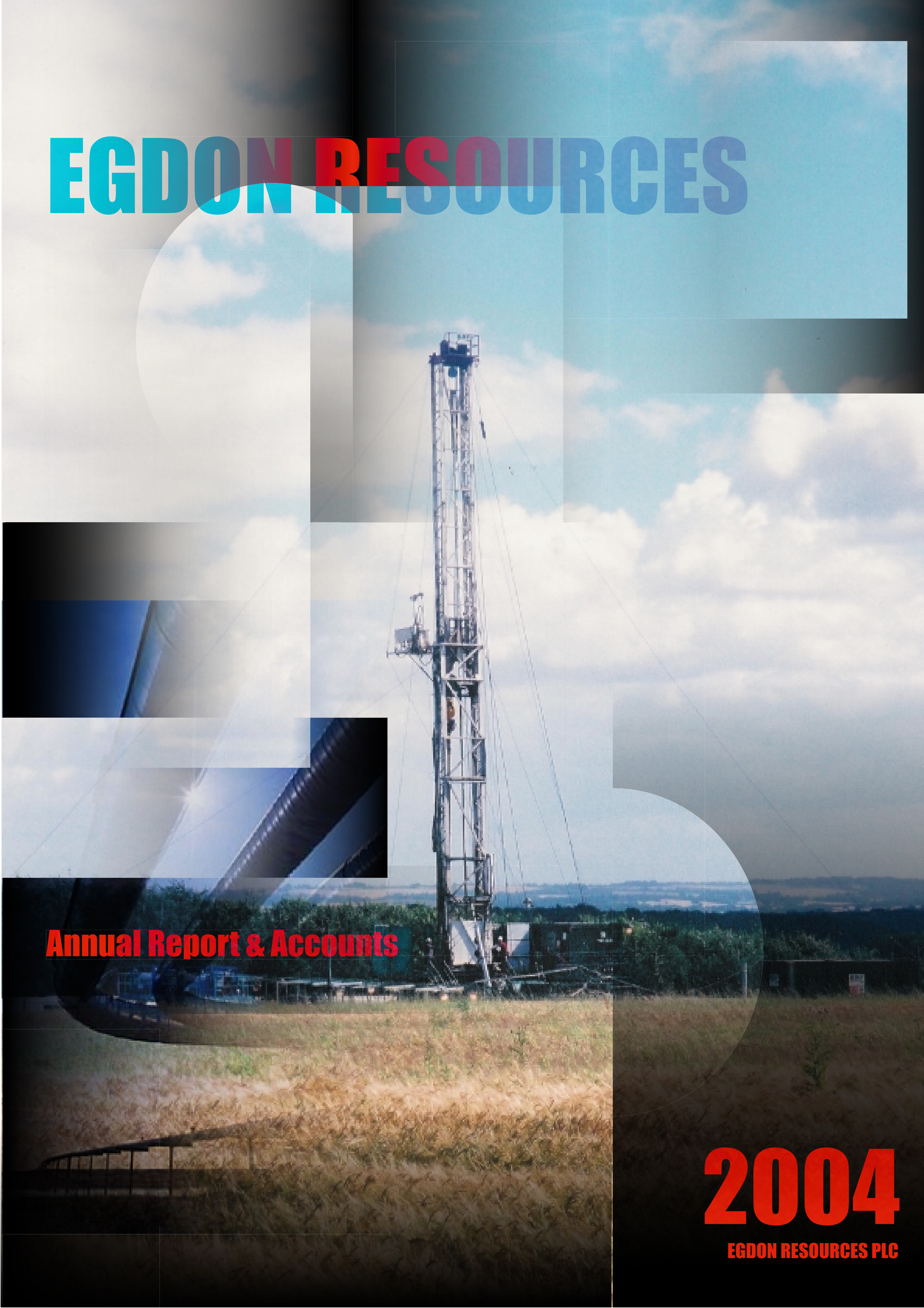
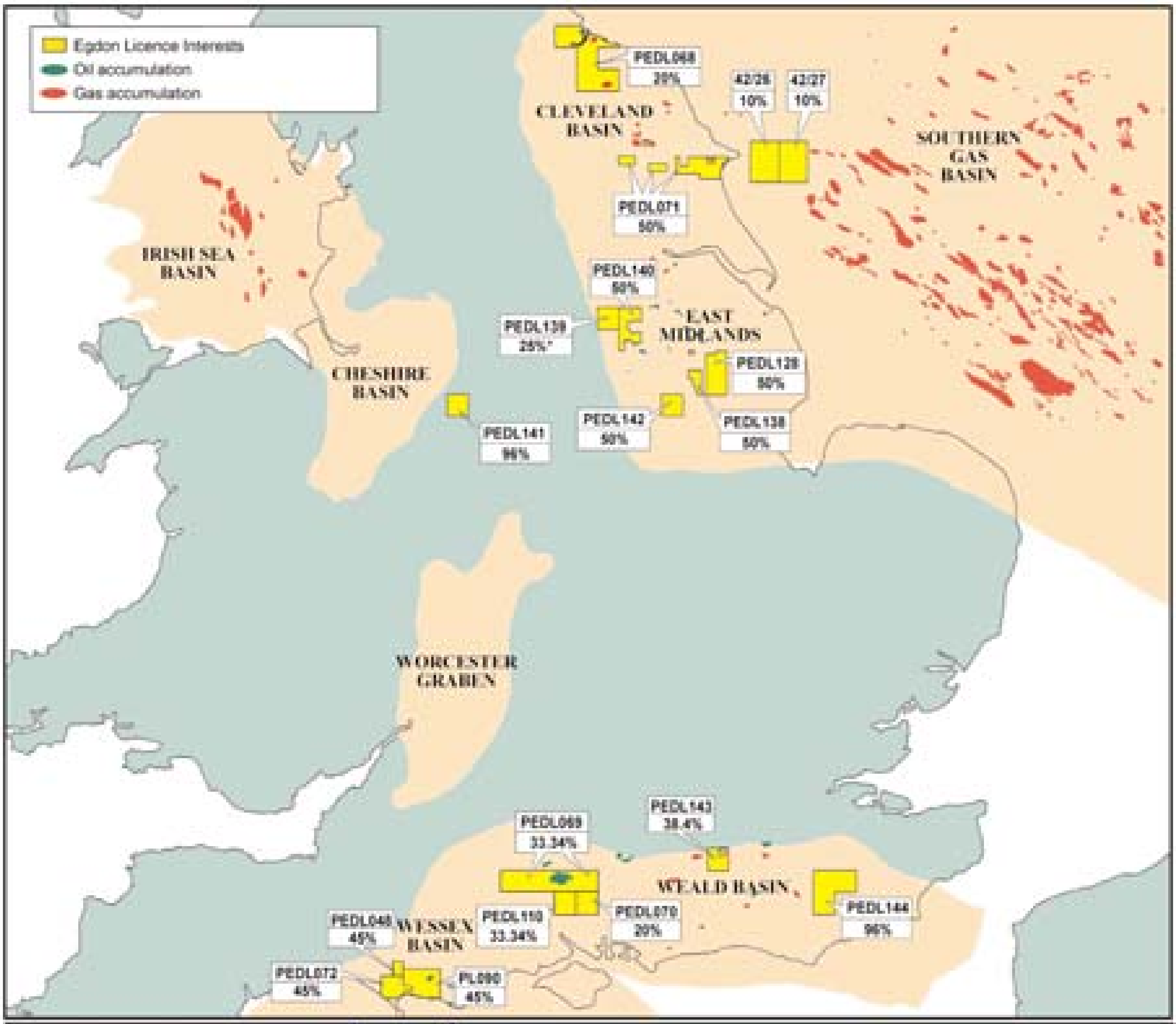


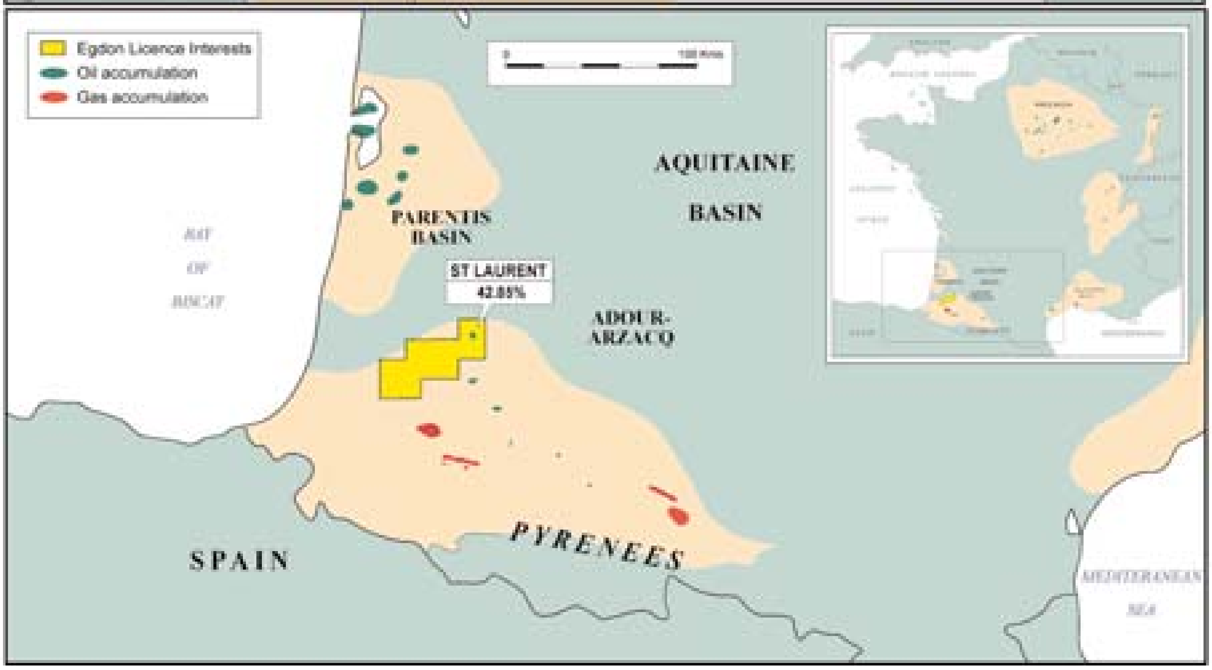
EGDON RESOURCES

Annual Report & Accounts

2004

EGDON RESOURCES PLC


Egdon Licence Interests
Oil accumulation
Gas accumulation
PEDL068
20%
42/26
10%
42/27
10%
CLEVELAND BASIN
SOUTHERN GAS BASIN
PEDL071
50%
IRISH SEA BASIN
PEDL140
50%
PEDL139
25%*
EAST MIDLANDS
PEDL120
50%
CHESHIRE BASIN
PEDL141
90%
PEDL142
50%
PEDL138
50%
WORCESTER GRABEN
PEDL069
33.34%
PEDL143
38.4%
WEALD BASIN
PEDL144
90%
PEDL110
33.34%
PEDL070
20%
PEDL046
45%
WESSEX BASIN
PEDL072
45%
PL090
45%


Egdon Licence Interests
Oil accumulation
Gas accumulation
0
100 Kms
AQUITAINE
BASIN
PARENTIS BASIN
BAY
OF
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ST LAURENT
42.85%
ADOUR-ARZACQ
SPAIN
PYRENEES
MEDITERANEAN
SEA

EGDON RESOURCES

CONTENTS

DIRECTORS AND ADVISERS

Directors

Philip Henry Peter Stephens, *Non-executive Chairman*
Andrew David Hindle, *Joint Managing Director*
Mark Anthony William Abbott, *Joint Managing Director*
Kenneth Maurice Ratcliff, *Non-executive Director*
Walter Rookehurst Roberts, *Non-executive Director*
John George Rodway Rix, *Non-executive Director*

all of Suite 2, 90-96 High Street, Odiham, Hampshire RG29 1LP (registered office)

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Walter Rookehurst Roberts

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GU1 4RA

Registrars

Capita Registrars
The Registry
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BR3 4TU

CHAIRMAN'S REPORT

This is my first report to shareholders as your new Chairman. The past year has seen a number of exciting changes for the Company culminating this week with the admission to the Alternative Investment Market (AIM). Associated with the move Egdon undertook a placing with gross proceeds of £4.5 million to support appraisal and exploratory activity.

Hans Garde-Hansen retired as Chairman during October 2004 a position he had held since 2001. Under Hans' leadership Egdon became an established, independent UK-based oil and gas exploration company primarily focused on the hydrocarbon-producing basins of the onshore UK with drillbit success in two out of the three wells it has drilled. On behalf of the Board I would like to thank Hans for his wise counsel during these important formative years of the Company.

