

Registered number 4713887

# WHAM Energy plc

Directors' Report and Financial Statements  
Year ended 31 December 2006

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## Company Information

<b>Directors</b>	<b>- Non Executive</b>	M J Pavia – Chairman A C Turner
	<b>- Executive</b>	T F Windle – Chief Executive P W Barnes N O Essex A R H Thomas
<b>Secretary</b>		W R Roberts
<b>Company number</b>		4713887
<b>Registered office</b>		Saxon House 28 Castle Street Guildford GU1 3UW
<b>Nominated Adviser and Broker</b>		Bridgewell Limited Old Change House 128 Queen Victoria Street London EC4V 4BJ
<b>Auditors</b>		Nexia Smith & Williamson 1 Bishops Wharf Walnut Tree Close Guildford GU1 4RA
<b>Solicitors</b>		Watson, Farley & Williams LLP 15 Appold Street London EC2A 2HB
<b>Registrars</b>		Computershare Investor Services plc PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
<b>Bankers</b>		Lloyds TSB Bank plc 32 Oxford Street, London W1D 1AX

## **Chairman's Statement**

For the year ended 31 December 2006

2006 was a year of steady progress for your Company, both by increasing our technical resources and in adding value to the Company's assets. Our main achievements have been the recent farm-out of blocks 48/3a & 48/4 containing the Morpheus prospect, the acquisition of five new licences in the UK and the identification of several promising drillable structures which we are confident will be attractive to investors. However, the commercial environment for explorers has been challenging because, in spite of strong oil and gas prices through much of the year, the shortage of rigs and consequent high costs of exploration has created a difficult environment in which to attract good farm-in candidates and drill exploration targets.

Our main emphasis for exploration continues to be on Southern North Sea gas prospects within reach of existing pipeline and platform infrastructure. Growth in our asset base has been an important objective for chief executive Tom Windle and his exploration team.

Highlights this year include negotiating a farm-out agreement for blocks 48/3a and 48/4, and the development of several other farm-out opportunities, two or more of which we expect to capture in 2007. We were successful in the UK Government's 24<sup>th</sup> Round, strengthening our gas prone Southern North Sea exploration acreage with the award after the year-end of five new licences comprising eleven blocks or part blocks.

In December an independent evaluation of the Company's 22<sup>nd</sup> and 23<sup>rd</sup> Round assets was completed by TRACS International. This report identified 8 prospects on retained acreage with unrisks resources net to WHAM of 193 billion cubic feet (BCF) of natural gas. Of these prospects, the three most attractive had unrisks resources net to WHAM totalling 145 BCF (77 BCF risked). This thorough evaluation supplements the report in 2005 by Blackwatch which, after adjusting for the farm-out terms, identified unrisks net resources of 43 BCF of natural gas in blocks 48/3a and 48/4 (11 BCF risked). Earlier in 2006 we conducted a 3-D seismic survey over these blocks. This provided good quality data which has already helped us identify new leads and will allow us to optimise the well locations.

We also relinquished one 21<sup>st</sup> Round block and six 22<sup>nd</sup> Round blocks. Of these seven blocks, we believe five were not commercially prospective. Disappointingly, however, two blocks held prospects which we believe could have been economically attractive had the 20% Supplementary Charge on UKCS activities been removed.

## **Staff**

In April 2006 we welcomed the appointment of Dr Andrew Mortimer as Exploration Manager. Andrew's extensive experience in the UK and overseas has enhanced the Company's ability to identify new prospects within our existing acreage, and prospective new ventures that fit with our strategy in the UK and elsewhere. In September our Commercial Director, Mick Jarvis, resigned to take up a position in Houston with ConocoPhillips. We are grateful to Mick for helping WHAM through the formative period of WHAM's flotation on AIM and for his contribution to our legal and commercial affairs. In his place, we welcomed Tony Mulcare as Legal and Commercial adviser. Tony is highly respected within the industry: as a director and non-executive Chairman of the UK Gas Interconnector he brings to WHAM a wealth of knowledge and experience which is highly relevant to our company's increasing focus on gas.

## **Finance**

At year-end 2006 the Company's liquid resources amounted to £6.82m (2005 £9.25m). During the year no new funds were raised. The Company's cash resources were employed in acquisition and evaluation of seismic data, and the development of farm-out opportunities.

## **Prospect evaluation**

The Company's primary objective in 2006 has been to identify and evaluate prospects within our portfolio, and to attract industry partners to drill those that we believe are commercial. We have reported previously on the endorsement of one of these prospects, Morpheus, by Fugro Blackwatch, and in 2006 three more prospects with commercially attractive potential have been confirmed by TRACS International. Our goal for 2007 is to find partners to drill these prospects as soon as possible.

