Endeavour Energy UK Limited

Directors' report and financial statements

Registered number 05030838

30 April 2006

Contents

Directors' report

The directors present their report and the audited financial statements for the period 1 January 2006 to 30 April 2006

Principal activities

The company was incorporated on 30 January 2004 The principal activities of the company have focused on the acquisition, exploration and development of energy reserves in the North Sea

Business review

The Board of Directors and management evaluate the results of the company based on various non-financial measures, such as success in licensing rounds, drilling results of the capital program and completion of acquisitions

In July 2004, the company participated in the 22nd Licensing Round in the United Kingdom, receiving nine production licenses that cover 18 blocks Endeavour currently anticipates serving as operator of five production licenses we hold located in the Central North Sea

Of the licenses, four licenses covering eight blocks were granted under traditional terms that require the company to fulfil a work program within four years from the date of award The remaining five licenses covering 10 blocks are under "promote" terms that require the company to pay reduced license fees for a two-year period as exploratory evaluations are conducted

During third quarter of 2005, the company was awarded 11 production licenses covering 17 blocks in the 23rd Licensing Round

Initial drilling began in the third quarter of 2005 The company participated in the drilling of four wells during 2005 Fiacre, Prometheus, Turnberry and Turriff In each case, the wells were ultimately determined unsuccessful due to the primary risks identified by the company's pre-drilling geological and geophysical analysis The results reflect the element of risk that is inherent to the exploration business and the statistical probabilities associated with the search for oil and gas

During 2005, the company recorded $27,116,489 in impairment of oil and gas properties related to these four exploratory wells The impairment includes dry hole costs incurred at December 31, 2005 and certain other costs previously capitalized related to these prospects The Turriff well was in the process of being abandoned at December 31, 2005, and the company incurred additional costs of $848,562 that were expensed during 2006

In December 2005, the company entered into a farm-in agreement covering two blocks in the Southern Gas Basin in the United Kingdom sector of the North Sea, the drilling of the Cygnus 44/12-2 well in these blocks, in which we have a 12 5 percent working interest, began in February 2006 In May 2006, the Company announced that the Cygnus 44/12-2 well successfully tested as a gas discovery Operations at the site have been suspended following the completion of testing

In December 2005, the company also entered into a definitive agreement with Petro-Canada UK Limited to purchase an eight percent interest in the Enoch Field in the North Sea for approximately $11 6 million The transaction closed during May 2006

In October 2006, the company entered into an agreement in with Apache Corporation ("Apache") to participate in two exploratory wells to be drilled by Apache during the fourth quarter of 2006 as part of its ongoing exploration campaign in the North Sea The farm-in arrangement with Apache calls for the company to provide Apache the second slot of its two-well drilling commitment for a semi-submersible rig in return for an option to purchase a 10 percent working interest in the Howgate prospect in Block 9/4a in the event of a discovery The company has chosen not to elect this option to purchase an interest in the Howgate prospect

Also as part of the arrangement, the company purchased a 10 percent working interest in the Bacchus prospect in the northern part of block 22/6a in the Central Graben region The Bacchus prospect was drilled in late 2006 to test the commercial potential of a discovery well that was drilled in 2005 and flowed oil from an Upper Jurassic sandstone The company continues to evaluate the drilling results of the Bacchus prospect

In October 2006, the company entered into an agreement with EOG Resources United Kingdom Limited ("EOG") for the drilling of the Columbus exploratory prospect on Block 23/16f in the Central Graben region of the North Sea The company is serving as operator of the well, which began drilling in late October 2006 and was announced as a successful well in December 2006

In November 2006, the company completed its acquisition of all of the outstanding shares of Talisman Expro Limited for US $375 million, after preliminary purchase price adjustments (the "UK Acquisition") As a result of the UK Acquisition, the company acquired interests in eight fields in the United Kingdom sector of the North Sea

In November 2006, the company funded the UK Acquisition through the issuance of a $225 million senior bank facility, subject to a borrowing base limitation, and funds received from the parent company The initial borrowing base is $185 million and is subject to redetermination every six months with an independent reserve report required every 12 months With the UK Acquisition, the company utilized $150 million of the borrowing base The senior bank facility also provides for issuances of letters of credit of up to an aggregate $60 million While all letters of credit issued under the senior bank facility will reduce the total amount available for drawing under the senior bank facility, letters of credit issued to secure abandonment liabilities in respect of borrowing base assets will not reduce the amount available under the borrowing base

