

Endeavour Energy UK Limited

Directors' report and financial statements

Registered number 05030838

31 December 2012

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Endeavour Energy UK Limited
Directors' Report and Financial Statements
31 December 2012

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Directors' report (registered number: 05030838)

The directors present their report and the audited financial statements for the year 1 January 2012 to 31 December 2012

Principal activities

Unless the context otherwise requires, references to "Endeavour," the "Company," "we", "us" or "our" mean Endeavour Energy UK Limited ("EEUK")

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, return on the capital program and completion of acquisitions. During 2012, the primary focus of the Company, management and the Board of Directors has been the completion of the acquisition of additional interests in the Alba field, completing the development work at the Bacchus field to allow for the commencement of production; and completing the subsea work and initial drilling at the Rochelle field to allow for the commencement of production in 2013. Each of these items is discussed below.

Primary Development Fields

Greater Rochelle

Our working interest in the Rochelle area is 44%, which is comprised of Blocks 15/26b, 15/26c and 15/27. During the third quarter of 2012, we began drilling the first of two planned development wells. With drilling delays, the Rochelle project subsea infrastructure outpaced the drilling operations. The joint interest partners decided to suspend the first well due to the inability to perform simultaneous pipe-lay and development drilling operations. In October 2012, the drilling rig moved off location to allow for the hook-up of the pipelines and flow-lines to the subsea manifolds, thereby delaying our estimated start of production from the fourth quarter of 2012 to the third quarter of 2013. Since October 2012, the pipeline system, umbilicals and tie-ins to the offtake solution at the Scott platform have been completed and tested, refer to post balance sheet events for further discussion.

Producing Fields

During 2012, the company had four producing fields in the U.K. – Alba, Bacchus, Bittern and Enoch. In addition, the company holds interests in the Ivanhoe, Rob Roy, Hamish (collectively, "IVRRH"), Goldeneye, Renee and Rubie fields, each of which is currently shut in.

In May 2012, we acquired an additional 23.43% interest in the Alba field, which increased our total working interest in the field to 25.68%. During 2012, Alba production volumes were impacted by water handling issues. While production volumes are still being impacted, the matter is being dealt with by the operator and it is anticipated that the asset will return to normal production levels during the third quarter of 2013.

At December 31, 2012, we held a 30% working interest in our Bacchus field asset, which is operated by Apache Corporation, who owns a 50% working interest. In April and July 2012, we achieved production from the first and second development wells, respectively, on the Bacchus field. A third development well was drilled to completion in July of 2013.

Derivatives

From time to time, the company may utilize derivative financial instruments to hedge cash flows from operations or to hedge the fair value of financial instruments. The company may use derivative financial instruments with respect to a portion of its oil and gas production or a portion of its variable rate debt to achieve a more predictable cash flow by reducing its exposure to price fluctuations. These transactions are likely to be swaps, collars or options and would be entered into with major financial institutions or commodities trading institutions. Derivative financial instruments are intended to reduce the company's exposure to declines in the market prices of crude oil and natural gas that the company produces and sells, to increases in interest rates, and to manage cash flows in support of its annual capital expenditure budget.

Results and dividends

Turnover for the year ended 31 December 2012 was \$205,159,000 (2011: \$41,267,000). The company generated pre-tax loss of \$54,137,000 (the year ended 31 December 2011: pre-tax loss of \$14,373,000) and generated post-tax loss of \$68,155,000 (the year ended 31 December 2011: restated loss of \$33,148,000). No dividend was declared by the Directors.

Principal Risks and Uncertainties

Competitive Risks

We encounter intense competition from other oil and gas companies in all areas of our operations, including the acquisition of producing properties and undeveloped acreage. Our competitors include major integrated oil and gas companies, numerous independent oil and gas companies and individuals. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the oil and gas business for a much longer time than our company.

Petroleum and natural gas producers also compete with other suppliers of energy and fuel to industrial, commercial and individual customers. Competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the governments and/or agencies thereof and other factors out of the company's control including, international political conditions, overall levels of supply and demand for oil and gas, and the markets for synthetic fuels and alternative energy sources.

Legislative Risks

Oil and gas exploration, development and production are subject to various types of regulation by governmental authorities. Regulations and laws affecting the oil and gas industry are comprehensive and under constant review for amendment and expansion. These regulations and laws carry substantial penalties for failure to comply. The regulatory burden on the oil and gas industry increases the company's cost of doing business and therefore could adversely affect its profitability.

Environmental Risks

The company's operations are subject to a variety of laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Failure to comply with the law and regulations can result in the imposition of substantial fines and penalties as well as potential orders suspending or terminating the company's operation rights. Also, the company may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances.

Use of derivatives

See "Derivatives" above.

Derivative contracts may expose the company to the risk of financial loss in certain circumstances, including instances in which its production is less than expected, the counterparties to its contracts fail to perform under the contracts, or a sudden, unexpected event materially impacts oil or gas prices or interest rates.

Market Risk

Market fluctuations in the prices of oil and gas could adversely affect the price at which the company can sell oil or gas from its properties, and lower oil and gas prices may cause the company to record impairment write-downs.

Post balance sheet events

Strategic Alternatives

On 14 February 2013, Endeavour International Corporation, the company's ultimate parent company, ("EIC") announced that its board of directors approved a review of strategic alternatives. The primary objective of the strategic review is to accelerate the deleveraging of the balance sheet and unlock the value of its underlying assets. EIC's Board of Directors will consider a full range of options, including

- a sale, joint venture or partnership in respect of its activities in the North Sea,
- a sale of specific assets;
- a sale or merger of EIC; or
- continuing to execute on its operational plan

Tudor, Pickering, Holt & Co and Lambert Energy Advisory Ltd has been engaged as our financial advisors in this process. The results of the effort will be announced once a course of action is chosen.

Rochelle events

In February 2013, following a severe storm lasting several days, we performed a routine inspection of the conductor, well head and blow out preventer systems which revealed that the cement around the top of the conductor pipe, which anchors the well to the seabed floor, had been lost creating a non-uniform hole around the conductor. The hole extended approximately 4 to 7 feet in diameter and 25 feet in depth.

As a result of this finding, drilling operations were suspended on the East Rochelle well. The work to repair the cementing around the conductor pipe has been completed. We conducted a thorough analysis to identify the cause of the cement loss and evaluate if there has been any potential fatigue damage to the conductor pipe itself. Our preliminary findings suggest that swirling currents caused by severe storms created vibrations that liquidized the sands surrounding the cement anchorage. With the loss of integrity of the surrounding sands, those sands were eroded, creating the resulting crater. After the analysis was completed, the decision was made to plug and abandon the first East Rochelle.

