



Monitor Oil PLC

Financial Year 2007 Report

General Information

Monitor Oil PLC (a company incorporated under the laws of the Cayman Islands) ("Monitor" or the "Company") is an oil and gas service group providing innovative and cost-efficient solutions for oilfield development, production and decommissioning. Together with its subsidiary companies (the "Group"), Monitor has developed a portfolio of proprietary offshore solutions associated with production facilities and production management. The Group currently pursues business opportunity in three areas:

Oil and Gas Production Solutions – The Company's Oil and Gas Production Solutions provide production solutions to third-party oil producers across the spectrum of satellite and marginal field development opportunities. These technologies include autonomous buoy technology, unique minimum facility platforms, subsea tie-backs, and floating product storage and offloading vessels.

Offshore Solutions – The Company's Offshore Solutions provide decommissioning, installation, accommodation and construction support, and oil production services to oil and gas companies. This division is primarily focused on the construction of a proprietary single-lift vessel. The Company expects to use the single-lift vessel for decommissioning, facilities installation and construction, accommodation support and oil production purposes.

Engineering Services – The Company's Engineering Services provide oil and gas companies with a broad range of technical services, including conceptual engineering.

Company Update

On November 21, 2007 the Company and two of its subsidiaries, Monitor Single Lift 1, Ltd. and Monitor US FinCo, Inc., filed voluntary Chapter 11 petitions for reorganization under the U.S. Bankruptcy Code. This action was taken by the Company to preserve value in the Company's material assets. The Company is provided debtor-in-possession financing within the Chapter 11 process in order to allow restructuring opportunities to be considered and if approved by creditors and the court, taken forward.

In addition, Monitor Producer 1, Ltd, Zenocean Ltd and Monitor Offshore Systems Ltd filed for an Administration petition in November 2007.

The Board is developing a reorganization plan that will allow the Company to realize the value of the Company's assets. To implement this plan, the Board is focused on reducing costs, resolving certain disputes related to intellectual property rights, selling certain assets that are not essential to the Company's long term strategy and enhancing the Company's ability to raise additional capital.

2007 Business Activities

The Group owns a portfolio of intellectual property ("IP Portfolio"), including patents and designs related to the autonomous buoy technology, unique minimum facility platforms, subsea tie-backs, and floating product storage and offloading vessels and the single lift vessel. The Company's management team believes that the IP Portfolio offers a basis for substantial growth and represents significant value to the Company.

Power Buoy

The Power Buoy is designed to provide remote offshore power generation of over 4 megawatts and would be capable of providing power to a variety of surface and subsea production equipment. In 2006, the Company contracted with various third parties for the fabrication of the Power Buoy and the gravity base for the Power Buoy. The gravity base was built by Harland & Wolff in Belfast and floated out of the dry dock in September 2006. During 2007, the contract with R&M Engineering Ltd., the main construction contractor of the Power Buoy, was terminated. Currently, the Power Buoy is 95% complete. Although the Company had a contract with Canadian Natural Resources ("CNR") pursuant to which CNR had agreed to lease the Power Buoy for four years with an option to extend such lease for up to an additional six years, this agreement was subsequently terminated. The Company intends to acquire the Power Buoy out of the Scottish Administration, complete construction and pursue new commercial opportunities to sell or lease the Power Buoy.

Single-Lift Vessel

In an effort to capitalize on increasing demand for installation and decommissioning services, the Group, through its wholly-owned subsidiary, Monitor Single Lift 1, Ltd. ("MSL 1") began construction of a Single Lift Vessel ("SLV"), which would be the first heavy lift marine vessel using advanced semi-submersible technologies. MSL 1 acquired title to and all proprietary rights to the design of the SLV in February 2004 from Global Maritime AS ("GM"). Once completed, the SLV is expected to be capable of decommissioning, facilities installation, construction, accommodation support and oil production activities with respect to offshore oil and/or gas structures and other large offshore structures.

MSL 1 entered into various contracts in connection with the construction of the SLV including a construction contract with Yantai Raffles Shipyard Ltd. and an equipment supply contract with a consortium led by Siemens AS and including Wärtsilä Finland OY and Kongsberg Maritime AS for the supply of propulsion and power equipment.

Monitor Offshore Systems AS, a wholly-owned subsidiary of the Company, participated in a bidding process for a contract with ConocoPhillips for the use of the SLV for the decommissioning of certain platforms in the Ekofisk Field in the North Sea. Monitor was one of two final bidders (originally five) for the Ekofisk decommissioning contract but was notified by ConocoPhillips on November 1, 2007 that it had not been selected.

