

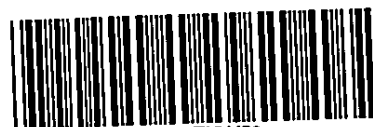
Endeavour Energy UK Limited

Directors' report and financial statements

Registered number 05030838

31 December 2009

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Directors' report (registered number: 05030838)

The directors present their report and the audited financial statements for the year 1 January 2009 to 31 December 2009

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, return on the capital program and completion of acquisitions.

During 2008, the company has purchased all of the oil and gas interests - the IVRRH, Renee, Rochelle and Rubie fields - of its subsidiary, Endeavour North Sea Limited ("ENSL"). The completion of the purchase of Rochelle occurred on 31 March 2008 and the completion of IVRRH, Renee and Rubie occurred on 30 June 2008.

Revenue for the year ended 31 December 2009 was \$97,944,000 (year ended 31 December 2008: \$114,498,000).

Primary Development Fields

Rochelle

The company holds a 55.6% working interest in and operates its Rochelle field assets. The company interests in the Rochelle field account for 6.3 MMBOE of our proved reserves at 31 December, 2009. The environmental impact study for the subsea development and pipeline corridor has been completed with no sensitivities identified.

Moreover, recent subsurface evaluation of the block in the area near the Rochelle field in the North Sea, Block 15/26c, a UK 25th Licensing Round block that was awarded to Endeavour at 100% working interest, revealed a strong possibility that the Rochelle field area may extend westward from the existing Rochelle license into the Company's newly acquired Block 15/26c. The company believes this larger Rochelle area could yield additional reserves and could be developed using the previously planned infrastructure. The company is planning to drill an appraisal well to test this expansion in the second half of 2010. The Rochelle development is scheduled to achieve first production in 2011. This first production is dependent on approval of the Field Development Plan from the Department of Energy and Climate Change ("DECC"), which is further dependent on receiving acceptable commercial terms from the infrastructure holders for the off-take solution. The company has engaged the UK government to objectively determine the terms for the off-take solution.

Cygnus

The company holds a 12.5% working interest in Cygnus field assets, which are operated by Gaz de France. The company's interests in the Cygnus field account for 5.7 MMBOE of its proved reserves at 31 December, 2009. These proved reserves are associated with the eastern portion of the field. Appraisal drilling to test two additional fault blocks in the western portion of the field has begun, with drilling underway of a well in the fourth fault block. A field development plan has been filed, with production from the eastern portion of the field expected to begin in 2011.

In April 2010, the company achieved successful appraisal drilling in the western area of the Cygnus gas field in block 44/11a. This well encountered a high quality, gas-saturated Leman sand reservoir 54 feet high to prognosis with a sand thickness of 130 feet gross and 85 feet net. The well was flow tested at a rate of 28 million cubic feet of gas per day. The successful appraisal drilling has led to increased reserves and prospective resource estimates and extended the field boundary to the north and west. The company was awarded two blocks in the 25th Licensing Round, 44/11b and 44/12b, in April 2010 in which the company has a 17.24% working interest. These two blocks contain the potentially expanded northern and western part of the Cygnus field. The company also has a 25% working interest in 44/13a which could potentially contain the easternmost part of Cygnus.

An additional appraisal well is currently drilling and results are expected in the second half of 2010. Additional seismic surveys are also planned for late 2010.

Columbus

The company holds a 25% working interest in Columbus field assets, which are operated by Serica Energy plc. The company's interests in the Columbus field account for 1.8 MMBOE of our proved reserves at 31 December, 2009. The host platform has been identified and commercial agreements are under negotiation with first production expected in 2012.

Bacchus

The company holds a 10% working interest in Bacchus field assets, which are operated by Apache Corporation. The development of the Bacchus field is expected to be sanctioned in 2010 by the DECC with first production expected to commence in 2011. The discovery well was drilled in 2005, followed by a down-dip sidetrack appraisal well that tested the upper part of the reservoir. A three-well subsea development tie-back to the Forties field is planned.

Producing Fields

The company has four producing fields – Alba, Bittern, Enoch and Goldeneye. Combined these fields held 2.5 MMBOE of proved reserves at 31 December, 2009. The Goldeneye field represents nearly all of the company's current gas production in the U.K.

