

**Company Number 05385506**

**PANTHEON RESOURCES PLC**

**REPORT AND ACCOUNTS**

**PERIOD ENDED 30 JUNE 2006**

# PANTHEON RESOURCES PLC

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**PANTHEON RESOURCES PLC**

**DIRECTORS, SECRETARY AND ADVISERS**

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<b>Directors</b>	Susan Graham (Executive Chairman) Robert John Rosenthal (Technical Director) Justin George Hondris (Non-Executive Director) Andrew Granville Waller (Non-Executive Director)
<b>Company Secretary</b>	John Bottomley
<b>Registered Office</b>	30 Farringdon Street London EC4A 4HJ
<b>Company Number</b>	05385506
<b>Auditors</b>	UHY Hacker Young Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH
<b>Solicitors</b>	Watson, Farley & Williams LLP 15 Appold Street London EC2A 2HB
<b>Registrars</b>	Computershare Investor Services plc PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
<b>Principal Bankers</b>	Barclays Bank plc 7th Floor, United Kingdom House 180 Oxford Street London W1D 1EA

**PANTHEON RESOURCES PLC**  
**CHAIRMAN'S STATEMENT**  
**FOR THE PERIOD ENDED 30 JUNE 2006**

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**Chairman's Report**

Pantheon Resources plc ("Pantheon") was formed in 2005 to be an independent UK based oil and gas exploration company focused on hydrocarbon producing basins onshore or near shore the Gulf of Mexico ("GoM"). Specifically, its initial focus was on the deep geological plays under and around Padre Island, south Texas. Pantheon entered into a Farmout Agreement which provided the right to participate initially in six specific, defined exploration targets which were ready for drilling from a geological and geophysical perspective.

Importantly, the joint venture secured a drilling rig contract for one year with options to extend for a further two years.

The six prospects are considered to be large, high quality natural gas plays in an under-explored deep section of the GoM. Reserve potential is deemed significant with estimated prospect sizes ranging up to 337 bcf on a most likely basis (previously referred to as P50). Pantheon is paying 33.33% of the costs associated to casing point with each of the wells to earn a 25% working interest. These terms are considered favourable for a prolific oil and natural gas region in the current environment.

In June 2006, Pantheon expanded its operations by farming-into a natural gas exploration venture in Wharton County, south Texas, located broadly between Houston and Corpus Christi. This venture is operated by the Everest Resource Company ("Everest") which has a long and successful history in the Texas Gulf Coast Area. This farm-in was considered complementary in terms of risk to the high impact PI Project Area. The Project Wharton farm-in comprised three prospects initially. Each of these is of an order of magnitude lower in terms of estimated size and of lower risk.

**Post-balance sheet events**

Subsequent to the financial year-end, Pantheon commenced drilling operations for both its projects.

*PI Project Area*

The Kindee ST 212#1 well on the Plum Deep structure commenced drilling on August 1, 2006. This well reached target depth of 16,392 feet (measure depth) on November 15, 2006. Well logging identified four natural gas bearing zones spanning 1,000 feet. Flow testing and a coring programme are now underway. While the final outcome remains dependent on the testing programme, the results to date have provided encouragement not only for Plum Deep, but also for the other prospects.

Initial results of the first stage of the testing programme are now available. The first conventional core in the sidetrack well has been successfully retrieved and is under analysis. Initial interpretation of the core shows the interval primarily to be inter-bedded silty sandstone and siltstone, with thin beds of sand and shale.

Preliminary interpretation of the DST in the shallowest of three potential zones confirms the presence of a tight reservoir formation. This is consistent with the Joint Venture's pre-drill reservoir models. Preliminary determination of porosity and permeability show this zone to be primarily water wet, and unlikely to be productive as a reservoir.

Drilling to the next planned core point is now underway. This will initiate the collection of a second core. This second core will be taken in the deepest zone which spans over 800 gross feet. Once the second core is collected drilling will proceed to a TD of 15,450' feet ("ft") measured depth, At this stage a comprehensive logging and sampling programme will be undertaken before a 4.5inch production liner is set.

The current drilling programme for the PI Project Area is shown in table 1.

