

CAP ENERGY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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CAP ENERGY LIMITED

COMPANY INFORMATION

DIRECTORS	Timothy Hearley Philippe Schreiber (resigned 14/2/2009) Clair Opsal John Killer
COMPANY SECRETARY	Richard Shand
COMPANY NUMBER	05351398
REGISTERED OFFICE	32 Station Road Beccles Norwich Suffolk NR34 9QJ
AUDITORS	Ashings Limited Chartered Accountants & Registered Auditors Suite 3B2 Northside House Mount Pleasant Barnet London EN4 9EB

CAP ENERGY LIMITED

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CAP ENERGY LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

The chairman presents his statement for the period.

At the beginning of 2008, the Company had largely eliminated its operating losses by selling a number of its Oklahoma properties, and had completed a small share placing to provide funds for new acquisitions. Remaining production was cash positive but substantially decreased by the drop in energy prices.

At the end of December, 2008, following protracted negotiation, evaluation and due diligence, CAP Energy Ltd ("CAP") announced that its wholly-owned US subsidiary, CAP Energy USA, Inc. ("CAPUSA") had exchanged contracts on the acquisition of interests in the Starks Dome oilfield in southern Louisiana from CSV Holdings, Inc. ("CSV"). Total consideration due was US\$350,000 cash and US\$650,000 in shares (at 10p), loan notes or cash, giving CSV a maximum 29.9% shareholding in CAP. As part of the agreement, CSV had the right to nominate a further director for both CAP and CSPUSA at such time as it wished.

The assets acquired comprised working interests in seven producing oil wells and three new wells shortly to be completed for production, plus the right to participate at base cost in any new wells to be drilled on CSV's lease. Included in the acquisition was the right to participate in the recompletion of up to forty existing wells in the Starks Dome Field which contained unproduced oil reserves in the upper zones of the wells.

Included also in the acquisition was the right to participate in the recompletion of a productive well drilled on the Iberia Dome structure in southern Louisiana. CAPUSA would earn a 10% share of CSV's interest, with much of the cost success-based. While this project has a higher risk profile than the Starks Dome project, there is a real possibility of achieving rates of production many times higher, of both oil and gas. The Iberia Dome Field has already produced large quantities of oil and gas, so pipeline facilities are already in place.

This acquisition represents a major step change for CAP. Apart from the fact that the producing interests are a scale larger than its existing assets, there is potential for many years' drilling and recompletion activity at Starks Dome at base costs, with progressively deeper and more prolific production potential as oil prices and economics allow. The Iberia Dome project has the potential to make a substantial further increase in CAP's asset value, combined with a relatively low cost/low risk first phase. With a large portion of its consideration being in CAP's shares and convertible loan notes, CSV has every incentive to help the company grow successfully.

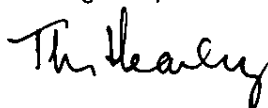
In early 2009, Cap sought to raise funds for field development and payment of the outstanding cash balance (\$100,000) due on the acquisition by the issue of convertible loan notes. This proved difficult in the current economic climate, so payment for the acquisition was completed in October 2009 by the issue of £268,740 of Convertible Loan Notes to the vendor, in lieu of the outstanding cash balance, some field development costs and the consideration due in shares which could not be issued in excess of CSV's holding of 29.9% in Cap. Total Convertible Loan Notes issued amounted to £507,490 of which £238,750 was for cash which will be used for field development, corporate overhead and accrued acquisition expenses.

Cap now has a 25% interest in seven producing wells at Stark's Dome, with three new wells shortly to commence production. A program of recompletion of existing non-producing wells will follow, with the prospect of the company then producing a positive cash flow for the first time, and a major long term asset being progressively developed. Added to this is the possibility of prolific production from the Iberia Dome project at low cash risk.

On a sad note it is with regret that in February of this year, Cap had to announce the death of Philippe Schreiber, its legal/financial director in the USA since the Company formation in 2005.

In summary, the Directors believe that the major changes to CAP's operating strategy described above will secure a more interesting and profitable future.

Timothy Hearley
Chairman



Date 29 October 2009

CAP ENERGY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and the financial statements for the year ended 31 December 2008.

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:

Timothy Hearley
Philippe Schreiber (resigned 14/2/2009)
Clair Opsal
John Killer

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

CAP ENERGY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

group's auditors are unaware, and

- that 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.

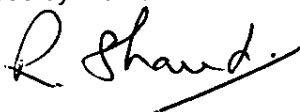
AUDITORS

The auditors, Ashings Limited, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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 2 November 2009 and signed on its behalf.