The Ivanhoe, Rob Roy, Hamish (collectively, "IVRRH"), Renee and Rubie fields all produced to a single floating production facility that has experienced significant increases in operating costs in recent years. As a result, production was suspended in the first quarter of 2009 and will

remain suspended until the development activities at Rochelle are operational, which is currently anticipated to be during 2011. After the start of Rochelle production, the company expects to re-develop these fields if commercially advisable and practicable.

As of 30 June 2009, the company sold its interest in Caledonia for the relief of the decommissioning liability.

On 14 May 2009, the parent undertaking sold of its Norwegian subsidiary. The oil and gas interests of the Norwegian subsidiary were released as collateral from the borrowing base facility. In conjunction with the closing, the company paid down approximately \$27 million in debt.

Post balance sheet events

On February 5, 2010, the company amended its senior bank facility. Previously, the final maturity date of the senior bank facility was the earlier of October 31, 2011 or 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 amendment brings the maturity date of the senior bank facility into alignment with the originally expected reserve tail date by changing the final maturity date to the earlier of January 31, 2011 or the reserve tail date.

On February 5, 2010, we announced the closing of a \$25 million lending facility between us, our subsidiaries and Bank of Scotland PLC (the "Junior Facility"), with a maturity date of February 5, 2011, and interest at LIBOR plus 8%. Upon entering the Junior Facility, we borrowed \$15 million against the facility. Our indebtedness under the Junior Facility remains secured by cross guarantees from our subsidiaries and a second ranking interest in the security package provided under our senior bank facility. Outstanding amounts under the Junior Facility may be prepaid.

The Junior Facility contains customary covenants, similar to those in our senior bank facility, which limit our ability to incur indebtedness, create certain liens, dispose of our assets and, make dividend payments or other distributions with respect to equity securities. The Junior Facility also includes mandatory prepayment terms for the amount of net proceeds received upon a capital raise of more than \$50 million or the sale of an asset. The Junior Facility also contains a covenant to maintain a minimum fair market value of proved plus probable reserves to consolidated secured debt ratio of 2:1.

On March 15, 2010, the ultimate parent company announced that its board of directors had approved a review of strategic alternatives for its North Sea assets. In an effort to unlock the value of its underlying North Sea assets, the company will study a full range of options, including

- Continuing to execute current operations plan,
- Entering into a joint venture to accelerate activities in the North Sea, and
- Selling specific assets or the North Sea entire business.

The company will announce the results of the effort once a course of action is chosen. At the end of this review process, the company may elect to make no changes.

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In 2009, the company began drilling an exploration well at the UK Deacon prospect, which resulted in a dry hole during the first quarter 2010

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 oil and gas production or a portion of variable rate debt to achieve a more predictable cash flow by reducing the company's exposure to price fluctuations. These transactions are likely to be swaps, collars or options and to 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 the company's annual capital expenditure budget.

Results and dividends

The company generated pre-tax losses of \$29,205,000 (the year ended 31 December 2008 pre-tax loss of \$154,840,000) and generated post-tax loss of \$32,963,000 (the year ended 31 December 2008 loss of \$136,111,000). No dividend was declared by the Directors (year ended 31 December 2008:nil).

Principal Risks and Uncertainties

Competitive Risks

The company operates in a highly competitive environment for reviewing prospects, acquiring properties, marketing oil and gas and securing trained personnel. Many of the company's competitors are major oil and gas companies that possess and employ superior financial resources which allow them to obtain substantially greater technical and personnel resources and better enable them to acquire and develop prospects. Competitors may also be able to pay more for productive oil and gas properties and exploratory prospects than the company is able or willing to pay. If the company is unable to compete successfully in these areas in the future, its future revenues and growth may be diminished or restricted.

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 discovered on its properties, and lower oil and gas prices may cause the company to record write-downs.

Directors

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

J W Munns
R F T Fitzpatrick
Carl Grenz (appointed 16 October 2009)
B H Stover (resigned 16 October 2009)
J G Williams

Mr Grenz, Mr. Stover and Mr. Williams are employees of the ultimate parent company.

