

Half-yearly report

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Leed Petroleum PLC

("Leed" or the "Company")

Half-yearly report for the six months ended 31 December 2010

Leed Petroleum PLC (AIM: LDP), the oil and gas exploration and production company focused on the Gulf of Mexico, today announces its half yearly report for the six months ended 31 December 2010.

Chairman and Chief Executive Officer's statement

During the period under review, the Company experienced adverse production performance issues from which it has yet to recover. At Eugene Island, oil and natural gas production from the A-8 well continued to decline but not to a level that would warrant approval from the Bureau of Ocean Energy Management, Regulation and Enforcement ("BOEMRE") to recomplete the well in the more prolific T-1 sand reservoir. Additionally, the Ship Shoal 201 A-6 well declined at a much sharper rate than projected, as the well appears to have reached the gas-water contact transition zone earlier than anticipated. As a result, the Company has not been able to generate sufficient cash flows to satisfy the covenants included in its credit facility with UniCredit Bank AG. In view of the Company's deteriorating financial position, on 25 November 2010 UniCredit Bank AG notified the Company that a principal payment of \$12.0 million would be due on its credit facility by 31 March 2011.

The Company announced on 23 December 2010 that it had commenced a strategic review process and had retained Macquarie Tristone as financial adviser to assist with this review. It was further announced that Macquarie Tristone would undertake a review of a broad range of strategic options including, but not limited to, divesting some or all of the Company's oil and natural gas assets, securing a new bank credit facility and/or other potential transactions such as a merger with another company.

As part of the strategic review process referred to above, in early 2011 Macquarie Tristone had discussions with a number of parties who had expressed potential interest in either acquiring some or all of the Group's principal assets or providing capital to permit continued drilling. None of these discussions resulted in a clear proposal that would resolve satisfactorily the Company's position with regard to its credit facility with UniCredit Bank AG. At the date of this report, the Group does not have the financial ability to make the \$12.0 million principal payment owed under the terms of its credit facility on or before the 31 March 2011 due date.

In bringing the strategic review process to a close, on 28 March 2011 UniCredit Bank AG informed the Company of its decision to pursue a near term cash sale of the Company's oil and natural gas assets, with the proceeds of the sale being applied against the Company's outstanding borrowings. In response to UniCredit Bank Ag's decision, on 29 March

2011 the Directors voted to cease business operations and either have the bank appoint a receiver or, if they refuse, place before the shareholders a proposal for voluntary liquidation. The Board therefore requested that trading in the Company's shares be suspended pending further clarification of the Company's financial position and, accordingly, the Company's ordinary shares were suspended from trading with effect from 30 March 2011.

The Company's Directors have determined that the Company and its subsidiaries are currently insolvent and the Group will not continue into the future as a going concern. Accordingly, the carrying value of the Company's oil and gas assets has been written down to its expected liquidation value of \$10.0 million (net of decommissioning obligations of \$6.6 million), which was determined by the Directors. Adjustments have also been made to reflect additional costs that arise as a consequence of the Company ceasing to be a going concern.

The past year has been a tough and bruising period for us all. There are uncertain times ahead. We appreciate all of the support we have received from our shareholders and we would like to thank all at Leed for their hard work during these challenging times.

Robert Adair

Non-executive Chairman

Howard Wilson

Chief Executive Officer

30 March 2010

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Financial review

Income statement

The Group's after tax net loss in the six months ended 31 December 2010 was \$146.7 million as compared to \$7.4 million for the same period in 2009.

At 31 December 2010, the Group recorded impairments totalling \$133.2 million (\$29.0 million for goodwill, \$103.3 million for oil and natural gas assets and \$0.5 million for pipe and casing inventory). The impairments are the result of the ongoing strategic review of the Group's oil and natural gas asset portfolio being carried out by the Group's

investment adviser, Macquarie Tristone, during early 2011, whereby Macquarie Tristone had discussions with a number of parties who had expressed potential interest in either acquiring some or all of the Group's principal assets and/or to provide the funds necessary to make a \$12.0 million principal payment on the Group's credit facility by 31 March 2011. None of these discussions resulted in a proposal that would satisfactorily resolve the Company's position with regard to its credit facility with UniCredit Bank AG. Further, the Group does not have the ability to make the \$12.0 million principal payment due on its credit facility by 31 March 2011. As a result, the Company's Directors have determined that the Company and its subsidiaries are currently insolvent and the Group will not continue into the future as a going concern. Accordingly, at 31 December 2010 the Group wrote off its goodwill and reduced the carrying value of its oil and natural gas properties to its expected liquidation value of \$10.0 million (net of decommissioning obligations of \$6.6 million), which was determined by the Directors. Adjustments have also been made to reflect additional costs that arise as a consequence of the Company ceasing to be a going concern, including unsecured severance liabilities to Directors and employees totalling \$3.1 million.

