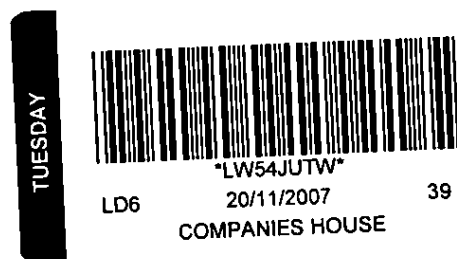


Company Registration No. 4609980

Tullow Oil SPE Limited

Report and Financial Statements

31 December 2006



Tullow Oil SPE Limited

Report and financial statements 2006

| Contents | Page |
|---|-------------|
| Officers and professional advisers | 1 |
| Directors' report | 2 |
| Statement of directors' responsibilities | 4 |
| Independent auditors' report | 5 |
| Profit and loss account | 7 |
| Balance sheet | 8 |
| Notes to the financial statements | 9 |

Tullow Oil SPE Limited

Officers and professional advisors

Directors

A J Heavey
A G Martin
T G Hickey
P McDade

Secretary

T Hickey

Registered Office

3rd Floor, Building 11
Chiswick Park
566 Chiswick High Road
London
W4 5YS

Solicitors

Dickson Minto W S
Royal London House
22/25 Finsbury Street
London EC2A 1DX

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Bankers

ABN Amro Bank NV
250 Bishopsgate
London EC2M 4AA

Tullow Oil SPE Limited

Directors' Report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2006

Principal activities

The principal activity of the company is to be used for the hedging activities of the Tullow Oil plc group

Business review

A loss after taxation of £1,426,128 was recorded for the year ended 31 December 2006 (2005 loss £28,728,665) No dividend was paid in the current year (2005 £nil)

For 2006, 2.6 million barrels of oil was hedged with 2006 oil production totalling 12.1 million barrels of oil. Oil prices increased considerably during the first part of 2006. The average dated Brent price for 2006 was approximately \$65/bbl with an adverse realised hedging impact of around \$8/bbl. The hedging realised losses were largely offset by changes in fair value of the hedges as at 31 December 2006 – see note 16 for more information.

Tullow Oil plc, the ultimate parent company, manages the company and other UK subsidiaries' operations on a group basis. For this reason and as a result of the nature of this company, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Tullow Oil plc and its subsidiaries ("the group"), which include the company, is discussed in the group's annual report, which does not form part of this report.

Directors

The directors, who held office during the year, were as follows:

A Heavey
A G Martin
T G Hickey
P McDade

Financial risk management objectives and policies

The company holds derivative financial instruments which are used to manage the group's exposure to fluctuations in movements in oil prices and interest rates.

The company does not hold or issue derivative financial instruments for speculative purposes and it is the company's policy that no trading in financial instruments shall be undertaken. However, as the assets which expose the group to fluctuations in movements in oil prices are held in other group companies, all such instruments are marked to market and the profit and loss account therefore includes unrealised gains and losses in respect of these instruments.

The company's principal financial assets are bank balances and amounts due from group companies. The credit risk on liquid funds is limited because counterparties are banks with high credit-rating assigned by international credit-rating agencies. The credit risk associated amounts due from group companies, having regard to the counterparties involved, is not believed to be significant.

Directors' indemnities

As at the date of this report, indemnities are in force under which the company has agreed to indemnify the Directors, to the extent permitted by the Companies Act 1985, against claims from third parties in respect of certain liabilities arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors of the company.

Tullow Oil SPE Limited

Directors' Report (continued)

Auditors

Each person who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte and Touche LLP have expressed a willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board and signed on its behalf by

A handwritten signature in black ink, appearing to read 'A G Martin', with a horizontal line underneath.

A G Martin

Director

15 November 2007

Tullow Oil SPE Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Tullow Oil SPE Limited

Independent auditors' report to the members of Tullow Oil SPE Limited

We have audited the financial statements of Tullow Oil SPE Limited for the year ended 31 December 2006 which comprise the profit and loss account, balance sheet, and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Tullow Oil SPE Limited

Independent auditors' report to the members of Tullow Oil SPE Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
United Kingdom

15 November 2007

Tullow Oil SPE Limited

Profit and loss account Year ended 31 December 2006

| | Notes | 2006 £ | 2005 £ |
|--|-------|-------------|--------------|
| Gross margin | 4 | 340,030 | (29,318,337) |
| Administration costs | | (47) | (1,292) |
| Operating profit / (loss) | 5 | 339,983 | (29,319,629) |
| Interest receivable | 6 | 1,314,674 | 591,476 |
| Interest payable and similar charges | 7 | (3,080,785) | (512) |
| Loss on ordinary activities before taxation | | (1,426,128) | (28,728,665) |
| Taxation on loss on ordinary activities | 8 | - | - |
| Loss retained for the financial year | 14 | (1,426,128) | (28,728,665) |

All transactions are derived from continuing activities

The company had no gains and losses for either period other than those shown above. Accordingly there is no separate statement of total recognised gains and losses.