**PANTHEON RESOURCES PLC**  
**CHAIRMAN'S STATEMENT**  
**FOR THE PERIOD ENDED 30 JUNE 2006**

**Table 1: PI Project Area – Status**

<b>Prospect</b>	<b>Pantheon Working Interest</b>	<b>Most Likely (P50) Reserve Size (Gross)*</b>	<b>Current Drilling Programme</b>
Plum Deep	25%	161-293	Testing
Manzano	25%	178-337	December 2006
Wilson	25%	9	First Half 2007
Murdock South	25%	94-227	Second half 2007
Lemonseed	25%	67	Second Half 2007
Kingsway	25%	21	TBA

\* This range is based on studies conducted on the acreage by Golden Gate Petroleum Ltd and Pantheon's Independent Technical Adviser to the Initial Public Offering

*Project Wharton*

Since the financial year-end, Pantheon has farmed into three more prospects and drilled four wells. The Company is now producing from two recently discovered natural gas fields, Zebu and Mohawk. A third, Caddo, is scheduled to be commissioned early in the New Year.

When combined together, these fields will make up an attractive and growing income stream for Pantheon. This increasing natural gas production occurs at a time of improved US natural gas prices. It represents an important income stream for a small company such as Pantheon with attractive near term financial returns.

This initial drilling campaign has delivered effectively a 75% success rate. This has provided sufficient confidence to boost exploration in the Project Wharton area. Pantheon has now agreed to drill two additional exploration wells, Baptist and Kant, over coming months. A further three wells in and around the recent discoveries are currently scheduled for 2007. The current three discoveries, combined with the increased exploration efforts, hopefully will yield higher natural gas production in 2007.

The current interests and status of all prospects in which Pantheon has an interest are shown in table 2.

**Table 2: Project Wharton and Pantheon's Interests**

<b>Prospect</b>	<b>Pantheon Working Interest</b>	<b>Status</b>
Zebu #1	9.375%	Producing
Caddo #1	18.75%	Due on-stream early 2007
Dakota #1	18.75%	P&A non-commercial shows
Mohawk #1	18.75%	Producing
Baptist #1	11.5%	Drilling scheduled for 1Q 2007
Kant #1	18.75%	

**PANTHEON RESOURCES PLC**  
**CHAIRMAN'S STATEMENT**  
**FOR THE PERIOD ENDED 30 JUNE 2006**

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**Environmental Policy Statement**

While at 30 June 2006, the company is not an operator of any exploration projects, it closely monitors activities to ensure to the best of its knowledge that all environmental requirements are adhered to. Some farm-out projects are located in the Padre Island National Seashore ("PINS") and each of these projects requires a PINS permit which involves rigorous conditions to be met. To achieve this the operator works closely with PINS.

**Susan Graham**

**21 December 2006**

**DIRECTORS' REPORT  
FOR THE PERIOD ENDED 30 JUNE 2006**

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The Directors present their report together with the audited accounts of Pantheon Resources Plc ("Pantheon" or "the Company") and its subsidiary undertakings (together "the Group") for the period from incorporation on 8 March 2005 until 30 June 2006.

**Principal activity**

The Company is registered in England and Wales, having been incorporated on 8 March 2005 under the Companies Act with registered number 5385506 as a public company limited by shares.

The principal activity of the Group is mineral exploration. The Group operates in its parent undertaking and through subsidiary companies, details of which are set out in the note 8 to these accounts.

**Review of the business and future prospects**

Pantheon was formed in 2005 to be an independent UK based oil and gas exploration company focused on hydrocarbon producing basins in the Gulf of Mexico off the coast of Texas. Specifically, its initial focus was on the deep geological plays under and around Padre Island. Pantheon entered into a Farm-out Agreement which provided the right to initially participate in six specific, defined exploration targets which were ready for drilling from a geological and geophysical perspective. Importantly, the joint venture has secured a drilling rig contract for one year with options to extend for a further two years.

The directors believe Pantheon's projects are favourably located in an environment of low sovereign risk, abundant pipeline infrastructure allowing any new discoveries to rapidly come on stream, in an under explored area of the Gulf of Mexico which is a prolific oil and gas area.

On 5 April 2006, Pantheon was admitted to AIM, having successfully raised £10 million from a mix of quality institutional and high net worth private investors at a price of £1.00 per ordinary share.