Revenues were \$12.5 million during the six months ended 31 December 2010, an increase of 13.8% compared to \$11.0 million for the same period of 2009. The increase in revenues was principally due to higher natural gas and natural gas liquids ("NGL") production coupled with higher oil and natural gas prices, which were partially offset by lower oil production and lower NGL prices. Also, the Group's ownership in the North Terrebone gas processing plant and Tebone gas fractionalisation plant increased from 0.6% to 2.5% effective 1 January 2010. Summarised components of revenue data are as follows:

	Six months ended 31 December 2010	Six months ended 31 December 2009	%
			variance
Average oil price per BBL received	\$79.99	\$70.90	+12.8%
Oil production (BBLs)	75,398	91,437	-17.5%
Oil revenues	\$6,031,000	\$6,483,000	-7.0%
Average natural gas price per MCF received	\$4.38	\$4.22	+3.9%
Natural gas production (MCF)	977,160	765,457	+27.7%
Natural gas revenues	\$4,284,000	\$3,230,000	+32.6%
Average NGL price per gallon received	\$0.80	\$1.07	-25.2%
Natural gas liquid production (gallons)	885,409	816,878	+8.4%
NGL revenues	\$709,000	\$875,000	-19.0%
Ownership interest in North Terrebone gas processing plant and Tebone gas fractionalisation plant	2.5%	0.6%	+246.1%
Gas plant processing revenues	\$1,520,000	\$439,000	+316.7%

Production costs were \$5.7 million for the six months ended 31 December 2010, an increase of 22.7% as compared to \$4.6 million for the same period of 2009. Production costs increased period-over-period primarily due to a \$947,000 increase in plant processing costs resulting from an increased ownership from 0.6% to 2.5% in the North Terrebone gas processing plant and Tebone gas fractionalisation plant that was effective from 1 January 2010.

Depletion costs were \$10.0 million for the six months ended 31 December 2010, an increase of 49.2%, as compared to \$6.7 million for the same period of 2009. The increase in depletion was principally due to negative oil and natural gas reserve volume revisions at East Cameron 317/318 and Ship Shoal 201.

For the two periods presented, selected administrative expenses of the Group include:

	Six months ended 31 December 2010 \$000	Six months ended 31 December 2009 \$000
Employee and Directors' benefits expense	2,350	3,542
Unsecured contractual severance obligations	3,109	-
Insurance	2,488	3,097
Exploration costs	244	228
Rent	114	113
Other	900	779
	9,205	7,759

The number of employees and Directors receiving wages or fees remained relatively constant, amounting to 23 and 25 respectively at 31 December 2010 and 2009. Included in the employee and Directors' benefits expense are share-based costs of \$0.2 million and \$1.2 million for the two periods, respectively. During the six months ended 31 December 2010, there were no bonus amounts accrued for, or paid to, any of the Group's Directors, officers, or managers. Unsecured contractual severance obligations of \$3.1 million for the six months ended 31 December 2010 reflect estimated unsecured severance obligations of the Group at period end, net of vacation accruals of \$0.5 million. A provision of \$3.6 million for estimated contractual unsecured severance obligations is included within current liabilities at 31 December 2010.

Insurance costs were \$2.5 million during the six months ended 31 December 2010, a decrease of 19.7%, as compared to \$3.1 million for the same period of 2009. Decreased insurance premiums were the result of a relatively inactive hurricane season during 2009 throughout the US Gulf of Mexico.

Other losses and gains were a positive \$189,000 for the six months ended 31 December 2010, as compared to a negative \$390,000 for the same period of 2009. Amounts included in other losses and gains primarily include the Group's realised and unrealised gains and losses resulting from the Group's commodity and interest rate hedging programmes.

Finance costs were \$1.4 million for the six months ended 31 December 2010, a decrease of 42.2%, as compared to \$2.4 million for the same period of 2009. The average outstanding principal balances on the Group's borrowings were lower during the six months ended 31 December 2010, as compared to the same period of 2009.

For the six months ended 31 December 2010, earnings before interest, taxes, depreciation, depletion, amortisation and exploration costs ("EBITDAX ") was a negative \$2.0 million, as compared to a negative \$1.5 million during the same period of 2009. The following table shows the components of EBITDAX for the periods under review:

	Six months ended 31 December 2010 \$000	Six months ended 31 December 2009 \$000
Income before taxation	(146,746)	(10,837)

Add back:		
Net interest costs	1,374	2,396
Depreciation, depletion and amortisation	10,047	6,761
Impairment of assets	133,227	-
Exploration costs	244	228
EBITDAX	(1,854)	(1,452)

Financial position, cash flows and funding

During the six months ended 31 December 2010, the Group capitalised \$1.8 million of additional investment in oil and gas properties, substantially all of which pertained to the Group's pro-rata share of costs to drill a well in its Main Pass 64/65 field.

The Group did not raise any additional debt or equity funding during the six months ended 31 December 2010. During the six months ended 31 December 2009, the Group placed 400,000 new Ordinary Shares at 5 pence to raise £20 million gross, £19.3 million net of issuance costs (USD equivalent of \$33.2 million gross, \$31.6 million net of issuance costs). The Group since utilised those proceeds primarily to pay down its debt from \$41.8 million at 30 November 2009 to \$26.0 million at 31 December 2010, to develop the Ship Shoal 201/202 field (\$14.7 million) and for other general corporate purposes.

At the end of the reporting period, the Group's cash position was \$5.4 million and working capital was a negative \$23.0 million (inclusive of \$26.0 million of bank debt classified as current).