Indebtedness under the facility is secured by cross guarantees from all of the ultimate parent company's subsidiaries, share pledges from all of the ultimate parent company's subsidiaries, floating charges over the operating assets held in the United Kingdom and a receivables pledge for the ultimate parent company's Norwegian subsidiary Borrowings under the senior bank facility will bear interest at LIBOR plus 1 3% for the first $168 million of availability, and LIBOR plus 1 7% for up to an additional $18 million of availability

The senior bank facility contains customary covenants, which limit the company's ability to incur indebtedness, pledge assets, dispose of assets and make exploration and appraisal expenditures In addition, the senior bank facility contains various financial and technical covenants for the ultimate parent company

The final maturity is the earlier of five years and the reserve tail date, being the date when the remaining borrowing base reserves are projected to be 20% or less of the initially approved borrowing base reserves The senior bank facility is subject to mandatory prepayment in the event of a change of control of any obligor under the senior bank facility agreement It is prepayable at the company's option at any time without penalty (aside from standard broken funding costs)

As part of the financing for the UK Acquisition and in November 2006, the immediate parent company, Endeavour International Holding BV, entered into a $75 million second lien term loan Indebtedness under the loan is secured by cross guarantees from all of the ultimate parent company's subsidiaries and a second ranking interest in the security package provided under the senior bank facility The second lien term loan contains customary covenants, which limit the company's ability to incur indebtedness, pledge assets, dispose of assets and make exploration and other capital expenditures In addition, the second lien term loan contains various financial covenants for the ultimate parent company

The second lien term loan matures in five years and is subject to mandatory prepayment related to specified percentages for the ultimate parent company of excess cash flow, proceeds of asset sales and proceeds of issuance of debt and equity securities The second lien term loan may be prepaid at any time at a premium, which premium starts at 3% in the first year and decreases 1% per year until no premium is payable (in addition to standard broken funding costs in the event of prepayment other than on the last day of an interest period)

Results and dividends

The company loss after taxation amounted to $1,584,234 and $31,524,753 in the period 1 January 2006 to 30 April 2006 and in the 2005 financial year, respectively No dividend was declared by the Directors

Directors and directors' interests

The directors who held office during the period or subsequent to period end were as follows

J W Munns
J A Patrick (resigned 7 February 2006)
J N Seitz (resigned 30 September 2006)
B H Stover (appointed 7 February 2006, resigned 23 August 2006)
W L Transier (resigned 23 August 2006)
L Gilliland
R F T Fitzpatrick (appointed 23 August 2006)
D J Griffiths (appointed 23 August 2006)

As Messrs Gilliland, Transier, Seitz and Stover are employees of the parent company, all their remuneration was paid by the parent company

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial period

Certain directors benefited from qualifying third party indemnity provisions in place during the period ended 30 April 2006 and at the date of this report The company provided qualifying third party indemnity provisions to certain directors of associated companies during the period ended 30 April 2006 and at the date of this report

Political and charitable contributions

The company made no political contributions during the period The company made no significant charitable contributions during the period

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 the 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

Auditors

During 2004, the company appointed KPMG LLP as auditors Pursuant to a shareholder's resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office

By order of the board

Director

One Ropemaker Street, London EC2Y 9UE

27 April 2007

Statement of directors' responsibilities in respect of the Directors' Reports and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG

KPMG LLP
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Independent Auditors' Report to the Members of Endeavour Energy UK Limited

We have audited the financial statements of Endeavour Energy UK Limited for the period 1 January 2006 to 30 April 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes These financial statements have been prepared under the accounting policies set out therein

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 auditor's 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements on page 5

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 April 2006 and of its loss for the period 1 January 2006 to 30 April 2006,
- 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

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

London
27 April 2007

Profit and loss account

for the period *1 January 2006 through 30 April 2006*

	Note	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Turnover		$ -	$ -
Depreciation	3, 7	(21,348)	(104,320)
Impairment of oil and gas properties	3, 7	(848,562)	(27,116,489)
Administrative expenses		(765,724)	(3,455,190)
Operating loss		(1,635,634)	(30,675,999)
Interest income		22,519	85,729
Interest expense		(6,264)	(38,485)
Net foreign currency exchange losses and similar charges		35,145	(895,998)
Loss on ordinary activities before taxation	3	(1,584,234)	(31,524,753)
Tax on loss on ordinary activities	6	-	-
Retained loss for the period		$(1,584,234)	$(31,524,753)