To mitigate delays while we conducted our analysis, we moved the rig to the West Rochelle area and commenced drilling of the second production well. By switching to the West Rochelle area, drilling and completion of the second production well could proceed without delay. The West Rochelle well was successfully drilled, completed and flow tested by mid 2013. The final pipe spool pieces have been installed connecting the well to the subsea pipeline infrastructure to the Scott platform. The field is ready to produce.

The owners of the Scott platform commenced a shutdown period starting on 11 July 2013. The shutdown period is expected to last eight to twelve weeks to complete the planned work program. Due to the timing of this shutdown, first production at the Rochelle field is now expected in late September 2013 or October.

With the basic development of the work essentially completed for readiness to first production, Endeavour has effected a transition of operatorship to Nexen Petroleum UK Limited ("Nexen") effective on 1 July 2013. Nexen already owns 41% of the Rochelle field and is the operator of the Scott Platform. We believe this transition will facilitate production from Rochelle across the Scott Platform.

Entry into Procurement Agreement

In January 2013, the Company entered into the Procurement Agreement with an unaffiliated third party entity, which matures on 9 July 2014. The Procurement Agreement was entered into in connection with the unaffiliated third party's entry into a credit support arrangement with a providing bank. Pursuant to this credit support arrangement, the third party pledged cash, contributed by one of our shareholders, to secure letters of credit in the amount of \$33.0 million. The letters of credit secure decommissioning obligations in connection with certain of our U.K. license agreements.

Under the Procurement Agreement, we agreed

- to reimburse the third party in the event that the letters of credit are drawn and the pledged cash must be paid to the letter of credit provider,
- pay a quarterly fee computed at a rate of 9% per year on the outstanding amount of each letter of credit, along with an initial fee equal to 1% on the initial outstanding amount of each letter of credit,
- pay a fee of 2% on the outstanding amount of each letter of credit upon termination;
- pay a fee of 0.65% per year on the aggregate balance of any outstanding letters of credit.

The Procurement Agreement contains customary representations, warranties and non-financial covenants. EIC also issued warrants to purchase a total of 1,000,000 shares of its common stock at an exercise price of \$7.31 per share to the investor. The warrants expire on 9 January 2018 and are subject to customary anti-dilution provisions.

Concurrent with our entry into the Procurement Agreement, we terminated the IVRRH Reimbursement Agreement dated 23 May 2012, which secured letters of credit. Upon termination of the IVRRH Reimbursement Agreement, we paid all outstanding and accrued fees totalling approximately \$3.8 million.

Monetary Production Payment Agreement

In 2013, the Company entered into a sale and purchase agreement for \$125 million providing for the sale of a proportion of our entitlement to production from our interests in the Alba and Bacchus fields located in the UK sector of the North Sea and the issuance of warrants. EIC issued 3,440,000 warrants to purchase shares of common stock at an exercise price of \$3.014 per share. Repayment of the production payment will come solely from the proceeds from the sale of production from our entitlement from the Alba and Bacchus fields.

Our obligations under the production payment are secured by first priority liens on our interests in the licenses and certain joint operating agreements governing the fields giving rise to the production subject to the production payment and second priority liens in certain other assets of EIC and its subsidiaries.

On 15 August 2013, EEUK, entered into a Second Supplemental Deed of Amendment and Restatement (the "Second Supplemental Deed") with Cídoval S à r l ("Cídoval"), which is supplemental to and amends (a) the sale and purchase agreement dated March 5, 2013 between EEUK and END PP Holdings LLC, as subsequently novated in favour of Cídoval pursuant to a deed of novation and amendment dated March 28, 2013, (b) the deed of grant of a production payment dated April 30, 2013 between EEUK and Cídoval, as previously amended by the Supplemental Deed of Amendment and Restatement (the "Supplemental Deed") dated May 21, 2013 between EEUK and Cídoval (as amended, the "Deed of Grant").

Pursuant to the Deed of Grant, EEUK has granted a production payment from the proceeds of sale from a proportion of EEUK's entitlement to production from its interests in the Alba and Bacchus fields located in the UK sector of the North Sea (the "Grant"). The Second Supplemental Deed provides for the sale by EEUK of an additional production payment for an incremental purchase price of \$25 million with an implied cost of 8.75%, bringing the total amount outstanding under the Grant to \$150 million. Obligations under the Grant will

cease upon the earlier of the repayment of amounts outstanding under the Grant or production from the Alba and Bacchus licences permanently ceasing. We currently expect repayment of the Grant to occur through 2015. If the Grant remains outstanding as expected, the total repayment will be approximately \$174.8 million

EEUK's obligations under the Deed of Grant, as amended by the Supplemental Deed and the Second Supplemental Deed, are secured by first priority liens over EEUK's interests in the licenses and joint operating agreements relating to the Alba and Bacchus fields and the accounts into which proceeds from the sale of production from such fields are paid. EEUK's obligations under the Deed of Grant, as amended, are also secured by second priority liens over certain other licenses, joint operating agreements and assets of the Company and its subsidiaries. Such second priority liens are subordinated to the security granted to Cyan Partners, LP on 12 April 2012 pursuant to an intercreditor agreement.

Revolving Credit Facility

In 2013, EIC, EEUK, Cyan, and certain lenders entered into a third amendment to the Revolving Credit Facility whereby (i) the lenders consented to the Monetary Production Payment Agreement noted above and (ii) the maturity of the commitments under the Revolving Credit Facility was extended from 12 October 2013 to 30 June 2014.

Alba Reimbursement Agreement

In March 2013, we amended the Alba Reimbursement Agreement to (i) allow us to enter the Production Payment Agreement, (ii) extend the maturity of the obligations under the Alba Reimbursement Agreement from 31 December 2013 to 30 June 2014, and (iii) the parties agreed to agree to take the steps necessary to extend the letter of credit issued pursuant to the Alba Reimbursement Agreement from 31 December 2013 to 31 December 2014.

Forward Sale

In February 2013, we entered into a forward sale agreement with one of our established purchasers for a payment of approximately \$22.5 million, which was received on March 1, 2013 in return for a specified volume of crude oil in excess of 200,000 barrels to be delivered over a six month delivery period from our UK North Sea production. The obligation was satisfied in full during the second quarter of 2013.

In September 2013, we entered into a second forward sale agreement with one of our established purchasers for a payment of approximately \$22.5 million in return for a specified volume of crude oil in excess of 200,000 barrels to be delivered over a six month delivery period from our UK North Sea production.

Going Concern

The company's business activities, together with the factors likely to affect its future development and performance, are set out in the principal activities, business review and future developments and principal risks and uncertainties sections on pages 1 to 3. This includes considering risks to the company including market risk, competition risk and liquidity risk.

