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CHAIRMAN'S STATEMENT

Things are getting better in Iraq. There is progress, but it is slow. Petrel, which has worked in Iraq since 1999, intends to be part of the future development of Iraqi oil. We continue to work on three projects, the Subba & Luhais engineering and procurement project, the Dhufriya technical cooperation agreement and the Block 6 exploration territory in the Western Desert. We have recently completed the Merjan technical evaluation.

It is worth restating why we are in Iraq. It has vast quantities of quality oil, which can be extracted at low cost. Reserves in Iraq are estimated at 115 billion barrels but informed observers expect this figure to rise to 300 billion with exploration – a figure which matches Saudi reserves, the world's biggest.

It would be stating the obvious that Iraq presents a challenging environment. The country is capable of producing 10 million barrels of oil a day, enough to make a significant impact on the projected deficit in world supply, yet it is struggling to get back to pre-invasion levels of output. The reason is partially the ongoing security situation, partially the time taken to rebuild Ministry of Oil staff, but, overwhelmingly, the cause is on-going protracted political negotiations to gain control of perceived and real oil wealth.

An example of this is the inability of the political parties to agree a hydrocarbon law which will enable development of known resources. Having forged a compromise between many Sunni and Shia groups, the politicians have found it difficult to include the Kurdish North. As time goes on the problem has gotten worse with the Kurdish leaders signing exploration and development agreements with some Western companies. This is in direct defiance of the Baghdad authorities' sovereignty. The longer this goes on, the more entrenched the Kurdish position becomes and other factions see opportunities to do something similar. Petrel deals and will only deal with the Government of the Republic of Iraq in Baghdad.

High oil prices are only adding to the problem of agreeing an oil strategy. Iraqis see the positions taken by their Arab brethren in surrounding countries, listen to the rhetoric of oil leaders such as Hugo Chavez and want their leaders to be just as tough. There is a huge difference between expectation and reality. Iraq remains a war zone, you cannot send personnel into the country, many parts are no go areas, even in the stable South. Locals rarely see or understand how outsiders see political risk. Until it is relatively safe to send in people and until there is a good expectation of proper title there will be little or no oil development in Iraq.

However, the political and security positions are getting better, so terms and title become more important. While awaiting the formation of a new hydrocarbon law, legislators have indicated that they will negotiate agreements under the terms of the current law in existence, the pre-invasion law. Petrel negotiated their Block 6, unsigned exploration agreement in 2002 under the terms of this law and so we are happy enough to proceed on this basis. There has been comment on the list of 35 preferred bidders for service contracts to develop some of the super major fields in Iraq. Petrel is not on this list. This is not surprising. Petrel is already working with the authorities in Iraq and the list contained only major oil producers.

Turning now to our projects; the Subba and Luhais Engineering and Production Contract (EPC) to assist in the construction of a 200,000 barrel a day oil field in Southern Iraq is almost 50% completed. This contract, where Petrel is a contractor, with no ownership interest, was due for completion in 2010. Revisions to the production layout, design changes and adaptations have delayed matters. So too have payment delays. Significant sums are outstanding to the Petrel Makman joint venture. Discussions are ongoing.

The Merjan Technical agreement has, in recent weeks been successfully completed. With our partner Itochu of Japan, the study was concluded to the satisfaction of the Iraqi authorities. As a result, we were offered an additional agreement, to evaluate the Dhufriya field. Dhufriya is a substantial oil and gas field near Kut in South Central Iraq. Petrel will gather all available data on this field, reprocess it and reinterpret the data to identify

CHAIRMAN'S STATEMENT

development strategies. The study should be finished in early 2009. The position in relation to our Block 6 exploration project, in the Western Desert, was discussed with the authorities in recent months but no work has been carried out thus far.

While Iraq remains the clear focus of our activities, we have an advanced exploration project in Jordan, where we hold a Production Sharing Agreement on the East Safawi block covering 8750 square kilometres in the Jordanian panhandle between Syria and Saudi Arabia. We have done significant work in recent years and have identified targets at moderate depth in a Triassic reef play. We will Joint Venture any drilling programme.

Finance

Revenue increased during the period due to ramping up of the Subba & Luhais EPC contract. In accordance with existing policy, Petrel did not book any profits prior to completion of the project and corporate overhead is written off when incurred. This resulted in a small loss of €519,000.

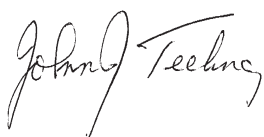
Future

As the world lurches into recession, helped in no little part by high oil prices, the need to develop Iraqi oil grows stronger. This is both the opportunity and the threat. The opportunity is in the chance to develop a world class world oil industry which will provide the cash flow to rebuild and develop the shattered Iraqi economy. This has to be for the betterment of all. Therein lies the threat. Factional interests and unrealistic expectations of what can be achieved have delayed development of Iraqi oil resources. These interests need to be reconciled so that investors can have transparent terms and legal title. The terms must incorporate the fact that Iraq is and will be seen as politically unstable for some time to come.