I would like to take this opportunity to provide some background on the Company and highlight the arena in which Egdon operates. Egdon was formed in 1997 by Dr. Andrew Hindle and Mark Abbott and its Ordinary Shares began trading on the OFEX market in July 2000. During 2004, the board decided that the time was right to move to AIM to provide better access to funding for strategic programmes, provide additional liquidity for shareholders, improve future access to debt and equity capital markets and raise Egdon's profile. To enable the Company to move to AIM, it re-registered as a Plc on the 13th December 2004 changing its name to Egdon Resources Plc.

The Company has focused geographically on the onshore UK. Egdon has acquired a diverse portfolio of nineteen exploration licences, sixteen of which are onshore UK, containing a significant number of identified oil and gas prospects. The Company has found hydrocarbons at Avington-2 in 2003 and Waddock Cross-2 in 2004. Both of these oil discoveries are currently under appraisal with production from Avington and Waddock Cross expected to commence during 2005. Egdon has a portfolio of a further forty-eight oil and gas prospects. The prospects cover a broad risk spread, ranging from discoveries under appraisal through to higher risk but higher potential reward prospects. Funds from the recent placing will be used to drill up to four appraisal wells, four exploration wells and supporting seismic data.

We believe that the onshore UK is underexplored, having had relatively low levels of exploration activity since the mid 1980s when a major phase of seismic prospecting and, to a lesser extent, drilling was curtailed by a drop in oil prices and changes to the UK fiscal regime with the removal of Petroleum Revenue Tax ("PRT") relief. By the mid 1990s the majority of the exploration areas had been relinquished, enabling Egdon to acquire its extensive portfolio of UK interests, largely through applications to the Department of Trade and Industry in the Eighth to Twelfth Landward Licensing Rounds. Egdon has successfully been awarded an interest in all of its applications over the past six years, including seven new licences during 2004 in the Twelfth Round.

We believe that the onshore UK has a number of positive factors for Egdon, including:

- proven hydrocarbon systems in a number of sedimentary basins;
- extensive, accessible and affordable seismic and well database;
- opportunities to apply recent technological developments and new exploration ideas to identify and exploit new and existing plays;
- relatively low drilling costs compared to offshore operations;
- cost effective oil export routes;
- ability to monetise discoveries with limited capital expenditure as compared to offshore operations;
- de-regulated gas and electricity markets;
- benign operating environment; and
- political and fiscal stability.

Egdon has built up an extensive UK well and seismic database and developed significant experience of operating in the onshore UK and within the UK planning system since 1997. We believe that these factors provide Egdon with a significant competitive advantage.

The strategy of the Company is to become a significant and profitable oil and gas producer through an active and focused exploration and appraisal programme, asset and/or company acquisitions and proactive management of the Company's oil and gas assets. In particular, Egdon aims to:

- grow largely through exploration success;
- focus on the onshore UK in areas of proven oil and gas production;
- develop a portfolio of both oil and gas reserves and production;
- be a pro-active explorer, utilising the Company's database and the experience and expertise of the management;
- unlock the value in identified gas accumulations in the onshore UK using gas-to-electricity generation; and
- identify and exploit new technologies and opportunities to apply to the Company's existing assets and areas of activity to add further value such as gas storage.

The board look forward to a challenging and exciting coming year with an acceleration of drilling and seismic activity.

Philip Stephens

23rd December 2004

REVIEW OF ASSETS

Egdon has interests in nineteen exploration licences in the UK and France. Egdon's licence interests cover a total area of approximately 4400 km^2. All of the Company's licences are in proven hydrocarbon producing areas. Egdon is recognised as a designated "operator" by the UK Department of Trade and Industry and is also operator of its French licence.

RPS Troy-Ikoda has undertaken a review of certain of Egdon's oil and gas properties and has reported that Egdon has attributable proven, probable and possible reserves of 2.01 MMstb and unrisked best estimate contingent resources of 6.56 MMstb and 1.63 Bscf. The Company estimates that it has unrisked best estimate prospective resources of 71.9 MMstb and 96.39 Bscf.

Class of Reserve/Resource	*Proven*	*Proven+ Probable*	*Proven+ Probable+ Possible*	*Units*	*Field/Prospect Name*
Net Oil Reserves	0.3	0.99	2.01	MMstb	Waddock Cross, Avington Phase 1
	Low Estimate	*Best Estimate*	*High Estimate*		
Net Oil Contingent Resources	1.85	6.56	15.5	MMstb	Avington Phase 2, Grenade
Net Oil Prospective Resources[1]	3.99	13.89	31.14	MMstb	Winfrith, Casterbridge
Net Oil Prospective Resources[2]	33.15	58.01	94.78	MMstb	Other Oil Prospects
Total Oil	39.29	79.45	143.43	MMstb	
	Low Estimate	*Best Estimate*	*High Estimate*		
Net Gas Contingent Resources	0.61	1.63	2.62	Bscf	Nooks Farm
Net Gas Prospective Resources[1]	21.56	54.87	99.66	Bscf	Westerdale, Kirkleatham, Tees, Derwent, Holmwood
Net Gas Prospective Resources[2]	28.73	41.52	55.12	Bscf	Other Gas Prospects
Total Gas	50.90	98.02	157.40	Bscf	

Notes:

[1]Prospects which have been reviewed by RPS Troy-Ikoda.

[2] The Prospective Resources estimates are derived from the Company's internal evaluations. RPS Troy-Ikoda has not undertaken an audit of these additional prospects. However, having technically reviewed Egdon's fields and selected prospects as, RPS Troy-Ikoda is satisfied that Egdon's evaluation of their additional large portfolio is to a high technical standard.

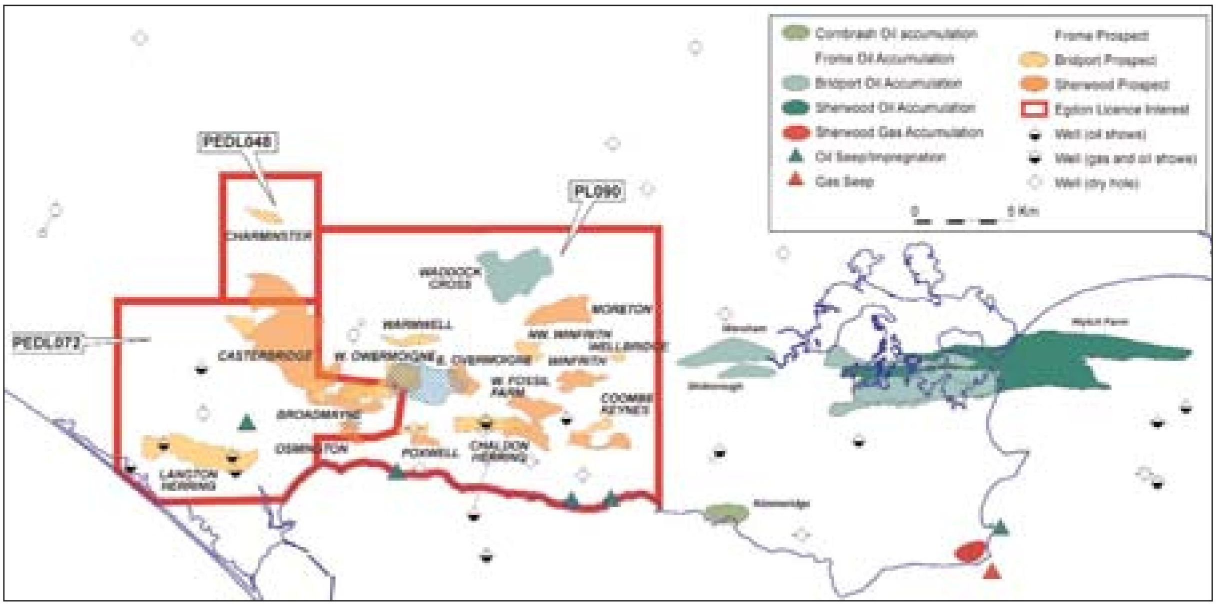
UK Assets

The Company has three geographically defined business areas in the UK:

1. Southern England;
2. Northern England and adjacent offshore areas; and
3. The Midlands.

Southern England

Wessex Basin



The Wessex Basin, located in the counties of Dorset and Hampshire, has been an area of oil exploration since oil seeps were observed in the area by geologists in the 1930s. Currently, three fields are in production, Wytch Farm, Wareham and Kimmeridge, all of which are operated by BP. The majority of the reserves in the Wessex Basin discovered to date are at Wytch Farm (original oil reserves estimated at 450 MMstb).

Egdon is the operator of the PL090, PEDL072 and PEDL048 licences shown on the map above with a 45 per cent. interest in each licence.

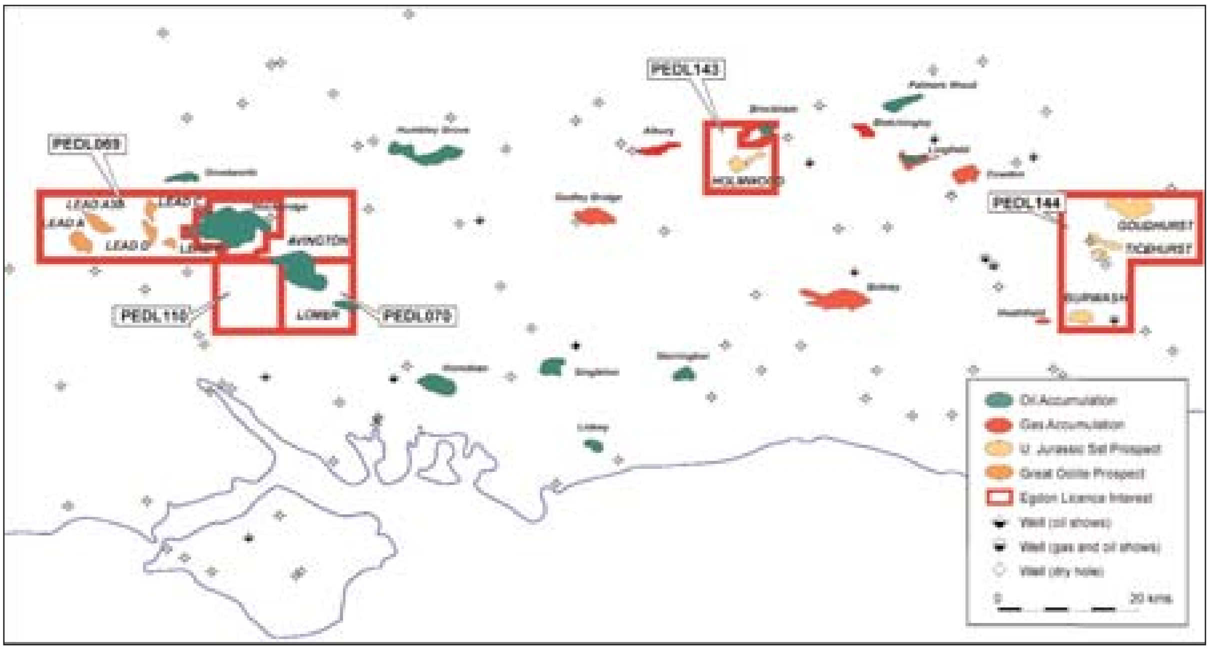
Egdon drilled a well on the Waddock Cross prospect in the PL090 licence in 2004 which flowed oil at equipment constrained rates of up to 31 bopd. Planning permission will be sought for appraisal wells on the same site and funds from the recent placing will be used to acquire 3D seismic data and drill two further horizontal wells, as independent engineering studies have indicated this technology should realise commercial production.

Net Egdon 3P reserves at Waddock Cross are independently assessed to be 1.25 MMstb, representing low recovery from the estimated net Egdon 3P oil in place of 12.76 MMstb. Egdon plans to review options to enhance overall recovery, such as by injecting chemicals or steam.

The majority of the reserve potential within Egdon's Wessex Basin licences lies in the Sherwood Sandstone reservoir. Planning permission will be sought to drill the Winfrith prospect (a Sherwood Sandstone target) which is located some 12km to the west of the Wytch Farm oilfield. Best estimate net Egdon unrisked prospective resources at Winfrith are independently assessed as 1.64 MMstb. The prospect is considered to have the lowest risk, being the closest to the Wytch Farm oilfield. The risk for the larger prospects to the west, such as Casterbridge (net Egdon best estimate prospective resource potential of 12.25 MMstb), would be significantly reduced by success at Winfrith.

Within the Wessex Basin, Egdon has a portfolio of 14 other prospects. The best estimate net Egdon unrisked prospective resources within these prospects is 38.95 MMstb.