On the basis of this assessment it is the belief of the Directors that the company will remain in operational existence for the foreseeable future. Thus they continue to apply the going concern basis of accounting in preparing the annual financial statements

Directors

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

Carl Grenz
A Sheu (Appointed 20 April 2012)
C.L. Stubbs (Appointed 2 March 2012)
R. Midkiff (Appointed 20 April 2012)
D.A. Neilson (Resigned 20 April 2012)
N.G. Terrell (Resigned 20 April 2012)
S.P. Redgrave (Resigned 1 March 2012)

Mr. Grenz, Ms. Stubbs, Mr. Midkiff and Mr. Sheu are employees of the ultimate parent company

The Directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2012 and at the date of this report. The company provided qualifying third party indemnity provisions to directors of associated companies during the year ended 31 December 2012 and at the date of this report.

Political and charitable contributions

The company made no political contributions or significant charitable contributions during the year (year ended 31 December 2011: nil)

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

KPMG LLP, our previous auditors, were not reappointed for the year ended 31 December 2012. On 24 September 2012, the directors approved the appointment of Ernst & Young LLP as our auditors upon conclusion of the 2011 audit by KPMG LLP.

By order of the board



Director
Carl D. Grenz

One Ropemaker Street, London EC2Y 9UE
27 September 2013

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 (UK Generally Accepted Accounting Practice) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make 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 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 its financial statements comply with the Companies Act 2006. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENDEAVOUR ENERGY UK LIMITED

We have audited the financial statements of Endeavour Energy UK Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Endeavour Energy UK Limited
Directors' Report and Financial Statements
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Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Moirra Ann Lawrence (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen

30 September 2013

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Profit and loss account

for the year 1 January 2012 through 31 December 2012

(Amounts in US \$000)		Year Ended 31 December	
	Note	Restated 2011	2012
Turnover		41,267	205,159
Operating expenses		(9,335)	(43,816)
Depreciation, depletion and amortization	10	(11,229)	(79,360)
Administrative expenses		(4,756)	(8,479)
Operating profit		15,947	73,504
Interest income	7	9,091	212
Interest expense	7	(38,031)	(68,456)
Other finance expenses	8	(1,380)	(59,397)
Loss from ordinary activities before taxation	4	(14,373)	(54,137)
Tax charge on loss from ordinary activities	9	(18,775)	(14,018)
Retained loss for the year	17	(33,148)	(68,155)

All amounts relate to continuing activities.

Statement of Recognised Gains and Losses

for the year 1 January 2012 through 31 December 2012

(Amounts in US \$000)		Year Ended 31 December	
	Note	Restated 2011	2012
Loss for the financial period		(33,148)	(68,155)
Total recognised gains and losses relating to the period		(33,148)	(68,155)
Prior year adjustment	3	-	7,990
Total gains and losses recognised since last annual report		(33,148)	(60,165)

Endeavour Energy UK Limited
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Balance sheet

at 31 December 2011 and 2012

		31 December	
		Restated	
(Amounts in US \$000)	Note	2011	2012
Fixed assets			
Oil and gas assets	10	500,182	1,092,723
Other tangible assets	10	1,128	2,254
Investment	11	-	-
		501,310	1,094,977
Current assets			
Cash		103,427	31,311
Inventory		3,348	17,882
Debtors			
Amounts falling due after one year	12	87,605	93,243
Amounts falling due within one year	12	40,122	65,343
		127,727	158,586
		234,502	207,779
Creditors amounts falling due within a year	13	(55,807)	(81,583)
Provisions amounts falling due within a year	15	(6,403)	(39,422)
Net current assets		172,292	86,774
Total assets less current liabilities		673,602	1,181,751
Creditors amounts falling due after one year	14	(343,966)	(712,341)
Provisions for liabilities and charges	15	(235,760)	(443,689)
Net assets		93,876	25,721
Shareholder's equity			
Share premium	16	342,846	342,846
Profit and loss account	17	(248,970)	(317,125)
		93,876	25,721

These financial statements were approved by the board of directors on 27 September 2013 and were signed on its behalf by



Carl D Grenz

Endeavour Energy UK Limited
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Reconciliation of movements in shareholders' funds
for the year 1 January 2012 through 31 December 2012

(Amounts in US \$000)	31 December Restated 2011	2012
At 1 January as previously stated	127,024	85,886
Prior year adjustment (note 3)		7,990
At 1 January restated	127,024	93,876
Loss for the financial year	(33,148)	(68,155)
Closing shareholders' funds	93,876	25,721

Notes

(forming part of the financial statements)

Note 1 – Going Concern

At 31 December 2012, the company has net assets of \$25,721,000 (2011 net assets \$93,876,000) and incurred pre-tax loss of \$54,137,000 (year ended 31 December 2011: pre-tax loss of \$14,373,000) and generated post-tax loss of \$68,155,000 (year ended 31 December 2011 post-tax loss of \$33,148,000)

The company is dependent on financing from the company's ultimate parent company, Endeavour International Corporation ("EIC")

The company has received a letter from EIC which confirms that it will provide financial support to the company for a period of at least the twelve months following the date of signing of these financial statements or until the sale of the company if a sale of the company occurs prior to the completion of the twelve months. Consequently the directors have prepared the financial statements using the going concern assumption.

Revolving Credit Facility

On 12 April 2012, the Company entered into a \$100 million Revolving Credit Facility, with Cyan, as administrative agent, and borrowed \$40 million. The Revolving Credit Facility was due to mature on 12 October 2013

Prior to the termination of the Senior Term Loan, the closing of the Alba Acquisition and certain other conditions, borrowings under the Revolving Credit Facility were limited to \$40 million and incurred interest at a rate of 12% per year, with an additional 3% payment-in-kind. After the termination of the Senior Term Loan and the closing of the Alba Acquisition, borrowings under the Revolving Credit Facility bore interest at a rate of 13% per year.

On 31 May 2012, we entered into a First Amendment to the Revolving Credit Facility, providing for an increase in the amount available for borrowing under the Revolving Credit Facility from \$40 million to \$100 million upon closing of the acquisition of the Alba Acquisition. In connection with the closing of the Alba Acquisition, we drew down the additional \$60 million available for borrowing. The First Amendment to the Revolving Credit Facility contained certain amendments allowing us to enter certain reimbursement agreements discussed in Note 18

On 27 September 2012, we increased the amount available for borrowing under the Revolving Credit Facility to \$125 million. In connection with the increase, we agreed to pay a fee of \$1.25 million to Cyan. On 28 September 2012, we borrowed an additional \$15 million under the Revolving Credit Facility

Subsequent to 31 December 2012, we amended the Revolving Credit Facility to extend the maturity date of the facility to 30 June 2014. See Note 21 for additional discussion.