Certain directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2009 and at the date of this report. The company provided qualifying third party indemnity provisions to certain directors of associated companies during the year ended 31 December 2009 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 2008: nil).

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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

Pursuant to Section 487 of the Companies Act of 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office

By order of the board



Director
Robert Fitzpatrick

One Ropemaker Street, London EC2Y 9UE
09 June 2010

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.

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 year ended 31 December 2009 set out on pages 10 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with UK 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.

Independent auditors' report to the members of Endeavour Energy UK Limited
(continued)

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

Jimmy Daboo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
09 June 2010

Profit and loss account

for the year 1 January 2009 through 31 December 2009

	<i>Note</i>	Year ended 31 December 2008 US\$000	Year ended 31 December 2009 US\$000
Turnover		\$ 114,498	\$ 97,944
Operating expenses		(22,260)	(16,889)
Depreciation	7	(76,952)	(57,069)
Administrative expenses		(4,877)	(4,273)
Operating profit		10,409	19,713
Interest income		910	58
Interest expense	20	(21,640)	(20,400)
Impairment of investments	8	(152,769)	(18,613)
Other finance income/(expenses)		8,250	(9,963)
Loss from ordinary activities before taxation	3	(154,840)	(29,205)
Tax (charge) credit on loss from ordinary activities	6	18,729	(3,758)
Retained loss for the year		\$ (136,111)	\$ (32,963)

All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the company.

The notes on pages 13 to 34 form an integral part of these accounts

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Balance sheet

at 31 December 2008 and 31 December 2009

	Note	31 December 2008 US \$000	31 December 2009 US \$000
Fixed assets			
Oil and gas assets	7	\$ 328,672	\$ 344,598
Other tangible assets	7	777	1,505
		329,449	346,103
Investment in subsidiary undertakings	8	40,198	21,585
		369,647	367,688
Current assets			
Cash		29,063	26,827
Crude oil inventory		5,855	7,750
Debtors			
Amounts falling due after one year	9	40,332	20,155
Amounts falling due within one year	9	43,869	18,688
		84,201	38,843
		119,119	73,420
Creditors: amounts falling due within one year	10	(58,618)	(11,107)
Net current assets		60,501	62,313
Total assets less current liabilities		430,148	430,001
Creditors, amounts falling due after one year	11	(353,614)	(286,504)
Provisions for liabilities and charges	12	(134,863)	(164,445)
Net liabilities		\$ (58,329)	\$ (20,948)
Shareholder's equity			
Called up share capital		\$ -	\$ -
Share premium	13	110,824	181,168
Profit and loss account	14	(169,153)	(202,116)
		\$ (58,329)	\$ (20,948)

These financial statements were approved by the board of directors on 09 June 2010 and were signed on its behalf by:



The notes on pages 13 to 34 form an integral part of these accounts

Reconciliation of movements in shareholders' funds

for the year 1 January 2009 through 31 December 2009

	Year Ended 31 December 2008	Year Ended 31 December 2009
	US\$000	US\$000
Opening shareholders' funds, as previously reported	\$ 77,782	\$ (58,329)
Loss for the financial year	(136,111)	(32,963)
Share issuance to Endeavour Energy North Sea L P	-	70,344
Closing shareholders' funds	\$ (58,329)	\$ (20,948)

The notes on pages 13 to 34 form an integral part of these accounts

Notes

(forming part of the financial statements)

1. *Financing*

At 31 December 2009, the company has negative net assets of \$20,948,000 (2008 negative net assets \$58,329,000) and incurred pre-tax loss of \$29,205,000 (year ended 31 December 2008 pre-tax loss of \$154,840,000) and generated post-tax loss of \$32,963,000 (year ended 31 December 2008 tax loss of \$136,111,000)

On 15 March 2010, the company's ultimate parent company, Endeavour International Corporation ("EIC") announced that its board of directors had approved a review of strategic alternatives for its North Sea assets inclusive of an option to sell specific or all North Sea assets (refer to Note 21)

The company is dependent on financing from 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

As for many oil and gas exploration and production companies, EIC raises funds as and when required. EIC continually monitors the capital markets to evaluate the most appropriate actions to fund its activities and synchronize its capital expenditures with its cash flow. As of 31 March 2010, EIC had \$79.9 million in debt due in the first quarter of 2011, \$8.5 million of which was repaid in April 2010, and it has a large capital expenditure programme. EIC plans to utilize existing U.K. oil and gas assets (owned by the company), as well as its growing U.S. reserve base held by a group affiliate, as a basis for refinancing and expanding of its credit facilities. The directors, having made enquiries, understand that EIC is currently in discussions with several parties concerning this process and currently expects to successfully conclude new facilities in the near future.