Tullow Oil SPE Limited

Balance sheet 31 December 2006

| | Notes | 2006 £ | 2005 £ |
|--|-------|---------------------|---------------------|
| Current assets | | | |
| Debtors | 9 | 32,885,736 | 28,515,814 |
| Cash at bank and in hand | | 14,837 | 6,346 |
| | | <u>32,900,573</u> | <u>28,522,160</u> |
| Creditors: amounts falling due within one year | | | |
| Other creditors | 10 | (1,457,793) | (20,350,986) |
| Parent company loan | 12 | (74,564,959) | - |
| | | <u>(76,022,752)</u> | <u>(20,350,986)</u> |
| Net current (liabilities) / assets | | <u>(43,122,179)</u> | <u>8,171,174</u> |
| Creditors: amounts falling due after more than one year | | | |
| Other creditors | 11 | - | (60,864) |
| Parent company loan | 12 | - | (49,806,361) |
| | | <u>-</u> | <u>(49,867,225)</u> |
| Net liabilities | | <u>(43,122,179)</u> | <u>(41,696,051)</u> |
| Capital and reserves | | | |
| Called-up share capital | 13 | 1 | 1 |
| Profit and loss account | 14 | (43,122,180) | (41,696,052) |
| Shareholders' deficit | | <u>(43,122,179)</u> | <u>(41,696,051)</u> |

These financial statements were approved and issued by the Board of Directors on 15 November 2007

Signed on behalf of the Board of Directors on 15 November 2007


A G Martin
Director

Tulloy Oil SPE Limited

Notes to the financial statements Year ended 31 December 2006

1. Accounting policies

The principal accounting policies of the company, which have been applied consistently throughout the current and preceding year, are as follows

Basis of accounting

The financial statements are prepared under the historical cost convention, except for the valuation of certain derivatives, and in accordance with applicable United Kingdom accounting standards. These policies have been applied consistently throughout the current and prior year, except as described below

FRS 25 (IAS 32) Financial Instruments Presentation and FRS 26 (IAS 39) Financial Instruments Recognition and Measurement

FRS 25 and FRS 26 have been adopted during the year by the company. FRS 25 requires the company to provide certain disclosures in respect of its financial instruments and also governs the manner in which its financial instruments are presented. FRS 26 provides the requirements for the measurement, recognition and derecognition of financial instruments. Adoption of the standard requires the measurement of the company's financial liabilities and assets at fair value. As this is consistent with the company's policy prior to adopting these FRSs, there was no impact on the results or net assets of the company on adoption.

Gross margin

Gross margin represents the income earned or cost incurred as a result of oil hedge and swap derivative financial instruments.

Derivative and financial instruments

The company holds derivative financial instruments which are used to manage the group's exposure to fluctuations in movements in oil and gas prices and interest rates.

The company does not hold or issue derivative financial instruments for speculative purposes and it is the company's policy that no trading in financial instruments shall be undertaken. However, as the assets which expose the group to fluctuations in movements in oil and gas prices are held in other group companies, all such instruments are marked to market through gross margin and the profit and loss account therefore includes unrealised gains and losses in respect of these instruments.

Taxation

Current and deferred tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is recognised on a non-discounted basis.

Foreign currencies

Sterling is the reporting currency of the company. Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account.

Tullow Oil SPE Limited

Notes to the financial statements Year ended 31 December 2006

2. Parent company

The company's immediate and ultimate parent is Tullow Oil plc, incorporated in Great Britain and registered in England and Wales. The parent undertaking of the only group which includes the company and for which consolidated financial statements is produced is Tullow Oil plc. These consolidated financial statements can be obtained from Tullow Oil plc, 3rd Floor, Building 11, Chiswick Park, 566 Chiswick High Road, London W4 5YS. The company is a wholly owned subsidiary of Tullow Oil plc. Consequently, advantage has been taken of the exemptions under FRS 1 (Revised) and FRS 8, and therefore no separate cash flow statement for the company or disclosures of related party transactions are presented in these financial statements respectively.