All gains and losses arising during the period have been recognised in the profit and loss account and derive from continuing operations of the company The effect of changes in accounting policy are set out in note 2

The notes on pages 10 to 24 form an integral part of these accounts

Balance sheet

at 30 April 2006 and 31 December 2005

	Note	30 April 2006	31 December 2005
Fixed assets			
Oil and gas assets	*7*	$ 21,373,649	$ 10,985,540
Other tangible assets	*7*	441,308	312,340
		21,814,957	11,297,880
Current assets			
Debtors	*8*	674,672	2,118,339
Cash at bank and in hand		180,393	138,328
		855,065	2,256,667
Creditors: amounts falling due within one year	*9*	(58,460,496)	(47,827,091)
Net current liabilities		(57,605,431)	(45,570,424)
Total assets less current liabilities		(35,790,474)	(34,272,544)
Net liabilities		$ (35,790,474)	$ (34,272,544)
Shareholder's equity			
Called up share capital	*10*	$ 2	$ 2
Profit and loss account	*11*	(35,790,476)	(34,272,546)
		$ (35,790,474)	$ (34,272,544)

These financial statements were approved by the board of directors on 27 April 2007 and were signed on its behalf by

The notes on pages 10 to 24 form an integral part of these accounts

Director

Reconciliation of movements in shareholders' funds

for the period *1 January 2006 through 30 April 2006*

	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Opening shareholders' funds, as previously reported	$(34,272,544)	$ (2,908,680)
Loss for the financial year	(1,584,234)	(31,524,753)
Restatement for adoption of FRS 20 "Share-based Payment"	-	(101,494)
Accrued entitlements for unvested employee share grants	66,304	262,383
Closing shareholders' funds	$(35,790,474)	$ (34,272,544)

The notes on pages 10 to 24 form an integral part of these accounts

Notes

(forming part of the financial statements)

1. *Financing*

The company was incorporated on 30 January 2004 The company is dependant on financing from the ultimate parent, Endeavour International Corporation At 30 April 2006, the company has negative net assets of $35,790,474 and has incurred a loss over the period of $1,584,234 The company has received a letter of support from the ultimate parent which supports it to continue for at least the twelve months following the date of signing of these financial statements Subsequent to 30 April 2006, the Company has made a significant acquisition and has entered into substantial loan obligations These are disclosed in note 16

2. *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 The company has adopted FRS 20 'Share-based payments ' This change in accounting policy has had the effect of decreasing shareholders equity at 1 January 2005 by $101,494, increasing net loss for the period 1 January 2006 to 30 April 2006 by $20,554 (2005 $136, 439) and increasing shareholders funds at the end of the period by $70,200 (2005 $24,450)

Basis of preparation

The financial statements have been prepared using the going concern assumption, in accordance with applicable accounting standards, under the historical cost accounting rules and in accordance with the Statement of Recommended Practice Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As the company is a wholly owned subsidiary of Endeavour International Corporation, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Endeavour International Corporation, within which this company is included, can be obtained from Endeavour International Corporation, 1000 Main Street, Suite 3300, Houston, TX USA 77002

Joint arrangements

The company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own The company includes its share of assets, liabilities and cash flows in joint arrangements, measured in accordance with the terms of each arrangement, which are usually pro rata to the company's interest in the joint arrangement

Oil and gas fixed assets

The company uses the full cost method of accounting for oil and gas assets Under this method all expenditures in connection with the acquisition, exploration, appraisal and development of oil and gas assets, including interest and exchange differences incurred on borrowing in respect of development projects and direct overheads are capitalised and accumulated in full cost pools on a geographical basis (see note 7)

The costs of undeveloped acreage and exploration assets are excluded from the capitalised cost pool to be depleted, pending determination of the recoverable reserves attributable to such assets Any impairment in value of the cost pool is charged through the profit and loss account as additional depletion where it is considered that an impairment in value of the asset has occurred Once the exploration of the areas associated with a full cost pool has been completed and its results evaluated, then a commercial discovery is made, or if not, impairment is assessed