Consequently the directors have prepared the financial statements using the going concern assumption. However, there can be no assurance that EIC will be able to refinance or expand its credit facilities. In addition, the company cannot predict the potential terms of any new or revised credit facilities.

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 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, 1001 Fannin Street, Suite 1600, 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 three years.

Ceiling tests

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 including royalties. Turnover is stated net of value added tax.

Decommissioning

Provision for future decommissioning costs is made when the underlying assets to be decommissioned are first available for or placed in service or when the assets are first acquired, if later. 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 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 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.

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 (see dividends policy), 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.

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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.

3. *Loss on ordinary activities before taxation*

	Year Ended 31 December 2008 US\$000	Year Ended 31 December 2009 US\$000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Audit	\$ 148	\$ 123
Tax and other matters	71	125
Foreign exchange movements	1,346	4,837
Depreciation	76,952	57,069

4. *Remuneration of directors*

	Year Ended 31 December 2008 US\$000	Year Ended 31 December 2009 US\$000
Directors' emoluments	\$ 2,678	\$ 1,134
Amounts receivable under long term incentive schemes	437	462
	\$ 3,115	\$ 1,596

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$263,000 and \$578,000 for the year ended 31 December 2008 and 2009, respectively. During the year, the highest paid director received shares and options to purchase shares in Endeavour International Corporation under a long term incentive scheme.

	Number of directors 31 December 2008	31 December 2009
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	2	4

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5. *Staff numbers and costs*

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

	Number of employees	
	31 December 2008	31 December 2009
Management	2	4
Operations and administration	17	27
	19	31

The aggregate payroll costs of these persons were as follows

	Year Ended 31 December 2008 US\$000	Year Ended 31 December 2009 US\$000
Wages and salaries	\$ 2,956	\$ 3,846
Share based payments (see note 17)	622	328
Social security costs	376	369
Pension costs (see note 16)	152	181
	\$ 4,106	\$ 4,724

6. Taxation

The transfer of the Goldeneye and Bittern Fields from Endeavour North Sea Ltd, in April 2007 as well as the subsequent transfer of the Alba Field in May 2007 enabled EEUK to recognize a deferred tax asset for the 2007 year loss as well as for all previously unrecognized pre-trading losses for the company's activities prior to the 2007 financial year. During 2008, all of the remaining assets of Endeavour North Sea Ltd (ENSL) were transferred to the company. As a result, a \$153 million non-deductible write-off of a portion of the investment in ENSL occurred.

	Year Ended 31 December 2008 US\$000	Year Ended 31 December 2009 US\$000
<i>Current tax</i>		
UK corporation tax charge on profit for year	\$ 9,855	\$ 223
PRT tax charge(net of 2008 over accrual)	3,195	175
Total current tax	13,050	398
<i>Deferred tax</i>		
Origination/reversal of timing differences	(6,863)	(2,888)
Exchange adjustment	(24,926)	6,248
Total deferred tax	(31,779)	3,360
Tax credit on loss on ordinary activities	\$ (18,729)	\$ 3,758

The current tax credit for the year is higher (2008 lower) than the standard rate of corporation tax in the UK (30%) and the supplementary charge of 20%. The differences are explained below.