3. Results

The current and preceding year fee for the audit of the company's statutory accounts of £5,000 (2005 £4,500) was borne by a fellow group company.

The company had no employees for the current and preceding year. None of the directors received any remuneration in respect of their services to the company (2005 none).

4. Gross margin

| | 2006 £ | 2005 £ |
|---|----------------|---------------------|
| Profit / (loss) on oil cost and zero cost collars | 2,632,111 | (25,171,794) |
| Loss on oil swaps | (2,023,991) | (4,164,025) |
| Loss on put options | (250,608) | - |
| (Loss) / profit on interest rate swaps | (17,482) | 17,482 |
| | <u>340,030</u> | <u>(29,318,337)</u> |

5. Operating profit / (loss)

Operating profit / (loss) is stated after charging

| | 2006 £ | 2005 £ |
|--------------|-----------|--------------|
| Bank charges | <u>47</u> | <u>1,292</u> |

6. Interest receivable

| | 2006 £ | 2005 £ |
|-----------------------|------------------|----------------|
| Bank interest | 2,617 | 84,773 |
| Interest rate swaps | 201,765 | - |
| Foreign exchange gain | - | 506,703 |
| Intercompany interest | <u>1,110,292</u> | <u>-</u> |
| | <u>1,314,674</u> | <u>591,476</u> |

Tullow Oil SPE Limited

Notes to the financial statements Year ended 31 December 2006

7. Interest payable

| | 2006 | 2005 |
|-----------------------|------------------|------------|
| | £ | £ |
| Bank interest | 440 | 512 |
| Foreign exchange loss | 76,618 | - |
| Intercompany interest | 3,003,727 | - |
| | <u>3,080,785</u> | <u>512</u> |

8. Taxation on loss on ordinary activities

The tax charge comprises

(a) Analysis of charge in the period

| | 2006 | 2005 |
|--------------------|------|------|
| | £ | £ |
| Current tax | | |
| Current period | - | - |

(b) Factors affecting tax charge for the period

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows

| | 2006 | 2005 |
|--|--------------------|---------------------|
| | £ | £ |
| Loss on ordinary activities before tax | <u>(1,426,128)</u> | <u>(28,728,665)</u> |
| Tax on group loss on ordinary activities at standard UK corporation tax rate of 30% (2005 30%) | (427,838) | (8,618,600) |
| Effects of | | |
| Utilisation of losses carried forward | (100,495) | 8,517,178 |
| Expenses not deductible for tax purposes | 99,758 | - |
| Group relief surrendered | 428,575 | 101,422 |
| Current tax charge for period | <u>-</u> | <u>-</u> |

(c) Factors that may affect future tax charges

A deferred tax asset has not been recognised in relation to tax losses of approximately £11.8 million (2005 losses £11.9 million), after revision to prior period group relief claims, as the company is not expected to generate sufficient taxable profits in the near future.

The UK Government announced on 21 March 2007 that it intends to decrease the rate of corporation tax in the UK from 30% to 28%, with effect from 1 April 2008. As the necessary legislation had not been substantively enacted at the balance sheet date, the impact of this decrease is not reflected in these accounts.

Tullow Oil SPE Limited

Notes to the financial statements Year ended 31 December 2006

9. Debtors

| | 2006 £ | 2005 £ |
|---|-------------------|-------------------|
| Prepayments for financial instruments | 658,422 | 352,557 |
| Provision for gains on marked to market financial instruments – due within 1 year | 1,687,509 | - |
| Provision for gains on marked to market financial instruments – due after 1 year | 983,854 | - |
| Amount due from Tullow Oil UK Limited | 4,096,975 | 5,101,872 |
| Amount due from Tullow Oil SK Limited | 24,171,677 | 23,061,385 |
| Amount due from Tullow Oil SNS Limited | 1,287,299 | - |
| | <u>32,885,736</u> | <u>28,515,814</u> |

The amount due from Tullow Oil SK Limited relates to the repayment of the external financing in place, at the time of the purchase of Schooner / Ketch fields, prior to refinancing during the second half of 2005. It accrues interest at Libor plus 1.7%. The remaining intercompany balances accrue no interest and have no maturity date. All intercompany balances are repayable on demand.