Other tangible fixed assets

Depreciation on other tangible fixed assets is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives of two to three years

Ceiling tests

Where there is an indication that the value of an oil and gas cost pool may be impaired, the net amount at which the pool is recorded is assessed for recoverability against the discounted future estimated net cash flows expected to be generated from the estimated remaining commercial reserve This assessment is made on the basis of future oil and gas prices, exchange rates and cost levels as forecast at the balance sheet date A provision is made, by way of an additional depreciation charge, where the carrying value of the pool exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves

Use of estimates

The preparation of the financial statements in accordance with accounting principles in force requires that the Company's Board of Directors makes estimates as of the date of the financial statements about the value of certain assets and liabilities, including contingent liabilities, as well as the amounts of certain earnings and expenses recorded during the period The actual value of transactions and balances subject to these estimates may differ from the estimated amounts

Corporate and deferred taxation

The charge for taxation is based on the result 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 recognized, without discounting, in respect of all timing differences between the treatment of items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19 Deferred Tax (FRS 19)

Foreign currencies

The functional and reporting currency of the company is the United States dollar Transactions in other currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in other currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Post-retirement benefits

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Employee share schemes

The employee share scheme allows employees to acquire shares of the parent company The fair value of awards is measured at grant date and spread over the period during which the employees become unconditionally entitled to the awards The fair value of options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest

3. *Loss on ordinary activities before taxation*

	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit	$ 50,000	$ 57,595
Other services - fees paid to the auditor and its associates for tax services	-	64,506
Depreciation and other amounts written off tangible fixed assets		
Owned	869,910	27,220,809

4. *Remuneration of directors*

	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Directors' emoluments	$ 71,004	$ 369,384
Amounts receivable under long term incentive schemes	170,808	610,133
	$ 241,812	$ 979,517

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was $141,888 and $560,774 for the period 1 January 2006 to 30 April 2006 and the 2005 financial year, respectively During the period, the highest paid director received shares and options to purchase shares in Endeavour International Corporation under a long term incentive scheme

	Number of directors 2006	2005
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	6	6

5. *Staff numbers and costs*

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows

	Number of employees	
	2006	2005
Management	3	3
Operations and administration	9	6
	12	9

The aggregate payroll costs of these persons were as follows

	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Wages and salaries	$ 521,102	$ 1,261,072
Share based payments (see note 2)	531,754	1,075,647
Social security costs	47,918	111,338
Pension costs	21,907	51,710
Other payroll costs	101,089	286,782
	$ 1,223,770	$ 2,786,549

6. *Taxation*

Due to the fact that for UK tax purposes trading had not yet begun, there was no current corporation tax charge arising from the company's activities for the period 1 January 2006 to 30 April 2006 and the 2005 financial year

	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Current tax		
UK corporation tax on loss for period	$ -	$ -
Deferred tax (see note)		
Origination/reversal of timing differences	$ -	$ -
Adjustment in respect of previous periods	-	-
Total deferred tax	-	-
Tax on loss on ordinary activities	$ -	$ -

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	Period 1 January 2006 to 30 April 2006	Year Ended 31 December 2005
Current tax reconciliation		
Loss on ordinary activities before tax	$ (1,584,234)	$ (31,524,753)
Current tax at 30%	(475,270)	(9,457,426)
Effects of		
Depreciation in excess of capital allowances	260,973	8,166,243
Valuation for employee stock options	145,711	284,911
Pre-trading losses	68,586	1,006,272
Total current tax charge (see above)	$ -	$ -

At 30 April 2006 deferred tax assets of $1,580,538 and $8,437,580 arising in relation to pre-trading losses and accelerated capital allowances respectively have not been recognised on the balance sheet At 31 December 2005 deferred tax assets of $1,511,952 and $8,176,607 arising in relation to pre- trading losses and accelerated capital allowances respectively have not been recognised on the balance sheet

7. *Tangible fixed assets*

The property costs accumulated during the period 1 January 2006 to 30 April 2006 analysed by category, were as follows