Petrel has worked with uncertainty in Iraq for nine years. We believe in the country, the people and in the opportunity. There have been many obstacles on the way, yet we remain one of the few Western oil companies with personnel in the country working on oil projects.

As Iraqi oil develops, we will be part of the development.

John Teeling
Chairman



20th June 2008

Nothing is simple or quick in Iraq. There is not yet complete security or a modern banking system. Payments are slow and complicated. Community relations and logistics can be challenging.

The elected government's authority is still imperfect over much of the country. But steady progress continues to be made. The security situation, while far from ideal, is much improved since the sovereign Iraqi Government took charge in May 2006. The legitimate Iraqi police and army are gradually extending their influence, while the role of militias and international mercenaries steadily diminishes. There will be many more problems and incidents, but the rules of the game are clarifying. Petrel has as much knowledge and experience as any international player in carrying on work in a low profile but effective way.

The Iraqi oil industry has made steady progress in difficult circumstances; the key southern fields are back in production close to pre-2003 levels, and now average about 2.5 million barrels daily. This translates into exports of 1.9 to 2.1 million barrels of oil daily (mmbbo). Such production and output levels in difficult times shows that you can work, under prevailing circumstances, at least in the south of Iraq. The challenge is for the lawful authorities to boost investment and align the interests of players necessary to develop Iraq's resources.

Last year the draft Hydrocarbon Law had been unanimously approved by Cabinet and was expected to pass in 2008. It has become embroiled in the politics of nationalist sentiment and has yet to pass. The main roadblock has been the decision of the Kurdish Regional authorities to sign agreements with small and medium-sized players in breach of Iraqi law and the policy of the elected government. This has provoked nationalist scepticism and wariness about deeper or broader international company involvement - despite clear benefits of international technology, manpower and technology. As a result, none of the main Iraqi Arab parties publicly supported the draft Hydrocarbon Law, though many praised it privately.

Recently the authorities have indicated a willingness to advance the development of Iraqi oil through agreements based on the existing law. This is the existing law of the land and was sufficient to negotiate a range of international company contracts before 2003. Nonetheless, recent stress on the value of a fresh legal start, followed by delays in the new law passing, have delayed and confused prospects. The world's largest oil company is reported to have said that they will not sign any agreement until the new law passes. No one knows exactly how these factors will play out. Petrel's approach is to work with the professionals of the Ministry of Oil and to continue to be useful, while looking after shareholder interests.

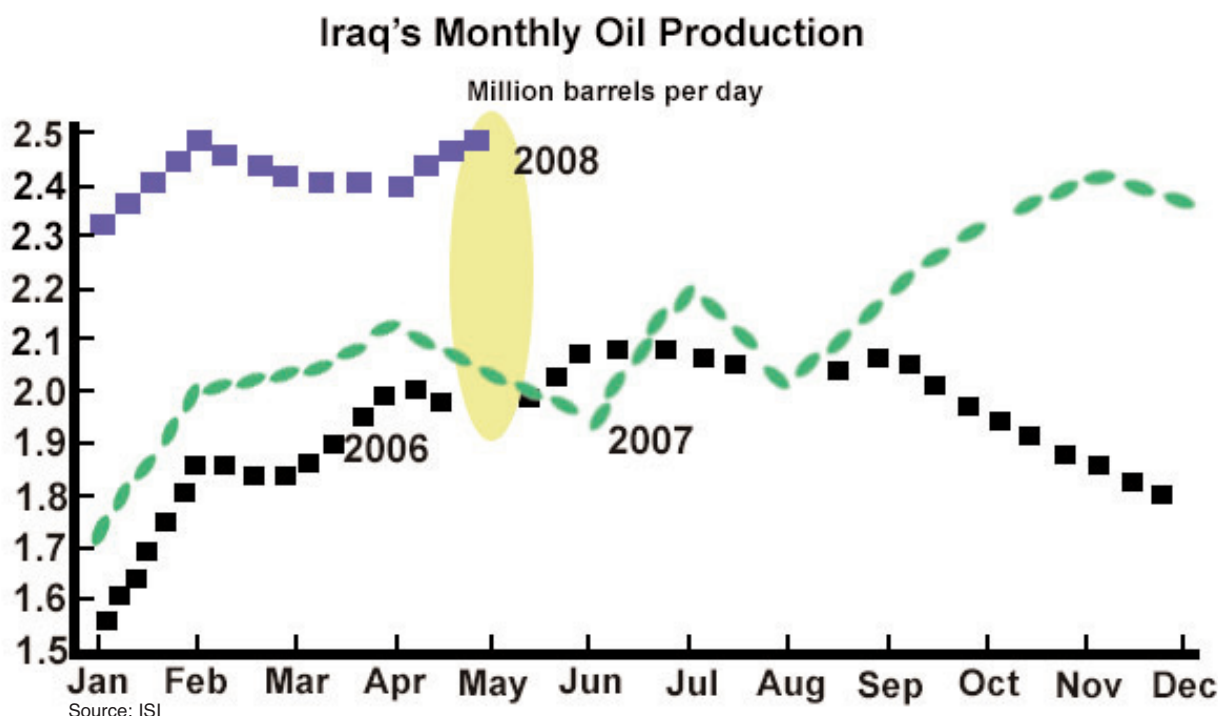


Image 1: Iraq's Monthly Oil Production (Million barrels per day)