Senior Term Loan

In August 2010, we entered into a credit agreement with Cyan Partners, LP ("Cyan"), as administrative agent, and various lenders for the Senior Term Loan, in the aggregate amount of \$150 million, which was subsequently increased to \$235 million. We paid \$25.4 million financing costs related to the issuance of the Senior Term Loan.

In May 2012, we repaid all amounts outstanding under the Senior Term Loan. This repayment included a prepayment fee of approximately \$7 million. Following the repayment, the Senior Term Loan was terminated and all of the liens on the collateral securing our obligations were released.

Letter of Credit Agreement

In July 2011, we entered into a letter of credit facility agreement with Commonwealth Bank of Australia ("CBA"), pursuant to which CBA issued letters of credit to us in the amount of £20.6 million (approximately \$35 million upon issuance). The letters of credit secured decommissioning obligations in connection with certain of our United Kingdom Continental Shelf Petroleum Production Licenses. We terminated this letter of credit facility agreement in May 2012, for additional information refer to Note 18 reimbursement agreement.

Note 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.

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.

The company is exempt by virtue of S400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

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 other wholly owned entities which form part of the group. The consolidated financial statements of Endeavour International Corporation, within which this company is included, can be obtained from Endeavour International Corporation, 811 Main Street, Suite 2100, 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. Costs capitalized include property acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells including asset retirement costs, together with overhead and interest directly related to exploration and development activities and lease and well equipment. The recoverability of the amounts recorded for oil and natural gas properties are dependent on the existence of economically recoverable reserves and future production from the properties. 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. As all of the company's operations are located in the United Kingdom, the company has a single full cost pool.

When the properties are brought into commercial production, the costs capitalized will be depleted and depreciated using the unit-of-production method by cost pool based on commercial oil and gas proved reserves as determined by independent engineers. For the purpose of this calculation, production and reserves of oil and natural gas are converted to equivalent units based on the relative energy content, whereby one barrel of oil is equivalent to six thousand cubic feet of natural gas.

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. Costs related to major development projects are excluded from costs subject to depletion and depreciation until the earlier of production capability occurs, development activity ceases or impairment occurs. Impairment arises as unproved properties are abandoned or when cost exceeds net recoverable value. 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 five years.

Impairment

On an annual basis or 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. When an impairment is identified, a provision is made, by way of an additional depreciation charge, to reduce the value of the cost pool to the greater of the discounted future cash flows of the cost pool, or its fair market value, less disposal costs.

Inventories

Materials and supplies and oil inventories are valued at the lower of cost or market value (net realizable value).

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 year. The actual value of transactions and balances subject to these estimates may differ from the estimated amounts.

Turnover

Turnover includes production on an entitlement basis, reflecting the sales value of the company's share of oil and gas produced in the year. Turnover is stated net of value added tax.

Decommissioning

Provision for future decommissioning costs is made as soon as environmental damage is done. The provision for future decommissioning is calculated before corporate tax, based on future cash flows discounted at rates to reflect risks specific to the costs. An amount equivalent to the initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves. Changes to the provision other than unwinding of the discount are taken into account prospectively.

Unwinding of the discount of future decommissioning provisions is included as a separate financial item in the profit and loss account under the other financing costs heading.

Corporate and deferred taxation

The charge for taxation is based on the result for the year 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 presentational 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 retranslated at the rate of exchange ruling at each balance sheet date with the gains or losses on translation included in the profit and loss account. The exchange rate used for 31 December 2012 is 1 \$1.6153 and 1 \$1.5397 at 31 December 2011.

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 year.

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 year 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.

Financial instruments

Financial assets

The company's financial assets are all highly liquid instruments with an original maturity of 90 days or less at the time of purchase.

Financial liabilities

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest expense. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Derivatives

The Company may utilize derivative financial instruments with respect to a portion of its oil and gas production or a portion of its debt, to achieve a more predictable cash flow by reducing its exposure to price and interest rate fluctuations. These transactions are likely to be swaps, collars or options and to be entered into with major financial institutions or commodities trading institutions. Gains and losses on instruments used for commodity hedging are not recognised until the exposure that is being hedged is itself recognised. Gains and losses on instruments used for commodity hedging are recorded in turnover while gains and losses on instruments used for interest rate hedging are recorded in interest expense.

Underlift/overlift

Underlift or overlift of entitlement to production is valued at year end at contract prices where fixed, or otherwise at market prices prevailing. The net amount is disclosed within inventory.

Petroleum revenue tax

The charge for petroleum revenue tax ("PRT") forms part of the taxation charge in the profit and loss accounts. It is calculated on a period-by-period basis with reference to the operating income of chargeable fields. PRT allowances utilised and timing differences arising in the period.

Operating leases

Rentals under operating leases are charged against income as incurred.

Investments

The carrying values of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Note 3 – Prior year adjustment

During 2012, we identified a net overstatement of our deferred tax liabilities of \$8 0 million. The adjustments related to deferred tax which should have been released on historic transactions. As a result of this being identified, the 2011 tax position requires to be restated to reflect this revised tax position. Specifically, the restatement is required to reduce the deferred tax liability by \$8 million

(Amounts in US \$000)	Per 2011 financial statements	Correction arising on review of tax treatment	Restated 2011 financial statements
Profit and loss account			
Taxation	(26,765)	7,990	(18,775)
Balance sheet			
Deferred tax within provisions	(107,265)	7,990	(99,275)
Profit and loss account	(256,960)	7,990	(248,970)

Note 4 – Loss on ordinary activities before taxation

(Amounts in US \$000)	Year Ended 31 December	
	2011	2012
Loss on ordinary activities is stated after charging/(crediting)		
Auditors' remuneration		
Audit of the financial statements*	180	77
Taxation compliance services*	15	11
Taxation advisory services*	43	38
Foreign exchange movements (note 8)	(1,380)	(15,833)
Depreciation, depletion and amortisation	11,229	79,360
Operating lease rentals		
Land and buildings	482	3,768

* 2011 amounts were paid to KPMG LLP and 2012 to Ernst & Young LLP.

Note 5 – Remuneration of directors

None of the Directors received any fees or remuneration for services as Directors of the company during the period

The contracts of employment for EEUK are held with another group company. These Directors also hold office in other group undertakings. Emoluments paid to Directors by other group companies are disclosed within their financial statements. Given the size of the Company it is not possible for a reliable estimate of the Directors remuneration to be allocated to the Company. Therefore the remuneration for the Directors has remained within the Company's parent undertaking, Endeavour International Corporation.