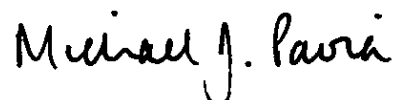
Also in 2006, we evaluated a number of acquisition opportunities both in the UK and overseas but the price of oil and gas reached new highs in 2006 causing asset prices to rise above the level we felt appropriate to pay.

## **Commercial environment**

- Rig costs reached a peak during the year, but recent indications are that rates are now starting to return to more sustainable levels.
- Production of oil and gas in the UK is declining, yet energy demand remains strong. Future supplies will have to come from further afield and the transport costs associated with the greater distances will underpin unit prices for new domestic production. Recent sharp declines in spot gas prices have not been reflected in the forward market and our Directors see plenty of evidence to support a positive longer term price scenario.
- We believe that there remain many undrilled prospects that offer attractive exploration potential. Estimates within the industry range up to 8 billion barrels of oil equivalent left to find in the UKCS.

## **Conclusion**

Your Board is concerned that the hard work and achievements of its exploration team have not yet been reflected in the performance of the Company's shares. However, the Morpheus farm-out, the independent confirmation of three more attractive drillable prospects and the 24<sup>th</sup> licensing round awards demonstrate your Company's ability to make progress in a highly competitive environment.

A handwritten signature in black ink that reads "Michael J. Pavia". The signature is written in a cursive style with a large, stylized 'M' and a long, sweeping underline.

Michael J Pavia  
**Chairman**  
**23 March 2007**

## **Directors' report**

For the year ended 31 December 2006

The directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2006

### **PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS**

The principal activity of the Company during the year was the acquisition and evaluation of exploration acreage for oil and gas. The Company has plans to develop further its portfolio of licence interests through test drilling and further seismic analysis during 2007. A review of the business during the year is given in the Chairman's Statement on pages 3 to 5.

### **Share Capital**

There were no changes to the Company's share capital during 2006.

The Company has established share option schemes under which options to subscribe for a total of 1,099,171 ordinary shares of 0.1p have been issued to certain employees and directors. In February 2007, options over a further 403,509 ordinary shares were granted under this scheme.

### **Operational Review**

2006 was characterised by progress against a challenging environment for the Company:-

- The geo-technical team was strengthened in May by the recruitment of an experienced and dynamic Exploration Manager, but competition for good quality staff in the oil and gas industry was brought into focus when the Commercial Director was approached by a major US company on terms the Company could not match and an amicable parting was agreed. The Company was fortunate to secure the services, on a consultancy basis, of a very well qualified replacement in time to ensure an effective hand-over.
- The exploration team made substantial progress over the year in developing its inventory of exploration prospects, and in December the Company was able to publish a new independent competent person's report identifying eight "drill ready" prospects over and above the Morpheus prospect that had already been identified in the 2005 AIM admission document.
- The Company and its partner invested substantial funds in a 3D seismic programme over the Morpheus licence and, despite the intensely competitive environment, was able to secure a farm-out, for which the contract was signed after the year end and which should lead to a well being drilled during 2007. On other prospects, farm-out negotiations continue in 2007.
- The exploration team's efforts meant that by the time the deadline for relinquishment or renewal of 22<sup>nd</sup> round licences arrived in December, the Company had a clearly ranked list of licences and was able to retain its most favoured 22<sup>nd</sup> Round licences while relinquishing those with less attractive potential.
- The portfolio was further strengthened after the year-end by the award of 5 new UKCS licences in the 24<sup>th</sup> licensing round, comprising 11 blocks or part blocks. The Company's working interest in these new licences is 90-100%, giving plenty of scope

for farming down, while still retaining a meaningful working interest in any subsequent discoveries.

## Outlook

The Company has an attractive spread of exploration properties in the UKCS with natural gas potential, a small but well qualified and experienced team, and sufficient funds to cover its planned spending for 2007 and beyond. To advance and grow, however, it must secure farm-outs of its best prospects and those farm-outs are proving harder to achieve.

The Directors expect that activities started in 2006 and continuing in early 2007 will yield significant participation in at least two wells within 12-18 months. In addition, they will explore other growth options and expansion into new geographical areas.

## Results and dividends

The Company made a loss after tax of £375,083 during the year (2005: loss after tax of £216,729). This loss, together with the accumulated loss of £115,400 brought forward, leaves accumulated losses of £490,483 to be carried forward.