The Group's banking facility is subject to financial covenants and other conditions which the Group monitors regularly. These covenants and conditions are sensitive to changes in EBITDAX, interest rates, commodity prices, production levels, net assets and estimated oil and natural gas reserves. The Group's ability to comply with such covenants and conditions in future periods was a key element in determining the Directors' view on the ability of the Group to continue as a going concern.

During November 2010, the Group reached an agreement with UniCredit Bank AG whereby the Group would make an additional principal payment of \$12.0 million on or before 31 March 2011 and the interest rate on its credit facility would increase by 1% effective 15 December 2010 in return for waiving certain conditions of default that were forecast to exist at the 31 December 2010 measurement date. The Group expects that results from operations for the first half of 2011, and possibly beyond, will not generate sufficient EBITDAX to meet covenants and conditions required under its credit facility with UniCredit Bank AG. Furthermore, as of the date of this report the Group does not have the ability to make the \$12.0 million principal payment due on its credit facility by 31 March 2011. On 28 March 2011 UniCredit Bank AG informed the Company of its decision to pursue a near term cash sale of the Company's oil and natural gas assets, with the proceeds of the sale being applied against the Company's outstanding borrowings. In response to UniCredit Bank Ag's decision, on 29 March 2011 the Directors voted to cease business operations and either have the bank appoint a receiver or, if they refuse, place before the shareholders a proposal for voluntary liquidation. The Board therefore requested that trading in the Company's shares be suspended pending further clarification of the Company's financial position and, accordingly, the Company's ordinary shares were suspended from trading with effect from 30 March 2011.

Based on the aforementioned circumstances, the Directors have concluded that at the time of approving these financial statements the Company does not have an option that would enable the Group to continue in future periods as a going concern.

James Slatten

Chief Operating Officer

30 March 2011

Independent review report to Leed Petroleum PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2010 which comprises the Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of cash flows, Consolidated statement of changes in equity, and Notes 1 to 11. We have read the other information contained in the half-yearly financial report which comprises the Chairman and Chief Executive Officer's statement and the Financial review and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in a review 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 for our review work, for this report or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors.

As disclosed in Note 1, the condensed, consolidated interim financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Going concern

During our review, we have considered the adequacy of the disclosure made in Note 3 "Going concern" and Note 11 "Subsequent events - bank financing and strategic review" concerning the Company's ability to continue as a going concern. As explained in these notes, the Directors have asserted that the Group is not a going concern and therefore these financial statements have not been prepared on a going concern basis. Accordingly, the financial statements do include the adjustments that result because the Company is unable to continue as a going concern.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

GRANT THORNTON UK LLP**AUDITOR**

Milton Keynes

30 March 2011

Consolidated statement of comprehensive income

for the six months ended 31 December 2010

	Note	Six months ended 31 December 2010 \$000 Unaudited	Six months ended 31 December 2009 \$000 Unaudited	Year ended 30 June 2010 \$000 Audited
Continuing operations				
Revenue		12,544	11,027	23,228
Cost of sales				
Production costs		(5,661)	(4,614)	(10,006)
Depletion costs		(10,011)	(6,706)	(12,188)
Gross (loss)/profit		(3,128)	(293)	1,034
Administrative expenses		(9,205)	(7,759)	(15,210)
Operating loss		(12,333)	(8,052)	(14,176)
Impairment of assets	4,7,10	(133,227)	-	-
Other (losses)/gains	6	189	(390)	835
Finance income		13	5	71
Finance costs		(1,388)	(2,400)	(3,644)
Loss before taxation		(146,746)	(10,837)	(16,914)
Taxation		-	3,447	(1,147)
Net loss for the period from continuing operations and attributable to equity owners of the parent		(146,746)	(7,390)	(18,061)
Other comprehensive loss				
Unrealised foreign currency translation loss, net of tax		(8)	(41)	(61)
Total comprehensive loss for period, net of tax attributable to equity owners of		(146,754)	(7,431)	(18,122)

the parent**Loss per share (cents)**

Basic	9	(21.7)	(2.1)	(3.5)
Diluted	9	(21.7)	(2.1)	(3.5)

Consolidated statement of financial position

as at 31 December 2010

	Note	31 December 2010 \$000 Unaudited	31 December 2009 \$000 Unaudited	30 June 2010 \$000 Audited
Assets				
Non-current assets				
Goodwill	3,4,11	—	29,005	29,005
Intangible exploration and evaluation assets	7,11	—	2,492	2,956
Derivative financial instruments	6	125	—	516
Deferred taxes		—	4,595	—
Property, plant and equipment	4,7,10,11	17,485	118,650	127,030
		17,610	154,742	159,507
Current assets				
Trade and other receivables		4,521	6,709	5,662
Derivative financial instruments		589	1,038	1,019
Cash and cash equivalents		5,416	28,903	10,812
		10,526	36,650	17,493
Liabilities				
Current liabilities				
Trade and other payables		7,180	4,642	8,615
Other finance obligations	5	3	656	4
Current portion of borrowings	5	26,000	1,000	1,500
Derivative financial instruments	6	373	883	837
		33,556	7,181	10,956
Net current (liabilities)/assets		(23,030)	29,469	6,537
Non-current liabilities				
Borrowings	5	—	34,000	25,000
Derivative financial instruments	6	—	318	22