Note 6 – Staff numbers and costs

The average number of persons employed by the company during the year, analysed by category, was as follows

	Year Ended 31 December	
	2011	2012
Management	3	-
Operations and administration	22	26
	25	26

The aggregate payroll costs of these persons were as follows:

(Amounts in US \$000)	Year Ended 31 December	
	2011	2012
Wages and salaries	4,023	4,610
Share based payments (see note 19)	407	442
Social security costs	594	710
Pension charge	508	640
Other	451	345
	5,983	6,747

Note 7 – Interest

The components of interest expense were as follows

(Amounts in US \$000)	31 December	
	2011	2012
Payable on bank loans and overdrafts	(29,891)	(26,046)
Payable on loans from group undertakings	-	(47,700)
Capitalised interest (note 10)	4,664	17,731
Accretion expense	(1,618)	(4,779)
Other	(11,186)	(7,662)
	(38,031)	(68,456)

The components of interest income were as follows

(Amounts in US \$000)	31 December	
	2011	2012
Receivable from bank accounts	504	212
Receivable from loans due from group undertakings	8,587	-
	9,091	212

Note 8 – Other finance expenses

The components of other finance expense were as follows

(Amounts in US \$000)	31 December	
	2011	2012
Loss on early extinguishment of debt	-	(21,661)
Letter of credit fees	-	(21,903)
Net foreign currency exchange losses and similar charges	(1,380)	(15,833)
	(1,380)	(59,397)

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Note 9 – Taxation

(Amounts in US \$000)	Year Ended 31 December	
	Restated 2011	2012
<i>Current tax</i>		
UK corporation tax charge on loss for year	5	-
PRT tax charge	5,797	31,452
 Total current tax charge	 5,802	 31,452
<i>Deferred tax</i>		
Effect of rate change on the opening asset/liability	-	3,216
Origination/reversal of timing differences	(9,443)	(20,650)
Exchange adjustment	22,416	-
 Total deferred tax charge (credit)	 12,973	 (17,434)
 Tax charge on loss on ordinary activities	 18,775	 14,018

The current tax charge for the year is higher (2011 higher) than the standard rate of corporation tax in the UK (30%) and the supplementary charge of 32% (2011 20%). The differences are explained below

(Amounts in US \$000)	Year Ended 31 December	
	2011	2012
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(14,373)	(54,137)
Current tax credit at corporation tax of 30%	(4,312)	(16,241)
 <i>Effects of</i>		
Expenses not deductible for tax purposes (permanent differences)	87	4,698
PRT - net of current tax benefit	4,058	26,009
Unrecognized non-trading losses	3,156	14,141
Capital allowances for the year in excess of book depreciation	(29,143)	(78,008)
Decommissioning	(3,928)	13,179
Ring Fence loss carried forward	34,944	67,598
Other	940	76
 Total current tax charge (see above)	 5,802	 31,452

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The components of the deferred tax were

(Amounts in US \$000)	31 December	
	Restated 2011	2012
<i>Deferred taxation</i>		
PRT Liability	-	5,275
Deferred compensation	1,518	357
Ring Fence loss carried forward	119,981	267,483
Decommissioning	16,618	35,367
Capital allowances in excess of depreciation	(237,392)	(398,865)
Net deferred tax liability (note 15)	(99,275)	(90,383)
Non-ring fence trading debits (not recognized)	13,267	23,246

No deferred tax asset has been recognized for non-ring fence trading debits amounting to \$23,246,000 for the year ended 31 December 2012, as the future recovery of the deferred tax asset is not considered likely

Factors impacting future tax charge

Legislation was enacted on 17 July 2012 which restricted the rate of supplementary corporation tax relief available in respect of decommissioning costs to 20%. The legislation is retroactively effective from 21 March 2012

Legislation was enacted on 17 July 2012 (and substantively enacted on 26 March 2012) to reduce the non ring fence corporation tax rate from 26% to 24% effective 1 April 2012 and to 23% effective 1 April 2013. On 20 March 2013, further progressive tax rate reductions to 21% by 1 April 2014 and 20% by 1 April 2015 were intimated

Note 10 – Tangible and Intangible fixed assets

The property costs accumulated during the year 1 January 2012 to 31 December 2012, analysed by category, were as follows.

Oil and gas properties				
(Amounts in US \$000)	Intangible assets	Tangible assets	Other tangible assets	Total
<i>Cost</i>				
At beginning of year	180,337	548,007	3,232	731,576
Sale of property	-	(1,173)	-	(1,173)
Additions	260,662	411,264	2,274	674,200
Transfers	(161,316)	161,316	-	-
At end of year	279,683	1,119,414	5,506	1,404,603
<i>Depletion and depreciation</i>				
At beginning of year	-	(228,162)	(2,104)	(230,266)
Charged in year	-	(78,212)	(1,148)	(79,360)
At end of year	-	(306,374)	(3,252)	(309,626)
<i>Net book value</i>				
At 31 December 2012	279,683	813,040	2,254	1,094,977
<i>Net book value</i>				
At 31 December 2011	180,337	319,845	1,128	501,310

A floating storage vessel previously utilized on fields that have ceased production was decommissioned in 2008. During 2012, we received the final salvage value of \$1.2 million.

Finance costs have been capitalized into tangible fixed assets at a rate of 11.23% (2011: 12.0%). Finance charges capitalized during 2012 were \$17.7 million (2011: \$4.7 million).

On 31 May 2012, we closed the Alba field portion of the ConocoPhillips Acquisition (COP Acquisition), which consisted of an additional 23.43% interest in the Alba field. This increased our total working interest in the Alba field to 25.68%. The Alba Acquisition was closed for aggregate cash consideration of approximately \$229.6 million.

Note 11 – Investments

<i>(Amounts in US \$000)</i>	<i>Subsidiary undertakings</i>
<i>Cost</i>	
At 1 January 2012 and 31 December 2012	-
<i>Provision for impairment</i>	
At 1 January 2012 and 31 December 2012	-
<i>Net investment</i>	
At 1 January 2012 and 31 December 2012	-

The following were held as subsidiary undertakings of the company during the year

<i>Name</i>	<i>Country of Incorporation</i>	<i>Class of shares</i>	<i>Holding</i>	<i>Nature of business</i>	<i>Direct/ indirect</i>
Endeavour North Sea Limited	United Kingdom	Ordinary	100%	Dormant	Direct

Note 12 – Debtors

(Amounts in US \$000)	31 December	
	2011	2012
<i>Amounts falling due within one year</i>		
Deferred financing costs	17,482	14,589
Non-corporate taxes	1,753	3,722
Receivables from third parties	3,025	39,635
Deferred derivative costs	3,020	-
Restricted cash in escrow	-	128
Prepayments	14,842	7,269
Amounts falling due within one year	40,122	65,343
<i>Amounts falling due after one year</i>		
Deferred financing costs	-	1,650
Amounts due from group undertakings	19,096	91,475
Loans due from group undertakings	68,392	-
Deposits	117	118
Amounts falling due after one year	87,605	93,243

On 1 January 2010, the company executed an unsecured revolving loan facility (the “EOC Loan”) with a group undertaking, Endeavour Operating Corporation (“EOC”), as borrower. The EOC Loan had a principal amount of \$100 million, of which \$68 million was outstanding at 31 December 2011. The EOC Loan was repaid in full during 2012.