## Payments of creditors

The Company's policy for all suppliers is to fix terms of payment when entering into a business transaction, ensure that the supplier is aware of those terms and to abide by the agreed terms of payment.

At 31 December 2006, the number of days trade creditors was 3 (2005: 24 days).

## Financial instruments

The main risks arising from the Company's financial instruments are set out in Note 19 to the accounts.

## Directors and their interests

The directors, who served during the year and their beneficial interests in the share capital of the Company at the end of the year, were as follows:

	<u>Ordinary 0.1p shares</u>		<u>Warrants</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
T F Windle (Chief Executive)*	3,820,000	4,570,000	10,000	10,000
N O Essex (Administration & Economics)	660,000	660,000	20,000	20,000
P W Barnes (Technical)	570,000	570,000	10,000	10,000
M G Jarvis (resigned 30 September 2006)	610,000	610,000	10,000	10,000
A R H Thomas (Finance)	11,111	11,111		
<u>Non-executive directors</u>				
M J Pavia (Chairman)	23,889	23,889	10,000	10,000
A C Turner	11,111	11,111		

\* The reduction in the reported holding for TF Windle arises as a member of his immediate family reached the age of 18 during the year.

All directors benefit from the provision of personal indemnity insurance policies. Premiums payable to third parties are as described in note 7.

## **CORPORATE GOVERNANCE**

### **The Combined Code**

The directors recognise the value of the Combined Code on Corporate Governance. Whilst under the AIM rules full compliance is not required, the directors believe that the Company applies the recommendations insofar as is practicable and appropriate for a public company of its size.

### **The Board**

The Board of directors, whose names are listed under Company Information on page 2, comprises four executive directors (2005: five) and two non-executive directors, who qualify as independent non-executive directors as defined in the Combined Code. As such, the directors are of the opinion that the Board comprises a suitable balance and that the recommendations of the Combined Code have been implemented to an appropriate level. The Board, through the chairman and executive directors in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders about the Company.

The Board meets regularly throughout the year and met twelve times in the year to 31 December 2006. Most meetings were attended by the full Board, the aggregate attendance being 95%. The Board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the executive directors who are charged with consulting the Board on all significant financial and operational matters. Consequently decisions are made promptly and following consultation amongst the directors concerned where necessary and appropriate.

### **Audit Committee**

The Audit Committee comprises the two independent Non-executive Directors. It normally expects to hold two regular meetings per year, just before and just after the annual audit. It met once during 2006. The Finance Director and a representative of the external auditors are normally invited to attend meetings. Other Directors or staff may be invited to attend.

The Audit Committee's primary responsibilities are to review the effectiveness of the Company's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of that audit, and to evaluate and select external auditors.

### **Remuneration Committee**

The Remuneration Committee met twice during 2006. Its members are Adrian Turner (Chairman) and Michael Pavia both of whom were in attendance at both meetings.

The Company's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the Board a framework for the remuneration of the chairman, the executive



directors and the senior management of the Company. The principal objective of the Committee is to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Non-executive fees are considered and agreed by the Board as a whole.

### **Nomination Committee**

Michael Pavia (Chairman), Adrian Turner and Tom Windle have been identified as members of the Nomination Committee but the committee has not formally met. Until the Company becomes substantially larger, the directors are of the opinion that the Nomination Committee would only need to be convened in unusual circumstances.

### **Going concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **Substantial shareholders**

In addition to the shareholders shown under Directors' Interests (page 7) the Company has received notification of the following interests in 3% or more of the Company's issued share capital at 23 March 2007

	Ordinary 0.1p shares	
	Number	%
Artemis Investment Management Limited	3,166,667	9.99
David Marsden	2,780,000	8.77
Perry Partners LLP/Perry Partners International LLP	2,777,778	8.76
Hassan Ahmed	2,610,000	8.23
Credit Suisse Securities (Europe) Limited	1,686,111	5.32
Actis Geoscience Limited	1,500,000	4.73
Elke Ahmed	1,125,000	3.55
Adrian Ahmed	1,125,000	3.55

### **Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company.

In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Company's website in accordance with the legislation in the UK governing the dissemination of financial statements. The maintenance and integrity of the Company's website, including that of the financial statements contained therein, is the responsibility of the directors.

#### **Statement of disclosure to auditor**

In the case of each person who was a director at the time this report was approved

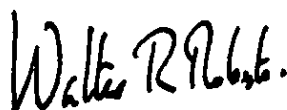
- (a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Auditors**

During the year the Company's auditors, Nexia Audit Limited changed their name to Nexia Smith & Williamson Audit Limited and now trade as Nexia Smith & Williamson.