Corporate Developments and Other Arrangements

Board of Directors

A shareholder group that asserted that their combined holding of Monitor shares exceeded 50 percent requested a shareholder meeting to elect two new Directors to the Company. At the meeting, January 9, 2007, the shareholders approved the election of Sverre Hanssen and Jakob Iqbal to the Board as non-executive directors. Jeffrey Jarman informed the Company that he was retiring as a member of the Board. An additional request for a shareholder meeting was made by the same shareholder group and another extraordinary general meeting was held in March 2007. Jan Magne Heggelund and Arnt Hana were elected to the Board as non-executive directors replacing Morten Tronstad. Subsequently, non-executive directors Andrew Morton and Anthony Vlasto resigned in May 2007 and June 2007 respectively. These actions constituted a change of control of the Board of Directors of the Company.

At a board meeting on September 11, 2007, Jan Magne Heggelund was elected new chairman of the board, succeeding Bjorn Aaserod.

On March 19, 2008, the shareholders of Monitor elected a new board of directors consisting of Bjorn Aaserod, Ole Johan Olsen, Odd Harald Hauge and David Lynch. The board subsequently elected Mr. Aaserod to service as the executive chairman as well as the CEO of the Company. The new board has been tasked with developing a reorganization plan that will allow the Company to realize the value in the Company's assets, reaching an accommodation with its creditors and exiting the Chapter 11 process.

Legal Actions

The Board of Directors have been advised of certain breaches of contract by GM and ManCorp related to the SLV and that the best interest of the Company would be served by initiating legal action against these parties. The Company and its advisers are considering the merits of certain other potential legal actions.

Financings

SLV Credit Facility

In January 2007, the Company's wholly-owned subsidiary Monitor Single Lift 1, Ltd. ("MSL 1") closed a \$200 million credit facility with Credit Suisse Securities (USA) LLC (the "SLV Credit Facility"). The SLV Credit Facility consisted of a \$120 million first lien tranche and an \$80 million second lien tranche. The SLV Credit Facility was available to finance the costs of construction, completion, testing, transportation and commissioning of the SLV. In connection with the SLV financing, the Company issued to the lenders 6,877,226 warrants to purchase 6,877,226 shares of ordinary stock of the Company at an exercise price of \$0.01 per share. Under the terms of the SLV Credit Facility, the Borrowers were initially able to access \$20 million prior to raising additional equity. During 2007, Monitor repaid the \$120 million first lien tranche from an associated restricted cash escrow account.

Bond Financing

In March 2007, the Company closed a 5-year Senior Secured Bond Loan with a total loan amount of \$50 million through a private placement, which was arranged by Pareto Securities ASA (the "Bond Loan"). The Bond Loan matures in March 2012 and was intended to be secured by a priority mortgage or other security interest in the Power Buoy after its completion. The proceeds of the Bond Loan are intended to be used for the ongoing construction of the SLV, the Power Buoy, working capital and general corporate purposes.

As a result of the delays in the construction of the Power Buoy and the cancellation of the contract with CNR, the Company and the Bondholders agreed to certain amendments to reflect the present circumstances which were confirmed in a bondholders' meeting on October 22, 2007. The amendments include (i) an increase of the interest margin from 1,400 basis points to 1,900 basis points over LIBOR (ii) the grant of a put-option, if required by 50% or more of the aggregate bondholders, and (iii) an engagement with a debt restructuring advisor.

Oslo Stock Exchange

The Company received a conditional approval in March 2007 for listing from the board of the Oslo Bors. Monitor announced in May 2007 that the listing had been postponed.



Consolidated Financial Statements for Year-Ended December 31, 2007

Monitor Oil PLC
Unaudited Consolidated Income Statement
(In USD 000's)

	<u>Year ended</u> <u>12-31-07</u>	<u>Year ended</u> <u>12-31-06</u>
Revenues	1,112	7,803
Cost of sales	<u>(1,367)</u>	<u>(6,985)</u>
Gross profit	(255)	818
Administrative costs	<u>(11,486)</u>	<u>(13,252)</u>
Operating loss	(11,741)	(12,434)
Finance income	8,382	695
Finance expense	(15,775)	(277)
Other income / (expense)	<u>2,411</u>	<u>(1,841)</u>
Loss before tax	(16,724)	(13,857)
Income tax	-	-
Net loss	<u>(16,724)</u>	<u>(13,857)</u>
Net loss per share - Basic	<u>(\$0.53)</u>	<u>(\$0.58)</u>
Net loss per share - Diluted	<u>(\$0.44)</u>	<u>(\$0.58)</u>

Consolidated Financial Statements for Year-Ended December 31, 2007 (cont'd)
Monitor Oil PLC
Unaudited Consolidated Balance Sheet
(In USD 000's)