The company had various oil and gas derivative instruments to stabilize cash flows from its operating assets. All of the company’s oil and gas derivative instruments expired during 2012. The fair values of the derivatives held at the 31 December 2011 balance sheet date, determined by reference to their fair market values was an asset of \$1.2 million.

Note 13 – Creditors: amounts falling due within one year

(Amounts in US \$000)	31 December	
	2011	2012
Trade creditors	52,237	59,837
Current maturities of debt	2,350	-
PRT tax payable	461	18,111
Other current liabilities	759	3,635
	55,807	81,583

Note 14 – Creditors: amounts falling due after one year

	31 December	
	2011	2012
Senior term loan, due 2013	237,999	-
Deferred rent	-	297
Revolving credit facility	-	115,163
Amounts owed to group undertakings	105,967	596,881
	343,966	712,341

Senior Term Loan

In August 2010, we entered into a credit agreement with Cyan Partners, LP (“Cyan”), as administrative agent, and various lenders for the Senior Term Loan, in the aggregate amount of \$150 million, which was subsequently increased to \$235 million. In May 2012, we repaid all amounts outstanding under the Senior Term Loan. This repayment included a prepayment fee of approximately \$7 million. Following the repayment, the Senior Term Loan was terminated and all of the liens on the collateral securing our obligations were released.

Revolving Credit Facility

On 12 April 2012, we entered into a \$100 million Credit Agreement (the “Revolving Credit Facility”), with Cyan, as administrative agent, and borrowed \$40 million. The Revolving Credit Facility was due to mature on 12 October 2013.

Prior to the termination of the Senior Term Loan, the closing of the Alba Acquisition and certain other conditions, borrowings under the Revolving Credit Facility were limited to \$40 million and incurred interest at a rate of 12% per year, with an additional 3% payment-in-kind. After the termination of the Senior Term Loan and the closing of the Alba Acquisition, borrowings under the Revolving Credit Facility bore interest at a rate of 13% per year.

On 31 May, 2012, we entered into a First Amendment to the Revolving Credit Facility, providing for an increase in the amount available for borrowing under the Revolving Credit Facility from \$40 million to \$100 million upon closing of the acquisition of the Alba Acquisition. In connection with the closing of the Alba Acquisition, we drew down the additional \$60 million available for borrowing. The First Amendment to the Revolving Credit Facility contained certain amendments allowing us to enter certain reimbursement agreements discussed in Note 18.

On September 27, 2012, we increased the amount available for borrowing under the Revolving Credit Facility to \$125 million. In connection with the increase, we agreed to pay a fee of \$1.25 million to Cyan. The Founding Partner and Chief Investment Officer of Cyan Partners, LP was a member of EIC's Board of Directors until he resigned in March 2013.

On September 28, 2012, we borrowed an additional \$15 million under the Revolving Credit Facility.

Subsequent to 31 December 2012, we amended the Revolving Credit Facility to extend the maturity date of the facility to 30 June 2014. See Note 21 "Post Balance Sheet Events" for additional discussion.

Amounts Owed to Group Undertakings

On 31 May 2012, we entered into a \$550 million unsecured Revolving Intercompany Loan Agreement with EOC ("EOC Intercompany Loan") in conjunction with the repayment of the Senior Term Loan and the closing of the Alba field portion of the COP Acquisition. We may borrow up to the maximum principal amount of the facility, at the discretion of EOC. At 31 December 2012, we had \$500 million outstanding under the facility. We may drawdown one or more advances, subject to approval by EOC, and may repay any advance, in whole or in part, at any time prior to its maturity, 31 December 2017. Interest will be paid semi-annually at a rate consistent with our ultimate parent company's weighted average cost of funds, as determined by EOC. This rate is determined on each semi-annual interest payment date. As of 31 December 2012, the interest rate was 12% per annum.

Note 15 – Provisions

(Amounts in US \$000)	Deferred Taxes	Decommissioning	Total
At 1 January as previously stated	107,265	142,888	250,153
Prior year adjustment (note 3)	(7,990)	-	(7,990)
At 1 January restated	99,275	142,888	242,163
Additions	8,542	237,327	245,869
Charge to the profit and loss for the year (Note 9)	(17,434)	-	(17,434)
Unwinding of discount	-	4,779	4,779
Utilised in the year	-	(8,498)	(8,498)
Impact of foreign currency exchange rate changes	-	16,232	16,232
At 31 December 2012	90,383	392,728	483,111
At 31 December 2012			
Current provisions	-	39,422	39,422
Long term provisions	90,383	353,306	443,689
At 31 December 2012	90,383	392,728	483,111
At 31 December 2011 Restated			
Current Provisions	-	6,403	6,403
Long term provisions	99,275	136,485	235,760
At 31 December 2011 Restated	99,275	142,888	242,163

The decommissioning expenditure is expected to be incurred between 2013 and 2034, however this is dependent on future production levels and the discovery of additional reserves. The major estimates applied to this calculation are discounted at a rate of 5% and the estimated costs of abandonment are provided by the field operators.

Production from each of our Ivanhoe, Rob Roy, Hamish (collectively, "IVRRH"), Renee, Rubie and Goldeneye fields has ceased and we have performed minor maintenance and decommissioning activities over the last several years. Previously, we expected to re-develop our IVRRH, Renee and Rubie fields if commercially viable once the development activities at Rochelle are operational. During 2012, we determined that it was no longer practicable to re-develop these fields. As a result, decommissioning work on the fields will be accelerated and we expect to incur decommissioning charges during 2013.

