of the Companies Act 2006 and
- (b) preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Sections 394 and 395 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as is applicable to the company..

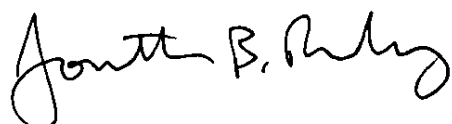
The financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The notes form part of these financial statements

Balance sheet

at 31 December 2011

The financial statements were approved by the Board of Directors on 19 July 2012 and were signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Jonathan B. Rudney', written in a cursive style.

Jonathan B Rudney
Director

The notes form part of these financial statements

Notes to the financial statements

for the year ended 31 December 2011

1. Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern..

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.

Exemption from preparing a cash flow statement

Exemption has been taken from preparing a cash flow statement, on the grounds that the company qualifies as a small company.

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for accounting and taxation purposes.

Provision is made at current rates for tax deferred in respect of all timing differences. Deferred tax assets are only recognised to the extent that they are regarded as recoverable. The company has not adopted a policy of discounting deferred tax assets and liabilities.

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 2011 is £1 - \$ 1.5456 (2010: £1 - \$1.5471).

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.

2. Operating loss

Operating loss is stated after charging:

Notes to the financial statements

for the year ended 31 December 2011

2011	2010
\$000	\$000

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

Analysis of the tax charge

The tax charge (credits) on the losses on ordinary activities for the year was as follows:

2011	2010
\$000	\$000

Current tax:

UK Corporation Tax	-	-
Tax on losses on ordinary activities	-	-

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

There are no taxable profits in 2010 or 2011.

4. Intangible assets

2011	2010
\$000	\$000

At 1 January	-	-
Additions (credits) in the period	-	(1)
Exploration expenditure (written off) or written back	-	1
	<u>-</u>	<u>-</u>
At 31 December	-	-

Exploration expenditure includes farm-in fees, prospect and licence fees, geological studies, and drilling costs. The expenditure was spent on the following licences :

2011	2010
\$000	\$000

Licence P1096 (Block 19/2)	-	(1)
	<u>-</u>	<u>(1)</u>
	<u>-</u>	<u>-</u>

5. Debtors : amounts falling due within one year

2011	2010
\$000	\$000

Other debtors	5	-
	<u>5</u>	<u>-</u>
	<u>5</u>	<u>-</u>

Notes to the financial statements

for the year ended 31 December 2011

6. Creditors: amounts falling due within one year

	2011 \$000	2010 \$000
Trade creditors – other	1	3
	<u>1</u>	<u>3</u>

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

	2011 \$000	2010 \$000
Amounts owed to parent company	34,542	34,542
Reclassified as permanent capital contributions to the company	(34,186)	(34,186)
	<u>356</u>	<u>356</u>

8. Share capital

	2011 \$	Authorised 2010 \$
1,000 ordinary shares of £1 each	1,786	1,786

	Allotted, called up and fully paid			
	No.	2011 \$	No.	2010 \$
Ordinary shares of £1 each	1	2	1	2

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 2011	-	45,272	(45,299)	(27)
Loss on ordinary activities for the year	-	-	(7)	(7)
Balance at 31 December 2010	<u>-</u>	<u>45,272</u>	<u>(45,316)</u>	<u>(44)</u>

Notes to the financial statements

for the year ended 31 December 2011

10. 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.