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Nexia Smith & Williamson be reappointed as auditors of the Company will be put to the Annual General meeting.

#### **By order of the Board**



W R Roberts  
Company Secretary  
23 March 2007

# Nexia Smith & Williamson

## Independent auditors' report to the shareholders of WHAM Energy plc

We have audited the accounts of WHAM Energy plc for the year ended 31 December 2006 which comprise of the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. These accounts 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 Annual Report and the accounts 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 accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the Business Review section of the Directors' Report. We also 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 the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' report and Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

### 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

### Opinion

#### In our opinion

- the accounts 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 accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the accounts.



Nexia Smith & Williamson  
Chartered Accountants  
Registered Auditors

28 March 2007

1 Bishops Wharf  
Walnut Tree Close  
Guildford  
Surrey, GU1 4RA

*The maintenance and integrity of the WHAM Energy plc web site is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the accounts since they were initially presented on the web site.*

*Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.*

## Profit and loss account

For the year ended 31 December 2006

	Notes	<u>2006</u> £	<u>2005</u> £
<b>Turnover</b>	2	-	23,598
Cost of sales		-	-
<b>Gross profit</b>		-	23,598
Administrative expenses		<u>(754,588)</u>	<u>(395,086)</u>
<b>Operating loss</b>	3	<u>(754,588)</u>	<u>(371,488)</u>
<b>Loss on ordinary activities before interest</b>		(754,588)	(371,488)
Interest receivable	4	<u>379,505</u>	<u>113,313</u>
<b>Loss on ordinary activities before taxation</b>		(375,083)	(258,175)
Tax on loss on ordinary activities	5	<u>-</u>	<u>41,446</u>
<b>Loss after taxation</b>		<u>£(375,083)</u>	<u>£(216,729)</u>
<b>Basic and diluted loss per share</b>	20	(1.18)p	(1.05)p

All of the Company's activities are classed as continuing

There are no recognised gains or losses other than the loss for the year

The accompanying notes form part of these financial statements

## Balance Sheet

31 December 2006

	Notes	<u>2006</u> £	<u>2005</u> £
<b>Fixed assets</b>			
Intangible assets	9	1,976,236	518,901
Tangible fixed assets	10	44,976	20,344
		<u>2,021,212</u>	<u>539,245</u>
<b>Current assets</b>			
Debtors	11	498,004	178,766
Investments	12	6,801,405	9,130,277
Cash at bank and in hand		16,017	122,736
		<u>7,315,426</u>	<u>9,431,779</u>
<b>Creditors</b>			
Amounts falling due within one year	13	(86,388)	(427,991)
		<u>7,229,038</u>	<u>9,003,788</u>
<b>Net current assets</b>			
		<u>7,229,038</u>	<u>9,003,788</u>
<b>Total assets less current liabilities</b>		<u>9,250,250</u>	<u>9,543,033</u>
<b>NET ASSETS</b>		<u>£9,250,250</u>	<u>£9,543,033</u>
<b>Capital and reserves</b>			
Called-up share capital	15	31,696	31,696
Share premium account	16	9,568,287	9,568,287
Other reserves	16	58,450	58,450
Share option reserve	16	82,300	-
Profit and loss account	16	(490,483)	(115,400)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<u>£9,250,250</u>	<u>£9,543,033</u>

Signed on behalf of the Board



T F Windle  
Director



A R H Thomas  
Director

Approved by the Board on 23 March 2007

The accompanying notes form part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006		2005	
	£	£	£	£
<b>Net cash (outflow)/inflow from operating activities (note 23)</b>		(1,348,505)		9,806
<b>Returns on investment and servicing of finance</b>				
Bank and investment interest receipts	399,006		76,322	
		399,006		76,322
<b>Taxation</b>				
Taxation paid	-		(35,000)	
		-		(35,000)
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible fixed assets	(40,221)		(18,558)	
Payments to acquire intangible fixed assets	(1,445,871)		(503,709)	
		(1,486,092)		(522,267)
<b>Net cash flow before use of liquid resources and financing</b>		(2,435,591)		(471,139)
<b>Management of liquid resources</b>				
Decrease/(Increase) in Short term deposits		2,328,872		(9,130,277)
<b>Financing</b>				
Proceeds from issue of Ordinary shares	-		10,602,820	
Costs associated with share issue	-		(946,067)	
		-		9,656,753
<b>(Decrease)/Increase in cash</b>		<u>£(106,719)</u>		<u>£55,337</u>
<b>Reconciliation of net cash flow to movement in net funds</b>				
(Decrease)/Increase in cash in the year	(106,719)		55,337	
Cash used to (decrease)/increase liquid resources	(2,328,872)		9,130,277	
Change in net funds		(2,435,591)		9,185,614
Net funds at 1 January 2006		<u>9,253,013</u>		<u>67,399</u>
Net funds at 31 December 2006		<u>£6,817,422</u>		<u>£9,253,013</u>

## Notes to the financial statements

31 December 2006

### 1. Statement of principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below

#### **(a) Accounting convention**

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards. The Company's financial statements have been prepared under the full cost basis as set out in the UK Oil Industry Accounting Committee's Statement of Recommended Practice ("SORP") "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities."