Decommissioning obligation	6,600	5,729	6,479
	6,600	40,047	31,501
Net (liabilities)/assets	(12,020)	144,164	134,543
Owners' equity			
Ordinary share capital	60,335	60,335	60,335
Share premium	122,881	122,881	122,881
Translation reserve	(69)	(41)	(61)
Retained earnings	(195,167)	(39,011)	(48,612)
Total owners' equity	(12,020)	144,164	134,543

Consolidated statement of cash flows

for the six months ended 31 December 2010

	Note	Six months ended 31 December 2010 \$000 Unaudited	Six months ended 31 December 2009 \$000 Unaudited	Year ended 30 June 2010 \$000 Audited
Continuing operations				
Loss before taxation		(146,746)	(10,837)	(16,914)
Adjustments for:				
Impairment of assets	3,4,7,11	133,227	-	-
Depreciation and amortisation		10,046	6,761	12,294
Finance income		(13)	(5)	(71)
Finance expense		1,388	2,401	3,644
Recognised translation reserve		-	-	7
Share-based payments		191	1,192	2,272
Fair value changes in derivative contracts		27	1,567	969
Changes in working capital				
Increase in trade and other receivables		1,142	4,009	5,056
Increase/(decrease) in payables		257	(541)	2,109
Cash (used)/provided in continuing operations		(481)	4,547	9,366
Corporate taxation paid		-	-	-

Net cash (used)/provided in continuing operations		(481)	4,547	9,366
Cash flows from investing activities				
Purchase of derivative contracts		308	225	(16)
Purchase of intangible assets		-	(265)	(728)
Purchase of property, plant and equipment		(3,463)	(994)	(13,113)
Interest received		13	5	71
Net cash used in investing activities		(3,142)	(1,029)	(13,786)
Cash flows from financing activities				
Net proceeds from issue of Ordinary Shares	8	-	31,624	31,615
Interest and other financing costs paid		(1,264)	(2,072)	(3,037)
Principal payments of other financing obligations		(1)	(2,608)	(3,260)
Borrowings repaid	5	(500)	(6,000)	(14,500)
Net cash (used)/provided in financing activities		(1,765)	20,944	10,818
Net (decreased)/increase in cash and cash equivalents		(5,388)	24,462	6,398
Exchange differences in cash and cash equivalents		(8)	(41)	(68)
Cash and cash equivalents at beginning of period		10,812	4,482	4,482
Cash and cash equivalents at end of period		5,416	28,903	10,812

Consolidated statement of changes in equity

for the six months ended 31 December 2010

	Note	Share capital \$000	Share premium \$000	Translation reserve \$000	Retained earnings \$000	Total equity \$000
At 30 June 2009 (restated and audited)		27,178	122,881	-	(31,281)	118,778
Transactions with owners:						
- share capital issued	8	33,157	-	-	-	33,157
- issuance costs	8	-	-	-	(1,533)	(1,533)
- share-based payments		-	-	-	1,193	1,193
Total transactions with owners		33,157	-	-	(340)	32,817
Other comprehensive loss:						
- loss for the period		-	-	-	(7,390)	(7,390)

- translation reserve	-	-	(41)	-	(41)
Total comprehensive loss for period	-	-	(41)	(7,390)	(7,431)
At 31 December 2009 (restated and unaudited)	60,335	122,881	(41)	(39,011)	144,164
Transactions with owners:					
- issuance costs	8	-	-	(9)	(9)
- share-based payments	-	-	-	1,079	1,079
Total transactions with owners	-	-	-	1,070	1,070
Other comprehensive loss:					
- loss for the period	-	-	-	(10,671)	(10,671)
- translation reserve	-	-	(20)	-	(20)
Total comprehensive loss for period	-	-	(20)	(10,671)	(10,691)
At 30 June 2010 (audited)	60,335	122,881	(61)	(48,612)	134,543
Transactions with owners:					
- share-based payments	-	-	-	191	191
Total transactions with owners	-	-	-	191	191
Other comprehensive loss:					
- loss for the period	-	-	-	(146,746)	(146,746)
- translation reserve	-	-	(8)	-	(8)
Total comprehensive loss for period	-	-	(8)	(146,746)	(146,754)
At 31 December 2010 (unaudited)	60,335	122,881	(69)	(195,167)	(12,020)

Notes to the interim accounts

for the six months ended 31 December 2010

1. General information and basis of presentation

Leed Petroleum PLC is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

This condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The condensed set of financial statements has been prepared applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 30 June 2010, except as required by new accounting standards and amendments to standards as noted below.

This condensed set of financial statements has not been prepared on a going concern basis as explained in Note 3 "Going concern".

The comparative figures for the financial year ended 30 June 2010 have been extracted from the Company's statutory accounts which have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) included a reference to any matters to which the auditor drew attention by

way of emphasis without qualifying their report, and (iii) did not contain a statement under the Companies Act 2006 regarding matters which are required to note by exception. However, the Company's auditor did emphasise the matter of going concern, as detailed in Note 2.20 "Significant accounting policies - going concern" of the auditor's report. The financial information for the period ended and as at 30 June 2009 has been restated to reflect the change in the application of an accounting policy related to identification of cash generating units for impairment testing purposes. The financial statements as at and for the period ended 31 December 2008 was not affected by this restatement and so no balance at this date has been presented.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2010, which are available on the Company's website, www.leadpetroleum.com.

