1021486

First Oil Expro Limited

Report and Financial Statements

30 April 2007

WEDNESDAY

AQOEJV1H

A20 28/11/2007 67

COMPANIES HOUSE

Registration No 1021486

Registered No 1021486

Directors
I A Suttie (Chairman)
G A Forbes (Executive Director)

Secretary
S M Mearns

Auditors
Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Bankers
Bank of Scotland
The Mound
Edinburgh
EY1 1YZ

Solicitors
CMS Cameron McKenna LLP
Migvie House
North Silver Street
Aberdeen
AB10 1RJ

Registered Office
21 Regatta House
32 Twickenham Road
Teddington
Middlesex
TW11 8AZ

Directors' report

The directors present their report and financial statements for the year ended 30 April 2007

Results and dividends

The loss for the year, after taxation, amounted to £60,000 (2006 – profit of £2,780,000) The directors do not recommend the payment of any dividends

Principal activities and review of the business

The principal activity of the company during the year was the exploration of oil and gas

Principal risks and uncertainties

The Board considers principal risks and uncertainties on an ongoing basis and implements the necessary policies to mitigate these risks and uncertainties

The principal risks and uncertainties facing the group can be broadly defined as price, operational and legislative risk

- Price Risk – the risk of falls in oil or gas prices directly affects the profitability of the group in circumstances where the price has not been hedged
- Operational Risk – this includes factors such as timing of work programmes, cost over-runs, reservoir performance and retention of key personnel
- Legislative Risk – this includes the risk of increased taxation burdens and revisions to UK and European legislation

Directors

The directors who served the company during the year were as follows

I A Suttie
G A Forbes

There are no directors' interests requiring disclosure under the Companies Act 1985

I A Suttie is also a director of, and holds shares in, the ultimate parent company, First Oil plc His interests in the shares of First Oil plc are disclosed in the accounts of that company

There were no share options granted or exercised during the year

Directors' report

A share option scheme exists for senior members of staff and directors in the share capital of the ultimate holding company, First Oil PLC, the directors interests in the scheme are set out below

	I A Suttie	G A Forbes
Options held 1 May 2006	-	-
Options granted	-	240,000
Options exercised	-	-
Options lapsed	-	(40,000)
Options held 30 April 2007	-	200,000

Substantial ordinary shareholders

First Capital Developments Limited holds 1,238,250 shares (15 4%) of First Oil PLC, the ultimate parent company I A Suttie is a Director of First Capital Developments Limited and his interest in the share capital First Capital Developments Limited is disclosed in the financial statements of that company

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

Financial Derivative Instruments

The Company uses hedging instruments to reduce its exposure to fluctuations in oil and gas prices The accounting policy relating to these instruments is discussed in note one to the financial statements The table below represents the commodity hedges in place at the year end and their fair values at 30 April 2007

Oil	**Volume bbls**	**$/bbl**	**Fair value $/bbl**
2008			
Put Options - $62	90,000	6 8	5 4
Call Options - $74 5	549,000	7 6	4 0
Swaps	529,000	62 0	69 9
2009			
Put Options - $62	90,000	6 8	5 4
Call Options - $74 5	441,000	7 6	4 0
Swaps	420,000	62 0	69 9
Gas	**MMtherms**	**p/th**	**p/th**
2008			
Put Options - 22 5p	13 7	2 9	5 2
Call - 70p	4 6	6 2	5 3
Swaps	29 2	44 6	46 4
2009			
Put Options - 28 4p	11 5	4 2	4 3
Swaps	8 9	36 7	36 8
2010			
Swaps	4 6	45 0	45 3

Directors' report

Post balance sheet events

On 20th June 2007, the Company acquired the entire share capital of Reach Exploration (North Sea) Limited The financial effect is an increase in fixed assets of approximately 12%

Directors' statement as to Disclosure of Information to Auditors

So far as each of the directors at the time the report is approved are aware

- There is no relevant audit information of which the auditors are unaware, and
- they have taken all the steps that they ought to have 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

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the board

G A Forbes

Executive Director

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

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 and of the profit or loss of the company for that period 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, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business
- so far as the directors are aware, there is no relevant audit information of which the company's auditors are aware, and
- have taken all the steps that they ought to have 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