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	Year Ended 31 December 2008 US\$000	Year Ended 31 December 2009 US\$000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	\$ (154,840)	\$ (29,205)
Current tax credit at corporation tax of 30%	(46,452)	(8,762)
<i>Effects of</i>		
Expenses not deductible for tax purposes (permanent differences)	45,992	6,436
PRT – net of current tax benefit(over accrual included)	2,237	(102)
Unrecognized non-trading losses	3,593	1,958
Depreciation for the year in excess of capital allowances	16,893	(2,243)
Decommissioning	(3,420)	1,184
Ring Fence loss carried forward	(13,110)	1,641
Supplementary corporation tax	7,324	1,010
Tax law change for non-sterling losses	-	(786)
Other	(7)	62
Total current tax charge (see above)	\$ 13,050	\$ 398

The components of the deferred tax were

	31 December 2008 US\$000	31 December 2009 US\$000
<i>Deferred taxation</i>		
Deferred compensation	\$ 1,240	\$ 1,344
Ring Fence loss brought forward	-	7,315
PRT	(1,757)	-
Decommissioning	(5,531)	(3,562)
Depreciation in excess of capital allowances	(52,872)	(76,651)
Net deferred tax asset (liability)	(62,783)	(71,554)
Non-ring fence trading debits (not recognized)	\$ 8,265	\$ 10,223

No deferred tax asset has been recognized for non-ring fence non-trading debits amounting to \$1,958,000 for the year ended 31 December 2009, as the realisibility of the deferred tax asset is not considered likely

7. *Tangible fixed assets*

The property costs accumulated during the year 1 January 2009 to 31 December 2009, analysed by category, were as follows:

	Oil and gas properties US\$000	Other tangible assets US\$000	Total US\$000
Cost			
At beginning of year	\$ 471,838	\$ 1,689	\$ 473,527
Additions	77,474	1,187	78,661
Dispositions	(4,938)	-	(4,938)
Retirements	(5,786)	(614)	(6,400)
At end of year	\$ 538,588	\$ 2,262	\$ 540,850
Amortisation			
At beginning year	\$ (143,166)	\$ (912)	\$ (144,078)
Charged in year	(56,610)	(459)	(57,069)
Retirements	5,786	614	6,400
At end of year	\$ (193,990)	\$ (757)	\$ (194,747)
Net book value			
At 31 December 2009	\$ 344,598	\$ 1,505	\$ 346,103

Oil and gas fixed assets are included at cost. Other tangible fixed assets, consisting of office equipment, are included at cost.

Finance costs have been capitalized into tangible fixed assets at a rate of 5.91% (2008: 6.61%).

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The property costs accumulated during the year 1 January 2008 to 31 December 2008, analysed by category, were as follows

	Oil and gas properties US\$000	Other tangible assets US\$000	Total US\$000
Cost			
At beginning of year	\$ 364,764	\$ 1,202	\$ 365,966
Additions	75,218	487	75,705
Acquisitions	54,525	-	54,525
Retirements	(22,669)	-	(22,669)
At end of year	\$ 471,838	\$ 1,689	\$ 473,527
Amortisation			
At beginning year	\$ (89,174)	\$ (621)	\$ (89,795)
Charged in year	(76,661)	(291)	(76,952)
Retirements	22,669	-	22,669
At end of year	\$ (143,166)	\$ (912)	\$ (144,078)
Net book value			
At 31 December 2008	\$ 328,672	\$ 777	\$ 329,449

During 2008, the company has purchased all of the oil and gas interests of its subsidiary, ENSL. The completion of the purchase of Rochelle occurred on 31 March 2008 and the completion of IVRRH, Renee and Rubie occurred on 30 June 2008.

8. *Investment in subsidiary undertakings*

	31 December 2008 US\$000	31 December 2009 US\$000
At the beginning of the year	\$ 192,968	\$ 40,198
Impairment of investment	(152,770)	(18,613)
At the end of the year	\$ 40,198	\$ 21,585

The company owns all of the outstanding ordinary shares Endeavour North Sea Limited ("ENSL"). The fiscal year of ENSL is 1 January to 31 December 2009. ENSL had income on ordinary activities before taxation of \$5,968,000 and income after taxation of \$5,968,000 for the year ended 31 December 2009. ENSL had capital and reserves of \$15,617,000 at 31 December 2008. During 2008, the company purchased nearly all of the remaining assets and liabilities of

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ENSL and recorded an impairment of the investment of \$153 million. During 2009, the company recorded a further impairment of US\$18,613,000.