Weald Basin



The Weald Basin covers a large area of southern England, south and southwest of London. The first hydrocarbon discovery onshore UK was made at Heathfield in 1893. The majority of the oil and gas fields were discovered in the 1980s. The largest discovery was made at Stockbridge in 1984 which is surrounded by the Company's PEDL069 licence. This field has produced 6.26 MMstb since 1991 and is currently producing approximately 830 bopd.

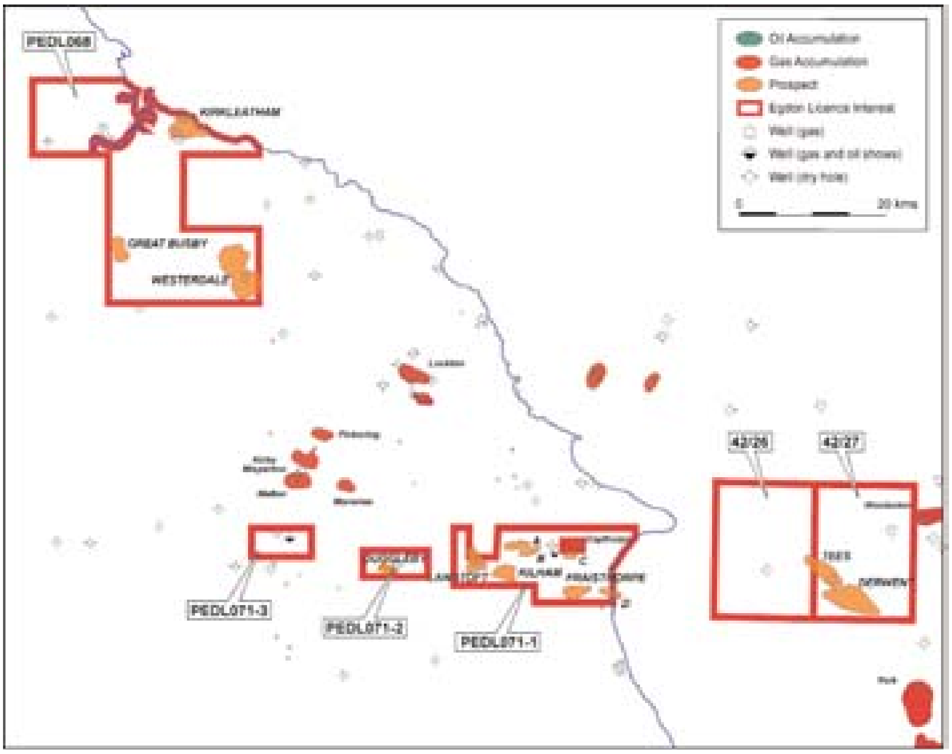
In the Weald Basin, Egdon has a portfolio of ten prospects within five licences. Egdon is a 20 per cent. partner in the Avington oil discovery well made in 2003 within the PEDL070 licence. Further work carried out by Egdon and its partners shows the Avington structure as extending into the PEDL069 and PEDL110 licences where Egdon holds a one-third interest. Planning permission has been granted for two appraisal wells on the Avington Field. The Directors believe that the first of these wells will be drilled in the first half of 2005.

The Avington oil discovery, which the Directors believe may be similar in nature to the Stockbridge development, has the potential to be the most significant UK onshore oilfield discovered in the last twenty years. The oil in place is currently estimated to be up to 110.31 MMstb. Based upon the results of the Avington-2 well, net Egdon 3P reserves are estimated to be 0.76 MMstb. This assumes that development of the field is limited to three wells. If the initial drilling encounters areas in the structure where the wells are more productive as seen in the Stockbridge field, a larger development could take place. The net Egdon best estimate contingent oil resources for a larger development case at Avington are independently estimated to be 1.16 MMstb.

Subject to DTI approval, Egdon will hold a 38.4 per cent. non-operated interest in PEDL143 within which lies the Holmwood prospect. It is the intention that planning permission will be sought in 2005 to drill a well to target the principal reservoir objective, which is productive at the nearby Brockham field. The net Egdon unrisked best estimate potential resources for the Holmwood prospect are 16.59 Bscf.

In the east of the Weald Basin, Egdon holds a 96 per cent. interest and operates the PEDL144 licence. Three prospects have been identified within the licence, the largest being the Goudhurst prospect. The Goudhurst prospect has net Egdon unrisked best estimate potential resources of 7.1 MMstb. More technical work will be undertaken over the next two years which may include the acquisition of further seismic data ahead of a decision to drill the prospect.

Northern England and adjacent offshore areas



Egdon has interests in four licences within this gas productive area, two onshore within the Cleveland Basin (PEDL068 and PEDL071) and two in the adjacent offshore Southern Gas Basin (42/26 and 42/27).

The Cleveland Basin

The Cleveland Basin is located on the north-western margins of the Southern Gas Basin within Yorkshire and Cleveland. Hydrocarbon exploration began in the area in the late 1930s, with the earliest gas production being from the Eskdale gas field in 1960. Subsequent exploration in the 1970s to 1990s has resulted in five currently producing gas fields in the southern part of the Cleveland Basin.

Egdon has a portfolio of nine gas prospects within the Cleveland Basin. Egdon holds a 20 per cent. non-operated interest in licence PEDL068. Planning permission was obtained in 2003 to drill exploration wells at Westerdale-1 (subject to a highways agreement being signed) and Kirkleatham-4, which the Directors expect to happen in 2005. Egdon also retains an option to increase its equity in the licence to 25 per cent. by paying a 5 per cent. share of back costs.

Westerdale-1 is designed to test an accumulation fifty metres up-dip and 3.7 km to the north of the Ralph Cross-1 gas discovery made by Home Oil in 1966. The Directors believe that better positioning, completion and management of a well within the prospect could produce a significant and sustainable commercial gas flow. The Directors expect that any gas produced would be used to generate electricity, either on site or linked to a nearby site via a short pipeline. Net Egdon best estimate unrisked prospective gas resources of 7.07 Bscf have been defined for the Westerdale prospect.

The Kirkleatham structure is located beneath and to the west of the town of Redcar and the Directors expect that any gas produced from the prospect would be sold to industrial users on the nearby Wilton chemical works site via a short pipeline. The structure was originally tested by two wells in the mid 1940s. The existing seismic data shows potential to apply horizontal drilling and improved completion techniques up-dip of both existing wells. Kirkleatham-4 will test for the presence of an effective gas reservoir in this up-dip area of the structure. Net Egdon best estimate unrisked prospective gas resources of 5.00 Bscf have been mapped for the Kirkleatham Prospect.

PEDL071 is operated by Egdon with a 50 per cent. interest and a total of seven prospects have been identified with combined most likely unrisked prospective gas resources of 53.70 Bscf. The most mature of these is the Fraisthorpe prospect where 3D seismic acquisition is planned for 2005 to define further a potential drilling location. Net Egdon best estimate unrisked prospective gas resources of 19.80 Bscf have been mapped for the Fraisthorpe Prospect. A decision to drill on the licence or surrender the acreage will be made prior to September 2005 by which time a planning application to drill will need to have been submitted.

UK Offshore

The Southern Gas Basin lies beneath the southern part of the North Sea and extends from the UK to the Dutch coast. Exploration in the southern North Sea began in the 1960s and the discovery of numerous gas fields since then made the Southern Gas Basin a major worldwide gas producing area.

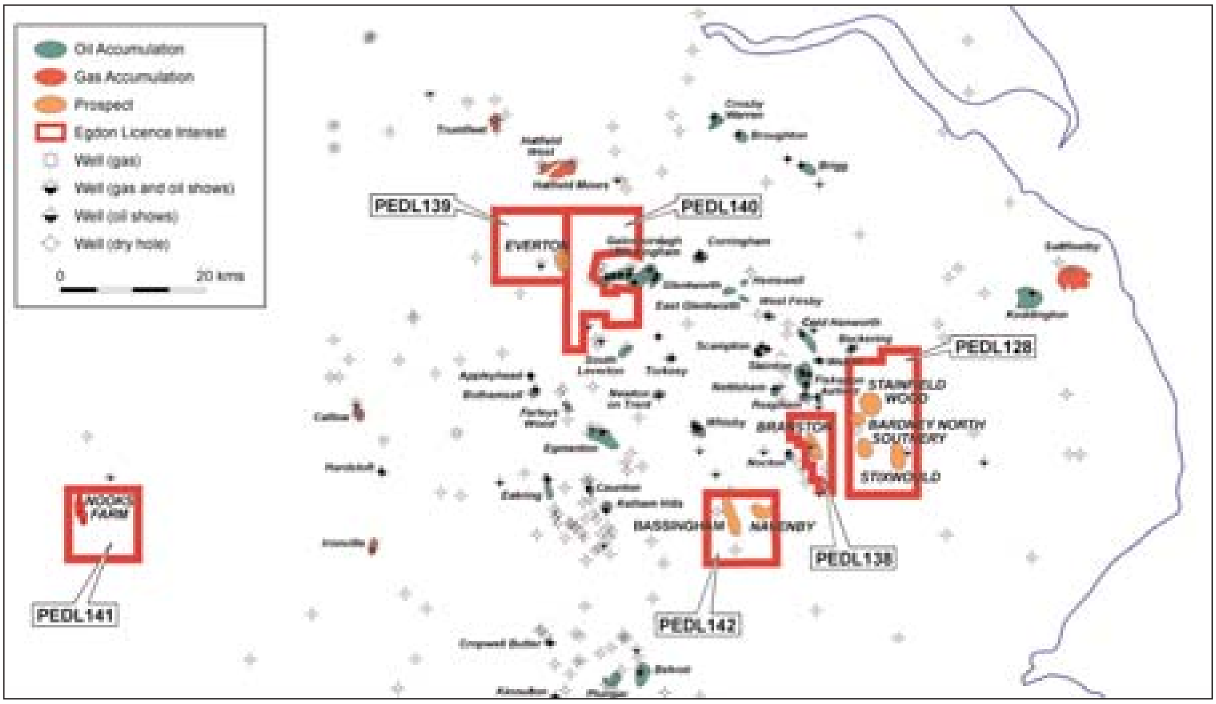
Egdon has a non-operated 10 per cent. interest in two blocks, 42/26 and 42/27 containing two gas prospects.

These prospects, called Tees and Derwent, have been identified from the provisional mapping of a 3D seismic survey acquired in 2003. The 42/27a-1 well, drilled on the Tees prospect in 1991, was abandoned having not found the primary reservoir, although gas was produced from a deeper reservoir. The Directors believe there was faulting at the well location but that the gas reservoir should be present elsewhere over the structure. Net Egdon best estimate unrisked prospective gas resources of 3.05 Bscf have been mapped for the Tees Prospect.

The Derwent prospect is located in the southern part of 42/27. Net Egdon best estimate unrisked prospective gas resources of 3.36 Bscf have been mapped for the Derwent prospect.

Additional evaluation work is currently ongoing and a drilling decision will be made on these licences during 2005.

The Midlands



Egdon has interests in five licences in the East Midlands Basin and a single licence in North Staffordshire. Within this area Egdon has a portfolio of one gas discovery and eight prospects.

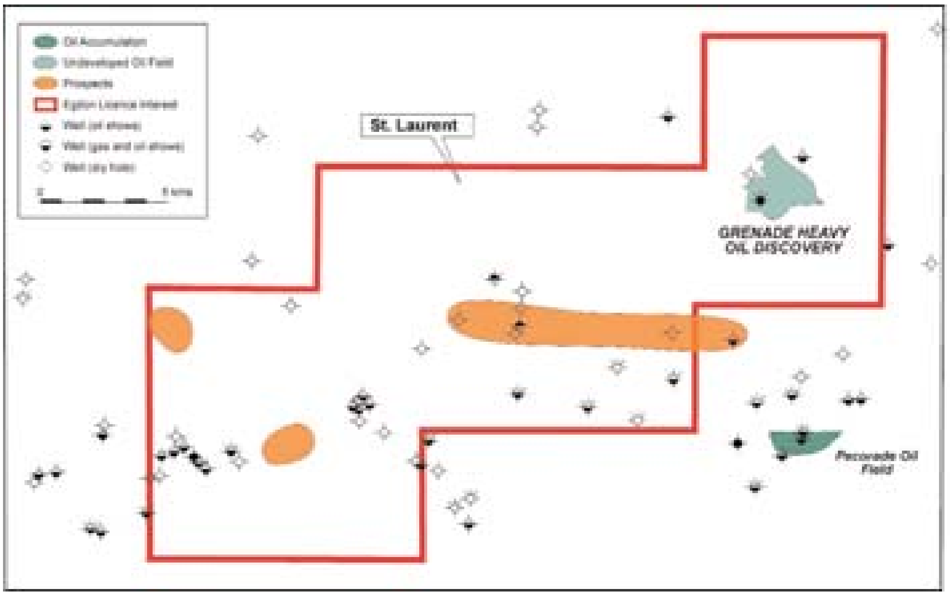
The Nooks Farm gas discovery, made by Shell in 1982, is located in the Egdon operated licence PEDL141 in North Staffordshire, in which the Company has a 96 per cent. interest. The Nooks Farm-1a well flowed at a rate of over 1 MMscf/d on test and is mapped as containing net Egdon best estimate contingent resources of 1.63 Bscf. Should further evaluation confirm the higher resource case the Directors may develop the accumulation via a horizontal well with the produced gas used for electricity generation. Although previous planning applications for the site have been rejected, Egdon would propose a much smaller scale of development.