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

Independent auditors' report

to the members of First Oil Expro Limited

We have audited the company's financial statements for the year ended 30 April 2007, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 21 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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements 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 financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements

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 information specified by law regarding directors' remuneration and other transactions is not disclosed

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 judgments 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

Independent auditors' report

to the members of First Oil Expro Limited

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 30 April 2007 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

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Aberdeen

31 October 2007

Profit and loss account

for the year ended 30 April 2007

	Notes	2007 £000	2006 £000
Turnover			
Continuing operations	2	25,162	25,654
Acquisitions	2	853	1,511
		26,015	27,165
Cost of sales		(11,018)	(12,725)
Gross profit		14,997	14,440
Administrative expenses		(2,576)	(2,685)
Operating profit before exploration and exceptional costs			
Continuing operations		11,927	10,557
Acquisitions		494	1,198
		12,421	11,755
Exploration expenses	8	(1,020)	(4,955)
Asset impairment		(4,005)	-
Gas contract buy out		-	(2,075)
Profit on disposal of intangible fixed assets		-	2,039
Operating profit after exceptional items			
Continuing operations		7,037	5,566
Acquisitions		359	1,198
		7,396	6,764
Interest receivable	5	68	68
Interest payable and similar charges	6	(3,871)	(3,069)
Profit on ordinary activies before taxation		3,593	3,763
Taxation on profit on ordinary activities			
Corporation taxation	7	(3,653)	(983)
Profit retained for the financial year	19	(60)	2,780

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £60,000 attributable to the shareholder for the year ended 30 April 2007 (2006 - profit of £2,780,000)

Balance sheet

at 30 April 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Intangible assets	8	8,906	5,728
Tangible assets	9	79,293	71,093
Investments	10	25,094	25,094
		113,291	101,915
Current assets			
Debtors	11	14,991	8,294
Cash at bank		739	130
		15,730	8,424
***Creditors*: amounts falling due within one year**	12	(40,568)	(42,720)
Net current liabilities		(24,838)	(34,296)
Total assets less current liabilities		88,453	67,619
***Creditors* amounts falling due after more than one year**	13	(58,015)	(38,329)
Provision for liabilities and charges			
Decommissioning	16	(12,793)	(15,247)
Deferred Taxation	7(c)	(9,739)	(6,076)
		7,906	7,966
Capital and reserves			
Share capital	18	-	-
Profit and loss account	19	7,906	7,966
Equity shareholders' funds	19	7,906	7,966

Approved by the board of directors on 31 October 2007 and signed on its behalf by

G A Forbes
Director

Notes to the financial statements

at 30 April 2007

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and the statement of recommended practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning activities" and in accordance with applicable accounting standards

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Related parties transactions

The company is a wholly owned subsidiary of First Oil plc, the consolidated accounts of which are publicly available Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the First Oil plc group

Exploration and appraisal expenditure

The company adopts the successful efforts method of accounting for exploration and appraisal costs All pre-licence, licence acquisition, exploration and appraisal costs are initially capitalised as intangible fixed assets in cost centres by well, field or exploration area, as appropriate, pending determination of commercial reserves These costs are then written off, unless commercial reserves have been established or the determination process has not been completed

Following the discovery of a commercially viable well, the attributable costs are transferred to tangible fixed assets, in single field cost centres

Fixed assets

All fixed asset are initially recorded at cost

All expenditure carried within each field is amortised from the commencement of production, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, on a field-by-field basis

Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs

Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows

Equipment - 3 to 4 years

Notes to the financial statements

at 30 April 2007

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,
- deferred tax assets are recognised only to the extent that the directors consider that 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

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Petroleum Revenue Tax

Current UK Petroleum Revenue Tax (PRT) is charged as a tax expense on chargeable field profits included in the profit and loss account, and is deductible for UK corporation tax

Deferred PRT is charged as a tax expense so as to allocate the expected PRT cost over the remaining life of the related field on a unit of production basis, using commercial reserves The resulting asset or liability is included in the balance sheet under debtors or provisions as appropriate

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward currency contract Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, the forward contract rate

All differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments These differences are taken directly to reserves, together with exchange differences on the carrying amount of the related investments Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves

