

Teredo Oils Limited
Directors' Report and Financial Statements
for the period from 1 July 2005 to 31 December 2006

Company Registration No: 1740802

Taylor's
Chartered Accountants
Battle House
1 East Barnet Road
Herts
EN4 8RR



Teredo Oils Limited
Report and accounts
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**Teredo Oils Limited
Company Information**

Directors

P H Paris

Secretary

J M Bottomley

Auditors

Taylor's

Battle House

1 East Barnet Road

Herts

EN4 8RR

Registered office

30 Farringdon Street

London

EC4A 4HJ

Registered number

1740802

Teredo Oils Limited
Directors' Report

The directors present their report and accounts for the period ended 31 December 2006

Principal activities and review of the business

The principal activity of the company is the exploration for and production of oil and gas in Spain

Turnover has increased by 83% during the period. The company is in a good position to take advantage of any opportunities which may arise in the future

Results and dividends

The loss for the period, after taxation, amounted to £265,739. No dividends have been declared or paid during the period

Directors

The following directors served during the period

P H Paris

Disclosure of information to auditors

So far as each director at the date of approval of this report is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

This report was approved by the board on 16th June 2007

J M Bottomley
Secretary

Philip H Paris
DIRECTOR.

Teredo Oils Limited
Statement of Directors' Responsibilities

The directors are responsible for preparing the report and accounts in accordance with applicable law and regulations

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, 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, subject to any material departures disclosed and explained in the accounts,
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts 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.

Teredo Oils Limited
Independent auditors' report
to the shareholders of Teredo Oils Limited

We have audited the accounts of Teredo Oils Limited for the period ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. 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 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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts.

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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

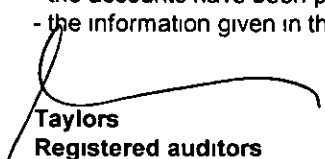
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant 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 period 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.


Taylor's
Registered auditors
16 June 2007

Battle House
1 East Barnet Road
Herts
EN4 8RR

Teredo Oils Limited
Profit and Loss Account
for the period from 1 July 2005 to 31 December 2006

	Notes	2006 £	2005 £
Turnover	4	436,910	239,216
Cost of sales		(272,259)	(215,465)
Gross profit		<u>164,651</u>	<u>23,751</u>
Administrative expenses		(342,009)	(100,295)
Operating loss	5	<u>(177,358)</u>	<u>(76,544)</u>
Interest receivable		3,382	4,153
Loss on ordinary activities before taxation		<u>(173,976)</u>	<u>(72,391)</u>
Tax on loss on ordinary activities	6	(91,763)	-
Loss for the period		<u><u>(265,739)</u></u>	<u><u>(72,391)</u></u>

Continuing operations

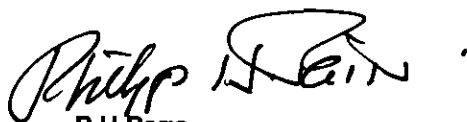
None of the company's activities were acquired or discontinued during the above two periods

Statement of total recognised gains and losses

The company has no recognised gains or losses other than the loss for the above two periods

Teredo Oils Limited
Balance Sheet
as at 31 December 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	7	154,415	60,621
Current assets			
Debtors	8	100,778	530,261
Cash at bank and in hand		<u>332,093</u>	<u>38,899</u>
		432,871	569,160
Creditors, amounts falling due within one year	9	(140,774)	(101,435)
Net current assets		<u>292,097</u>	<u>467,725</u>
Total assets less current liabilities		<u>446,512</u>	<u>528,346</u>
Creditors' amounts falling due after more than one year	10	(844,971)	(4,851,413)
Provisions for liabilities			
Other provisions	11	(121,075)	(91,728)
Net liabilities		<u>(519,534)</u>	<u>(4,414,795)</u>
Capital and reserves			
Called up share capital	12	175,258	175,258
Share premium	13	1,023,702	1,023,702
Profit and loss account	14	(1,718,494)	(5,613,755)
Shareholders' funds	15	<u>(519,534)</u>	<u>(4,414,795)</u>



P H Pars
 Director

Approved by the board on 16th June, 2007

Teredo Oils Limited
Notes to the Accounts
for the period from 1 July 2005 to 31 December 2006

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards

The Financial statements have been prepared on the going concern basis. This is considered appropriate as the ultimate beneficial shareholders will continue to provide financial support to the company for the foreseeable future.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

2 Abandonment

Provision is made for abandonment costs, calculated on a unit of production basis, representing the company's share of the estimated costs which may be incurred in the removal and abandonment of facilities at the end of the producing life of the field.

Depreciation

The company follows the full cost method of accounting for oil and gas assets. Under this method all expenditure in connection with the acquisition, exploration, appraisal and development of oil and gas assets, including interest payable and exchange differences incurred on borrowing in respect of development projects is capitalised in one geological cost pool.

The costs of undeveloped acreage and exploration assets are excluded from the capitalised costs to be depleted, pending determination of the recoverable reserves attributable to such assets. Where exploration expenditure is being accumulated against a cost pool, the value of that cost is written down through the profit and loss account where it is considered that a permanent impairment of the assets value has occurred.

Proceeds from the disposal of oil and gas assets are credited against capitalised costs. Any surplus arising in the cost pool is credited to the profit and loss account.

3 Depletion and depreciation

Expenditure on oil and gas exploration and development is depleted on a unit of production basis, based on proven plus probable reserves.

Depreciation on other tangible fixed assets is provided at rates calculated to write off the costs of each asset on a straight line basis over its expected useful life between three and ten years.