The remaining eight prospects are located within the East Midlands Basin where Egdon has interests in five licences. PEDL128 and PEDL142 are operated by Egdon with a 50 per cent. interest and Egdon has non-operated interests in PEDL138 (50 per cent.), PEDL139 (25 per cent.) and PEDL140 (50 per cent.).

Seven of the prospects are oil prospects with net Egdon combined unrisked best estimate prospective resources potential of 6.69 MMstb and one gas prospect with net Egdon unrisked best estimate prospective resources potential of 4.11 Bscf.

The prospects in the East Midlands area are in an early stage of evaluation with seismic reprocessing and mapping planned over the next two years to define potential drilling locations.

French Assets



Egdon has a 42.85 per cent. operated interest in the St. Laurent licence, located within the gas and oil prone Aquitaine Basin of southwest France.

This large licence is located 20 km north-west of the giant Lacq gasfield and includes the undeveloped Grenade heavy oil discovery made by Elf in 1975. The Grenade Sur Adour-1 well encountered a column of 97 metres of heavy oil.

A more detailed reservoir and petroleum engineering evaluation will be undertaken to determine the commercial viability of the Grenade discovery based on the use of modern drilling, completion and enhanced oil recovery techniques. Should the project prove viable, Egdon will look to bring in an industry partner with experience of heavy oil developments to assist in progressing the project to development. Net Egdon best estimate contingent resources of 5.40 MMstb have been mapped for Grenade.

A number of other prospective areas have been identified within the St. Laurent licence although these have not been fully evaluated to date.

UK ONSHORE OIL AND GAS MARKETS

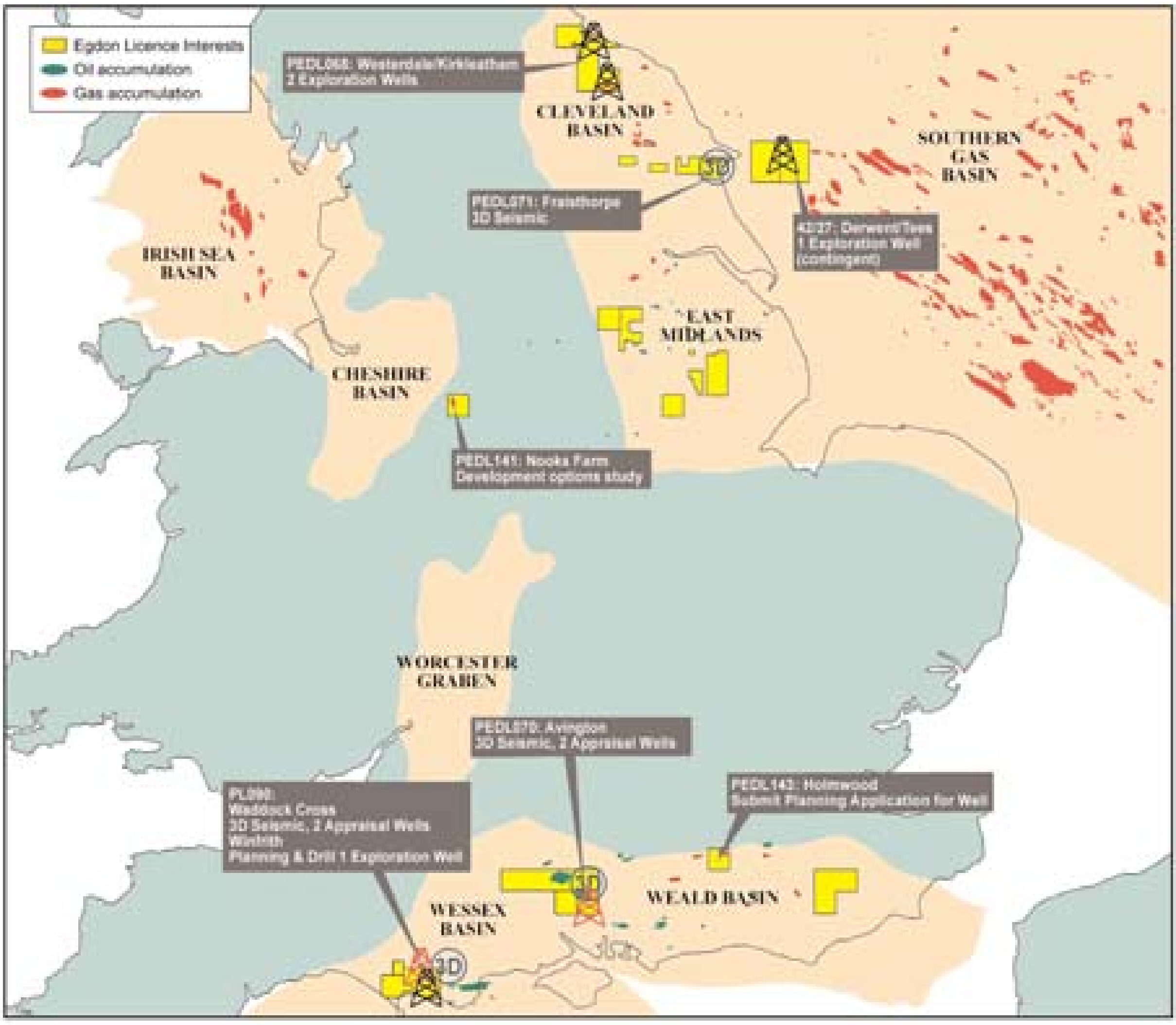
The onshore UK currently produces around 37,000 bopd and 36 MMscf/d. The Wytch Farm field, which is located adjacent to Egdon's PL090 licence in the Wessex Basin, accounts for 85 per cent. of the UK's onshore oil production and 25 per cent. of the gas production.

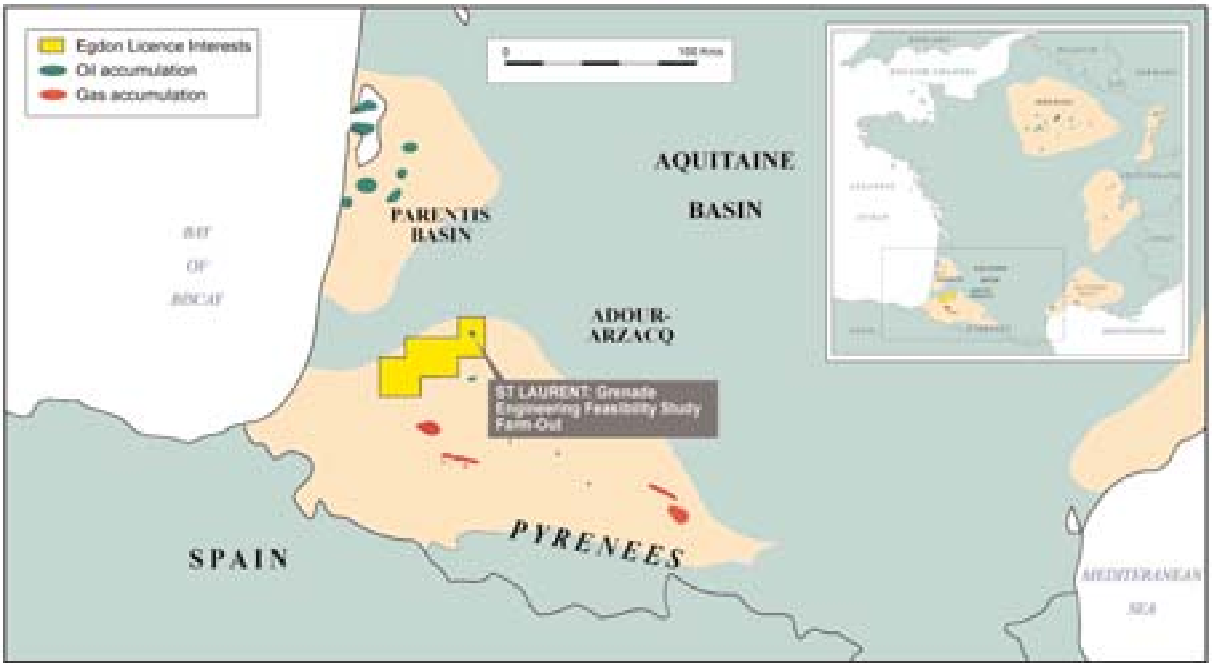
Onshore oil production is well established in the UK with first production in 1919 from the East Midlands. Oil production today is delivered by pipeline, road tanker or rail to either the Conoco Immingham refinery on Humberside, the Esso Fawley refinery in Hampshire, or the BP Hamble terminal.

A recent HM Government Energy White Paper (2003) highlights the increasing reliance on imported gas to supply UK demand as gas production from the UK Continental Shelf declines. The White Paper states that the UK is likely to become a net importer of gas by 2006 and that by 2020 75 per cent. of the UK's primary energy needs will be imported.

Consequently, the Directors are looking to develop a business model to exploit undeveloped gas accumulations such as at Nooks Farm, possibly through a gas-to-electricity business.

The Company will also seek to develop any gas storage opportunities that exist within its current portfolio, or in areas where it is active, to exploit seasonal variations in gas prices and supply peak demand. This is a business area which the Directors expect to be profitable over the next few decades. The Company is currently negotiating for a prospective gas storage site.





2005/6 Principal Planned Activity

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and audited financial statements for the year ended 31st July 2004.

Principal activity and review of business

The principal activity of the Group throughout the year was exploration for oil and gas in the UK and France.

Management

At the AGM held on 5th March 2004, Hans Garde-Hansen announced his intention to retire as Chairman once a suitable replacement could be identified. Mr Garde-Hansen retired effective 21st October 2004 to be replaced by Mr Philip Stephens. Mr Stephens has significant corporate finance experience and is on the board of a number of public companies. The Board would like to record its thanks for the important role Hans Garde-Hansen has played in the development of Egdon over the last four years.

Mr Kenneth Ratcliff, retiring by rotation, was re-elected at the AGM held on 5th March 2004.

Private Placement

On 17th March 2004 the Company issued 3,513,514 1p Ordinary Shares at an issue price of 18.5p resulting in the sum of £650,000 being raised before expenses to support the 2004 drilling programme in the UK. Williams de Broë plc acted as placing agents and received a fee of 5% of the value of the placement.

Licence Activity

Following the sale of a 10% interest in its Wessex Basin licences to Dorset Exploration Limited Egdon now holds a 45% interest and operatorship in the PL090, PEDL072 and PEDL048 licences. The PEDL048 licence was renewed into its second term of five years effective 18th March 2004. Statutory and voluntary relinquishments were made at renewal reducing the licence area to 30 square kilometres. A voluntary relinquishment was made of the northern-most part of the PL090 licence reducing the total area under licence to 201.76 square kilometres.

In PEDL071, operated by Egdon with a 50% interest, a further extension to the drill or drop decision has been granted by the DTI. A decision to drill on the licence or surrender the acreage must now be made prior to 7th September 2005. A voluntary partial relinquishment was made of the non-prospective parts of the block effective 7th September 2003, reducing the area under licence from 714 square kilometres to 240.41 square kilometres contained within three separate licensed sub-areas.

In East Midlands Licence PEDL128, the Company is negotiating the farm-out of a 50% working interest to Pentex Oil UK Limited (Pentex). On completion of the farm-out Egdon will retain a 50% interest in the licence.

Egdon holds a 10% interest in blocks 42/27 and 42/26 which are located offshore from Flamborough Head within the north-western margins of the Southern Gas Basin. The DTI has consented to an extension to the drill or drop decision on block 42/27 to coincide with that of 42/26 on 1st October 2005 with any well to be drilled before 25th July 2006.

The final licence in the Paris Basin held by Egdon Resources (New Ventures) Limited, Chante Merle, was relinquished on 29th December 2003.