Derivative Financial Instruments

The company uses hedging instruments to reduce its exposure to fluctuations in oil and gas prices

Premiums paid to enter such derivative financial instruments are charged to the profit and loss account over the period of the hedge Payments and receipts arising under the financial instruments are recognised in the profit and loss account in the same periods as the hedged transactions In circumstances where the company cancels a hedged position, any gain or loss arising is recognised in the period in which the cancellation is effected

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, as defined in the UK Statement of Recommended Practice, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities"

Notes to the financial statements

at 30 April 2007

1. Accounting policies (continued)

Decommissioning

Provision for decommissioning is recognised in full A corresponding tangible fixed asset of an equivalent amount to the provision is also created The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is re-assessed each year in accordance with local conditions and requirements

The asset is subsequently depreciated as part of the capital costs of the production and related pipeline facilities, on a unit of production basis The unwinding of the discount on the decommissioning provision is included in the interest expense Changes in the estimates of commercial reserves of decommissioning cost estimates are dealt with prospectively

2. Turnover

The company is engaged in petroleum exploration, development and production in the United Kingdom sector of the Continental Shelf Turnover represents amounts received and receivable in respect of the sale of oil and gas during the period All turnover is derived from the sale of North Sea oil and gas in the United Kingdom and The Netherlands

Turnover represents the sales value, net of VAT, of the company's share of production in the year, on an entitlements basis

Revenues received under take-or-pay sales contracts in respect of undelivered volumes are accounted for as deferred income

In the directors' opinion, disclosure of geographical segmental analysis would be seriously prejudicial to the interests of the company and have therefore chosen not to do so

3. Operating profit

	2007	*2006*
	£000	*£000*
Operating profit is stated after charging/(crediting)		
Depletion and amortisation of oil and gas properties	5,981	7,126
Impairment loss on fixed assets	4,005	-
Depreciation of other fixed assets	2	16
Foreign exchange losses/(gains)	631	(104)
Commodity hedging (gains) / losses	(12,109)	462
Auditor's remuneration		
- audit services	45	31
- other services	35	27

4. Staff costs

The company has no employees The directors did not receive any emoluments from the company during the year

5. Interest receivable

	2007	*2006*
	£000	*£000*
Bank interest receivable	68	68

Notes to the financial statements

at 30 April 2007

6. Interest payable and similar charges

	2007	2006
	£000	£000
Bank interest payable	3,657	2,667
Unwinding of discount on long term provisions	412	402
Adjustment to discount on long term provisions	(198)	-
	3,871	3,069

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2007	2006
	£000	£000
Current tax		
Corporation tax	-	-
Tax over provided in previous years	(9)	(104)
Total current tax (note 7 (b))	(9)	(104)
Deferred tax		
Origination and reversal of timing differences	2,039	1,087
Effect of changes in tax rates on opening liability	1,623	-
Tax on profit on ordinary activities	3,653	983

Notes to the financial statements

at 30 April 2007

7. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK The differences are reconciled below

	2007	*2006*
	£000	*£000*
Profit on ordinary activities before taxation	3,593	3,763
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 50% (2006 40%)	1,797	1,505
Disallowed expenses and non-taxable income	(376)	142
Adjustments in respect of previous periods	(9)	(104)
Depreciation less than/greater than capital allowances	(4,344)	(7,772)
Capital gains	-	(430)
Accounting (profit) on chargeable assets	-	(87)
Utilisation of losses	2,890	6,526
Rate differences	(73)	288
Other timing differences	106	(172)
Total current tax (note 7 (a))	(9)	(104)

(c) Deferred tax

	2007	*2006*
	£000	*£000*
Capital allowances in advance of depreciation	(35,648)	(25,952)
Capital gains	(759)	(693)
Tax losses available	19,974	14,469
Other timing differences	6,694	6,100
Provision for deferred taxation	(9,739)	(6,076)

	£000
At 1 May 2006	(6,076)
Provided during the year	(1,969)
Effect of rate change	(1,623)
Adjustments in respect of prior years	(71)
At 30 April 2007	(9,739)

Notes to the financial statements

at 30 April 2007

8. Intangible fixed assets

	Exploration and appraisal expenditure *£000*
At 1 May 2006	5,728
Additions	4,198
Amounts written off	(1,020)
At 30 April 2007	8,906