Note 16 – Called up share capital

	31 December	
	2011	2012
<i>Authorized</i>		
Equity 10,000 Ordinary shares of £0.10 each	£1,000	£1,000

<i>Allotted, called up and fully paid</i>		
Equity 1,400 Ordinary shares of £0.10 each	236	236

(Amounts in US \$000)	31 December	
	2011	2012
Share Premium	342,846	342,846

Note 17 – Profit and loss account

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

(Amounts in US \$000)	31 December	
	Restated 2011	2012
At 1 January as previously stated	(215,822)	(256,960)
Prior year adjustment (note 3)	-	7,990
At 1 January restated	(215,822)	(248,970)
Retained loss for the year	(33,148)	(68,155)
At end of year	(248,970)	(317,125)

Note 18 – Commitments and Contingencies

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

(Amounts in US \$000)	Year Ended 31 December	
	2011	2012
Office lease	482	997

The leases expire 12 December 2012 and 11 June 2015

Reimbursement Agreements

During the second quarter of 2012, we entered into two reimbursement agreements related to abandonment liabilities for certain of our U K oil and gas properties. Under these agreements, unaffiliated third parties pledged cash to secure letters of credit covering certain of our abandonment liabilities and we agreed to reimburse the pledged cash in the event that the letters of credit are drawn and pledged cash is utilized to satisfy the commitment. We have no cash collateral associated with the reimbursement agreements and the commitments under the reimbursement agreements are not recorded as liabilities. The associated abandonment obligations are recorded in other long-term liabilities as part of our decommissioning provision.

The first reimbursement agreement, covering approximately \$33 million relates to our decommissioning obligations at the Ivanhoe, Rob Roy, Hamish (collectively, "IVRRH"), Renee and Rubie fields where we are currently paying certain asset retirement costs (the "IVRRH Reimbursement Agreement"). We pay a fee of 11.5% per year, computed based on the outstanding amount of each letter of credit (capitalized quarterly and payable upon release of the letters of credit). We are also required to pay a fee equal to 1% of the outstanding letters of credit on 22 May 2013 (the expiration date of the letters of credit). If we have not obtained replacement letters of credit before the expiration date of the letters of credit, then we must reimburse the pledgor for all amounts pledged. Concurrent with the issuance of the IVRRH Reimbursement Agreement, the restrictions on our previously restricted cash were removed, the cash was returned to us, and our letter of credit facility agreement was extinguished. We unconditionally guarantee the obligations under the IVRRH Reimbursement Agreement, but our reimbursement obligations are unsecured. In connection with this reimbursement agreement, we issued warrants to purchase two million shares of our common stock, with an exercise price of \$10.50 per share, to the investors.

On 10 January 2013, we entered into a letter of credit procurement agreement (the "Procurement Agreement"). See Note 21 "Post Balance Sheet Events" for additional discussion. In connection with the Procurement Agreement, we terminated the IVRRH Reimbursement Agreement and paid all outstanding and accrued fees totalling approximately \$3.8 million.

The second reimbursement agreement covers approximately \$120 million related to our decommissioning obligations for the Alba field (the "Alba Reimbursement Agreement"). We pay a fee of 13% per year, payable quarterly, computed based on the outstanding amount of each letter of credit. We have agreed to procure the release of the pledged cash securing the letter of credit on or before 31 December 2013 (the expiration date of the letter of credit). In addition, our obligations under the Alba Reimbursement Agreement are secured on a pari passu basis with our obligations under the Revolving Credit Facility by a first lien on substantially all of our assets. As of 31 December 2012, we do not expect to begin decommissioning activities for the Alba field for many years. The timing of decommissioning activities will be determined by the ultimate performance and life of the reservoir.

Subsequent to 31 December 2012, we amended the Alba Reimbursement Agreement to extend the maturity date to 30 June 2014. See Note 21 "Post Balance Sheet Events" for additional discussion.

Note 19 – Share-based payments

The ultimate parent company grants restricted stock and stock options of the ultimate parent company to employees and directors as incentive compensation. The restricted stock and options generally vest over a three year service period. 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 the historical volatility of the ultimate parent company for the length of the expected term. The company uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for years 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 ultimate parent company recharges the company for the cost of awards issued by the ultimate parent company to employees of the company. This recharge 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.

There were no options granted during 2011 or 2012.

Information relating to stock options is summarized as follows:

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	Year Ended 31 December 2011		Year Ended 31 December 2012	
	Number of Shares	Weighted Average Exercise per Share	Number of Shares	Weighted Average Exercise per Share
Balance outstanding - beginning of year	41,189	\$13 59	16,486	\$5 41
Exercised	(2,495)	\$5 76	-	\$0 00
Forfeited	(12,492)	\$19 51	(146)	\$3 78
Expired	(9,716)	\$21 64	(1,703)	\$3 78
Balance outstanding - end of year	16,486	\$5 41	14,637	\$5 61
Currently exercisable - end of year	13,229	\$5 81	14,637	\$5 61

The options outstanding at 31 December 2012 have a weighted average contractual life of 5.7 years (2011: 6.1 years)

At 31 December 2012, the company's employees and directors held 134,425 restricted shares of the common stock of the ultimate parent company 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 and the changes during the year ended to 31 December 2012 are presented below:

	Year Ended 31 December 2011		Year Ended 31 December 2012	
	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 year	66,442	\$ 7.29	89,601	\$ 11.11
Granted	63,275	\$ 13.16	109,663	\$ 8.72
Vested	(30,708)	\$ 7.41	(37,286)	\$ 10.46
Forfeited	(9,408)	\$ 9.99	(27,553)	\$ 9.93
Balance outstanding - end of year	89,601	\$ 11.11	134,425	\$ 9.58

The total expense recognised for the year arising from share-based payments is \$442,000 (2011: \$407,000). All share-based payments are treated as "equity settled."

Note 20 – 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 largest group in which the results of the company are consolidated is that headed by Endeavour International Corporation. Copies of the consolidated financial statements are available from Endeavour International Corporation, 811 Main Street, Suite 2100 Houston, TX USA 77002

The company is a wholly owned subsidiary of Endeavour Energy North Sea L.P., a Delaware, United States partnership, which is the immediate parent company

The smallest group in which the results of the company are consolidated is that headed by Endeavour Energy North Sea L.P.

Note 21 – Post balance sheet events

Strategic Alternatives

On 14 February 2013, we announced that our board of directors approved a review of strategic alternatives. In an effort to unlock the value of our underlying assets, we will consider a full range of options, including

- A sale, joint venture or partnership in respect of our activities in the North Sea,
- A sale of specific assets;
- A sale or merger of the Company, or
- Continuing to execute on our operational plan

Tudor, Pickering, Holt & Co. and Lambert Energy Advisory Ltd. has been engaged as our financial advisors in this process. The results of the effort will be announced once a course of action is chosen.

Entry into Procurement Agreement

In January 2013, we entered into the Procurement Agreement with an unaffiliated third party entity, which matures on 9 July 2014. The Procurement Agreement was entered into in connection with the unaffiliated third party's entry into a credit support arrangement with a providing bank. Pursuant to this credit support arrangement, the third party pledged cash, contributed by one of our shareholders, to secure letters of credit in the amount of \$33.0 million. The letters of credit secure decommissioning obligations in connection with certain of our U.K. license agreements.

