

Registered number. 05351398

CAP ENERGY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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CAP ENERGY LIMITED

COMPANY INFORMATION

DIRECTORS	Caroline Belcher (resigned 1 October 2007) Timothy Hearley Philippe Schreiber Clair Opsal John Killer (appointed 1 October 2007)
SECRETARY	Richard Shand
COMPANY NUMBER	05351398
REGISTERED OFFICE	32 Station Road Beccles Norfolk NR34 9QJ
AUDITORS	Ashings Limited Chartered Accountants First Floor Barbican House 26-34 Old Street London EC1V 9QQ

CAP ENERGY LIMITED

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CAP ENERGY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

The chairman presents his statement for the period

2007 has proved to be a transitional year for Cap Energy. Following a review of operations it was decided that the company would concentrate for a period on acquiring properties which were currently producing economically rather than those which required remedial work to become profitable. While the latter approach can be the more profitable, the inherent uncertainty over the amount of work necessary generated a need for working capital that the company could not meet.

As a result, three producing properties were divested and three other properties were acquired. Maintenance work was completed on the saltwater disposal facilities serving the other producing wells. The three properties that were divested had been acquired in 2006, but failed to reach a lower revenue level and required more remedial work than was expected. Two of the three wells acquired in 2007 are located in the Giddings Field in Texas (The largest field found in Texas in the last 50 years). These two wells were producing oil and gas profitably on acquisition and should produce for many years. These wells were purchased late in the year and thus had very little effect on the cash flow for 2007, but should have a sizable effect on cash flow in 2008. The third property acquired is located between two of our currently producing properties. We acquired the property for the value of salvageable equipment on the property, and producing equipment and rig work were required to renew production from two wellbores on the property. The full effect of renewed production should be realized in 2008. The net income from oil and gas operations in 2007 was limited, as several major expenditures (non-recurring) were incurred and several producing wells encountered mechanical problems that required repair or replacement. Each of the properties now owned should provide positive cash flow in 2008. At yearend the company had interests in seven producing wells and one water disposal well.

It is intended that the proceeds of the Oklahoma disposal plus funds raised in the small placing in early 2008, (£180,000 net of costs) will be used for to acquire existing producing properties. The company is currently negotiating on two potential acquisitions, one substantial, and it is hoped to make an announcement in the near future. While the properties being contemplated will have the potential for further drilling and development, operations will be cash positive on acquisition.

In October 2007, Caroline Belcher resigned as a director, and we are grateful for her contribution to the formation and activities of the company. Her replacement is John Killer, a London-based petroleum geologist with twenty five years of experience in US oil operations.

The recent increases in both oil and natural gas have been a bonus for the company and we are hopeful of producing some real asset growth in 2008. I would like to thank the staff and shareholders for their support in the past twelve months.

Timothy Hearley
Chairman



Date
30 May 2008

CAP ENERGY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their report and the financial statements for the year ended 31 December 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES

The principal activities of the Group is the exploration of oil and gas opportunities through the direct acquisition of exploration and/or producing oil and gas assets.

DIRECTORS

The directors who served during the year were

Caroline Belcher (resigned 1 October 2007)
Timothy Hearley
Philippe Schreiber
Clair Opsal
John Killer (appointed 1 October 2007)

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company and the group's auditors in connection with preparing their report and to establish that the company and the group's auditors are aware of that information.

CAP ENERGY LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007**

AUDITORS

The auditors, Ashings Limited, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies

This report was approved by the board on 30 May 2008 and signed on its behalf

A handwritten signature in black ink, appearing to read 'R Shand', with a long horizontal stroke extending to the right.

Richard Shand
Secretary

CAP ENERGY LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAP ENERGY LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Cap Energy Limited for the year ended 31 December 2007, set out on pages 6 to 13. These financial statements have been prepared in accordance with the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2007).

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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

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

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement and the operating and financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. 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 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 group's and 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.