	Oil and gas properties	Other tangible assets	Total
Cost			
At beginning of period	$ 38,102,030	$ 451,216	$ 38,553,246
Additions	11,187,007	199,980	11,386,987
At end of period	$ 49,289,037	$ 651,196	$ 49,940,233
Amortisation			
At beginning period	$ (27,116,489)	$ (138,876)	$ (27,255,365)
Charged in period	(798,899)	(71,012)	(869,911)
At end of period	$ (27,915,388)	$ (209,888)	$ (28,125,276)
Net book value			
At 30 April 2006	$ 21,373,649	$ 441,308	$ 21,814,957

During 2006, the company recorded $848,562 in impairment of oil and gas properties related to one well that was still in the process of being abandoned at 31 December 2005

The property costs accumulated during the year ended 31 December 2005, analysed by category, were as follows

	Oil and gas properties	Other tangible assets	Total
Cost			
At beginning of period	$ 6,414,188	$ 255,237	$ 6,669,425
Additions	31,687,842	195,979	31,883,821
At end of period	$ 38,102,030	$ 451,216	$ 38,553,246
Amortisation			
At beginning period	$ -	$ (34,556)	$ (34,556)
Charged in period	(27,116,489)	(104,320)	(27,220,809)
At end of period	$ (27,116,489)	$ (138,876)	$ (27,255,365)
Net book value			
At 31 December 2005	$ 10,985,540	$ 312,340	$ 11,297,880

During 2005, the company recorded $27,116,489 in impairment of oil and gas properties related to four exploratory wells, Fiacre, Prometheus, Turnberry and Turriff The impairment includes dry hole costs incurred at 31 December 2005 and certain other costs previously capitalized related to these prospects

Oil and gas fixed assets, consisting of primarily of seismic data for oil and gas properties and certain directly related employee costs, are included at cost Other tangible fixed assets, consisting of office equipment, are included at cost

8. *Debtors: amounts falling due within one year*

	2006	2005
Non-corporate taxes	$ 51,380	$ 139,717
Receivables from third parties	387,075	204,272
Interest receivable	-	93,304
Prepayments	236,217	1,681,046
	$ 674,672	$2,118,339

9. *Creditors: amounts falling due within one year*

	2006	2005
Trade creditors	$ 8,868,533	$ 11,614,705
Amounts owed to ultimate parent	49,546,795	36,168,879
Taxation and social security	45,168	43,507
	$ 58,460,496	$ 47,827,091

10. *Called up share capital*

	2006	2005
Authorised		
Equity 1,000 Ordinary shares of £1 00 each	£ 1,000	£ 1,000
	£ 1,000	£ 1,000
Allotted, called up and fully paid		
Equity 1 Ordinary share of £1 00	$ 2	$ 2
	$ 2	$ 2

11. *Profit and loss account*

The activity in the profit and loss accounts for the periods shown is as follows

	2006	2005
At beginning of period	$ (34,272,546)	$ (2,908,682)
Restatement for adoption of FRS 20 "Share-based Payment"	-	(101,494)
Accrued entitlements for unvested employee share grants	66,304	262,383
Retained loss for the year/period	(1,584,234)	(31,524,753)
At end of period	$ (35,790,476)	$ (34,272,546)

12. *Commitments*

Capital commitments at the end of the financial year, for which no provision has been made, are as follows

	2006	2005
Contracted	$34,842,580	$34,511,845

Capital commitments represent commitments for exploration expenditures arising from exploration licenses granted, the purchase of the Enoch field and drilling rig contracts The company has a commitment for drilling services with a semi-submersible drilling rig, for two wells in the last half of 2006 for approximately $13 5 million In October 2006, the company entered into an agreement with Apache Corporation As part of this agreement, Apache Corporation will assume the commitment for the second well See Note 16 for additional discussion

13. Pension scheme

The company contributes to a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to $21,907 and $51,710 for the period 1 January 2006 to 30 April 2006 and the 2005 financial year, respectively

14. Share-based payments

The ultimate parent company grants restricted stock and stock options of the ultimate parent company, including notional restricted stock and options, to employees and directors as incentive compensation The notional restricted stock and options may be settled in cash or stock upon vesting, at the company's option, however it has been the company's practice to settle in stock The restricted stock and options generally vest over a three year service period and the options have a five year expiration The vesting of these shares and options is dependent upon the continued service of the grantees to the company Upon the occurrence of a change in control, each share of restricted stock and stock option outstanding on the date on which the change in control occurs will vest immediately