The interim financial information for the six months ended 31 December 2010 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and, though unaudited, has been reviewed by the auditor. The condensed consolidated interim financial statements were approved by the Board of Directors on 30 March 2011.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions and for management to exercise its judgement in applying the Group's accounting policies. The Group has reviewed recently published standards and amendments to existing standards affecting the financial year beginning 1 July 2010 including IAS 1 "Presentation of Financial Statements", IAS 7 "Statements of Cash Flows", IAS 17 "Leases", IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 8 "Operating Segments", IAS 27 (revised) "Consolidated and Separate Financial Statements", IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 2 "Share-based Payments", IFRS 3 (revised) "Business Combinations", IFRIC 17 "Distribution of Non-cash Assets to Owners", IFRIC 18 "Transfer of Assets from Customers" and IFRIC 19 "Extinguishing Financial Liabilities with Equity". The Group determined that none of the aforementioned items have a material impact on the presentation of these financial statements.

2. Dividend

The Directors have not recommended payment of a dividend, as the Group is insolvent at the date of this report.

3. Going concern

During the past financial year ended 30 June 2010 and throughout the current half-yearly period ending 31 December 2010, the Group's financial performance was affected by adverse production performance issues. In the Eugene Island field, the Eugene Island 183 A-8 well continued to decline at a steady rate, but not in sufficient quantity to obtain regulatory approval for the recompletion into the more prolific T-1 sand. Two other wells in the field, the Eugene Island 183 A-6 and Eugene Island 183 A-7, each failed to produce at anticipated production levels, principally due to sand control issues, and were not producing at period end. Production from the Group's Ship Shoal 201 A-6 well also declined sharply, as the well appears to have reached the gas-water contact transition zone earlier than anticipated. The Group's Main Pass 64/65 field also experienced significant downtime due to ongoing pipeline repair issues. Collectively, the aforementioned items were the primary contributors to poor financial performance for the financial year ended 30 June 2010 and the six months ended 31 December 2010.

The Group's banking facility is subject to financial covenants and other conditions which the Group monitors regularly. These covenants and conditions are sensitive to changes in EBITDAX, interest rates, commodity prices, production levels, net assets and estimated oil and natural gas reserves. The Group's ability to comply with such covenants and conditions in future periods was a key element in the ability of the Group to continue as a going concern.

During November 2010, the Group reached an agreement with UniCredit Bank AG whereby the Group would make an additional principal payment of \$12.0 million on or before 31 March 2011 and the interest rate on its credit facility would increase by 1% effective 15 December 2010 in return for waiving certain conditions of default that were forecast to

exist at the 31 December 2010 measurement date. The Group expects that results of operations for the first half of 2011 and possibly beyond will not generate enough EBITDAX to meet the covenants and conditions required under its credit facility with UniCredit Bank AG.

An ongoing strategic review of the Group's oil and natural gas asset portfolio has been carried out by the Group's investment adviser, Macquarie Tristone. Through the date of this report, Macquarie Tristone has had discussions with a number of parties expressing potential interest in either acquiring some or all of the Group's principal assets and/or to provide the funds necessary to make a \$12.0 million principal payment on the Group's credit facility by 31 March 2011. None of these discussions has resulted in a proposal that would satisfactorily resolve the Company's position with regard to its credit facility with UniCredit Bank AG. Further, the Group does not have the ability to make the \$12.0 million principal payment due on its credit facility by 31 March 2011. On 28 March 2011 UniCredit Bank AG informed the Company of its decision to pursue a near term cash sale of the Company's oil and natural gas assets, with the proceeds of the sale being applied against the Company's outstanding borrowings. In response to UniCredit Bank Ag's decision, on 29 March 2011 the Directors voted to cease business operations and either have the bank appoint a receiver or, if they refuse, place before the shareholders a proposal for voluntary liquidation. The Board therefore requested that trading in the Company's shares be suspended pending further clarification of the Company's financial position and, accordingly, the Company's ordinary shares were suspended from trading with effect from 30 March 2011.

The carrying value of the Company's oil and gas assets has been written down to its expected liquidation value of \$10.0 million (net of decommissioning obligations of \$6.6 million), which was determined by the Directors.

The Directors' assessment of the Group's ability to continue as a going concern involves making a judgement about inherently uncertain future outcomes of events and conditions based upon available information at the time of assessment. Subsequent events and additional information may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made. Based on current circumstances, the Directors have been unable to substantiate a working capital model that would reflect the Company as a going concern over the next twelve months. As such, the Directors have concluded that the Group is currently insolvent and does not have the ability to continue into the future as a going concern.

Based on current circumstances, the Company is insolvent. As such, there can be no assurance that the Company will continue into the future as a going concern. This condensed set of financial statements has therefore not been prepared on a going concern basis and adjustments have been made to reduce the carrying value of assets to their fair value and to recognise certain liabilities that arise as a consequence of the Company not being a going concern. See Note 11 "Subsequent events - bank facility and strategic review".

4. Goodwill

At 31 December 2010, the Group determined that all of its goodwill was impaired and incurred an impairment of \$29.0 million. Refer to Note 3 "Going Concern" and Note 11 "Subsequent events - bank facility and strategic review".