9. Tangible fixed assets

	Oil & Gas properties *£000*	*Other* *£000*	*Total* *£000*
Cost			
At 1 May 2006	102,977	67	103,044
Additions	18,098	7	18,105
Royalty buyback	99	-	99
Disposals	-	(16)	(16)
At 30 April 2007	121,174	58	121,232
Depreciation, depletion and amortisation			
At 1 May 2006	(31,904)	(47)	(31,951)
Charge for the year	(5,981)	(2)	(5,983)
Impairment loss	(4,005)	-	(4,005)
At 30 April 2007	(41,890)	(49)	(41,939)
Net book value			
At 30 April 2007	79,284	9	79,293
At 1 May 2006	71,073	20	71,093

The above impairment loss relates solely to one oil & gas property This has been determined by comparing the carrying value to its value in use to the group The value in use has been derived from discounted cash flow projections using a nominal discount rate of 6%

10. Investments

	2007 *£000*	*2006* *£000*
Investments in subsidiary undertaking	25,094	25,094

Notes to the financial statements

at 30 April 2007

11. Debtors

	2007 £000	2006 £000
Trade debtors	886	337
Other debtors	7,233	6,627
Prepayments and accrued income	6,872	1,330
	14,991	8,294

12. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	2,545	3,340
Amounts owed to group undertakings	32,110	32,799
Corporation tax	-	9
Other taxation and social security	164	331
Other creditors	3,544	4,828
Accruals and deferred income	2,205	1,413
	40,568	42,720

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

	2007 £000	2006 £000
Loans (see note 14)	58,015	38,329

14. Loans

Loans repayable, included within creditors, are analysed as follows

	2007 £000	2006 £000
Wholly repayable within five years	39,370	38,329
Not wholly repayable within five years (see note 17)	18,645	-
	58,015	38,329

Loans wholly repayable within five years

At 30 April 2007 the Company had a committed borrowing facility under a revolving credit arrangement The maximum amount that may be drawn down is determined by reference to the net present value of the assets comprising the underlying borrowing base as well as certain other financial tests The maximum drawdown available under the facility is reviewed and adjusted at six monthly intervals

At 30 April 2007 £38,970,000 (2006 £38,676,000) was drawn under the facility, and under the terms of that facility will be repayable in full by 31 December 2010

Notes to the financial statements

at 30 April 2007

14. Loans (continued)

The facility was increased to £62 million in June 2007 and is repayable in full by 31 December 2012 under the same terms as currently exist

The bank loan is secured by fixed and floating charges over the assets and shares of the Group Companies

15. Pensions

The company makes contributions to the personal pension schemes of employees The unpaid contributions outstanding at the year end, included in "Other creditors" (note 14) was £4,740 (2006 - £4,879)

16. Provisions for liabilities and charges

	Decommissioning costs
	£000
At 1 May 2006	15,247
Revisions	(2,866)
Unwinding of discount on provision	412
At 30 April 2007	12,793

The provisions have been calculated using current prices of existing methods of decommissioning and discounted to the net present value The costs are expected to be incurred between 2009 and 2018

17. Related party transactions

	2007
	£000
Loan from I A Suttie received in the year (note 14)	18,645

Interest is charged on this loan at base rate plus 3%

No other transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8

Notes to the financial statements

at 30 April 2007

18. Share capital

	Authorised	
	2007	*2006*
	£000	*£000*
Ordinary shares of £1 each	-	-

	Allotted, called up and fully paid			
		2007		*2006*
	No	*£000*	*No*	*£000*
Ordinary shares of £1 each	2	-	2	-

19. Reconciliation of shareholders' funds and movement on reserves

	Profit and loss account
	£000
At 1 May 2006	7,966
Loss for the year	(60)
At 30 April 2007	7,906

20. Capital commitments

Amounts contracted in relation to ongoing projects but not provided for in the financial statements totalled £5 3 million (2006 - £14 2 million)

21. Ultimate parent company

The directors regard First Oil plc, a company incorporated in Scotland, as the ultimate parent undertaking First Oil plc is the parent undertaking of the largest group of undertakings for which Group accounts are drawn up and of which the company is a member Copies of the audited First Oil plc accounts can be obtained from Companies House