Egdon was awarded seven licences in the 12th Landward Round of Licensing which was announced on 15th September 2004. These new licences cover eleven ten kilometre square blocks or part blocks and are located in the Weald Basin of southern England (PEDL143 and PEDL144), the East Midlands Basin (PEDL's 138, 139, 140 and 142) and on the margins of the Cheshire Basin (PEDL141). Egdon's interests range from twenty to ninety six percent, with the Company operating three of the awarded licences. With these awards the Company now has interests in sixteen onshore UK licences covering a total area of approximately 2,680 square kilometres.

Operational Review

Egdon participated in the drilling of two wells during the period, both of which were oil discoveries, Avington-2 in Weald Basin licence PEDL070, and Waddock Cross-2, Egdon's first operated well in licence PL090 in the Wessex Basin.

Avington

Drilling operations on the Avington-2 well in the Weald Basin of southern England were completed during August 2003. Egdon holds a 20% interest in the PEDL070 licence on which the Avington-2 well was drilled and also holds interests in adjacent licences PEDL069 (33.33%) and PEDL110 (33.33%).

The Avington structure covers an area of approximately 20 square kilometres, and comprises a northern (up-thrown) fault block and a southern inversion anticline. The Avington-2 well was drilled on the southern part of the structure with the original Avington-1 well drilled by Carless in 1987 on the northern part of the structure.

Prior to drilling a horizontal section in the Great Oolite reservoir, a short-term test in the pilot well flowed oil at un-stabilised rates of up to 250 barrels of oil per day. During the drilling of the horizontal section the well flowed at un-stabilised rates of up to 700 barrels of oil per day. The oil API gravity was measured as 38° at stock tank conditions.

An extended well test (EWT) commenced during October 2003. On commencing the testing a higher than anticipated flow of water was encountered. Despite attempts to stimulate and clean the hole the water production has remained high (80-90%) during the test. Engineering studies have concluded that the highly productive zone observed during the initial testing was not seen during the EWT and it is possible that damage occurred to the reservoir between the test phases.

Although disappointing, this early well performance is similar to some of the poorer producing wells in the Great Oolite reservoir in the Weald Basin and additional appraisal well activity at Avington is planned. Planning permission has been granted by Hampshire County Council for the drilling of two further appraisal wells. The joint venture partnership has approved the drilling of a further well on the structure, Avington-3, and the operator is currently finalising plans on the timing of future activity. This new well will also be completed as a Portland Sandstone water disposal well to enable produced water to be disposed of on-site. In the meantime the Avington-2 well has been shut-in. The possibility of extending the Avington-2 horizontal well by further drilling is also being discussed.

Waddock Cross

Drilling of the Waddock Cross-2 well, in Egdon operated licence PL090, was completed in January 2004 when a gross 24 metre oil column was encountered in the Jurassic Bridport Sandstone. Casing was cemented over the reservoir interval and two intervals perforated and individually tested. Problems were encountered due to plugging of pore spaces in the rock during the drilling process, resulting in a 'skin' at the reservoir-borehole interface. The skin was broken down during a twenty four hour Drill Stem Test (DST 1) over the lower more permeable cycle 2 sandstones, but not during a twenty four hour test (DST 2) over the less permeable upper cycle 3 sandstones.

A new testing programme commenced at the site during August 2004. During DST 3 the well was pumped over a period of 107 hours at an average rate of 31 barrels of oil per day (331 barrels per day gross fluids). The rate was constrained by the capacity of the pump-jack.

A bridge plug was then set to isolate the upper interval and a renewed attempt made to remove the 'skin' from the cycle 3 sandstones during DST 3a. This attempt was successful and 19 barrels of oil were produced during a 29 hour interval, together with 27 barrels of water. The well was then completed for an Extended Well Test (EWT) of the upper zone to gain information for the design of a horizontal well. During a twenty six day period a total of 347 barrels of oil were produced (780 barrels of gross fluids).

A dual completion system was installed in the well during early October to enable produced water to be re-injected via a new set of perforations at the base of the Bridport Sandstone. On recommencing the EWT the existing pump-jack will initially be used to produce from both reservoir zones. In due course it is anticipated that a larger pump will be acquired to significantly increase the production rate and gain further reservoir information.

Total oil-in-place within the field is estimated by Egdon to be 20 million barrels of oil. A planning application is being prepared for further appraisal wells from the existing site. New drilling would first target elevated areas within the oil accumulation, where the more productive cycle 2 sandstones are estimated to contain 3 million barrels of oil-in-place. Subject to a successful outcome of the EWT, Egdon plans to acquire a 3D seismic programme in the first half of 2005 to confirm the positioning of the wells.

Other UK Projects

Significant potential exists within Egdon's Wessex Basin licences in the Sherwood Sandstone play which is productive in the nearby Wytch Farm oilfield. Plans are being progressed to submit a planning application during 2005 to drill a Sherwood Sandstone prospect probably at Winfrith in the east of PL090, twelve kilometres to the west of and up-dip from the Wytch Farm oil field although other potentially larger prospects are also being considered.

In PEDL068, located in North Yorkshire and Teesside, planning permission has been granted during the period for exploration wells at Westerdale-1 and Kirkleatham-4.

At Westerdale-1 the operator has concluded a number of legal agreements and has agreed to restrict operations to the period between October and March to avoid any conflict with the main tourist season. Westerdale-1 is designed to test an accumulation fifty metres up-dip and 3.7 kilometres to the north of the Ralph Cross-1 gas discovery made by Home Oil in 1966. Ralph Cross-1 tested gas at flow rates of up to six million cubic feet of gas per day from a 20.5 metre gas column in fractured Zechstein carbonates. Although significant gas flows were recorded during the testing, the well was abandoned due to increased water production. The PEDL068 group believes that better positioning, completion and management of a well within the prospect could produce a significant and sustainable commercial gas flow.

Planning consent for the drilling of Kirkleatham-4 was granted following a successful appeal hearing held during November 2003. The Kirkleatham structure is located beneath and to the west of the town of Redcar adjacent to the Wilton chemical works. The structure was originally tested by two D'Arcy-operated wells in the mid 1940s, with rudimentary testing producing sub-commercial gas-flows from both wells from the Permian age Zechstein carbonates. The existing seismic data shows potential to apply horizontal drilling and improved completion techniques up-dip of both existing wells. Kirkleatham-4 will test for the presence of effective gas reservoir in this up-dip area of the structure.

The final timing for the drilling of these wells is still to be advised by the operator but is now likely to be during 2005.

UK Offshore

A 136 square kilometres 3D seismic programme was acquired over the main identified prospect on the licences 42/26 & 42/27 during May 2003. The final pre-stack depth migrated data has recently been received and is currently being evaluated. A drill or drop decision will be made by 1st October 2005 once the results of this evaluation are known.

France

Egdon Resources (New Ventures) Ltd, a wholly owned subsidiary of Egdon Resources (U.K.) Limited, is operator of the St Laurent Licence in SW France with a 42.85% interest. This large licence (1,230 square kilometres) includes the undeveloped Grenade heavy oil discovery made in 1975.

The Grenade Sur Adour-1 well encountered a 97 metre column of heavy oil (10°API) in Cretaceous age carbonates at 2181 metres measured depth. Existing seismic data have been re-processed and interpreted over the prospect demonstrating that significant volumes of oil in place could be present at Grenade. The Joint Venture will look to bring in an industry partner with experience of heavy oil developments to determine the commercial viability of the Grenade discovery based on use of modern drilling, completion and enhanced oil recovery techniques.

Outlook

During the next year the Company will continue with an active exploration programme to include planned wells in the Weald Basin (licence PEDL070), Wessex Basin (licence PL090) and the Cleveland Basin (licence PEDL068) and potential 3D seismic programmes in the Weald (licences PEDL070, PEDL069 and PEDL110), Wessex (licence PL090) and Cleveland Basins (licence PEDL071).

The Company will continue to make a detailed evaluation of the exploration and development potential of its newly awarded and existing exploration licences.

The Company will continue to look to strengthen its licence position through the active management of the exploration portfolio and review of new opportunities within focus areas.

Additional fund-raising is planned to support the Company's future exploration and appraisal programme. The Board regularly review the most appropriate market for the listing of Egdon shares given market conditions and future funding requirements. A recent review has highlighted the advantages of Egdon moving to AIM. Accordingly such a move is being actively pursued with admission to AIM planned prior to the end of 2004.

RESULTS AND DIVIDENDS

The group made a loss after tax of £246,350 during the year (2003: loss after tax of £199,919). This loss, together with the accumulated deficit of £675,183 brought forward, leaves an accumulated deficit of £921,533 to be carried forward as a balance on the group Profit and Loss account.

The directors do not recommend the payment of a dividend (2003: £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the share capital of the company at the end of the year, were as follows:

	Ordinary shares of 1p each	
	2004	*2003*
A D Hindle	7,427,565	7,620,565
M A Abbott	7,518,139	7,533,739
Non-executive directors:		
H Garde-Hansen	844,212	844,212
J G R Rix	993,000	943,000
W R Roberts	276,750	226,750
K M Ratcliff	25,000	–

H Garde-Hansen's beneficial interest in the above shares is via Halenika Resources Limited, which is owned and controlled by him.

A D Hindle's beneficial interest in the above shares includes 106,326 shares held by his wife and daughter.

M A Abbott's beneficial interest in the above shares includes 50,000 shares held by his wife.

J G R Rix's beneficial interest in the above shares includes 646,000 shares held by his wife.

Directors' share options are as detailed in note 8 to the accounts.

Hans Garde-Hansen, BSc., A.R.S.M., M.E.I. (Non-Executive Chairman to 21 October 2004) has extensive experience in the oil industry. He graduated from the Royal School of Mines in 1949 with a BSc. and A.R.S.M. in Oil Technology. Following National Service with the Royal Engineers he started work in the oil business with Lobitos Oilfields in Peru. In 1954 he moved to Canada and joined J. C. Sproule and Associates. Subsequently he worked internationally for Ultramar for 14 years ultimately managing their Venezuelan and later Canadian operations. In 1970 he set up his own consulting and operating company in Calgary, Garde-Hansen Resources Ltd (later Halenika Resources Limited), of which he remains president.

Philip Stephens, MA (Oxon.) (Non-Executive Chairman from 21 October 2004) is a corporate financier with 37 years of city experience. He has an honours degree in Chemistry from Christ Church, Oxford. He is currently non-Executive Chairman of Invesco Geared Opportunities Trust plc and Oakdene Homes plc and is a non-Executive Director of Business Post Group plc and Foresight 4 VCT plc and until recently was a non-Executive Director of Eurodis Electron Group plc. He was at stockbrokers Williams de Broë for four years as Joint Head of the Corporate Finance department until his retirement in 2002. Before that he was head of UK corporate finance at securities house UBS from 1995, having joined that firm in 1989. He also worked at Chase Manhattan Bank and prior to that at Lazard Brothers. He began his career in the City as a trainee stockbroker in 1965.

Andrew Hindle, BSc., MSc., PhD., C.Geol FGS, (Joint Managing Director) (42) is a highly experienced geologist with over 20 years world-wide experience, specialising in petroleum migration. He holds a first degree in Geological Sciences gained in 1983 from Leeds University and following a year with BP gained a MSc. Degree in Petroleum Geology in 1985 from Aberdeen University. In 1998 he completed a PhD (part-time) through the Open University for research into petroleum migration. He worked for Texaco from 1985 until 1996 on U.K. and international exploration and development projects, working overseas from 1990-1994. Subsequently he worked for Anadarko Algeria Corporation from 1996 to 1997. In 1997 he became a founding director of Egdon Resources (U.K.) Limited. Andrew is also a Director of Geofocus Limited, Toffee Limited and Eskbank Resources Limited.

Mark Abbott, BSc., FGS, (Joint Managing Director) (43) is a geophysicist with over 20 years world-wide experience. He holds a first class honours degree in Exploration Sciences (Geology/Geophysics/Mining Engineering) gained in 1985 from the University of Nottingham. He worked for the British Geological Survey from 1985 to 1992 in the U.K. and overseas, mainly involved in onshore basin analysis in the U.K. Between 1992 and 1996 he worked in the International Division of British Gas Exploration and Production Limited evaluating exploration and appraisal projects. From 1996 to 1997 he was employed by Anadarko Algeria Corporation as a Staff Exploration Geophysicist. In 1997 he became a founding director of Egdon Resources (U.K.) Limited. Mark is also a Director of MA Exploration Services Limited an exploration consulting company.