Under the Procurement Agreement, we agreed

- to reimburse the third party in the event that the letters of credit are drawn and the pledged cash must be paid to the letter of credit provider,

- pay a quarterly fee computed at a rate of 9% per year on the outstanding amount of each letter of credit, along with an initial fee equal to 1% on the initial outstanding amount of each letter of credit,
- pay a fee of 2% on the outstanding amount of each letter of credit upon termination,
- pay a fee of 0.65% per year on the aggregate balance of any outstanding letters of credit

The Procurement Agreement contains customary representations, warranties and non-financial covenants. We also issued warrants to purchase a total of 1,000,000 shares of EIC's common stock at an exercise price of \$7.31 per share to the investor. The warrants expire on 9 January 2018 and are subject to customary anti-dilution provisions.

Concurrent with our entry into the LOC Procurement Agreement, we terminated the IVRRH Reimbursement Agreement dated 23 May 2012, which secured letters of credit. Upon termination of the IVRRH Reimbursement Agreement, we paid all outstanding and accrued fees totaling approximately \$3.8 million.

Reimbursement Agreement

In March 2013, we amended the Alba Reimbursement Agreement to (i) allow us to enter the Production Payment Transaction, (ii) extend the maturity of the obligations under the Alba Reimbursement Agreement from December 31, 2013 to June 30, 2014, and (iii) the parties agreed to agree to take the steps necessary to extend the letter of credit issued pursuant to the Alba Reimbursement Agreement from December 31, 2013 to December 31, 2014.

Forward Sale

In February 2013, we entered into a forward sale agreement with one of our established purchasers for a payment of approximately \$22.5 million, which was received on 1 March 2013 in return for a specified volume of crude oil in excess of 200,000 barrels to be delivered over a six month delivery period from our UK North Sea production. The obligation was satisfied in full during the second quarter of 2013.

In September 2013, we entered into a second forward sale agreement with one of our established purchasers for a payment of approximately \$22.5 million in return for a specified volume of crude oil in excess of 200,000 barrels to be delivered over a six month delivery period from our UK North Sea production.

Monetary Production Payment Agreement

In 2013, the Company entered into a sale and purchase agreement for (i) \$125 million providing for a monetary production payment (the "Production Payment") over the proceeds of sale from a portion of our entitlement to production from its interests in the Alba and Bacchus fields located in the U.K. sector of the North Sea and (ii) the issuance of warrants (discussed below). Repayment of the production payment will come solely from the proceeds from the sale of production from our entitlements from the Alba and Bacchus fields. Obligations under the Production Payment will cease upon the earlier of the repayment of amounts outstanding under the Production Payment or production from the Alba and Bacchus licences permanently ceasing.

Our obligations under the Production Payment are secured by first priority liens over our interests in the licences and joint operating agreements relating to the Alba and Bacchus fields and the accounts into which proceeds from the sale of production from such fields are paid. Our obligations are also secured by second priority liens over certain of our other licences, joint operating agreements and assets.

In connection with the Production Payment, we issued warrants to purchase a total of 3,440,000 shares of our common stock at an exercise price of \$3.014 per share, expiring on 30 April 2018, and warrants to purchase a total of 560,000 shares of our common stock at an exercise price of \$3.685 per share, expiring on 21 May 2018.

Both warrant agreements are subject to customary anti-dilution provisions and include a cashless exercise provision entitling the investors to surrender a portion of the underlying common stock that has a value equal to the aggregate exercise price in lieu of paying cash upon exercise of a warrant.

On 15 August 2013, EEUK, entered into a Second Supplemental Deed of Amendment and Restatement (the "Second Supplemental Deed") with Cídoval S à r l ("Cídoval"), which is supplemental to and amends (a) the sale and purchase agreement dated 5 March 2013 between EEUK and END PP Holdings LLC, as subsequently novated in favour of Cídoval pursuant to a deed of novation and amendment dated 28 March 2013, (b) the deed of grant of a production payment dated April 30, 2013 between EEUK and Cídoval, as previously amended by the Supplemental Deed of Amendment and Restatement (the "Supplemental Deed") dated 21 May 2013 between EEUK and Cídoval (as amended, the "Deed of Grant").

Pursuant to the Deed of Grant, EEUK has granted a production payment from the proceeds of sale from a proportion of EEUK's entitlement to production from its interests in the Alba and Bacchus fields located in the UK sector of the North Sea (the "Grant"). The Second Supplemental Deed provides for the sale by EEUK of an additional production payment for an incremental purchase price of \$25 million with an implied cost of 8.75%, bringing the total amount outstanding under the Grant to \$150 million. Obligations under the Grant will cease upon the earlier of the repayment of amounts outstanding under the Grant or production from the Alba and Bacchus licences permanently ceasing. We currently expect repayment of the Grant to occur through 2015. If the Grant remains outstanding as expected, the total repayment will be approximately \$174.8 million.

EEUK's obligations under the Deed of Grant, as amended by the Supplemental Deed and the Second Supplemental Deed, are secured by first priority liens over EEUK's interests in the licenses and joint operating agreements relating to the Alba and Bacchus fields and the accounts into which proceeds from the sale of production from such fields are paid. EEUK's obligations under the Deed of Grant, as amended, are also secured by second priority liens over certain other licenses, joint operating agreements and assets of the Company and its subsidiaries. Such second priority liens are subordinated to the security granted to Cyan Partners, LP on 12 April 2012 pursuant to an intercreditor agreement.

Revolving Credit Agreement

In 2013, EIC, EEUK, Cyan, and certain lenders entered into a third amendment to the Revolving Credit Facility whereby (i) the lenders consented to the Production Payment Transaction and (ii) the maturity of the commitments under the Revolving Credit Facility was extended from 12 October 2013 to 30 June 2014

Endeavour Energy UK Limited
Unaudited Oil and gas reserve quantities
31 December 2012

Reserves (unaudited)

Net commercial oil and gas reserve quantities for the year ended 31 December 2012 are as follows

	Oil (Mbbl)	Gas (MMcf)
<i>Net commercial reserves, beginning of year</i>		
Commercial developed reserves	1,270	795
Commercial undeveloped reserves	2,790	49,928
	4,060	50,723
<i>Changes during the year</i>		
Revisions of previous estimates	(1,396)	4,387
Purchases of reserves in place	11,071	1,409
Extensions and discoveries	1,992	473
Production	(1,994)	(91)
<i>Net commercial reserves, end of year</i>		
Commercial developed reserves	5,261	3,147
Commercial undeveloped reserves	8,472	53,754
	13,733	56,901

The average, first-day-of-the-month price during the 12-month year before the end of the year was used when estimating whether reserve quantities are economical to produce. At 31 December 2012, the average prices used for the life of the reserves were \$111.13 per barrel and \$9.34 per Mcf for oil and gas, respectively.