The company has an outstanding liability to ENSL of \$21,585,000 at 31 December 2009. It is the intention of the directors of ENSL and the company that ENSL will declare a dividend in 2010 equal to the company's outstanding liability, thereby eliminating the liability.

9. Debtors

	31 December 2008 US\$000	31 December 2009 US\$000
Amounts falling due within one year		
Non-corporate taxes	\$ 621	\$ 845
Receivables from third parties	18,737	15,413
Deferred derivative costs	925	537
Restricted cash in escrow	20,739	379
Prepayments	2,811	1,514
Other current assets	36	-
Amounts falling due within one year	\$ 43,869	\$ 18,688

	31 December 2008 US\$000	31 December 2009 US\$000
Amounts falling due after one year		
Deferred financing costs	\$ 1,848	\$ 1,196
Deferred derivative costs	1,115	669
Amounts owed from group undertakings	37,251	18,172
Deposits	118	118
Amounts falling due after one year	\$ 40,332	\$ 20,155

The company has various oil and gas derivative instruments to stabilize cash flows from its operating assets. The fair values of the derivatives held at the 31 December, 2009 balance sheet date, determined by reference to their fair market values was a liability of \$12.8 million (year ended 31 December 2008: fair market value \$30.9 million). At 31 December 2009, the company had the following derivative instruments outstanding:

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	2010	2011	Total
Oil			
Fixed Price Swap (Mbbbl)	533	487	1,020
Weighted Average Price (\$/Barrel)	\$ 68 39	\$ 66 01	\$ 67 25
Gas ⁽¹⁾			
Fixed Price Swap (MMcf)	1,032	627	1,659
Weighted Average Price (\$/Mcf)	\$ 8 68	\$ 8 32	\$ 8 54

⁽¹⁾ Gas derivative contracts are designated in therms and have been converted to Mcf at a rate of 10 therm to 1 Mcf. The exchange rate at December 31, 2009 was \$1 6208 to £1 00

10. Creditors: amounts falling due within one year

	31 December 2008	31 December 2009
	US\$000	US\$000
Trade creditors	\$ 34,247	\$ 8,549
Current maturities of debt	13,000	-
Current deferred taxes	9,595	741
VAT tax payable	1,747	815
Other current liabilities	29	1,002
	\$ 58,618	\$ 11,107

11. Creditors: amounts falling due after one year

	31 December 2008	31 December 2009
	US\$000	US\$000
Loans due 2011	\$ 110,000	\$ 49,942
Loans due to group undertakings	213,535	173,900
Amounts owed to group undertakings	40,079	62,662
	\$ 363,614	\$ 286,504

Loans

The company has a \$225 million senior bank facility, subject to a borrowing base limitation, and funds received from the parent company. At 31 December 2009, the borrowing base was \$50 million and is subject to redetermination every six months with an independent reserve report required every 12 months. 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. As of 31 December 2009, the company had \$33.4 million of outstanding letters of credit related to abandonment liabilities on certain of its oil and gas properties.

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, and floating charges over the operating assets held in the United Kingdom. Borrowings under the senior bank facility will bear interest at LIBOR plus 1.3% for the first \$46.1 million of availability, and LIBOR plus 1.7% for up to an additional \$3.9 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 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). At 31 December 2009, the final maturity was the earlier of October 2011 or 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. Refer to the post balance sheet events discussed in the Note 21.

Loans due to group undertakings

The company had a \$100 million unsecured Revolving Loan Facility Agreement with Endeavour Operating Corporation ("EOC"), the parent company of Endeavour International Holding BV. The company may borrow up to the maximum principal amount of the facility, at the discretion of EOC. Subject to EOC's approval, the company may repay the loan at any time prior to its maturity. At 31 December 2008, the company owed \$55 million to EOC pursuant to this loan. The loan was repaid in its entirety in June 2009.

The company also has a \$188 million unsecured note due 31 December 2010 with its parent company - Endeavour Energy North Sea L.P. (EENSLP). At 31 December 2009, the company had \$174 million (2008: \$149 million) outstanding under this note. Interest will be paid quarterly at 6.5%, or as otherwise agreed, and will accrue daily.

Interest rate swap

The company held an interest rate swap for a notional amount of \$37.5 million whereby the company pays a fixed rate of 5.05% and receives LIBOR that expired in November 2009.