Ken Ratcliff, BSc., FCA, J.P. (Non-Executive Director). Ken is a chartered accountant with extensive finance and business experience. He is currently the accountant at Epsom College and at GDC UK Limited. He was an audit manager with Touche Ross & Co in London before moving into accountancy and finance positions with the oil and gas industry in 1978. Ken has previously held senior management positions with GDC UK Limited, Ensign Geophysics Limited, Seismic Geocode Limited, Tenneco Corporation and Merlin Geophysical Limited.

John Rix, FCA, (Non-Executive Director) was a well respected analyst in the oil industry until retirement in 1994, holding positions at N M Rothschild & Sons, de Zoete & Bevan and Greig Middleton & Co. John continues to be actively involved within the investment community and is also a non-executive Director of the Langdon Group Limited. John is also Chairman and Managing Director of Dorset Exploration Limited.

Walter Roberts, (Non-Executive Director and Company Secretary) is an oil and gas lawyer with a strong record in commercial and legal management. Walter qualified as a solicitor with Simmons & Simmons before joining Phillips Petroleum in 1980. He then worked for Lasmo in both the U.K and in Australia where he set up its legal department. Walter was the principal negotiator for U.K joint venture commercial negotiations and gas sales for Talisman until 1995. More recently he was the London partner of Cummings & Co and he is currently an executive Director of Pinnacle Energy Limited and a non-executive Director of Bow Valley Petroleum (UK) Limited and other related Bow Valley companies.

The company operates a share option scheme entitling certain directors to subscribe at a given subscription price for ordinary shares in the company. Share options granted to all directors and non-executive directors are detailed in note 8 to the accounts.

SUBSTANTIAL SHAREHOLDERS

The company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company as at 21 October 2004:

	Ordinary shares of 1p each	
	Number	*%*
A D Hindle	7,427,565	20.30
M A Abbott	7,518,139	20.54
Friends Ivory & Sime AIM VCT 1	2,500,000	6.83
Friends Ivory & Sime AIM VCT 2	3,272,558	8.94
McDonald Glencross Ltd	2,258,950	6.17

DIRECTORS' RESPONSIBILITIES

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 group and of the profit or loss of the group for that year.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent; and
- 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 which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Nexia Audit Limited have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

By order of the board

M A Abbott
Director
21 October 2004

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of Egdon Resources (U.K.) Limited

We have audited the accounts of Egdon Resources (U.K.) Limited for the year ended 31 July 2004 which comprise the Profit and Loss Account, Balance Sheet and related notes 1 to 24. These accounts have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31 July 2004 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

1 Bishops Wharf
Walnut Tree Close
Guildford
Surrey
GU1 4RA

NEXIA AUDIT LIMITED
Chartered Accountants
Registered Auditors

Nexia Audit Limited

21 October 2004

FINANCIAL INFORMATION

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 July 2004

	Notes	*2004* £	*2003* £
Turnover	2	33,457	22,677
Cost of sales		(37,406)	(25,006)
Gross profit		(3,949)	(2,329)
Administrative expenses		(252,222)	(249,010)
Other operating income		36,193	24,922
Operating loss	3	(219,978)	(226,417)
Interest receivable	4	8,628	26,498
Interest payable	5	(35,000)	–
Loss on ordinary activities before taxation		(246,350)	(199,919)
Taxation	6	–	–
Retained Loss for the period	19	(246,350)	(199,919)
Basic Loss per share	25	(0.72p)	(0.64p)

The accompanying notes are an integral part of this consolidated profit and loss account.

There were no recognised gains or losses other than the loss for the year.

The consolidated profit and loss account has been prepared on the basis that all operations are continuing.

CONSOLIDATED BALANCE SHEET

as at 31 July 2004

	Notes	*2004* £	*2003* £
Fixed assets			
Intangible assets	10	1,775,490	1,267,968
Tangible assets	11	4,160	7,440
	12	1,779,650	1,275,408
Current assets			
Debtors	13	70,657	94,953
Investments	14	–	250,584
Cash at bank and in hand		552,405	411,306
		623,062	756,843
Creditors: amounts falling due within one year including convertible debt	15	(386,906)	(56,762)
Net current assets		236,156	700,081
Total assets less current liabilities		2,015,806	1,975,489
Creditors: amounts falling due after more than one year Convertible debt	16	–	(350,000)
Provision for liabilities and charges	17	(28,800)	(34,633)
Net assets		£1,987,006	£1,590,856
Capital and reserves			
Called up share capital	18	365,950	329,565
Share premium account	19	2,542,589	1,936,474
Profit and loss account	19	(921,533)	(675,183)
Equity shareholders' funds	20	£1,987,006	£1,590,856

Signed on behalf of the board on 21 October 2004

M A Abbott

A D Hindle

} Directors

COMPANY BALANCE SHEET

as at 31 July 2004

	Notes	*2004* £	*2003* £
Fixed assets			
Intangible assets	10	1,766,093	1,261,741
Tangible assets	11	4,160	7,440
Investments	12	176	176
		1,770,429	1,269,357
Current assets			
Debtors	13	99,244	114,451
Investments	14	–	250,584
Cash at bank and in hand		540,565	406,749
		639,809	771,784
Creditors: amounts falling due within one year including convertible debt	15	(385,656)	(55,512)
Net current assets		254,153	716,272
Total assets less current liabilities		2,024,582	1,985,629
Creditors: amounts falling due after more than one year Convertible debt	16	–	(350,000)
Provision for liabilities and charges	17	(28,800)	(34,633)
Net assets		£1,995,782	£1,600,996
Capital and reserves			
Called up share capital	18	365,950	329,565
Share premium account	19	2,542,589	1,936,474
Profit and loss account	19	(912,757)	(665,043)
Equity shareholders' funds	20	£1,995,782	£1,600,996

Signed on behalf of the board on 21 October 2004

M A Abbott   A D Hindle   } Directors

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 July 2004

1. Accounting policies

(a) Accounting convention

The financial statements are prepared under the historical cost convention, in accordance with applicable Accounting Standards and the Statement of Recommended Practice: Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities published by the Institute of Petroleum on behalf of the U.K. Oil Industry Accounting Committee ("the SORP").

(b) Consolidation

The group's financial statements consolidate the financial statements of Egdon Resources (U.K.) Limited and its subsidiary undertaking, Egdon Resources (New Ventures) Ltd. The results of subsidiaries acquired are consolidated for the periods from which control passed. Acquisitions are accounted for under the acquisition method with goodwill representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being capitalised within intangible assets and amortised over its estimated useful economic life.

(c) Turnover

Turnover represents amounts receivable for oil sales and consultancy services net of VAT and trade discounts and is recognised as the goods and services are provided.

(d) Consortium accounting

The group's exploration and development activities are generally conducted as co-licensee in joint operation with other companies. The financial statements reflect the relevant proportions of capital expenditure and operating costs applicable to the group's interest.

(e) Oil and gas interests

The group financial statements for oil and gas exploration have been prepared on the full cost basis as set out in the SORP.

Licence acquisition costs, geological and geophysical costs, costs of drilling exploration, appraisal and development wells, and an appropriate share of overheads (including appropriate directors' costs) are capitalised and accumulated in full cost pools within tangible fixed assets on a geographical basis.

Costs relating to the exploration and appraisal of oil and gas interests which the directors consider to be unevaluated are initially held outside the cost pool as intangible fixed assets. These costs are reassessed at each year end and when there are indications of impairment or at the conclusion of an appraisal programme the related costs are transferred to the full cost pool within fixed assets. The group's oil and gas assets, currently shown in intangible assets, would be held in two cost pools, the UK and France.

An impairment test is carried out at each balance sheet date to assess whether the net book value of the capitalised costs in each pool is covered by the associated recoverable amount, as outlined in FRS 11 "Impairment of Fixed Assets and Goodwill". Impairment losses are recognised in the profit and loss account.

Depletion is provided on balances held in each pool, plus the expected future costs to extract all commercial oil and gas reserves, using the unit of production method. (Commercial oil and gas reserves are proven and probable oil and gas reserves as defined in the SORP). Depletion is not provided on interests held outside the cost pool.

For material interests, reserve data supplied by operators is used.

(f) **Depreciation of other tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual values of each asset over its expected useful life, as follows:–

Fixtures and fittings	25% straight line
Computer equipment	33% straight line

(g) **Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the end of the financial year. All exchange differences are dealt with in the profit and loss account.

(h) **Investments**

Fixed asset investments are stated at cost less provision for impairment.

(i) **Deferred taxation**

Deferred taxation is provided on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

(j) **Operating leases**

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

(k) **Convertible debt**

Convertible debt instruments are recorded at their fair value net of issue costs.

Finance costs are charged to the profit and loss account at a constant rate of interest on the outstanding amount of debt.

2. Turnover

The turnover of the group for the period has been derived from the sale of oil which has been extracted from wells during the test process. In addition, turnover includes income from consultancy services provided to third parties; this is an adjunct to the principal activity substantially undertaken in the United Kingdom.

Segmental analysis

Turnover by class of business:

	2004	*2003*
	£	*£*
Consultancy	5,195	22,677
Oil sales	28,262	–
	33,457	22,677

All turnover has been to the UK.

3. Operating loss

Operating loss is stated after charging:

	2004	*2003*
	£	*£*
Depreciation of tangible assets	4,048	4,384
Operating lease rentals	20,000	17,986
Auditors' remuneration		
– Audit (including parent company audit of £10,059)	11,559	9,875
– Other (amounts paid to related companies of the auditors)	4,228	3,308

4. Interest receivable

	2004	*2003*
	£	*£*
Interest receivable on money market deposits	£8,628	£26,498

5. Interest payable

	2004	*2003*
	£	*£*
Debenture interest – convertible debt	£35,000	–

6. Taxation

	2004	*2003*
	£	*£*
a) **Domestic current year taxation**		
UK corporation tax	–	–

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

The tax assessed for the period is lower than the standard rate of corporation tax for small companies in the UK 19% (2003 : 19%). The differences are explained below:

	2004	2003
Loss on ordinary activities before taxation	(246,350)	(199,919)
Loss on ordinary activities multiplied by standard rate of corporation tax for small companies in the UK 19% (2003 : 19%)	(46,807)	(37,986)
Expenses not deductible for tax purposes	160	799
Capital allowances in excess of depreciation	(95,816)	(216,818)
Losses carried forward	142,463	254,005
	–	–

c) **Factors that may affect the future tax charge**

The group has trading losses to carry forward of £2,676,318 which may reduce future tax charges.

No provision has been made in these accounts for a potential net deferred tax asset of £171,173 resulting from carry forward trading losses and accelerated capital allowances. A deferred tax asset would only be recognised where there is reasonable certainty that suitable taxable profits will be generated in the future.

7. Employee information

Number of employees

The average monthly number of employees, including executive directors, during the year was:

	2004 Number	*2003 Number*
Management and administration	2	2
Direct labour	1	1
	3	3

Employee costs during the year amounted to:

	2004 £	*2003 £*
Wages and salaries	146,156	173,300
Social security costs	6,402	16,442
	£152,558	£189,742

8. Directors' remuneration

Aggregate remuneration

Directors' remuneration for the year comprised emoluments of £133,500 (2003: £139,500) of which £19,500 was paid to non-executive directors. In addition, £6,500 was paid to Halenika Resources Limited, a company controlled by the Non-Executive Chairman H Garde-Hansen, in respect of professional services provided to the company during the year.

No amounts in respect of directors' emoluments have been capitalised during the current or preceding year. Life policy premiums of £2,896 (2003: £2,896) were paid in respect of executive directors and directors indemnity insurance premiums of £2,280 (2003 : £2,280) were paid in respect of all directors. The company does not currently provide pension arrangements or benefits other than as described above.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name of Director	*1 August 2003*	*Exercised*	*31 July 2004*	*Exercise price*	*Expiry date*
M A Abbott	250,000	–	250,000	12.5p	20 July 2010
	250,000	–	250,000	15p	20 July 2010
	250,000	–	250,000	17.5p	20 July 2010
	250,000	–	250,000	20p	20 July 2010
	50,000	–	50,000	20p	31 July 2004
A D Hindle	250,000	–	250,000	12.5p	20 July 2010
	250,000	–	250,000	15p	20 July 2010
	250,000	–	250,000	17.5p	20 July 2010
	250,000	–	250,000	20p	20 July 2010
	50,000	–	50,000	20p	31 July 2004
H Garde-Hansen	50,000	–	50,000	20p	31 July 2004
K M Ratcliff	50,000	25,000	25,000	20p	31 July 2004
J G R Rix	50,000	50,000	–	20p	31 July 2004
W R Roberts	50,000	50,000	–	20p	31 July 2004

The options are exercisable at any time between the balance sheet date and expiry date detailed above. The market price of the ordinary shares at 31 July 2004 was 27.5p and the range during the year was 17.5p to 44.5p.