CAP ENERGY LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAP ENERGY LIMITED

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's 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



ASHINGS LIMITED

Chartered Accountants
First Floor Barbican House
26-34 Old Street
London
EC1V 9QQ

Date 30 May 2008

CAP ENERGY LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £	2006 £
TURNOVER	1,2	74,348	60,590
Cost of sales		<u>(71,729)</u>	<u>(35,637)</u>
GROSS PROFIT		2,619	24,953
Administrative expenses		<u>(157,833)</u>	<u>(350,313)</u>
OPERATING LOSS	3	(155,214)	(325,360)
EXCEPTIONAL ITEMS			
Other exceptional items	5	<u>(28,888)</u>	<u>(244,204)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(184,102)	(569,564)
Interest receivable		1,180	5,892
Interest payable		<u>-</u>	<u>(3)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(182,922)	(563,675)
Tax on loss on ordinary activities		<u>-</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	12	<u>(182,922)</u>	<u>(563,675)</u>
LOSS PER SHARE	6	<u>(0.04)</u>	<u>(0.16)</u>

The notes on pages 9 to 14 form part of these financial statements

CAP ENERGY LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	£	2007 £	£	2006 £
FIXED ASSETS					
Tangible fixed assets	7		155,956		226,352
CURRENT ASSETS					
Debtors	9	9,469		48,766	
Cash at bank		<u>108,045</u>		<u>146,892</u>	
		117,514		195,658	
CREDITORS amounts falling due within one year	10	<u>(191,398)</u>		<u>(157,016)</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(73,884)</u>		<u>38,642</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>82,072</u>		<u>264,994</u>
CAPITAL AND RESERVES					
Called up share capital	11		20,835		20,835
Share premium account	12		945,438		945,438
Profit and loss account	12		<u>(884,201)</u>		<u>(701,279)</u>
SHAREHOLDERS' FUNDS			<u>82,072</u>		<u>264,994</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 May 2008

John Killer
Director



Timothy Hearley
Director



The notes on pages 9 to 14 form part of these financial statements

CAP ENERGY LIMITED

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	£	2007 £	£	2006 £
FIXED ASSETS					
Fixed asset investments	8		1,887		1,887
CURRENT ASSETS					
Debtors	9	698,410		644,047	
Cash at bank		<u>5,047</u>		<u>81,280</u>	
		703,457		725,327	
CREDITORS · amounts falling due within one year	10	<u>(45,523)</u>		<u>(28,675)</u>	
NET CURRENT ASSETS			<u>657,934</u>		<u>696,652</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>659,821</u>		<u>698,539</u>
CAPITAL AND RESERVES					
Called up share capital	11		20,835		20,835
Share premium account	12		945,438		945,438
Profit and loss account	12		<u>(306,452)</u>		<u>(267,734)</u>
SHAREHOLDERS' FUNDS			<u>659,821</u>		<u>698,539</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 May 2008

John Killer
Director



Timothy Hearley
Director



The notes on pages 9 to 14 form part of these financial statements

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007)

1.2 CASH FLOW

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective January 2007)

1.3 BASIS OF CONSOLIDATION

The financial statements consolidate the accounts of Cap Energy Limited and all of its subsidiary undertakings ('subsidiaries')

The results of subsidiaries acquired during the year are included from the effective date of acquisition

1.4 TURNOVER

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts

1.5 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 of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Other Fixed Assets	-	Over the life of the well to a maximum of 10 years
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1.6 INVESTMENTS

Investments in subsidiaries are valued at cost less provision for impairment

1.7 FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction

Exchange gains and losses are recognised in the profit and loss account

2 TURNOVER

100% of the company's turnover (2006 - 100%) is attributable to geographical markets outside the United Kingdom

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

3. OPERATING LOSS

The operating loss is stated after charging

	2007 £	2006 £
Depreciation of tangible fixed assets - owned by the company	11,193	11,028
Auditors' remuneration – Audit fees	4,700	4,000
Auditors' remuneration – Accountancy fees	10,645	12,115
Directors' emoluments	32,760	24,924

Auditors fees for the company were £4,700 (2006 - £4,000)

4. TAXATION

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

No corporation tax has been charged during the year as the company has not made any taxable profits

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The Company has unused tax losses of £175,886 that may be used against future taxable profits

5. EXCEPTIONAL ITEMS

	2007 £	2006 £
Dry Well costs	28,888	244,204

6. EARNINGS PER SHARE

The basic loss per share is derived by dividing the loss for the period attributable to ordinary shareholders by the weighted average number of shares in issue

	year ended 31 December 2006 £	Year ended 31 December 2005 £
Loss	182,922	563,765
Weighted average number of shares	4,166,908	3,536,613
Basic loss per share	(0.04)	(0.16)

The diluted earnings per share is the same as the basic earnings per share as shown above as extant options are non-dilutive