10. Trade and other creditors

| | 2006 £ | 2005 £ |
|--|------------------|-------------------|
| Provision for losses on marked to market oil financial instruments | - | 18,598,991 |
| Accruals for financial instruments | 1,457,793 | 1,751,995 |
| | <u>1,457,793</u> | <u>20,350,986</u> |

11. Creditors: amounts falling due after more than one year

| | 2006 £ | 2005 £ |
|--|-----------|---------------|
| Provision for losses on marked to market oil financial instruments | - | 60,864 |
| | <u>-</u> | <u>60,864</u> |

12. Parent company loan

| | 2006 £ | 2005 £ |
|---|------------|-------------------|
| Amounts falling due within one year: | | |
| Amount owed to Tullow Oil plc | 74,564,959 | - |
| Amounts falling due after one year: | | |
| Amount owed to Tullow Oil plc | - | 49,806,361 |
| | <u>-</u> | <u>49,806,361</u> |

The amount due to the Parent company relates primarily to amounts on loan, and the expenses associated with that loan. It accrues interest at Libor plus 1.7%, has no maturity date and is repayable on demand. Intercompany interest charged and not paid for 2006 totalled £3,003,727 (2005: £nil).

Tulloy Oil SPE Limited

Notes to the financial statements Year ended 31 December 2006

13. Called-up share capital

| | 2006 £ | 2005 £ |
|---|-------------------|-------------------|
| Authorised | | |
| 100 (2005 100) ordinary shares of £1 each | 100 | 100 |
| | <u> </u> | <u> </u> |
| Allotted, called-up and fully paid | | |
| 1 (2005 1) ordinary share of £1 | 1 | 1 |
| | <u> </u> | <u> </u> |

14. Profit and loss account

| | 2006 £ | 2005 £ |
|----------------------------------|---------------------|---------------------|
| At 1 January | (41,696,052) | (12,967,387) |
| Loss retained for financial year | (1,426,128) | (28,728,665) |
| | <u> </u> | <u> </u> |
| At 31 December | (43,122,180) | (41,696,052) |
| | <u> </u> | <u> </u> |

15. Financial commitments

In accordance with the company's accounting policy, derivative financial instruments are marked to market at the end of each month. These instruments had unrealised mark to market gains at the year end, which have been recognised in the profit and loss account of £2,671,363 (2005 losses of £18,659,855) all of which are with respect to third parties. For further details see note 16 Derivative Financial Instruments.

16. Derivative financial instruments

The company holds a portfolio of commodity derivative contracts, with various counterparties, covering both the group's underlying oil and gas businesses. In addition the company holds a small portfolio of interest rate derivatives. The group's policy is to mitigate its exposure to oil and gas price fluctuation for a portion of its production, using a range of derivative financial instruments such as fixed price swaps, participating swaps, zero cost collars and other option structures. The group's policy is also to mitigate its exposure to fluctuations in US Dollar and Sterling interest rates through the use of similar derivative financial instruments.

Fair values of derivative instruments

Fair values are determined using quoted market prices where available. To the extent that market prices are not available, fair values are estimated by reference to market-based transactions, or using standard valuation techniques for the applicable instruments and commodities involved. The fair value of derivative instruments are recorded on the Balance Sheet under creditors, amounts falling due within and after more than one year.

Tullow Oil SPE Limited

Notes to the financial statements Year ended 31 December 2006

16. Derivative financial instruments (continued)

The company's derivative instrument book and fair values were as follows

| | 2006 £ | 2005 £ |
|-----------------------------------|------------------|---------------------|
| Derivative instruments | | |
| Oil derivatives | 2,515,052 | (18,677,338) |
| Interest rate derivatives | 156,311 | 17,483 |
| | <u>2,671,363</u> | <u>(18,659,855)</u> |
| Analysed as follows | | |
| Amounts falling due within 1 year | 1,687,509 | (18,598,991) |
| Amounts falling due after 1 year | 983,854 | (60,864) |
| | <u>2,671,363</u> | <u>(18,659,855)</u> |

The company holds a number of derivative instruments which are used to mitigate the group's commodity price risk associated with the group's underlying oil revenues. These derivative instruments include fixed price swaps, zero cost collars and other option structures. Such oil derivatives will tend to be priced using pricing benchmarks, such as Brent Dated, which correlate as far as possible to the underlying oil revenues. At 31 December 2006 the company's oil hedge position was summarised as follows

| Oil hedges | H1 2007 | H2 2007 | 2008 | 2009 |
|---|---------|---------|-------|-------|
| Volume – bopd | 8,000 | 8,000 | 4,000 | 500 |
| Average hedge price ¹ - \$/bbl | 62.52 | 65.46 | 66.83 | 66.75 |

¹ Average hedge prices are based on the weighted average prices at which volumes have been hedged as at 31 December 2006