#### **(b) Consortium accounting**

The Company's exploration activities are generally conducted in joint ventures with other companies and are accounted for as joint arrangements that are not entities under Financial Reporting Standard 9 ("FRS 9") such that the Company accounts directly for its share of transactions conducted through the joint arrangement

#### **(c) Intangible oil and gas assets**

Intangible oil and gas assets comprise the licence acquisition, exploration and appraisal costs relating either to unevaluated properties or properties awaiting further evaluation. When a decision to develop these properties has been taken, or there is evidence of impairment, the costs are transferred to the relevant tangible oil and gas assets cost pool.

An impairment test is carried out at each balance sheet date to assess whether the net book amount of the capitalised costs in each pool is covered by the associated recoverable amount, as outlined in Financial Reporting Standard 11 ("FRS 11") "Impairment of Fixed Assets and Goodwill". Impairment losses are recognised in the profit and loss account

#### **(d) Exploration and development expenditure**

The Company follows the full-cost method of accounting for oil and gas properties under which all exploration and development expenditure, including financing costs and directly related foreign exchange differences in respect of properties under development, is capitalised in a depreciable cost pool. Proceeds from the disposal of interests are deducted from the cost pool unless there is no relevant pool cost, when the profits on disposal are reflected in the profit and loss account

Depletion is provided on the balance held in the pool, plus the expected future costs to extract all commercial oil and gas reserves, using the unit of production method. (Commercial oil and gas reserves are proven and probable oil and gas reserves as defined in the SORP). Depletion is not provided on interests held outside the cost pool

#### **(e) Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Computer equipment	-	3 years
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## Notes to the financial statements

31 December 2006

### **(f) Foreign currencies**

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange current at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Sterling at the rate of exchange ruling at the end of the financial year. All exchange differences are dealt with in the profit and loss account.

### **(g) Deferred taxation**

Deferred tax is provided for on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are recognised on the basis that they are recoverable, that is, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Any assets and liabilities recognised have not been discounted.

### **(h) Operating leases**

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

### **(i) Pensions**

The Company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year in which they are payable.

### **(j) Liquid resources**

Liquid resources represent cash balances on short term deposit other than those repayable on demand and without penalty.

### **(k) Turnover**

Turnover represents the invoiced value for the sale of consultancy services and is stated net of VAT.

### **(l) Share based payments**

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the profit and loss account.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non market-based vesting to reflect the conditions prevailing at the balance sheet date. Fair value is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations.



## Notes to the financial statements

31 December 2006

### 2. Turnover

The turnover of the Company in the prior year arises from consultancy services provided to third parties in the United Kingdom

### 3. Operating Loss

The operating loss is stated after charging

	<u>2006</u>	<u>2005</u>
	£	£
Depreciation on tangible fixed assets	11,263	3,142
Operating lease rentals – premises	20,257	6,466
Operating lease rentals – plant and machinery	-	21,100
Auditors' remuneration		
- audit	18,000	17,750
- taxation services	4,000	9,000
- all other services	14,700	10,500

### 4. Interest Receivable

	<u>2006</u>	<u>2005</u>
	£	£
Interest receivable on money market deposits	361,342	106,815
Bank account interest	7,796	6,498
Other interest	<u>10,367</u>	<u>-</u>
	<u>379,505</u>	<u>113,313</u>

### 5. Taxation

	<u>2006</u>	<u>2005</u>
	£	£
The tax credit on the loss on ordinary activities for the year was as follows		
UK Corporation tax at 19% (2005: 19%)	-	(23,718)
Prior year Corporation tax overprovision	<u>-</u>	<u>(12,705)</u>
	-	(36,423)
Deferred tax released	-	(5,023)
	<u>-</u>	<u>(41,446)</u>