Teredo Oils Limited
Notes to the Accounts
for the period from 1 July 2005 to 31 December 2006

Stocks

Stocks of materials and crude oil are valued at the lower of cost and net realisable value. The company classifies the value of oil stocks as trade debtors and the value of production inventory as tangible fixed assets.

Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that in the opinion of the director, there is a reasonable probability that a liability or assets will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

4 Turnover

Turnover represents the company's share of oil and gas production arising in Spain and is recognised on an entitlement basis.

5 Operating profit

	2006	2005
	£	£
This is stated after charging		
Depreciation and amortisation	87,312	21,073
Operating lease rentals - plant and machinery	-	6,866
Auditors' remuneration	<u>5,000</u>	<u>6,748</u>

Teredo Oils Limited
Notes to the Accounts
for the period from 1 July 2005 to 31 December 2006

6 Taxation	2006	2005
	£	£
Analysis of charge in period		
Current tax		
Overseas taxation	91,763	-
	<u>91,763</u>	<u>-</u>
Tax on profit on ordinary activities	<u>91,763</u>	<u>-</u>

Factors affecting tax charge for period

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows

	2006	2005
	£	£
Loss on ordinary activities before tax	<u>(173,976)</u>	<u>(72,391)</u>
Standard rate of corporation tax in the UK	30%	30%
	£	£
Profit on ordinary activities multiplied by the standard rate of corporation tax	(52,193)	(21,717)
Effects of Expenses not deductible for tax purposes	143,956	21,717
Current tax charge for period	<u>91,763</u>	<u>-</u>

Teredo Oils Limited
Notes to the Accounts
for the period from 1 July 2005 to 31 December 2006

7 Tangible fixed assets

	Production	Other fixed	Abandonment	Total
	£	assets	asset	£
		£	£	
Cost				
At 1 July 2005	4,451,760	28,103	-	4,479,863
Additions	97,417	23,235	121,075	241,727
Disposals	(4,451,760)	-	-	(4,451,760)
At 31 December 2006	<u>97,417</u>	<u>51,338</u>	<u>121,075</u>	<u>269,830</u>
Depreciation				
At 1 July 2005	4,391,139	28,103	-	4,419,242
Charge for the period	53,796	23,235	10,281	87,312
On disposals	(4,391,139)	-	-	(4,391,139)
At 31 December 2006	<u>53,796</u>	<u>51,338</u>	<u>10,281</u>	<u>115,415</u>
Net book value				
At 31 December 2006	<u>43,621</u>	<u>-</u>	<u>110,794</u>	<u>154,415</u>
At 30 June 2005	<u>60,621</u>	<u>-</u>	<u>-</u>	<u>60,621</u>

8 Debtors

	2006	2005
	£	£
Trade debtors	23,217	51,616
Amounts owed by group undertakings and undertakings in which the company has a participating interest	74,953	-
Other debtors	1,531	454,673
Prepayments and accrued income	1,077	23,972
	<u>100,778</u>	<u>530,261</u>

9 Creditors amounts falling due within one year

	2006	2005
	£	£
Trade creditors	18,078	-
Other taxes and social security costs	3,023	-
Other creditors	119,673	101,435
	<u>140,774</u>	<u>101,435</u>

Teredo Oils Limited
Notes to the Accounts
for the period from 1 July 2005 to 31 December 2006

10 Creditors, amounts falling due after one year	2006	2005
	£	£
Amounts owed to group undertakings and undertakings in which the company has a participating interest	188,510	4,175,937
Other taxes and social security costs	656,461	675,476
	<u>844,971</u>	<u>4,851,413</u>

11 Provisions for liabilities

	Abandonment	Taxation	Total
	£	£	£
At 1 July 2005	91,728	-	91,728
Increase in provision	121,075	-	121,075
Amounts reversed unused	(91,728)	-	(91,728)
	<u>121,075</u>	<u>-</u>	<u>121,075</u>

The abandonment provision relates to amounts paid and held by the Spanish Government to reinstate the area after the completion of oil production

12 Share capital			2006	2005
			£	£
Authorised Ordinary shares of £1 each			<u>500,000</u>	<u>500,000</u>
	2006	2005	2006	2005
	No	No	£	£
Allotted, called up and fully paid Ordinary shares of £1 each	175,258	175,258	<u>175,258</u>	<u>175,258</u>

13 Share premium	2006	2005
	£	£
At 1 July 2005	1,023,702	1,023,702
	<u>1,023,702</u>	<u>1,023,702</u>

Teredo Oils Limited
Notes to the Accounts
for the period from 1 July 2005 to 31 December 2006

14 Profit and loss account	2006	2005
	£	£
At 1 July 2005		
As previously reported	(5,613,755)	(5,541,364)
Prior year adjustment	<u>4,161,000</u>	<u>-</u>
Restated	(1,452,755)	(5,541,364)
Loss for the period	(265,739)	(72,391)
At 31 December 2006	<u><u>(1,718,494)</u></u>	<u><u>(5,613,755)</u></u>
15 Reconciliation of movement in shareholders' funds	2006	2005
	£	£
At 1 July 2005		
As previously reported	(4,414,795)	(4,342,404)
Prior year adjustment	<u>4,161,000</u>	<u>-</u>
Restated	(253,795)	(4,342,404)
Loss for the financial period	(265,739)	(72,391)
At 31 December 2006	<u><u>(519,534)</u></u>	<u><u>(4,414,795)</u></u>

16 Prior year adjustment

The prior year adjustment arises as a result of writing off a significant intercompany balance with the former parent company Euroterado Gestao e Investimentos SA, after acquisition by Ascent Production Limited

17 Contingent liabilities

There were no contingent liabilities at 31 December 2006

18 Controlling party

The immediate parent company and controlling party is Ascent Production limited, a company registered in England