12. Provisions

		Deferred Taxes US\$000	Decommissioning US\$000
At 1 January 2009	\$	62,783	\$ 72,080
Additions		5,410	16,911
Charge to the profit and loss for the year (Note 6)		(2,888)	-
Unwinding of discount		-	3,755
Settlements		-	(7,327)
Dispositions		-	(248)
Impact of foreign currency exchange rate changes		6,248	7,721
At 31 December 2009	\$	71,553	\$ 92,892

The decommissioning expenditure is expected to be incurred between 2010 and 2015, however this is dependent on future production levels and the discovery of additional reserves. The major estimates applied to this calculation are at a discount rate of 5% and the estimated costs of abandonment provided by the field operators.

The additions to the decommissioning liability are primarily due to the suspension of production at IVRRH, Renee and Rubie fields in early 2009. With this suspension of production, certain decommissioning costs are expected to be paid in 2010.

13. Called up share capital

	31 December 2008 GBP	31 December 2009 GBP
Authorised		
Equity 10,000 Ordinary shares of £.10 each	£ 1,000	£ 1,000
	£ 1,000	£ 1,000
	31 December 2008 USD	31 December 2009 USD
Allotted, called up and fully paid		
Equity Ordinary shares 1,000 and 1,100, respectively	\$ 200	\$ 216
	\$ 200	\$ 216

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	31 December 2008 USD	31 December 2009 USD
<i>Share Premium</i>		
Shares held by Endeavour Energy North Sea L P	\$ 110,824	\$ 181,168

In September 2008, the immediate parent company Endeavour International Holding B V (EIHBV) underwent a corporate restructuring. As a result of this process, EIHBV transferred all of its shares in EEUK to Endeavour Energy North Sea L P. EENSLP now holds 100% outstanding shares in EEUK.

In October of 2009, EENSLP acquired additional 100 ordinary shares of the company at a premium of GBP 426,766 (US\$703,438) per share.

The company is intending to issue additional shares to EENSLP in 2010 for approximately US\$40 million. The company intends to use the proceeds to repay amounts due to EIHBV and for general corporate purposes.

14. Profit and loss account

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

	31 December 2008 US\$000	31 December 2009 US\$000
At beginning of year	(33,042)	(169,153)
Retained loss for the year	(136,111)	(32,963)
At end of year	(169,153)	(202,116)

15. Commitments, Guarantees and Contingencies

Commitments

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

	31 December 2008 US\$000	31 December 2009 US\$000
Capital	\$ 20,739	17,055
Office lease	394	338

Capital commitments at 31 December 2009 represent commitments for exploration expenditures arising from exploration licenses granted, and drilling rig contracts

The commitment for office lease represents total amount due for the remaining term of the company's lease for office space. The lease expires 12 December 2012

16. Pension scheme

The company contributes to a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to \$181,000 for the 2009 financial year (year ended 31 December 2008: \$152,000).

17. 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 year. 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:

	31 December 2008	31 December 2009
Weighted average share price on the day of grant	\$1.32	\$0.54
Risk free rate	4%	1.5%
Expected years until exercise	4	4.25
Expected stock volatility	41%	56%
Dividend yield	-	-

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Information relating to stock options is summarized as follows

	Year Ended 31 December 2008		Year Ended 31 December 2009	
	Number of Shares	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
Balance outstanding – beginning of year	402,200	\$3 35	421,700	\$2 85
Granted	107,000	1 32	134,404	\$0 54
Canceled	(87,500)	3 30	(90,134)	\$2 17
Balance outstanding – end of year	421,700	\$2.85	465,970	\$2 31
Currently exercisable – end of year	189,700	\$3 49	280,706	\$3 32

The options outstanding at 31 December 2009 have a weighted average contractual life of 6.2 years. The weighted average grant-date fair value of options granted during the year 1 January 2008 to 31 December 2008 and the year ended 31 December 2009 was \$0.25 and \$0.79, respectively.

At 31 December 2009, our employees and directors held 503,782 restricted shares of the common stock of the ultimate parent company that vest over the service year 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 year.

Status of the restricted shares and the changes during the year ended to 31 December 2009 are presented below.