CAP ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

7 TANGIBLE FIXED ASSETS

GROUP	Other fixed assets £
COST	
At 1 January 2007	237,380
Additions	28,304
Disposals	(95,735)
Impairment losses written back	9,498
	<hr/>
At 31 December 2007	<u>179,447</u>
DEPRECIATION	
At 1 January 2007	11,028
Charge for the year	12,509
On disposals	(46)
	<hr/>
At 31 December 2007	<u>23,491</u>
NET BOOK VALUE	
At 31 December 2007	<u><u>155,956</u></u>
At 31 December 2006	<u><u>226,352</u></u>

8 FIXED ASSET INVESTMENTS

COMPANY	Shares in group undertakings £
COST OR VALUATION	
At 1 January 2007 and 31 December 2007	<u><u>1,887</u></u>

CAP ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

9 DEBTORS

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Trade debtors	7,841	12,863	-	-
Amounts owed by group undertakings	-	-	698,410	630,914
Other debtors	1,629	35,903	-	13,133
	<u>9,470</u>	<u>48,766</u>	<u>698,410</u>	<u>644,047</u>

**10 CREDITORS
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	GROUP		COMPANY	
	2007	2006	2007	2006
	£	£	£	£
Trade creditors	93,171	89,523	13,778	12,509
Other creditors	98,227	67,493	32,645	16,166
	<u>191,398</u>	<u>157,016</u>	<u>45,523</u>	<u>28,675</u>

11 SHARE CAPITAL

	2007	2006
	£	£
AUTHORISED		
400,000,000 - Ordinary shares of 0 5p each	<u>2,000,000</u>	<u>2,000,000</u>
ALLOTTED, CALLED UP AND FULLY PAID		
4,166,908 - Ordinary shares of 0 5p each	<u>20,835</u>	<u>20,835</u>

On 11 December 2007 an option to subscribe for 10,000 at 20 pence per share was granted to John Killer

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

12 RESERVES

	Share premium account £	Profit and loss account £
GROUP		
At 1 January 2007	945,438	(701,279)
Loss for the year		(182,922)
	<u>945,438</u>	<u>(884,201)</u>
At 31 December 2007	<u>945,438</u>	<u>(884,201)</u>
	Share premium account £	Profit and loss account £
COMPANY		
At 1 January 2007	945,438	(267,734)
Loss for the year		(38,718)
	<u>945,438</u>	<u>(306,452)</u>
At 31 December 2007	<u>945,438</u>	<u>(306,452)</u>

13 CONTINGENT LIABILITIES

The group is in dispute with one of its partners regarding costs incurred at one drilling site. These total US\$106,090 (£54,152, 2006 - £54,152) and are included within trade creditors. The directors are of the opinion that these amounts are not payable.

14 TRANSACTIONS WITH DIRECTORS

During the year under review CFI Associates Limited (a company in which Caroline Belcher, a director of the group, was interested as director and shareholder) charged the group £9,468 (2006 - £23,085) in respect of directors fees, consultancy fees and rechargeable expenses.

During the year under review Philippe Schreiber, a director of the group, charged the group £20,301 (2006 - £20,119) in respect of directors fees, legal fees, and rechargeable expenses.

During the year under review VAIL Corporation Limited (a company in which Timothy Hearley, a director of the group was interested as director and shareholder) charged the group £15,275 (2006 - £15,275) in respect of consultancy fees.

During the year under review OPSAL Energy Inc (a company in which Clair Opsal, a director of the group, was interested as director and shareholder) charged the group £607 (2006 - £13,947) in respect of directors fees, consultancy fees and rechargeable expenses.

During the year under review Genoco Limited, (a company in which John Killer, a director of the group, was interest as director and shareholder) charged the group £3,250 (2006 - nil) in respect of directors fees. On 11 December 2007 John Killer was offered 100,000 options in the company at a strike price of 20 pence with no performance criteria or other restrictions, with a five year exercise period.

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

15 POST BALANCE SHEET EVENTS

On 24 April 2008 the company issued 1,902,500 shares at 12pence raising £228,300 before expenses
There are now 6,069,408 shares in issue

At the balance sheet date the company was in negotiations to purchase some wells These negotiations are continuing

16 CONTROLLING PARTY

The directors do not regard the group as being under the control of any single entity or individual

17 PRINCIPAL SUBSIDIARIES

Company name	Country	Percentage Shareholding	Description
CAP Energy USA Inc	United states of America	100%	Trading Company