Richard Shand
Secretary

A handwritten signature in black ink, appearing to read 'R Shand', with a horizontal line drawn underneath it.

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 2008, set out on pages 6 to 14. These financial statements have been prepared under 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

CAP ENERGY LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAP ENERGY LIMITED

statements.

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 2008 and of the group's profit 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
Registered Auditors

Suite 3B2 Northside House
Mount Pleasant
Barnet
London
EN4 9EB

2 November 2009

CAP ENERGY LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 £	2007 £
TURNOVER	1	44,602	74,348
Cost of sales		<u>(36,770)</u>	<u>(71,729)</u>
GROSS PROFIT		7,832	2,619
Administrative expenses		<u>(133,585)</u>	<u>(157,833)</u>
OPERATING LOSS	3	(125,753)	(155,214)
EXCEPTIONAL ITEMS	5		
Other exceptional items	5	<u>130,174</u>	<u>(28,888)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		4,421	(184,102)
Interest receivable		<u>1,944</u>	<u>1,180</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		6,365	(182,922)
Tax on profit/(loss) on ordinary activities	6	<u>-</u>	<u>-</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>6,365</u>	<u>(182,922)</u>
EARNINGS/(LOSS) PER SHARE	7	<u>0.00</u>	<u>(0.04)</u>

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

CAP ENERGY LIMITED
REGISTERED NUMBER: 05351398


CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	£	2008 £	£	2007 £
FIXED ASSETS					
Tangible fixed assets	8		864,969		155,954
CURRENT ASSETS					
Debtors	10	10,995		9,469	
Cash at bank		<u>32,594</u>		<u>108,045</u>	
		43,589		117,514	
CREDITORS: amounts falling due within one year	11	<u>(585,020)</u>		<u>(191,397)</u>	
NET CURRENT LIABILITIES			<u>(541,431)</u>		<u>(73,883)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>323,538</u>		<u>82,071</u>
CAPITAL AND RESERVES					
Called up share capital	12		30,660		20,835
Share premium account	13		1,126,615		945,438
Foreign exchange reserve	13		44,100		-
Profit and loss account	13		<u>(877,837)</u>		<u>(884,202)</u>
SHAREHOLDERS' FUNDS			<u>323,538</u>		<u>82,071</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable 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 2 November 2009.


Timothy Hearley
 Director


John Killer
 Director

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

CAP ENERGY LIMITED
REGISTERED NUMBER: 05351398

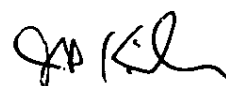
COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	£	2008 £	£	2007 £
FIXED ASSETS					
Fixed asset investments	9		1,887		1,887
CURRENT ASSETS					
Debtors	10	879,635		698,410	
Cash at bank		<u>9,266</u>		<u>5,047</u>	
		888,901		703,457	
CREDITORS: amounts falling due within one year	11	<u>(15,927)</u>		<u>(45,523)</u>	
NET CURRENT ASSETS			<u>872,974</u>		<u>657,934</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>874,861</u>		<u>659,821</u>
CAPITAL AND RESERVES					
Called up share capital	12		30,660		20,835
Share premium account	13		1,126,615		945,438
Profit and loss account	13		<u>(282,414)</u>		<u>(306,452)</u>
SHAREHOLDERS' FUNDS			<u>874,861</u>		<u>659,821</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable 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 29 October 2009.


Timothy Hearley
 Director


John Killer
 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 2008

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 consolidated 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 company has taken advantage of the exemption contained within 230 of the Companies Act 1985 not to present its own profit and loss account.

The profit and loss account for the year dealt with in the accounts of the company was £24,038 (2007 - £130,130).

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

100.0% of the company's turnover (2007 - 100.0%) is attributable to geographical markets outside the United Kingdom.

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

3. OPERATING LOSS

The operating loss is stated after charging:

	2008 £	2007 £
Depreciation of tangible fixed assets:		
- owned by the group	39,506	12,509
Auditors' remuneration	4,748	4,700
Auditors non-audit remuneration	-	13,695

Auditors fees for the company were £4,748 (2007 - £4,700)

4. DIRECTORS' REMUNERATION

	2008 £	2007 £
Aggregate emoluments	21,158	21,800
Amounts paid to third parties for directors' remuneration services	27,604	9,469

5. EXCEPTIONAL ITEMS

	2008 £	2007 £
Dry Well costs	23,976	28,888
Release of provisions against contractual disputes	(154,150)	-
	(130,174)	28,888

6. 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 £144,347 (2007 - £175,886) that may be used against future taxable profits.