## Notes to the financial statements

31 December 2006

### Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	<u>2006</u> £	<u>2005</u> £
(Loss) on ordinary activities before taxation	(375,083)	(258,175)
(Loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax at 19% (2005 19%)	(71,266)	(49,053)
Capital allowances in excess of depreciation	(283,274)	(91,942)
Disallowed expenses	(6,078)	8,731
Pension accrual	(3,558)	3,558
Current year trading losses carried forward	364,176	104,988
Prior year adjustment	-	(12,705)
	<u>-</u>	<u>(36,423)</u>

No benefit has been recognised in these accounts for a potential net deferred tax asset of £97,410 (2005 £24,971) resulting from the effect of carry forward trading losses in excess of fixed asset timing differences. The amount as at 31 December 2006 comprises £473,415 relating to losses carried forward and £(376,005) relating to capital allowances. A deferred tax asset would only be recognised where there is reasonable certainty that the Company will generate suitable taxable profits in the foreseeable future.

### 6. Employee Information

#### Number of employees

The average monthly number of employees, including executive directors, during the year was.

	<u>2006</u> Number	<u>2005</u> Number
Management and administration	8	5
	£	£
Employee costs during the year amounted to		
Wages and salaries	548,543	181,409
Social security costs	54,283	21,117
Other pension costs	<u>105,813</u>	<u>22,500</u>
	<u>708,639</u>	<u>225,026</u>

## Notes to the financial statements

31 December 2006

### 7. Directors' Remuneration

#### Aggregate remuneration

Directors' remuneration for the year comprised emoluments of £348,639 (2005: £149,167) of which £45,000 was paid to non-executive directors. An insurance premium of £16,500 (2005: £11,500) was paid in respect of directors and officers liability.

Four directors (2005: 4) have accrued benefits under a money purchase pension scheme

#### Emoluments of Board Members

	Salary £	Pension £	2006 Total £
<u>Executive</u>			
T F Windle	68,877	17,219	86,096
P W Barnes	68,034	17,009	85,043
N O Essex	68,034	17,009	85,043
M G Jarvis	54,864	13,716	68,580
A R H Thomas	43,830	-	43,830
<u>Non Executive</u>			
M J Pavia	25,000	-	25,000
A C Turner	<u>20,000</u>	<u>-</u>	<u>20,000</u>
	<u>348,639</u>	<u>64,953</u>	<u>413,592</u>

### 8. Share based payments

In order to be able to secure and retain the services of high quality staff in a highly competitive market, and to reinforce their alignment with the interests of shareholders, the Company operates a share option scheme for employees and executive Directors. There have been no awards to Directors who were Directors at the time of the AIM admission and there is no current intention to include those Directors in the scheme. Other employees and executive Directors are eligible to be granted share options at the discretion of the Board, as advised by the Remuneration Committee. The maximum value of such options outstanding at any time for an individual employee is four times annual salary, and the exercise price is established at date of grant as the average closing mid-price of the shares on the three trading days up to and including the grant date. The maximum number of all outstanding share options (including options granted to non-executive Directors at the time of the AIM admission, which are not part of the executive share option scheme) is limited by resolution of shareholders at the Company's Annual General Meeting.

## Notes to the financial statements

31 December 2006

Details of the share options outstanding during the year are as follows

	2006 Number of options	Weighted average exercise price £
Outstanding at the beginning of the year	618,258	0.4472
Granted during the year	480,913	0.4367
Forfeited during the year	-	NA
Exercised during the year	-	NA
Expired during the year	-	NA
Outstanding at the end of the year	1,099,171	0.4425

These share options vested as follows

<u>Vesting Date</u>	<u>Number issued</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
26 September 2005	90,000	90p	26 September 2007
1 November 2005	528,258	37p	31 December 2008
1 January 2006	146,341	41p	31 December 2008
25 May 2006	334,572	44.833p	31 December 2008

All options vest immediately upon grant and are not related to any employment performance conditions.

The value of the options is measured by the use of a binomial pricing model. The inputs into the binomial model were as follows

	2006
Share price at grant date (£)	0.4343
Exercise price (£)	0.4366
Volatility (%)	56.2%
Expected life (years)	2.71
Risk-free rate (%)	4.61%
Expected dividend yield (%)	0.00%

Because of the short trading history since AIM admission and the effect on the volatility calculation of the abnormal trading pattern in the few weeks following AIM admission, expected volatility for options granted during 2006 was calculated by reference to a similar exploration and production company that had a three year period of continuous trading on AIM.