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model Expected volatility is based on for the historical volatility of the ultimate parent company for the length of the expected term The expected term is the average of the vesting date and the expiration of the option The company uses historical data to estimate option exercises and employee terminations within the valuation model The risk-free rate for periods within the contractual life of the option is based on the U S treasury yield curve in effect at the time of grant

Share options are granted under a service condition, however no market-based performance conditions are included in their terms There is a mechanism in place whereby the company reimburses the ultimate parent company for the cost of awards issued by the ultimate parent company to employees of the company This reimbursement is accounted for in the amounts owed to ultimate parent

The estimated fair value of each option granted was calculated using the Black-Scholes Method The following summarizes the weighted average of the assumptions used in the method

	2006	2005 Pro forma
Weighted average share price on the day of grant	$3 51	$4 05
Risk free rate	4%	4%
Expected years until exercise	4	4
Expected stock volatility	56%	62%
Dividend yield	-	-

Information relating to stock options, including notional stock options, is summarized as follows

	Period from 1 January 2006 to 30 April 2006		Year ended 31 December 2005	
	Number of Shares	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
Balance outstanding – beginning of period	398,034	$3 05	262,000	$2 00
Granted	82,500	3 51	202,700	4 05
Exercised	(50,000)	2 00	(66,666)	2 00
Forfeited	(83,332)	2 44	-	-
Balance outstanding – end of period	347,202	$3 45	398,034	$3 05
Currently exercisable – end of period	106,907	$3 01	20,668	$2 00

The weighted average share price at the date of exercise of the stock options exercised during the period 1 January 2006 to 30 April 2006 was $3 26 The options outstanding at 30 April 2006 have an exercise price in the range of $2 00 to $4 19 and a weighted average contractual life of 3 6 years The weighted average grant-date fair value of options granted during the period 30 April 2006 and the financial year 2005 was $1 67, and $1 96, respectively

At 30 April 2006, our employees and directors held 567,534 restricted shares of our common stock that vest over the service period of up to three years The restricted stock awards were valued based on the closing price of the ultimate parent company's common stock on the measurement date, typically the date of grant, and compensation expense is recorded on a straight-line basis over the restricted share vesting period

Status of the restricted shares as of 31 December 2005 and the changes during the period 1 January 2006 to 30 April 2006 are presented below

	Period from 1 January 2006 to 30 April 2006		Year ended 31 December 2005	
	Number of Shares	Weighted Average Grant Date Fair Value per Share	Number of Shares	Weighted Average Grant Date Fair Value per Share
Balance outstanding – beginning of period	560,316	$ 3 43	254,250	$ 3 26
Granted	193,705	$ 3 51	444,150	$ 3 46
Vested	(119,821)	$ 3 44	(138,084)	$ 3 23
Forfeited	(66,666)	$ 3 30	-	$ -
Balance outstanding – end of period	567,534	$ 3 47	560,316	$ 3 43

The total expense recognised for the period arising from share-based payments is $531,754 (2005 $1,075,647)

15. Ultimate controlling party

The company is a subsidiary undertaking of Endeavour International Corporation incorporated in the United States of America and the Directors regard Endeavour International Corporation as the ultimate parent and controlling party The company is a wholly owned subsidiary of Endeavour International Holding BV, a company incorporated in the Netherlands which is the immediate parent company

The largest group in which the results of the company are consolidated is that headed by Endeavour International Corporation The smallest group in which the results of the company are consolidated is that headed by Endeavour International Holding BV, incorporated in the Netherlands Copies of the consolidated financial statements are available from Endeavour International Corporation, 1000 Main Street, Suite 3300, Houston, TX USA 77002

16. Post balance sheet events

<u>Completion of the Cygnus Well</u>

In December 2005, the company entered into a farm-in agreement covering two blocks in the Southern Gas Basin in the United Kingdom sector of the North Sea, the drilling of the Cygnus 44/12-2 well in these blocks, in which we have a 12 5 percent working interest, began in

February 2006 In May 2006, the Company announced that the Cygnus 44/12-2 well successfully tested as a gas discovery

Closing of Enoch Acquisition

In December 2005, the company also entered into a definitive agreement with Petro-Canada UK Limited to purchase an eight percent interest in the Enoch Field in the North Sea for approximately $11 6 million The transaction closed in May 2006