By the end of Pantheon's financial year on 30 June 2006, Pantheon had not commenced drilling any of its prospects.

Subsequent to the financial year end, Pantheon has commenced drilling in two distinct and separate areas:

1. In June 2006 Pantheon expanded its operation by farming into a natural gas exploration venture in Wharton County, South Texas, operated by Everest Resource Company which has a long successful history operating in the Texas Gulf Coast Area. The prospects subject to the farm in are considered lower risk to complement Pantheon's portfolio in Padre Island, and are smaller in size, shallower, and significantly cheaper to drill. Pantheon has currently drilled four of these prospects with three successes and one failure. The first of these wells is expected to be brought on stream and generating cashflow in the short term. Pantheon will have the option of farming into future prospects in Wharton County which the directors believe have the potential to generate meaningful cashflow for Pantheon.
2. In August 2006 Pantheon spudded the first of its prospects on Padre Island, at Plum Deep. At the date of this report, drilling had reached target depth and the company was awaiting results of wireline log testing to determine the significance of a 25 foot zone of gas bearing sand.

**Results and dividends**

The Group results for the period are set out on page 12. The Directors do not propose to recommend any distribution by way of a dividend for the period ended 30 June 2006.

**DIRECTORS' REPORT  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**Group structure and changes in share capital**

Details of movements in share capital during the period are set out in note 13 to these accounts.

**Directors**

The following Directors held office during the period:

Susan Graham (Executive)	Appointed 3 March 2006	
Robert John Rosenthal (Executive)	Appointed 3 March 2006	
Justin George Hondris (Non-Executive)	Appointed 8 March 2005	
Andrew Granville Waller (Non-Executive)	Appointed 8 March 2005	
Instant Companies Limited	Appointed 8 March 2005	Resigned 8 March 2005

**Directors' interests**

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows:

Name	30 June 2006	8 March 2005
	Number of Ordinary shares of £0.01	Number of Ordinary shares of £0.001
S Graham	14,925	-
R Rosenthal*	1,800,000	-
J Hondris	250,000	-
A Waller**	450,000	-

\* Held by SAPS Overseas Limited (a company in which R Rosenthal is interested)

\*\* 200,000 of these ordinary shares are held by Rosepoint Capital Pty Limited (a company in which A Waller is interested)

**Share options**

Share options over ordinary shares of £0.01 granted and held by directors during the year were as follows:

Exercise price	Number of options				Total
	£1.00	£1.25	£1.50	£2.00	
S Graham	250,000	250,000	200,000	200,000	900,000
R Rosenthal	-	-	150,000	150,000	300,000
J Hondris	-	-	150,000	150,000	300,000
A Waller	-	-	150,000	150,000	300,000

The share options detailed above were granted on 4 April 2006 and will be exercisable between the first and fifth anniversary of Admission to AIM and are non-transferable.



**DIRECTORS' REPORT  
FOR THE PERIOD ENDED 30 JUNE 2006**

**Report on Directors' remuneration and service contracts**

The service contracts of all the Directors are subject to a six month termination period. Under the contracts, each executive Director will be paid £50,000 per annum and each non-executive Director £25,000 per annum.

**Pensions**

The Group does not operate a pension scheme for Directors or employees.

**Directors' remuneration**

Remuneration of Directors was as follows:

	<b>Fees/basic salary</b>	<b>Employers NI</b>	<b>Benefits in kind</b>	<b>2006 Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Executive</b>				
S Graham	35,417	3,877	-	39,294
R Rosenthal	23,958	2,422	-	26,380
<b>Non-Executive</b>				
J Hondris	31,250	3,343	-	34,593
A Waller	31,250	-	-	31,250
	121,875	9,642	-	131,517

**Substantial shareholders**

The Company has been notified, in accordance with Sections 198 to 202 of the Companies Act 1985, of the under noted interests in its ordinary shares as at 25 November 2006:

	<b>Number of Ordinary shares</b>	<b>% of Share Capital</b>
SAPS Overseas	1,800,000	11.57%
BBHISL Nominees Limited	1,050,000	6.75%
Barclayshare Nominees Limited	1,015,427	6.53%
Artemis UK Smaller Companies	1,000,000	6.42%
HSBC Global Custody Nominee (UK) Limited	1,000,000	6.42%
Ilanda Associates Limited	850,000	5.46%
Morstan Nominees Limited	750,000	4.82%
Nortrust Nominees Limited	686,667	4.41%
N.Y. Nominees Limited	600,000	3.85%

**Supplier payment policy**

The Company's policy is that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with.