5. Borrowings

At 31 December 2010, in accordance with the Directors' determination that it was not a going concern, all of the Group's borrowings were classified as current liabilities. The primary terms of the Group's amended credit facility with UniCredit Bank AG at 31 December 2010 are as follows:

- the facility consists of two tranches ranked paripassu: the available revolving facility and the available term facility;
- at 15 December 2010, the maximum credit facility was set at \$30.0 million and will be reduced by \$6.0 million on a semi-annual basis thereafter. At 31 December 2010, the principal balance of the revolver facility was \$25.0 million with interest payable on a quarterly basis at three month LIBOR plus a margin of 7.25%. During 2010, UniCredit Bank AG waived certain conditions of default in existence at 31 December 2010 with the condition that a principal payment of \$12.0 million on the revolver facility will be

made by the Group on or before 31 March 2011;

- during the six months ended 31 December 2010, the Group made \$0.5 million of principal payments on its term facility, resulting in a balance of \$1.0 million at 31 December 2010. The term facility has the following repayment and interest schedule: principal payments of \$0.5 million due on 15 March 2011 and 15 June 2011 respectively, with interest payable on a quarterly basis at three month LIBOR plus 8.0%; and
- the existing security for the amended facility includes a mortgage on the Group's oil and natural gas properties, a pledge of the proceeds from the sale of oil and natural gas from the Group's properties, the Group's bank account funds and the Group's subsidiary stock and guarantees from its affiliated companies. The amended facility contains customary covenants including financial ratios calculated semi-annually and covenants that restrict the payment of cash dividends, share repurchases, borrowings other than from the facilities, sales or transfers of assets other than permitted loans to others, merger activity and liens on collateral other than permitted, without the prior consent of the lender.

As of the date of this report, the Group does not have the ability to make the \$12.0 million principal payment due on its credit facility by 31 March 2011. Failure to make such a payment could result in UniCredit Bank AG foreclosing on the Group's oil and gas assets and/or the outright sale of the Group's collateralised assets to a third party or another strategic alternative chosen at the sole discretion of UniCredit Bank AG.

The Group's borrowings and interest-bearing loans were:

	31 December	31 December	30 June
	2010	2009	2010
	\$000	\$000	\$000
	Unaudited	Unaudited	Audited
Current			
Other finance obligations	3	656	4
Current portion of long-term debt	26,000	1,000	1,500
	26,003	1,656	1,504
Non-current			
Bank loans	-	34,000	25,000

The weighted average effective interest rates on the Group's borrowings were as follows:

	31 December	31 December	30 June
	2010	2009	2010
	%	%	%
	Unaudited	Unaudited	Audited
Bank borrowings - floating rates	6.8	4.9	4.5
Other finance obligations - fixed rates	10.3	3.8 - 5.5	4.7

The fixed rate for other finance obligations applies to a lease for office equipment with an outstanding balance due of \$3,000 at 31 December 2010.

The maturity profile of the Group's bank loans was as follows:

	31 December 2010 \$000 Unaudited	31 December 2009 \$000 Unaudited	30 June 2010 \$000 Audited
Between one and two years	26,000	2,000	1,500
Between two and five years	-	32,000	25,000
More than five years	-	-	-
	26,000	34,000	26,500

6. Derivative financial instruments

	31 December 2010 \$000 Unaudited	31 December 2009 \$000 Unaudited	30 June 2010 \$000 Audited
Assets			
Forward commodity contracts	714	1,038	1,535
Derivative financial instruments assets	714	1,038	1,535
Current portion	589	1,038	1,019
Non-current portion	125	-	516
Liabilities			
Forward commodity contracts	278	(1,201)	(668)
Interest rate swaps	95	(344)	(191)
Derivative financial instruments liabilities	373	(1,545)	(859)
Current portion	373	(1,227)	(837)
Non-current portion	-	(318)	(22)

Other gains and losses for the six months ended 31 December 2010 include unrealised losses of \$27,000 (\$670,000 loss for the same period of 2009) and realised gain of \$216,000 (gain of \$1.6 million for the same period of 2009) on derivative financial instruments.

7. Property, plant and equipment

The Group's property, plant and equipment by category are summarised below. Only balances at 30 June 2010 and 30 June 2009 reflect audited amounts.

	Oil and natural gas assets \$000	Leasehold improvements \$000	Other fixed assets \$000	Total \$000
Cost				
At 30 June 2009	175,943	124	516	176,583
Additions:				
– separately acquired	1,749	—	5	1,754
At 31 December 2009	177,692	124	521	178,337
Additions:				
– separately acquired	14,564	—	2	14,566
– adjustment to asset retirement obligation	483	—	—	483
Disposals:				
– cost of pipe and casing inventory disposed of	(1,136)	—	—	(1,136)
At 30 June 2010	191,603	124	523	192,250
Additions:				
– separately acquired	1,766	—	3	1,769
– adjustment to asset retirement obligation	1,186	—	—	1,186
At 31 December 2010	194,555	124	526	195,205
Accumulated depreciation				
At 30 June 2009 (restated)	52,498	69	359	52,926
Charge for the period	6,706	22	33	6,761
At 31 December 2009 (restated)	59,204	91	392	59,687
Charge for the period	5,482	21	30	5,533
At 30 June 2010	64,686	112	422	65,220
Impairment allowance – producing property	101,965	—	—	101,965
Impairment allowance – pipe and casing inventory	488	—	—	488
Charge for the period	10,011	11	25	10,047
At 31 December 2010	177,150	123	447	177,720
Net book amount				
At 31 December 2009 (restated)	118,488	33	129	118,650
At 30 June 2010	126,917	12	101	127,030
At 31 December 2010	17,405	1	79	17,485