The Company recognised total expenses of £82,300 in respect of share based payments in 2006. (2005 £nil)

## Notes to the financial statements

31 December 2006

### 9. Intangible Fixed Assets

	Exploration costs £
<b>Cost</b>	
As at 1 January 2006	518,901
Additions	1,457,335
At 31 December 2006	<u>1,976,236</u>

The directors have fully considered and reviewed the potential value of licence interests. The directors have considered the likely opportunities for realising the value of the Company's licences, either by farm out or by the disposal of the assets, and have concluded that the likely value is in excess of net book amount.

Additions to exploration costs represent total exploration and appraisal costs incurred in the year in respect of unproven properties all of which are located on the United Kingdom Continental Shelf.

### 10. Tangible Fixed Assets

	Computer Equipment £
<b>Cost</b>	
As at 1 January 2006	24,187
Additions	35,895
At 31 December 2006	<u>60,082</u>
<b>Depreciation</b>	
As at 1 January 2006	3,843
Charge for year	11,263
At 31 December 2006	<u>15,106</u>
<b>Net book amount</b>	
As at 31 December 2006	<u>44,976</u>
As at 31 December 2005	<u>20,344</u>

### 11. Debtors

	<u>2006</u> £	<u>2005</u> £
Trade debtors	348,651	1,604
Other debtors	64,710	124,129
Prepayments and accrued income	84,643	53,033
	<u>498,004</u>	<u>178,766</u>

Notes to the financial statements  
31 December 2006

**12. Current Asset Investments**

	<u>2006</u>	<u>2005</u>
	£	£
Money market deposits (see note 19)	<u>6,801,405</u>	<u>9,130,277</u>

**13. Creditors: Amounts falling due within one year**

	<u>2006</u>	<u>2005</u>
	£	£
Trade creditors	8,779	112,245
Taxation and social security	22,434	43,437
Other creditors	55,175	272,309
	<u>86,388</u>	<u>427,991</u>

“Other creditors” includes £11,029 (2005 £22,500) charged to the profit and loss account for pension contributions to defined contribution pension schemes to be paid by the Company

**14. Provision for Liabilities**

	<u>2006</u>	<u>2005</u>
	£	£
Balance as at 1 January 2006	-	5,023
Released to profit and loss account	-	(5,023)
Balance as at 31 December 2006	<u>-</u>	<u>-</u>

**15. Called-up Share Capital**

	<u>2006</u>	<u>2005</u>
	£	£
<b>Authorised:</b>		
60,000,000 ordinary shares of £0.001 each	60,000	60,000
30,000 redeemable shares of £1 each	<u>30,000</u>	<u>30,000</u>
<b>Allotted, called-up and fully paid:</b>		
31,695,611 ordinary shares of £0.001 each	<u>31,696</u>	<u>31,696</u>

Notes to the financial statements  
31 December 2006

**16. Statement of Movements on Reserves**

	Share premium account	Profit and loss account	Other reserves	Share option reserve	Total
	£	£	£	£	£
At 1 January 2006	9,568,287	(115,400)	58,450	-	9,511,337
Loss for the year	-	(375,083)	-	-	(375,083)
Share based payments	-	-	-	82,300	82,300
At 31 December 2006	9,568,287	(490,483)	58,450	82,300	9,218,554

“Other reserves” comprises an allocation of part of the 6 May 2005 private placing proceeds representing the deemed value of the warrants issued alongside the ordinary shares

**17. Reconciliation of Movements in Shareholders' Funds**

	<u>2006</u>	<u>2005</u>
	£	£
Shares issues in the year	-	30,016
Share premium	-	10,514,354
Share based payment reserve	82,300	-
Share issue costs	-	(946,067)
Other reserves- on issue of warrants	-	58,450
Loss for the year	(375,083)	(216,729)
	(292,783)	9,440,024
Opening shareholders' funds	9,543,033	103,009
Closing shareholders' funds	9,250,250	9,543,033

**18. Financial Commitments**

At 31 December 2006, the Company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	<u>2006</u>	<u>2005</u>
	£	£
Expiring within 1-2 years	4,218	20,257

At 31 December 2006, the Company had estimated commitments under joint operating agreements of approximately £3,233,866 (2005: £436,000), the majority of which were estimated to fall due within the following 24 months

## Notes to the financial statements

31 December 2006

### 19. Financial Assets and Liabilities

The activities of the Company are funded out of working capital and do not include the use of derivatives or financial instruments other than cash and term deposits. The Company also has financial instruments in the form of short term debtors and creditors which arise in the normal course of business and are not discounted, offered as security or pledged in any way. Such items are excluded from the disclosures that follow.

The main risks arising from the Company's financial instruments are credit risk, interest risk and, to an immaterial extent, foreign currency risk. Operations during the year were financed through cash resources derived from shareholder subscriptions.