**Political and charitable contributions**

There were no political or charitable contributions made by the Company during the period ended 30 June 2006.

**DIRECTORS' REPORT  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**Statement of directors' responsibilities**

The Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs").

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors at the time of approval of the report are aware:

1. there is no relevant audit information of which the Company's auditors are unaware; and
2. the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Auditors**

UHY Hacker Young were appointed auditors to the Company, and in accordance with Section 385 of the Companies Act 1985, a resolution proposing that UHY Hacker Young be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be put to the next Annual General Meeting.

By order of the board

**Justin Hondris**  
**Director**

**21 December 2006**

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF PANTHEON RESOURCES PLC  
FOR THE PERIOD ENDED 30 JUNE 2006**

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We have audited the Group and Parent company financial statements (the "financial statements") of Pantheon Resources plc for the period ended 30 June 2006 which comprise the Group income statement, the Group and Parent company balance sheets, the Group and Parent company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 those International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union 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 Directors' Report is consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement and the Directors' Report. 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.

**INDEPENDENT AUDITORS' REPORT  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 30 June 2006 and of its loss for the period then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 June 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' report is consistent with the financial statements.

**UHY Hacker Young**

**21 December 2006**

Chartered Accountants  
**Registered Auditors**  
St. Alphage House  
2 Fore Street  
London EC2Y 5DH

PANTHEON RESOURCES PLC

**GROUP INCOME STATEMENT  
FOR THE PERIOD ENDED 30 JUNE 2006**

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	Notes	2006 £
Revenue		-
Cost of sales		-
		<hr/>
<b>Gross profit</b>		-
Administration expenses	16	(400,049)
		<hr/>
<b>Operating loss</b>	4	(400,049)
Finance revenue	6	60,535
		<hr/>
<b>Loss before taxation</b>		(339,514)
Taxation	7	-
		<hr/>
<b>Loss for the period</b>		<u>(339,514)</u>
Earnings per ordinary share – basic and diluted	2	(8.33)p

The above are the results for the period from the date of incorporation on 8 March 2005 to 30 June 2006.

All of the above amounts are in respect of continuing operations.

There are no recognised gains and losses other than those passing through the income statement.

PANTHEON RESOURCES PLC

GROUP AND COMPANY BALANCE SHEETS  
AS AT 30 JUNE 2006

	Notes	Group 2006 £	Company 2006 £
<b>ASSETS</b>			
<b>Non current assets</b>			
Intangible assets	12	1,818,024	-
Other receivables	9	-	1,240,113
		<u>1,818,024</u>	<u>1,240,112</u>
<b>Current assets</b>			
Trade and other receivables	9	109,907	109,907
Cash and cash equivalents	10	8,409,699	8,409,699
		<u>8,519,606</u>	<u>8,519,606</u>
<b>Total assets</b>		<u>10,337,630</u>	<u>9,759,719</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves attributable to Equity holders</b>			
Called up share capital	13	155,524	155,524
Share premium account	13	9,698,748	9,698,748
Retained losses	14	(339,514)	(301,025)
Other reserve	14	161,513	161,513
<b>Total equity</b>		<u>9,676,271</u>	<u>9,714,760</u>
<b>Current liabilities</b>			
Trade and other payables	11	661,359	44,959
<b>Total liabilities</b>		<u>661,359</u>	<u>44,959</u>
<b>Total equity and liabilities</b>		<u>10,337,630</u>	<u>9,759,719</u>