At 31 December 2010, the Group wrote its assets down to their fair market values and recognised impairments of \$133.2 million, comprising \$29.0 million of goodwill, \$103.3 million for oil and natural gas properties and \$0.5 million for pipe and casing inventory. After the aforementioned impairments, the Group had no goodwill and carrying values of \$10.0 million (net of decommissioning obligations of \$6.6 million) for its oil and natural gas properties, \$0.8 million for its pipe and casing inventory and \$0.1 million for its corporate office equipment, software, furniture and fixtures.

8. Issues of equity

On 24 November 2009, the Group issued an additional 400,000,000 Ordinary Shares of 5 pence par value at 5 pence per Ordinary Share to raise £20 million before expenses (£19.3 net of issuance costs), which was inter-conditional with its amended bank credit facility. See Note 5 "Borrowings".

A recap of movement in issued shares is presented below. Only balances at 30 June 2010 and 30 June 2009 reflect audited amounts.

	Ordinary Shares in issue
At 30 June 2009	276,020,767
Additional shares issued	400,000,000
At 31 December 2009	676,020,767
Additional shares issued	-
At 30 June 2010	676,020,767
Additional shares issued	-
At 31 December 2010	676,020,767

9. Net loss per share

The weighted average number of shares utilised to calculate earnings per share ("EPS") is set out in the table below. Dilutive shares were excluded from the EPS calculation for periods in which the Company had a net loss.

	Six months ended 31 December 2010 Unaudited	Six months ended 31 December 2009 Unaudited	Year ended 30 June 2010 Audited
Loss for the period attributable to Ordinary Shareholders	\$(146,746,000)	\$(7,390,000)	\$(18,061,000)
Weighted average number of Ordinary Shares at the end of the period	676,020,767	358,629,463	516,020,767
Effect of dilutive shares in issue	—	—	—
Weighted average number of shares at end of the period for diluted income per share	676,020,767	358,629,463	516,020,767

10. Restatement of prior period

At the end of the 30 June 2010 financial year, the Group carried out a rigorous and detailed review of the assets within its single operating segment and determined that separately identifiable independent sources of cash inflows existed within that segment. Accordingly, the Group adopted a change in application of accounting policy as the change would provide more relevant information. In the prior annual report for the year ended 30 June 2009, the Group classified all of its oil and natural gas fields with proved and probable reserves as one cash generating unit ("CGU"). Field CGUs are now based on individual fields in distinct geographical locations with proved and probable reserves, unless cash flows are directly linked to another field. Based on this new application of accounting policy, the Group performed impairment tests for each Field CGU for

the periods ended 30 June 2010 and 2009, respectively. The weighted average cost of capital of 11.64% and 11.19% was applied to the annual impairment test covering each Field CGU for periods ended 30 June 2010 and 2009, respectively.

As a result of the change in application of accounting policy, an impairment was identified with respect to the East Cameron 317/318 field (a non-core and non-operated property for which the Group has a 25% working interest), which was offline from August 2008 until December 2009 due to third party pipeline damage from Hurricane Ike.

Upon further analysis, it was determined that this field was initially impaired at 30 June 2009 (\$23.5 million before tax non-cash impairment expense based on a calculated net present value of future net cash flows discounted at a weighted average cost of capital rate of 11.19% at that date) due primarily to low natural gas prices. Natural gas prices utilised for the 1 July 2010 reserve report improved slightly as compared to the 1 July 2009 reserve report and the Group's weighted average cost of capital rose to 11.64% as a result of the equity raise and debt re-financing accomplished during the 2010 financial year. The net impact of the two aforementioned factors resulted in no additional impairment expense or recovery for the period ended 30 June 2010. Accordingly, the Company has restated the affected amounts within the financial statements for the period ended and as of 31 December 2009 and 30 June 2009 as appropriate per IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

A summary of the effect of the East Cameron 317/318 field impairment on the period ended and as of 30 June 2010 is shown in the table below:

	Previously stated 31 December 2009 \$000	Restated 31 December 2009 \$000	Effect of restatement 31 December 2009 \$000
Effect on the statement of financial position			
Property, plant and equipment	142,112	118,650	(23,460)
Deferred tax	(3,852)	4,595	8,447
Net decrease in net assets			(15,015)
Retained deficit	23,996	39,011	15,015
Net decrease in owners' equity			15,015
	Previously stated 30 June 2009 \$000	Restated 30 June 2009 \$000	Effect of restatement 30 June 2009 \$000
Effect on the statement of financial position			
Property, plant and equipment	147,118	123,657	(23,461)
Deferred tax	(7,299)	1,147	8,446
Net decrease in net assets			(15,015)

Retained deficit	16,266	31,281	15,015
Net decrease in owners' equity			15,015

There was no effect on net loss per share, the Statement of comprehensive income or the Consolidated statement of cash flows for the periods ended and as of 31 December 2009, 30 June 2010 and 31 December 2010.