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

7. EARNINGS PER SHARE

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

	2008 £	2007 £
Profit/(Loss)	6,365	(182,922)
Weighted average number of shares	5,970,918	4,166,908
Basic earnings/(loss) per share	<u>0.00</u>	<u>(0.04)</u>

8. TANGIBLE FIXED ASSETS

	Other fixed assets £
GROUP	
COST	
At 1 January 2008	179,446
Additions	689,655
Foreign exchange movement	66,372
	<u> </u>
At 31 December 2008	<u>935,473</u>
DEPRECIATION	
At 1 January 2008	23,492
Charge for the year	39,506
Foreign exchange movement	7,506
	<u> </u>
At 31 December 2008	<u>70,504</u>
NET BOOK VALUE	
At 31 December 2008	<u>864,969</u>
At 31 December 2007	<u>155,954</u>

9. FIXED ASSET INVESTMENTS

	Shares in group undertakings £
COMPANY	
COST OR VALUATION	
At 1 January 2008 and 31 December 2008	<u>1,887</u>

CAP ENERGY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

10. DEBTORS

	GROUP		COMPANY	
	2008	2007	2008	2007
	£	£	£	£
Trade debtors	4,232	7,840	-	-
Amounts owed by group undertakings	-	-	878,372	698,410
Other debtors	6,763	1,629	1,263	-
	<u>10,995</u>	<u>9,469</u>	<u>879,635</u>	<u>698,410</u>

**11. CREDITORS:
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	GROUP		COMPANY	
	2008	2007	2008	2007
	£	£	£	£
Trade creditors	48,853	93,171	6,927	13,778
Other creditors	536,167	98,226	9,000	31,745
	<u>585,020</u>	<u>191,397</u>	<u>15,927</u>	<u>45,523</u>

12. SHARE CAPITAL

	2008	2007
	£	£
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		
6,131,908 (2007 - 4,167,000) Ordinary shares of 0.5p each	<u>30,660</u>	<u>20,835</u>

On 13 February 2008 the company issued 1,902,500 ordinary shares with a nominal value of £9,625 for a total consideration (before expenses) of £231,000.

On 7 July 2008 the company issued 62,500 ordinary shares with a nominal value of £312 for a total consideration of £7,500.

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

13. RESERVES

	Share premium account £	Foreign exchange reserve £	Profit and loss account £
GROUP			
At 1 January 2008	1,126,615		(884,202)
Profit for the year			6,365
Movement on foreign exchange		44,100	
	<hr/>	<hr/>	<hr/>
At 31 December 2008	<u>1,126,615</u>	<u>44,100</u>	<u>(877,837)</u>
		Share premium account £	Profit and loss account £
COMPANY			
At 1 January 2008		1,126,615	(306,452)
Profit for the year			24,038
		<hr/>	<hr/>
At 31 December 2008		<u>1,126,615</u>	<u>(282,414)</u>

14. CONTINGENT LIABILITIES

The group was in dispute with one of its partners regarding costs incurred at one drilling site. These total US\$50,000 (£37,482; 2007 - £54,152) and are included within trade creditors. The amount was settled in March 2009.

15. OTHER FINANCIAL COMMITMENTS

On 30 December 2008 the company signed an agreement to purchase an interest in the Starks Dome oilfield in Southern Louisiana. Total consideration due was US\$300,000 in cash and US\$650,000 in shares, loan notes and cash. These amounts were not fully settled until October 2009 as detailed in note 17 below.

16. TRANSACTIONS WITH DIRECTORS

During the year under review Philippe Schreiber, a director of the group, charged the group £17,698 (2007 - £20,301) 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 £17,577.01 (2007 - £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 £3,460 (2007 - £607) 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 interested as director and shareholder) charged the group £13,846 (2007 - £3,250) in respect of directors fees, consultancy and rechargeable expenses.

CAP ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

17. POST BALANCE SHEET EVENTS

On 20 May 2009 the company issued 2,615,464 shares at 10p to CSV Holdings Inc. as part settlement of the Starks Dome acquisition.

On 5 October 2009 the company issued £507,490 8% convertible 2012 loan notes partially in shares, partially in cash and partially to settle certain outstanding liabilities including the final element of the Starks Dome acquisition.

On 5 October 2009 the company granted options to certain directors with an exercise price of 10p and exercisable up until 31 December 2014.

18. CONTROLLING PARTY

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

19. PRINCIPAL SUBSIDIARIES

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