The financial statements were approved by the Board on 21 December 2006

**Justin Hondris**  
Director

PANTHEON RESOURCES PLC

**GROUP AND COMPANY CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 30 JUNE 2006**

	Notes	Group 2006 £	Company 2006 £
<b>Net cash inflow/(outflows) from operating activities</b>	15	312,916	(1,505,108)
<b>Cash flows from investing activities</b>			
Interest received		60,535	60,535
Net funds used for investing in exploration		(1,818,024)	-
<b>Net cash inflow from investing activities</b>		(1,757,489)	60,535
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	14	10,420,061	10,420,061
Issue costs		(565,789)	(565,789)
<b>Net cash inflow from financing activities</b>		9,854,272	9,854,272
<b>Net increase in cash and cash equivalents</b>		8,409,699	8,409,699
Cash and cash equivalents at the beginning of the period		-	-
<b>Cash and cash equivalents at the end of the period</b>	10	8,409,699	8,409,699

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**1. Accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

**1.1. Basis of preparation**

The financial statements have been prepared using the historical cost convention. In addition, the financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) including IFRS 6, Exploration for and Evaluation of Mineral Resources, as adopted by the European Union (“EU”) and in accordance with the provisions of the Companies Act 1985.

The group’s financial statements for the period ended 30 June 2006 were authorised for issue by the board of Directors on 21 December 2006 and the balance sheets were signed on the Board’s behalf by Mr J Hondris.

The group financial statements are presented in UK pound sterling.

In accordance with the provisions of the Section 230 of the Companies Act 1985, the Parent Company has not presented a profit and loss account. A loss for the period ended 30 June 2006 of £301,025 has been included in the income and expenditure account.

**1.2. Basis of consolidation**

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

All the companies over which the Company has control apply, where appropriate, the same accounting policies as the Company.

**1.3. Foreign currency translation**

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the income statement.

The assets, liabilities and the results of the foreign subsidiary undertakings are translated into Sterling at the rates of exchange ruling at the year end. Exchange differences resulting from the retranslation of net investments in subsidiary undertakings are treated as movements on reserves.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**1.4. Cash and cash equivalents**

The company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

**1.5. Deferred taxation**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

**1.6. Exploration and development costs**

All costs associated with oil, gas and mineral exploration and investments are capitalised on a project by project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general corporate overheads. If an exploration project is successful, the related expenditures will be transferred to mining assets and amortised over the estimated life of the commercial reserves on a unit of production basis. Where a licence is relinquished or project abandoned, the related costs are written off. Where the Group maintains an interest in a project, but the value of the project is considered to be impaired, a provision against the relevant capitalised costs will be raised.

The recoverability of all exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the group to obtain necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposition thereof.

Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

**1.7. Impairment of exploration and development costs**

The carrying value of unevaluated areas is assessed on at least an annual basis or when there has been an indication that impairment in value may have occurred. The impairment of unevaluated prospects is assessed based on the Directors' intention with regard to future exploration and development of individual significant areas and the ability to obtain funds to finance such exploration and development.

**1.8. Share based payments**

The Group issued share-based payments to certain employees (including directors) by way of issues of share warrants. The fair value of these payments is calculated by the Group using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Group's best estimate of shares that will eventually vest.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**1.9. Financial instruments**

International Accounting Standard 32 requires information to be disclosed about the impact of financial instruments on the Group's risk profile, how the risks arising from financial instruments might affect the entity's performance, and how these risks are being managed.

The Group's policies include that no trading in derivative financial instruments shall be undertaken.

These disclosures have been made in Note 19 to the accounts.

**2. Earnings per share**

Basic earnings per share of (8.33)p for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 4,074,045.

Share options issued on 4 April 2006 are anti-dilutive. Full details of the share options issued are set out in note 16.

**3. Segmental information**

The primary segmental reporting is determined to be geographical segment according to the location of the assets. The Directors do not believe that there is a secondary segment that could be reported. There are two reporting segments.