Options were exercised as detailed in note 18. Share options expiring on 31 July 2004 as detailed above have lapsed since the year end.

Provision has been made for National Insurance arising on exercise of the above share options of £28,800.

9. Losses attributable to Egdon Resources (U.K.) Limited

The loss for the financial year dealt with in the accounts of Egdon Resources (U.K.) Limited was £247,714 (2003: loss of £197,165). As provided by s230 of the Companies Act 1985, no profit and loss account is presented in respect of Egdon Resources (U.K.) Limited.

10. Intangible fixed assets

Group	*Goodwill* £	*Licence Evaluation Costs* £	*Total* £
Cost			
At 1 August 2003	2,856	1,267,968	1,270,824
Additions	–	613,522	613,522
Disposals	–	(106,000)	(106,000)
At 31 July 2004	2,856	1,775,490	1,778,346
Amortisation			
At 1 August 2003	2,856	–	2,856
Charge for the year	–	–	–
At 31 July 2004	2,856	–	2,856
Net book value			
At 31 July 2004	£ –	£1,775,490	£1,775,490
At 31 July 2003	£ –	£1,267,968	£1,267,968

Goodwill relates to acquisition of shares in Egdon Resources (New Ventures) Ltd. This was fully written off in the year ended 31 July 2000.

Company	*Licence Evaluation Costs* £
Cost	
At 1 August 2003	1,261,741
Additions	610,352
Disposals	(106,000)
At 31 July 2004	1,766,093

Company	*Licence Evaluation Costs* £
Amortisation	
At 1 August 2003	–
Charge for the year	–
At 31 July 2004	–
Net book value	
At 31 July 2004	£1,766,093
At 31 July 2003	£1,261,741

The company's unevaluated oil and gas interests at 31 July 2004 are its equity interests in licences in onshore and offshore U.K., and through its wholly owned subsidiary Egdon Resources (New Ventures) Ltd, onshore France. These interests are summarised as follows:

Egdon Resources (U.K.) Limited

Onshore U.K.

	Licence No.	*Operator*	*Gross Area km2*	*Gross Area Acres*	*Egdon Interest*
1	PEDL048	Egdon Resources (U.K.) Limited	30	7,413	45.00%
2	PL090	Egdon Resources (U.K.) Limited	202	49,855	45.00%
3	PEDL068	Sterling Resources (U.K.) Limited	498	122,992	20.00%
4	PEDL069	Sterling Resources (U.K.) Limited	355	87,671	33.33%
5	PEDL070	Pentex Oil UK Limited	100	24,710	20.00%
6	PEDL071	Egdon Resources (U.K.) Limited	240	59,304	50.00%
7	PEDL072	Egdon Resources (U.K.) Limited	107	26,435	45.00%
8	PEDL110	Sterling Resources (U.K.) Limited	100	24,710	33.33%
9	PEDL128	Egdon Resources (U.K.) Limited	195	48,185	100.00%
		Sub Total	1,827	451,275	

Offshore U.K.

	Licence No.	*Operator*	*Gross Area km2*	*Gross Area Acres*	*Egdon Interest*
10	42/26	RWE Dea UK Limited	243	59,996	10.00%
11	42/27	RWE Dea UK Limited	243	59,996	10.00%
		Sub Total	486	119,992	

Egdon Resources (New Ventures) Ltd

Onshore France

	Licence No.	*Operator*	*Gross Area km2*	*Gross Area Acres*	*Egdon Interest*
12	St Laurent	Egdon Resources (NV) Ltd	1,230	303,933	42.85%
		Sub Total	1,230	303,933	
			km2	*Acres*	
		Total	3,543	875,200	

The company has a 20% interest in PEDL068, of which 10% is carried and therefore it only bears 10% of the costs. The Company bears its equity share of costs on all other licences.

Gross Over-riding Royalties are payable by Egdon as follows (expressed as a percentage of total production from each licence);

To Bow Valley Petroleum (UK) Limited
Production from below the Jurassic: PL090 (2.083%), PEDL072 (1.875%), PEDL048 (2.25%)
Production from the Jurassic or above: PL090 (1.25%), PEDL072 (1.125%), PEDL048 (1.35%)

To Yates Company (UK)
PL090 (0.917%)

To YCI Resources Limited
Production from below the Jurassic: PEDL072 (0.4585%)
Production from the Jurassic or above: PEDL072 (0.2751%)

Gross Over-riding Royalties are receivable by Egdon as follows (expressed as a percentage of total production from each licence):

From Dorset Exploration Limited
Production from below the Jurassic: PL090 (0.59%), PEDL072 (0.5%), PEDL048 (0.5%)
Production from above the Jurassic: PL090 (0.426%), PEDL072 (0.3%), PEDL048 (0.3%)

The directors have fully considered and reviewed the potential value of these licences. The directors have also considered the likely opportunities for realising the value of the licences, either by the farm-out of the asset leading to the development of the discovery or by the disposal of the assets, and have concluded that the likely value is in excess of net book value.

11. Tangible fixed assets

Group and Company	*Fixtures & fittings* £	*Computer equipment* £	*Total* £
Cost			
At 1 August 2003	4,686	20,868	25,554
Additions	–	768	768
At 31 July 2004	4,686	21,636	26,322
Depreciation			
At 1 August 2003	3,297	14,817	18,114
Charge for the year	537	3,511	4,048
At 31 July 2004	3,834	18,328	22,162
Net book value			
At 31 July 2004	£852	£3,308	£4,160
At 31 July 2003	£1,389	£6,051	£7,440

12. Fixed asset investments

Company	*Shares in subsidiary undertakings* £
At 1 August 2003 and 31 July 2004	176

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	*Country of Registration or Incorporation*	*Class*	*Shares held %*
Subsidiary undertakings			
Egdon Resources (New Ventures) Ltd	England	Ordinary	100

This subsidiary is involved in oil and gas exploration.

13. Debtors

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£	*£*	*£*	*£*
Amounts falling due within one year:				
Trade debtors	29,099	27,414	28,747	19,694
Amounts owed by subsidiary undertakings	–	–	28,865	28,865
Other debtors	7,683	10,109	7,757	8,462
Prepayments and accrued income	33,875	57,430	33,875	57,430
	£70,657	£94,953	£99,244	£114,451

Prepayments include a rent deposit of £17,625 which would be repayable on termination of the premises lease as detailed in note 21. The loan to the subsidiary company is interest free, unsecured and there are no fixed terms for repayment.

14. Current asset investments

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£	*£*	*£*	*£*
Money market deposits	£ –	£250,584	£ –	£250,584

15. Creditors: amounts falling due within one year

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£	*£*	*£*	*£*
Trade creditors	12,292	30,803	12,292	30,803
Other taxes and social security	6,673	7,079	6,673	7,079
Accruals and deferred income	17,941	18,880	16,691	17,630
Convertible debt	350,000	–	350,000	–
	£386,906	£56,762	£385,656	£55,512

During the year ended 31 July 2003, the Company issued a convertible unsecured debenture with a face value of £350,000 in favour of Bow Valley Petroleum (UK) Limited as part of the consideration payable for Bow Valley's interest in licences PEDL048, PEDL072 and PL090 and the associated assets. The debenture carries interest at £3,500 per month commencing 31 October 2003, and running up to 31 December 2004, at which date the debenture is automatically converted into 1,627,907 1p ordinary shares. At Bow Valley's option, the debenture can be converted into 1,627,907 1p ordinary shares in advance of the December 2004 expiry date. The Company retains the right to redeem the debenture for cash at face value within the same time frame.

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

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£	*£*	*£*	*£*
Convertible debt	£–	£350,000	£–	£350,000

17. Provision for liabilities and charges

	National Insurance on Share options
	£
At 1 August 2003	34,633
Provision reversed during the year	(4,633)
Provision used on share options exercised	(1,200)
At 31 July 2004	28,800

The options are exercisable at any time between the balance sheet date and the expiry date as disclosed in note 8. The provision has been calculated using the Employer's National Insurance rate ruling at the balance sheet date.

There are no liabilities or charges as at 31 July 2004 other than those provided for in these financial statements.

18. Called up equity share capital

	2004	*2003*
	£	*£*
Authorised:		
42,500,000 (2003: 40,000,000) ordinary shares of 1p each	£425,000	£400,000
Called up, allotted and fully paid		
36,594,974 (2003: 32,956,460) ordinary shares of 1p each	£365,950	£329,565

On 10 March 2004, the authorised share capital was increased to £425,000 by the creation of 2,500,000 ordinary shares of 1p each.

During the year the allotted share capital was increased by 3,638,514 1p ordinary shares with an aggregate nominal value of £36,385 as follows:

On 6 January 2004, following the exercise of directors' share options, the company allotted 75,000 1p ordinary shares for cash consideration of 20p per share. The aggregate nominal value of the shares was £750 and the total cash consideration received was £15,000, a premium of 19p per share.

On 17 March 2004, the company allotted 3,513,514 1p ordinary shares for cash consideration of 18.5p per share, a premium of 17.5p per share. The aggregate nominal value of the shares was £35,135 and the total cash consideration received was £650,000.

On 22 July 2004, following the exercise of directors' share options, the company allotted 50,000 1p ordinary shares for cash consideration of 20p per share, a premium of 19p per share. The aggregate nominal value of the shares was £500 and the total cash consideration received was £10,000.

In 2003 in payment of their fees the brokers Williams de Broë received an amount equal to 2% of the value of the private placement and warrants to subscribe for a total of 146,000 1p ordinary shares at a price of 26.5p per share. The warrants can be exercised at any time up to 30 December 2005.

During the current year, in payment of their fees, Williams de Broë received an amount equal to 5% of the value of the placement.

19. Reserves

	Share Premium account £	*Profit and loss account* £	*Total* £
Group			
At 1 August 2003	1,936,474	(675,183)	1,261,291
On shares issued in the year	638,615	–	638,615
Share issue costs	(32,500)	–	(32,500)
Loss for the year	–	(246,350)	(246,350)
At 31 July 2004	£2,542,589	(£921,533)	£1,621,056
Company			
At 1 August 2003	1,936,474	(665,043)	1,271,431
On shares issued in the year	638,615	–	638,615
Share issue costs	(32,500)	–	(32,500)
Loss for the year	–	(247,714)	(247,714)
At 31 July 2004	£2,542,589	£(912,757)	£1,629,832

20. Reconciliation of movements in shareholders' funds

	2004 £	*2003* £
Group		
Loss for the year	(246,350)	(199,919)
New shares issued (net)	642,500	526,750
Movement in shareholders' funds	396,150	326,831
Opening shareholders' funds	1,590,856	1,264,025
Closing shareholders' funds	£1,987,006	£1,590,856
Company		
Loss for the year	(247,714)	(197,165)
New shares issued (net)	642,500	526,750
Movement in shareholders' funds	394,786	329,585
Opening shareholders' funds	1,600,996	1,271,411
Closing shareholders' funds	1,995,782	1,600,996

21. Financial commitments

At 31 July 2004, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	*2003*
	£	*£*
Expiring within 1 year	£20,000	–
Expiring within 2-5 years	–	£20,000

The company has served notice on their present lease, which will run until the end of December 2004.

22. Related party transactions

During the year, Egdon Resources sold a 10% interest in PL090, PEDL072 and PEDL048 to Dorset Exploration Limited a company in which J G R Rix, a non-executive director, is Chairman and Managing Director. The consideration for the transfer of the interest was £106,000. Subsequently Dorset Exploration Limited has paid £106,068 in respect of its share of costs for licences PL090, PEDL072 and PEDL048.

There are no amounts outstanding at the year end.

23. Post balance sheet events

On 15 September 2004, Egdon was awarded seven licences in the 12th Landward Round of Licensing. The new Petroleum Exploration and Development Licences (PEDL's) cover eleven ten kilometre square blocks or part blocks. These licences are summarised below.

		Approx. Gross Area		*Egdon*
Licence No.	*Operator*	*km2*	*Acres*	*Interest*
PEDL138	Pentex Oil and Gas Limited	45.00	11,120.00	50.00%
PEDL139	Pentex Oil and Gas Limited	100.00	24,710.00	25.00%
PEDL140	Pentex Oil and Gas Limited	130.00	32,123.00	50.00%
PEDL141	Egdon Resources (U.K.) Limited	100.00	24,710.00	96.00%
PEDL142	Egdon Resources (U.K.) Limited	95.00	23,475.00	50.00%
PEDL143	Europa Oil and Gas Limited	80.00	19,768.00	20.00%
PEDL144	Egdon Resources (U.K.) Limited	300.00	74,130.00	96.00%
		850.00	*210,035.00*	

On 21 October 2004, Mr Garde-Hansen retired as non-executive Chairman and was replaced by Mr Philip Stephens.