	<u>As at</u> <u>12-31-07</u>	<u>As at</u> <u>12-31-06</u>
Cash and cash equivalents	1,211	3,852
Restricted cash	51,798	4,335
Accounts receivable	138	901
Other current assets	-	3,777
Current assets:	<u>53,147</u>	<u>12,865</u>
Tangible assets	22,642	32,353
Intangible assets	38,911	15,620
Note receivable from MP1	53,617	-
Financing costs	7,215	-
Non-current assets:	<u>122,385</u>	<u>47,973</u>
Total assets	<u>175,532</u>	<u>60,838</u>
Current portion of borrowings	132,719	1,193
Accruals and other creditors	9,905	4,597
Accounts payable	3,593	3,150
Other current liabilities	-	905
Current liabilities	<u>146,217</u>	<u>9,845</u>
Long-term borrowings	-	1,477
Non-current liabilities	<u>-</u>	<u>1,477</u>
Total liabilities	<u>146,217</u>	<u>11,322</u>
Share capital	31,375	30,862
Share premium	82,070	81,897
Retained losses	(95,794)	(62,946)
Share warrants	11,664	-
Translation adjustments	-	(297)
Shareholders' equity	<u>29,315</u>	<u>49,516</u>
Total shareholders' equity & liabilities	<u>175,532</u>	<u>60,838</u>

Consolidated Financial Statements for Year-Ended December 31, 2007 (cont'd)

Monitor Oil PLC Unaudited Consolidated Cash Flow Statement (in USD 000's)

	<u>Year ended</u> <u>12-31-07</u>	<u>Year ended</u> <u>12-31-06</u>
Cashflow from operating activities	(6,978)	(12,701)
Cashflow from investing activities	(48,371)	(39,071)
Cashflow from financing activities	51,194	55,909
Net cashflow in the period	<u>(2,155)</u>	<u>4,137</u>
Cash and cash equivalents – beginning of period	3,366	(771)
Cash and cash equivalents – end of period	1,211	3,366

Unaudited Consolidated Statement of Movement in Equity (in USD 000's)

	<u>Year ended</u> <u>12-31-07</u>	<u>Year ended</u> <u>12-31-06</u>
Result in period	(16,724)	(13,857)
Issue of share capital	757	65,012
Issue of warrants	11,664	-
Translation adjustments	-	(53)
Net impairments	<u>(15,898)</u>	<u>-</u>
Net change in equity in the period	<u>(20,201)</u>	<u>51,102</u>
Shareholders' equity (deficit) – beginning of period	49,516	(1,586)
Shareholders' equity (deficit) – end of period	29,315	49,516

Consolidated Financial Statements for Year-Ended December 31, 2007 (cont'd)

Notes to 2007 Year-End Financial Statements

1. Basis of presentation

The annual accounts of Monitor Oil PLC ("Monitor") for 2007 are prepared by management in accordance with International Financial Reporting Standards (IFRS) and are unaudited.

2. Deconsolidation of entities

During 2007, certain of Monitor's subsidiaries entered into administrative proceedings in the UK and Scotland, and consequently, are no longer owned by Monitor.

Zenoccean Ltd. is a former Monitor subsidiary that performed engineering services both for the Monitor group and for third-parties. Zenoccean's operating activities during 2007 have been excluded from annual financial presentation. Zenoccean held no material assets or liabilities, and trade accounts substantially offset. At year-end, Monitor impaired approximately \$7.2 million of goodwill associated with the original purchase of Zenoccean.

Monitor Producer 1 Ltd. is a former Monitor subsidiary established to procure equipment & services and construct an offshore power buoy. MP1's operating activities during 2007 have been excluded from annual financial presentation. During 2006 & 2007, Monitor advanced cash to MP1 periodically for settlement of trade accounts. Monitor's cash advances to MP1 have historically been evidenced through an inter-company note receivable/payable, which offset in consolidation of accounts. At year-end 2007, the note payable balance was approximately \$53.6 million. Monitor's year-end 2007 financial presentation reclassifies the MP1 note payable as an external note receivable to Monitor. The balancing tangible asset and trade payable accounts were eliminated.

Monitor Offshore Systems Ltd. is a former subsidiary that provided management services to the Monitor group. MOS's operating activities during 2007 have been excluded from annual financial presentation. MOS held no material assets or liabilities at year-end 2007.

3. Reclassification of Single Lift Vessel (SLV)

Monitor and its subsidiaries associated with the SLV are currently in Chapter 11 bankruptcy proceedings in the US. At year-end 2007, Monitor carried a tangible asset value related to the SLV of approximately \$64.6 million. Construction activities related to the SLV are halted. The year-end 2007 financial presentation reclassifies the book value of the SLV as \$19.5 million of tangible asset value and approximately \$36.0 million of intangible asset value. The balance of the SLV tangible asset value not reclassified represents capitalized interest and was written off in a closing adjustment.

4. Borrowings

In January 2007, Monitor's SLV subsidiaries entered into a \$200 million funded credit arrangement to finance construction of the SLV. Pursuant to Monitor's, Chapter 11 proceedings \$120 million was repaid to first lien lenders out of a restricted cash escrow account. Monitor's year-end 2007 borrowing balance of \$132.7 million includes \$80 million remaining balance associated with the SLV credit facility and \$50 million of parent bond loan. Monitor's restricted cash balance associated with the borrowing arrangements totaled \$51.7 million at year-end 2007, including \$47.5 million associated with the SLV credit facility and \$4.2 million associated with the parent bond loan.