<b>Geographical segment (Group)</b>	<b>United Kingdom £</b>	<b>United States £</b>	<b>Total £</b>
Administration expenses	(400,049)	-	(400,049)
Finance revenue	60,535	-	60,535
Loss before taxation	<u>(339,514)</u>	<u>-</u>	<u>(339,514)</u>
Intangible assets	-	1,818,024	1,818,024
Trade and other receivables	109,907	-	109,907
Cash and cash equivalents	8,409,699	-	8,409,699
Trade and other payables	(44,960)	(616,399)	(661,359)
Net assets	<u>8,474,646</u>	<u>1,201,625</u>	<u>9,676,271</u>

At the end of the financial period, the Group had not commenced commercial production from its exploration sites and therefore had no turnover in the period.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>4. Operating loss</b>		
This is stated after charging:		
Auditors' remuneration	8,000	8,000
- Audit	8,000	8,000
- Non-audit	-	-
Foreign exchange loss	38,489	-
	<hr/>	<hr/>

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>5. Directors' emoluments</b>		
Wages and salaries	121,875	121,875
Social security costs	9,642	9,642
	<hr/>	<hr/>
	131,517	131,517
	<hr/> <hr/>	<hr/> <hr/>

There are no employees other than the Directors.

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>6. Finance revenue</b>		
Bank interest	60,535	60,535
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

**Group  
2006  
£**

**7. Taxation**

**Factors affecting the tax charge for the period**

Loss on ordinary activities before taxation	(339,514)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax of 30.00%	(101,854)
Effects of:	
Non deductible expenses	12,445
Timing differences not recognised	48,454
Tax losses carried forward	40,955
<b>Current tax charge</b>	<b>-</b>

**Factors that may affect future tax charges**

At the balance sheet date, the Group has unused United Kingdom tax losses available for offset against suitable future profits in the United Kingdom. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams. The contingent deferred tax asset is estimated to be £40,900.

**8. Subsidiary entities**

The Company currently has the following wholly owned subsidiaries all of which were incorporated on 3 February 2006:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Percentage ownership</b>
Hadrian Oil & Gas LLC	United States	100%
Agrippa LLC	United States	100%
Pantheon Oil & Gas LP	United States	100%

Pantheon Oil & Gas LP is 99% owned by Agrippa LLC as its limited partner and 1% by Hadrian Oil & Gas LLC as its general partner.

NOTES TO THE FINANCIAL STATEMENTS  
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	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>9. Trade and other receivables</b>		
Other receivables	36,450	36,450
Amount due from subsidiary undertakings	-	1,240,114
Prepayments and accrued income	73,457	73,457
	<u>109,907</u>	<u>1,350,021</u>

Amounts falling due after more than one year and included in the debtors above are

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
Amount due from subsidiary undertakings	-	<u>1,240,113</u>

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>10. Cash and cash equivalents</b>		
Cash at bank and in hand	8,033,232	8,033,232
Cash equivalents	376,467	376,467
	<u>8,409,699</u>	<u>8,409,699</u>

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>11. Trade and other payables</b>		
Other payables	36,959	36,959
Accruals	624,400	8,000
	<u>661,359</u>	<u>44,959</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

**12. Intangible assets**

	<b>Exploration and development costs £</b>
<b>Cost</b>	
Additions	1,818,024
At 30 June 2006	<u>1,818,024</u>
<b>Impairment</b>	
Impairment during the period	-
At 30 June 2006	<u>-</u>
<b>Net book value</b>	
At 30 June 2006	<u><u>1,818,024</u></u>

In accordance with the accounting policy, the Directors have assessed the value of the exploration and development costs carried in the accounts as intangible fixed assets. In the opinion of the Directors, no impairment provision is considered necessary.

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
<b>13. Called up share capital</b>		
Authorised: 1,000,000,000 ordinary shares of £0.01 each	10,000,000	10,000,000
Allotted, issued and fully paid: 15,552,329 ordinary shares of £0.01 each	<u>155,524</u>	<u>155,524</u>

The following shares in the Company were issued during the period:

The Company was incorporated on 8 March 2005 with an authorised share capital of £10,000,000 divided into 10,000,000,000 ordinary shares of £0.001 each, of which 2 shares were issued fully paid, on incorporation.

On 15 December 2005 a further 18 shares were issued at £0.001.

On the same date all issued and unissued ordinary shares were consolidated on the basis of 10 ordinary shares of £0.001 each converting to 1 new ordinary share of £0.01 each.

On 15 December 2005 a further 4,999,998 new ordinary shares were issued at £0.01 each.

On 3 March 2006 a further 552,329 shares were issued at £0.67 each.