24. Earnings per share

	2004	*2003*
Net loss for the financial year	£(246,350)	£(199,919)
Basic weighted average ordinary shares in issue during the year	34,315,615	31,174,511
	Pence	*Pence*
Basic loss per 1p ordinary share	(0.72)	(0.64)

POST ACCOUNTS ACTIVITY

On 15th November 2004, the authorised share capital of the Company was increased to £900,000 divided into 90,000,000 ordinary shares of 1p each. Also on 15th November 2004, Shareholders passed a resolution approving the cancellation of the Company's share premium account, which stood at £2,542,589 as at 31st July 2004. This cancellation became effective on 8th December 2004 following the registration of an order of the High Court of Justice of England and Wales with the Registrar of Companies in England and Wales. Upon the cancellation becoming effective, the Company's share premium account has been reduced to nil, the deficit on the Company's profit and loss account of £1,197,828 at 7th December 2004 has been eliminated and a positive reserve of £1,344,761 has been created.

On 16th November 2004, the Company exercised an option to acquire an additional 18.40% interest in the PEDL143 licence from Altwood Petroleum Limited. In return for this interest, Egdon will pay the costs of Altwood in a future agreed work programme for its remaining 1.60% interest. Subject to Department of Trade and Industry approval, Egdon's working interest will increase to 38.4%.

On 2nd December 2004, Bow Valley Petroleum (UK) Limited ("Bow Valley") and the Company agreed to extend the expiry date under the terms of the Convertible Debenture until 31st January 2005. In addition, the parties agreed that the Company can redeem the Convertible Debenture at any time prior to 31st January 2005 by giving not less than 10 calendar days' notice. In consideration for this amendment, the Company agreed to pay Bow Valley £25,000 plus accrued interest which will be payable by 31st January 2005.

On 13th December 2004, Egdon Resources (U.K.) Limited re-registered under the Companies Act 1985 as a public limited company ("Plc") and is now incorporated under the name Egdon Resources Plc.

On 21st December 2004, the Company completed a placing of 16,666,666 shares at 30p per share. Of these 15,000,000 were new Ordinary shares, resulting in gross funds receivable by the Company of £4,500,000. Net proceeds of the placing receivable by the Company are estimated to be £3,990,000. Following the placing the number of issued and fully paid shares increased to 51,594,974. On the same day, the Ordinary Shares of the Company were admitted to the Alternative Investment Market.

The interests of the Directors in the share capital of the Company which (i) have been notified to the Company pursuant to section 324 or 328 of the Act, or which (ii) are required to be entered in the register of directors maintained under the provisions of section 325 of the Act, or which are interests of a person connected (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director, were as follows immediately following Admission:

Director	*Number*	*Percentage of issued ordinary share capital*
Philip Stephens	100,000	0.19%
Mark Abbott	6,684,806	12.96%
Andrew Hindle	6,594,232	12.78%
Kenneth Ratcliff	25,000	0.05%
John Rix	1,076,333	2.09%
Walter Roberts	526,750	1.02%
Total	15,007,121	29.09%

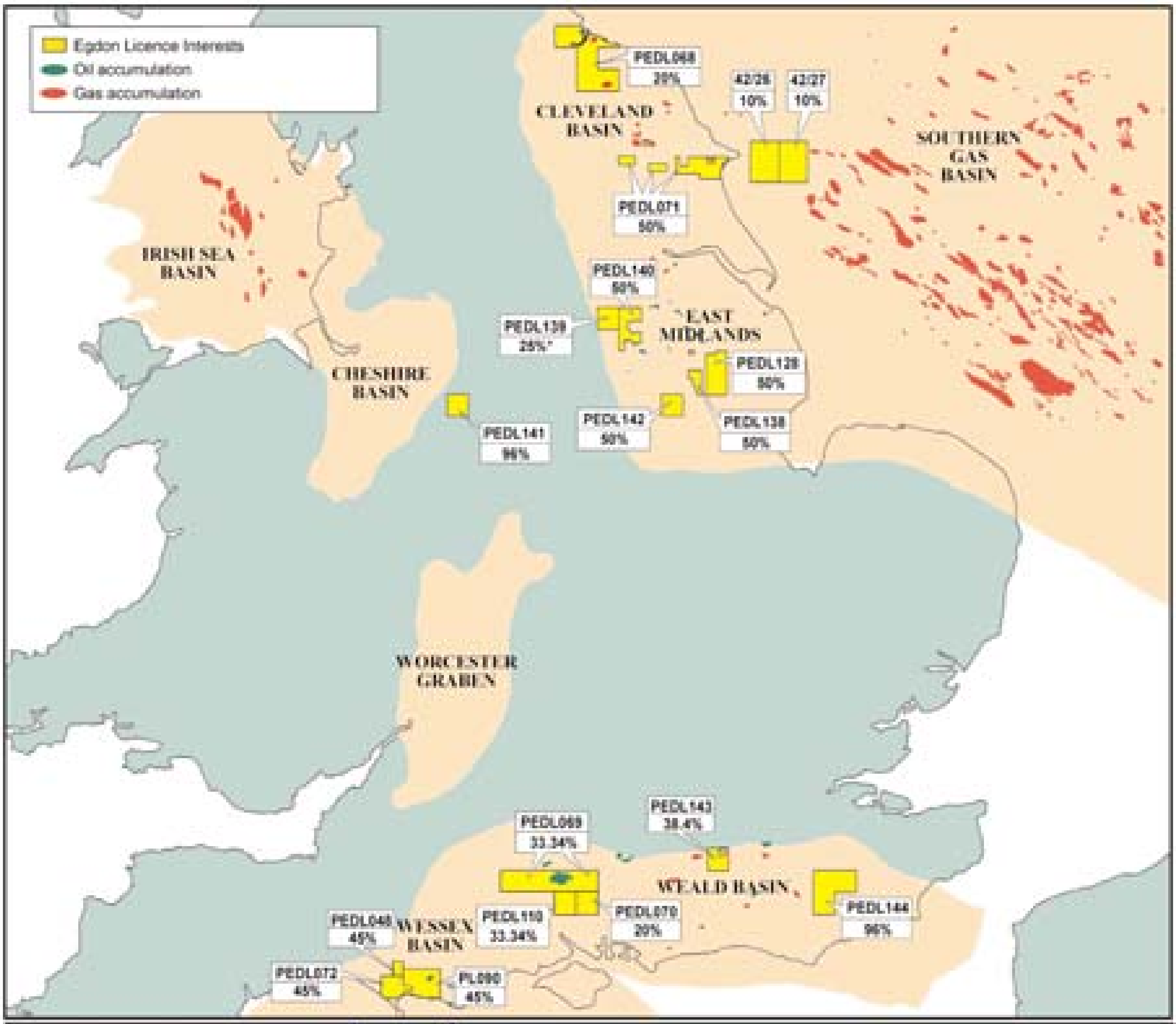
Following Admission the beneficial shares held by the Directors totalled 15,007,121 of the total issued number of Egdon Resources Plc Ordinary Shares (29.09 per cent.).

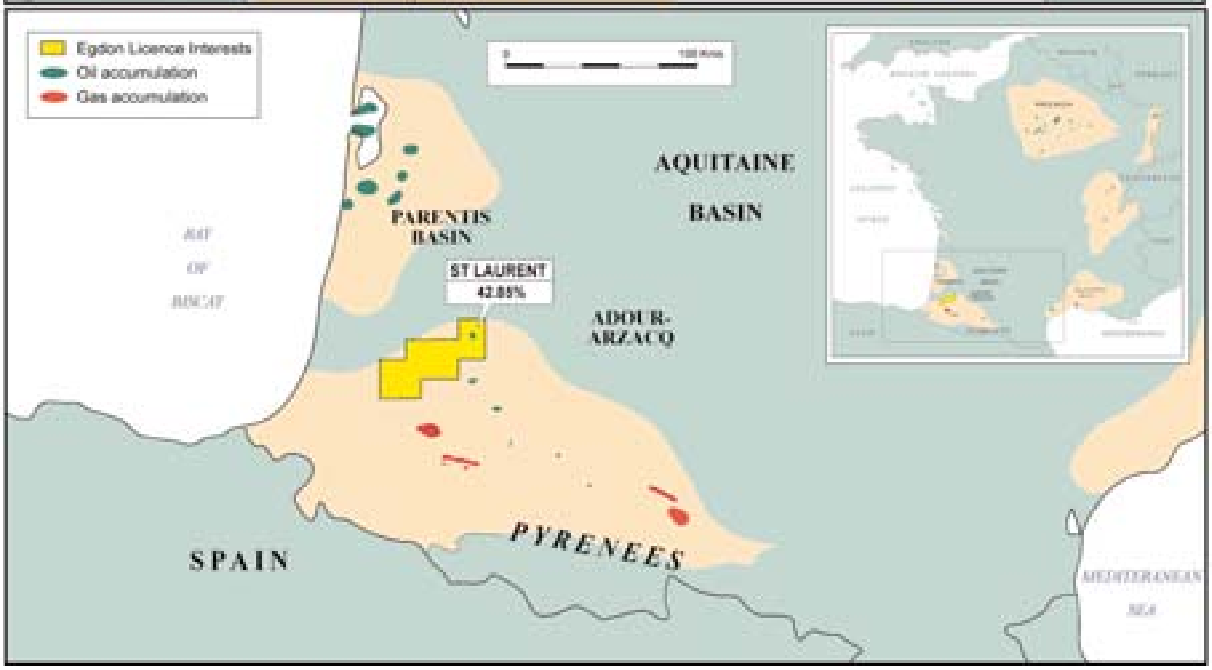
DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

"Act"	the Companies Act 1985 (as amended)
"Admission"	admission of the issued and to be issued share capital of the Company to trading on the AIM market of the London Stock Exchange
"API"	American Petroleum Institute
"Board" or "Directors"	the board of Directors of the Company from time to time
"bopd"	barrels of oil per day
"BP"	BP p.l.c.
"Bscf"	billion standard cubic ft
"Company" or "Egdon"	Egdon Resources Plc
"Contingent Resources"	are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable
"Directors"	the directors of the Company whose names are set out on page 5 of this document
"DST"	drill stem test
"Elf"	the France based oil and gas exploration company now operating within the 'Total' network of energy companies
"EWT"	extended well test
"Group"	the Company and its subsidiary
"km"/"km^2"	kilometres/square kilometres
"Low-, Best-, High-estimate"	The term "Best Estimate" is used here as a generic expression for the estimate considered to be the closest to the quantity that will actually be recovered from the High-Estimate accumulation between the date of the estimate and the time of abandonment. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms "Low Estimate" and "High Estimate" should provide a reasonable assessment of the range of uncertainty in the Best Estimate
"m"	metre
"MMscf"	millions of standard cubic ft
"MMscf/d"	millions of standard cubic ft per day
"MMstb"	millions of stock tank barrels
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Possible reserves"	are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves. In this context, when probabilistic methods are used, there should be at least a 10 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves
"Probable reserves"	are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.
"Prospect"	a specific un-drilled hydrocarbon trap which has been identified and sufficiently defined for potential hydrocarbon volumes and geological risks to be estimated
"Prospective Resources"	are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations
"Proved reserves"	are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 per cent. probability that the quantities actually recovered will equal or exceed the estimate
"Reserves"	are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward
"RPS Troy-Ikoda"	Troy-Ikoda Limited, The Coach House, 90 Alma Road, Windsor, Berkshire SL4 3ET
"Shareholder"	a holder of Ordinary Shares
"Shell"	the Royal Dutch/Shell group of companies
"Unrisked"	when referring to undiscovered hydrocarbon in place or Prospective Resources associated with a Prospect, volumes which have not been reduced to account for the geologic probability of encountering hydrocarbon in the that Prospect. When referring to Contingent Resources, volumes which have not been reduced to account for the probability of commercial development.
"3P"	proven plus probable plus possible reserves

NOTES





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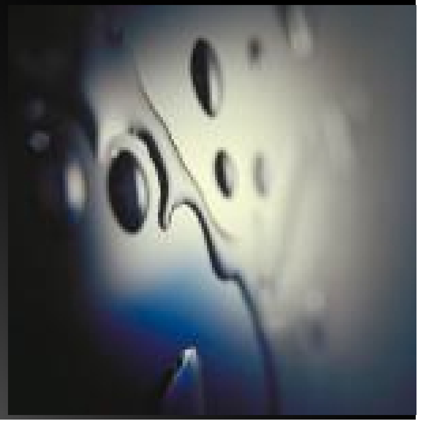

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