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	Year Ended 31 December 2008		Year Ended 31 December 2009	
	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	821,551	\$ 3 01	499,996	\$ 2 36
Granted	212,000	\$ 1 35	440,239	\$ 0 93
Vested	(439,698)	\$ 2 97	(327,339)	\$ 2.73
Forfeited	(93,857)	\$ 2 87	(109,114)	\$ 1 27
Balance outstanding – end of year	499,996	\$ 2 36	503,782	\$ 1 08

The total expense recognised for the year arising from share-based payments is \$328,000 (year ended 31 December 2008 \$622,000) All share-based payments are treated as “equity settled”

18. Costs incurred

Pre-production costs incurred or provided in oil and gas exploration and production activities for the year ended 31 December 2009 are as follows

	31 December 2008 US\$000	31 December 2009 US\$000
Acquisition of properties		
Proved	\$ 34,121	\$ -
Unproved	20,404	-
	54,525	-
Exploration costs	36,212	58,789
Development costs	2,297	1,775
Decommissioning costs	36,709	16,911
Total costs	\$ 129,743	\$ 77,475

19. 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, 1001 Fannin Street, Suite 1600 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

20. Interest

	31 December 2008 US\$000	31 December 2009 US\$000
Payable on bank loans and overdrafts	(7,170)	(3,699)
Payable on inter-company loans	(16,064)	(12,673)
Capitalized interest	3,538	458
Other	(1,944)	(4,486)
	(21,640)	(20,400)

21. Post Balance Sheet Events

On February 5, 2010, the company amended its senior bank facility. Previously, the final maturity date of the senior bank facility was the earlier of October 31, 2011 or 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 amendment brings the maturity date of the senior bank facility into alignment with the originally expected reserve tail date by changing the final maturity date to the earlier of January 31, 2011 or the reserve tail date.

On February 5, 2010, we announced the closing of a \$25 million lending facility between us, our subsidiaries and Bank of Scotland PLC (the "Junior Facility"), with a maturity date of February 5, 2011, and interest at LIBOR plus 8%. Upon entering the Junior Facility, we borrowed \$15 million against the facility. Our indebtedness under the Junior Facility remains secured by cross guarantees from our subsidiaries and a second ranking interest in the security package provided under our senior bank facility. Outstanding amounts under the Junior Facility may be prepaid.

The Junior Facility contains customary covenants, similar to those in our senior bank facility, which limit our ability to incur indebtedness, create certain liens, dispose of our assets and, make dividend payments or other distributions with respect to equity securities. The Junior Facility also includes mandatory prepayment terms for the amount of net proceeds received upon a capital raise of more than \$50 million or the sale of an asset. The Junior Facility also contains a covenant to maintain a minimum fair market value of proved plus probable reserves to consolidated secured debt ratio of 2:1.

On March 15, 2010, the ultimate parent company announced that its board of directors had approved a review of strategic alternatives for its North Sea assets. In an effort to unlock the value of its underlying North Sea assets, the company will study a full range of options, including

- Continuing to execute current operations plan,
- Entering into a joint venture to accelerate activities in the North Sea, and
- Selling specific assets or the North Sea entire business

The company will announce the results of the effort once a course of action is chosen. At the end of this review process, the company may elect to make no changes.

In 2009, the company began drilling an exploration well at the UK Deacon prospect, which resulted in a dry hole during the first quarter 2010.

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Oil and gas reserve quantities (Unaudited)
31 December 2009

Net commercial oil and gas reserve quantities for the year ended 31 December 2009 are as follows

	Oil (Mbbbl)	Gas (MMcf)
Net commercial reserves, beginning of year		
Commercial developed reserves	1,468	6,761
Commercial undeveloped reserves	663	20,369
	2,131	27,130
Changes during the year		
Extensions and discoveries	1,209	52,895
Revisions of previous estimates	698	2,034
Production	(690)	(3,743)
Net commercial reserves, end of year.		
Commercial developed reserves	1,381	4,329
Commercial undeveloped reserves	1,967	73,987
	3,348	78,316

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, 2009, the average prices used for the life of the reserves were \$60 40 per barrel and \$4 96 per Mcf for oil and gas, respectively