11. Subsequent events

Bank financing and strategic review

The Company announced on 23 December 2010 that it had commenced a strategic review process and had retained Macquarie Tristone as financial adviser to assist with this review. It was further announced that Macquarie Tristone would undertake a review of a broad range of strategic options including, but not limited to, divesting some or all of the Company's oil and natural gas assets, securing a new bank credit facility and/or other potential transactions such as a merger with another company. The Company also announced, on 25 November 2010, certain amendments to its credit facility with UniCredit Bank AG, which require the Company to make a principal payment of \$12.0 million on or before 31 March 2011.

As part of the strategic review process referred to above, in early 2011, Macquarie Tristone had discussions with a number of parties who had expressed potential interest in either acquiring some or all of the Group's principal assets, or to provide capital to permit continued drilling. None of these discussions has resulted in a proposal that would satisfactorily resolve the Company's position with regard to its credit facility with UniCredit Bank AG. Based on the strategic review, the Directors determined the expected liquidation value of its oil and natural gas assets to be approximately \$10.0 million (net of decommissioning obligations of \$6.6 million). In accordance with IAS 10 "Events After the Reporting Period", the Group has recorded impairments totalling \$133.2 million at 31 December 2010 (\$29.0 million for goodwill, \$103.3 million for oil and natural gas assets and \$0.5 million for pipe and casing inventory). Adjustments have also been made to reflect additional costs that arise as a consequence of the Company ceasing to be a going concern, including unsecured severance liabilities to Directors and employees totalling \$3.1 million.

At the date of this report, the Group is insolvent and does not have the financial ability to make the \$12.0 million principal payment due on its credit facility on or before 31 March 2011. On 28 March 2011 UniCredit Bank AG informed the Company of its decision to pursue a near term cash sale of the Company's oil and natural gas assets, with the proceeds of the sale being applied against the Company's outstanding borrowings. In response to UniCredit Bank Ag's decision, on 29 March 2011 the Directors voted to cease business operations and either have the bank appoint a receiver or, if they refuse, place before the shareholders a proposal for voluntary liquidation. The Board therefore requested that trading in the Company's shares be suspended pending further clarification of the Company's financial position and, accordingly, the Company's ordinary shares were suspended from trading with effect from 30 March 2011.

Annual ownership adjustment for North Terrebone gas processing plant and Tebone gas fractionalisation plant

Effective 1 January 2011, the Group's ownership interest in the North Terrebone gas processing plant and Tebone gas fractionalisation plant was reduced from 2.5% to 0.7% as a result of the annual ownership adjustment, which is based on the Group's percentage of the overall total natural gas liquid production processed by all plant owners during calendar year 2010.

Ship Shoal 201 A-6 Well

During early 2011, the Ship Shoal 201 A-6 well appeared to have reached the gas-water contact transition zone earlier than anticipated. At the date of this report, the Ship Shoal A-6 well producing intermittently after being periodically shut in for pressure build-up at gross rates of approximately 1,000 MCF of natural gas per day and approximately

25 BBLs of oil per day. The Company is evaluating whether to shut the well down for an extended period of time due to adverse production performance and economic considerations.

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Howard Wilson

President and Chief Executive Officer

James Slatten

Chief Operating Officer

Robert Alcock

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Non-executive Director

Ian Gibbs

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Glossary

The technical terms set forth below apply throughout this document, unless the context requires otherwise.

"BBL"

One 42 gallon barrel of crude oil, the standard unit for measuring volumes of crude oil in the US.

"BOEMRE"

The Bureau of Ocean Energy Management, Regulation and Enforcement is a bureau in the US Department of the Interior and the federal agency that manages the US's oil, natural gas and other mineral resources on the Outer Continental Shelf and conducts federal lease sales.

"EBITDAX"

Earnings before interest, taxes, depreciation, depletion, amortisation and exploration expenses.

"MCF"

One thousand cubic feet of natural gas, the standard unit for measuring volumes of natural gas in the US.

"Natural gas liquids" or "NGL"

Those hydrocarbons in natural gas that are separated from the natural gas stream as liquids. 42 gallons of NGL equals one BBL of crude oil.

"Possible reserves"

Reserves which geologic and engineering data demonstrate are less certain than probable reserves and can be estimated with a low degree of certainty, insufficient to indicate whether they are more likely to be recovered than not.

"Probable reserves"

Those reserves which geologic and engineering data demonstrate with a degree of certainty sufficient to indicate they are more likely to be recovered than not.

"Proved reserves"

Estimated volumes of crude oil, condensate, natural gas and natural gas liquids which, based upon geologic and engineering data, are reasonably certain to be commercially recovered from known reservoirs under existing economic and political or regulatory conditions and using conventional or existing equipment and operating methods.

"Shut in"

A well or facility that is closed down temporarily for repair, building up of reservoir pressure, lack of market, lack of an available pipeline outlet or for some other reason.

"Working interest"

The lease interest which gives the owner the right to drill, produce and conduct operations (subject to contractual rights with other joint working interest owners pursuant to operating agreements) on a property and share in production.

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