The Company routinely deposits funds in the London money market. Deposit periods are kept short to minimise interest risk exposure and deposits are only made through banks with a credit rating of AA or better to minimise credit risk exposure.

The Company's currency exposure comprises monetary liabilities that are not denominated in Sterling and that give rise to the net currency gains and losses recognised in the profit and loss account. At the year end this exposure comprised £nil of liabilities (2005 £208,436) denominated in US dollars.

The financial assets of the Company are cash at bank and fixed term bank deposits (money market) all of which were Sterling denominated. These attract interest at rates that vary with bank interest rates. The interest rate profile of the Company's financial assets and liabilities at 31 December 2005 was as follows.

	<u>2006</u>	<u>2005</u>
	£	£
Cash at bank at floating interest rates	6,801,405	9,130,277
Cash at bank	16,017	122,736

Cash at bank at floating rates consisted of money market deposits which earn interest at rates set in advance from periods of 1-2 months by reference to Sterling LIBOR.

### 20. Loss per Share

	<u>2006</u>	<u>2005</u>
	£	£
Net loss for the financial year	(375,083)	(216,729)
Basic weighted average ordinary shares in issue during the year	31,695,611	20,720,816
	Pence	Pence
Basic loss per 0.1p ordinary share	(1.18)	(1.05)

At the year end options were in place over 1,099,171 shares. No diluted loss per share is presented as the effect of the exercise of the share options would be to decrease the loss per share.



## Notes to the financial statements

31 December 2006

### 21. Transactions with Directors

There were no transactions with directors during the year

The following disclosures relate to transactions during the year ended 31 December 2005

Actis Geoscience Limited is a company in which Thomas Windle is a shareholder and was a director until his resignation on 17 May 2005. During the period when Mr Windle was a director of Actis, Actis performed technical services to the value of £30,000 in respect of time spent by Actis personnel on further evaluation of certain licence interests held by WHAM Energy plc. In addition Actis invoiced the Company £4,500 for the use of computer software used for technical analysis. All charges are computed on an arms length basis.

Prior to the commencement of their salaried employments, directors invoiced the Company the following amounts through their respective consultancy businesses. During 2005 an amount of £10,000 was paid to Strode Asset Services Limited for services provided by Peter Barnes, and £3,906 was paid to Entepen Consulting Limited for services provided by Alan Thomas. Similar transactions, each for £10,000 were paid for consultancy work to Nigel Essex and Mick Jarvis.

No amounts were outstanding in respect of transactions with directors at 31 December 2006 (2005 nil).

### 22. Related Party Transactions

During the year, the Company was invoiced £4,439 (2005 £3,691) by Adapt & Survive, a business operated by Francis Windle, the brother of Thomas Windle, for computer maintenance and supply of computer hardware. These transactions are considered to be on an arms length basis and there were no outstanding invoices due to or from Adapt & Survive as at 31 December 2006 (2005. £nil). £475 (2005 £1,913) was paid to Miles Essex, the son of Nigel Essex, for consultancy relating to the Company's website. There was no balance outstanding in respect of this transaction as at 31 December 2006 (2005 £nil).

### 23. Notes to the Cash Flow Statement

(a) Reconciliation of operating result to net cash flow from operating activities

	<u>2006</u>	<u>2005</u>
	£	£
Operating (loss) for the year	(754,588)	(371,488)
Non cash share based payments	82,300	-
Depreciation	11,263	3,142
(Increase) in debtors	(346,275)	(35,686)
(Decrease)/increase in creditors	(341,205)	413,838
Net cash (outflow)/inflow from operating activities	<u>(1,348,505)</u>	<u>9,806</u>

## Notes to the financial statements

31 December 2006

### (b) Analysis of changes in net funds

	As at 1 January 2006 £	Cash Flow £	As at 31 December 2005 £
Cash at bank and in hand	122,736	(106,719)	16,017
Current asset investments	9,130,277	(2,328,872)	6,801,405
	<u>9,253,013</u>	<u>(2,435,591)</u>	<u>6,817,422</u>

### 24. Post Balance Sheet Events

In February 2007, the Company granted 493,509 share options to employees at the exercise price of 30 75p

In March 2007 the Company extended its lease on No 8 Square Rigger Row for two years, with a break clause after one year

In January 2007 the Company was awarded eleven blocks in the 24<sup>th</sup> Round of Offshore Licenses. The Company was awarded 100% working interest in blocks 38/20, 38/25, 39/16, 39/21, 38/29, 38/30, 39/26, 44/5, 44/27c, 49/22b and a 90% working interest in block 47/6