On admission to AIM, 5 April 2006, 10,000,000 ordinary shares were issued at £1.00 each.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

**13. Called up share capital (continued)**

The movements in the share capital are summarised below:

	<b>Number of shares</b>
Issue for cash – founder members	5,555,329
Issue for cash - placement	<u>10,000,000</u>
As at 30 June 2006	<u><u>15,552,329</u></u>

The share premiums arising as a result of above transactions were as follows:

	<b>2006 £</b>
Issue for cash – 3 March 2006	364,537
Issue for cash - 5 April 2006	9,900,000
Costs	<u>(565,789)</u>
As at 30 June 2006	<u><u>9,698,748</u></u>

**14. Shareholders' funds and changes in shareholders' equity**

	<b>Share capital £</b>	<b>Share premium £</b>	<b>Retained earnings £</b>	<b>Other reserve £</b>	<b>Total £</b>
<b>Company</b>					
Issue of shares	155,524	10,264,537	-	-	10,420,061
Issue costs	-	(565,789)	-	-	(565,789)
Share option charge	-	-	-	161,513	161,513
Net loss for the period	-	-	(301,025)	-	(301,025)
<b>Balance at 30 June 2006</b>	<u>155,524</u>	<u>9,698,748</u>	<u>(301,025)</u>	<u>161,513</u>	<u>9,714,760</u>
<b>Group</b>					
Issue of shares	155,524	10,264,537	-	-	10,420,061
Issue costs	-	(565,789)	-	-	(565,789)
Share option charge	-	-	-	161,513	161,513
Net loss for the period	-	-	(339,514)	-	(339,514)
<b>Balance at 30 June 2006</b>	<u>155,524</u>	<u>9,698,748</u>	<u>(339,514)</u>	<u>161,513</u>	<u>9,676,271</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

**15. Net cash inflow (outflow) from operating activities**

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
Operating loss	(400,049)	(361,560)
Cost of issuing share options	161,513	161,513
Increase in trade and other receivables	(109,907)	(1,350,021)
Increase in trade and other payables	661,359	44,960
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	312,916	(1,505,108)
	<hr/>	<hr/>

**16. Cost of issuing share options**

Included within administration expenses is a charge for issuing share options.

	<b>Group 2006 £</b>	<b>Company 2006 £</b>
Cost of issuing share options	<hr/>	<hr/>
	161,513	161,513

Exercise price	Value	Number of Options granted and held at 30 June 2006
Pounds	Pence	
1.00	42.474	483,284
1.25	35.116	250,000
1.50	31.116	650,000
2.00	23.806	650,000

The share options, detailed above, were granted on 4 April 2006 and will be exercisable between the first and fifth anniversary of Admission to AIM and are non-transferable.

No options were exercised, forfeited or expired during the period.

The option values were calculated with reference to the Black-Scholes option pricing model taking into account the following input assumptions:

Share price	£1.00
Exercise Price	As stated above
Expected volatility	50%
Option life	1 year
Expected dividends	Nil
Risk free interest rate	5.42%



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2006**

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**16. Cost of issuing share options (continued)**

The volatility percentage is an estimation of the expected volatility in the share price for a junior exploration Company which is listed on AIM having regard to comparative companies, quantum of cash raised, targeted (institutional) investment group and risk profile.

**17. Control**

No one party is identified as controlling the Company.

**18. Decommissioning expenditure**

The Directors have considered the environmental issues and the need for any necessary provision for the cost of rectifying any environmental damage, as might be required under local legislation. In their view, no provision is necessary for any future costs of decommissioning or any environmental damage.

**19. Financial instruments**

**Interest Rate Risk**

At 30 June 2006, the Group had cash on one month term deposits of £7,000,000. The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, was as follows:

	<b>Weighted Average Interest Rate 2006</b>	<b>Fixed interest rate 2006</b>	<b>Non - Interest Bearing 2006</b>
<i>Financial assets:</i>	%	£	£
Cash on Deposit	4.34	7,000,000	-

**Net Fair Value**

The net fair value of financial assets and financial liabilities approximates to their carrying amount as disclosed in the balance sheet and in the related notes.

**Currency Risk**

The functional currency for the Group's operating activities is the Pound Sterling and for exploration activities the United States of America dollar. The Group has not hedged against currency depreciation but continues to keep the matter under review.

**Financial risk management**

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to wider financial risks as the business develops.