2007 Rig Commitment Contract

In May 2006, the company entered into a rig commitment for 220 days over a one-year period beginning in March 2007 for the United Kingdom sector of the North Sea The value of this contact is approximately $66 million The arrangement is with Applied Drilling Technology International, a division of GlobalSantaFe

Farm-In Agreement with Apache Corporation

In October 2006, the company entered into an agreement with Apache Corporation ("Apache") to participate in two exploratory wells to be drilled by Apache during the fourth quarter of 2006 as part of its ongoing exploration campaign in the North Sea The farm-in arrangement with Apache calls for the company to provide Apache the second slot of its two-well drilling commitment for a semi-submersible rig in return for an option to purchase a 10 percent working interest in the Howgate prospect in Block 9/4a in the event of a discovery The company has chosen not to elect this option to purchase an interest in the Howgate prospect

Also as part of the arrangement, the company purchased a 10 percent working interest in the Bacchus prospect in the northern part of block 22/6a in the Central Graben region The Bacchus prospect was drilled in late 2006 to test the commercial potential of a discovery well that was drilled in 2005 and flowed oil from an Upper Jurassic sandstone The company continues to evaluate the drilling results of the Bacchus prospect

Farm-In Agreement with EOG Resources

In October 2006, the company entered into an agreement with EOG Resources United Kingdom Limited ("EOG") for the drilling of the Columbus exploratory prospect on Block 23/16f in the Central Graben region of the North Sea The company is serving as operator of the well, which began drilling in late October 2006 and was announced as a successful well in December 2006

UK Acquisition

In November 2006, the company completed its acquisition of all of the outstanding shares of Talisman Expro Limited for US $375 million, after preliminary purchase price adjustments (the "UK Acquisition") As a result of the UK Acquisition, the company acquired interests in eight fields in the United Kingdom sector of the North Sea

Senior Bank Facility

In November 2006, the company funded the UK Acquisition through the issuance of a $225 million senior bank facility, subject to a borrowing base limitation, and funds received from the parent company The initial borrowing base is $185 million and is subject to redetermination every six months with an independent reserve report required every 12 months With the UK Acquisition, the company utilized $150 million of the borrowing base The senior bank facility also provides for issuances of letters of credit of up to an aggregate $60 million While all letters of credit issued under the senior bank facility will reduce the total amount available for drawing under the senior bank facility, letters of credit issued to secure abandonment liabilities in respect of borrowing base assets will not reduce the amount available under the borrowing base

Indebtedness under the facility is secured by cross guarantees from all of the ultimate parent company's subsidiaries, share pledges from all of the ultimate parent company's subsidiaries, floating charges over the operating assets held in the United Kingdom and a receivables pledge for the ultimate parent company's Norwegian subsidiary Borrowings under the senior bank facility will bear interest at LIBOR plus 1 3% for the first $168 million of availability, and LIBOR plus 1 7% for up to an additional $18 million of availability

The senior bank facility contains customary covenants, which limit the company's ability to incur indebtedness, pledge assets, dispose of assets and make exploration and appraisal expenditures In addition, the senior bank facility contains various financial and technical covenants for the ultimate parent company

The final maturity is the earlier of five years and the reserve tail date, being the date when the remaining borrowing base reserves are projected to be 20% or less of the initially approved borrowing base reserves The senior bank facility is subject to mandatory prepayment in the event of a change of control of any obligor under the senior bank facility agreement It is prepayable at the company's option at any time without penalty (aside from standard broken funding costs)

Funding from Parent Company

As part of the financing for the UK Acquisition and in November 2006, the immediate parent company, Endeavour International Holding BV, entered into a $75 million second lien term loan Indebtedness under the loan is secured by cross guarantees from all of the ultimate parent company's subsidiaries and a second ranking interest in the security package provided under the senior bank facility The second lien term loan contains customary covenants, which limit the company's ability to incur indebtedness, pledge assets, dispose of assets and make exploration and other capital expenditures In addition, the second lien term loan will contain various financial covenants for the ultimate parent company

The second lien term loan matures in five years and is subject to mandatory prepayment related to specified percentages for the ultimate parent company of excess cash flow, proceeds of asset sales and proceeds of issuance of debt and equity securities The second lien term loan may be prepaid at any time at a premium, which premium starts at 3% in the first year and decreases 1%

per year until no premium is payable (in addition to standard broken funding costs in the event of prepayment other than on the last day of an interest period)