THE END OF THE BEGINNING: Steady Progress in Challenging Circumstances

2007 was the year in which Iraq and especially the Iraqi oil industry turned the corner; in May 2008 Iraqi production exceeded 2.5 million barrels daily (mmbod) and exports, 2mmbod – the highest level since the 2003 invasion. Output of over 2.9mmbod is targeted for end 2008. These volumes fall far short of what would have been achieved without conflict and sanctions over recent decades, but show that it is possible to operate.

For the first time since the 1980s, the mainstream international oil industry is starting to engage seriously with Iraq. Iraq's current production serves about 3% of global demand, but even with limited exploration over recent decades Iraq accounts for at least 12% of conventional oil reserves. Iraqi reserves will certainly increase – and probably dramatically – when reservoir recoveries reach best international practice, deeper horizons on existing fields are drilled and high potential new plays like the Western Desert are explored. Iraq has also large and basically unknown gas reserves and heavy oil potential, which are comfortably economic at oil prices in excess of \$50 per barrel. In almost every category, Iraq is at or close to the lowest cost producer worldwide. Hence the industry's interest, even with uncertainties over legal and physical security.

Based on established and likely reserves, Iraq has long planned to increase capacity to over 6 million bod. Given recent events, especially the hollowing out of the industry and infrastructure through sanctions and wars, this can only realistically be achieved with major international investment.

Security

Security continues to complicate life and deter most players – but so far the impact on Petrel has been limited to second-order operational effects. No employee or contractor has suffered harm since 2005. Only one shipment into Basra port was delayed, and then only for 24 hours.

The security situation in Baghdad and the West (Anbar) significantly improved during 2007 and 2008. Previously alienated and obstructive communities are now engaging in the political and official security process. Sabotage and attacks on pipelines and other infrastructure have diminished. From 2005 to 2007, it was dangerous for non-locals to drive across the Western Desert. Now Arab sub-contractors are touting for work.

Many problems and uncertainties remain, but the dynamic is clearly positive. The elected, sovereign Government is gradually extending its authority over Basra and the South – though this can lead to periodic flare-ups. For example, southern exports declined during April 2008 as the authorities cracked down on alleged irregularities in the southern oil port of Basra. Fighting damaged pipelines and forced closure of some operations, yet output quickly exceeded previous levels.

Upcoming Elections Should Clarify Matters and Extend Participation

Fragmentation of central authority has increased uncertainty and risk. Petrel only deals with the elected central government and its lawful ministries. Some international oil independents have concluded agreements with a regional administration, but such agreements are of suspect reliability and legality. They alienate the lawful authorities, most of the electorate and regional players. Western markets who are easily seduced by rhetoric of a 'free market oriented, market economy' approach have tended to reward companies – but generally they have incomplete understanding of the issues involved. Even control of an oilfield is of limited value unless there is export access.

No one knows how the game will ultimately play out, but investors would welcome clarity over the rules of the game. Expected negotiations to bring such practices under the scrutiny of Iraqi federal law will help.

We expect that elections for provincial assemblies due in October 2008 should clarify the situation. Pre-election rivalry contributed to recent turbulence.

The last assembly elections were boycotted by most Sunni Arabs, meaning that some provinces are unrepresentative. This error is unlikely to be repeated, and Sunnis will continue to be drawn into the mainstream. In the south, government parties will consolidate their position, which in turn will strengthen central democratic control over oil operations.

This will reduce uncertainty and streamline operation of key infrastructure. Nonetheless, good local relations remain necessary to operate and avoid security problems.

Iraq is the World's Most Prospective Oil Province and Could Have the World's Largest Reserves

Iraq's oil history has not done justice to its unique geological endowment; it has the 2nd or 3rd largest reserves worldwide, yet today's output remains below that when the industry was nationalised decades ago.

There has been no significant exploration or discoveries since 1990 – meanwhile the state oil companies have suffered from under-investment, retirements and a brain drain overseas.

Advances in technology and the significant rise in the oil price have dramatically increased the value of proven and probable Iraqi reserves – especially if we take into account unconventional reserves not previously considered.

Officially the proven reserves are conservatively calculated at 115 billion barrels, but may reach 300.

Existing Contractual Models

Since 2004 Iraq has engaged competent and committed industry players through 'Technical Cooperation Agreements' under which training is conducted and technology transferred. These were usually limited to 6 to 12 months and involved no payment or transfer of rights. Three EPC (Engineering, Procurement and supervision of Construction) contracts were awarded in 2005, of which Petrel's contract on Subba and Luhais was the largest. A fourth EPC project, at Kor Mor gas field, was effectively derailed when Kurdish militia seized the area – which is now disputed.

Technical Service Agreements

The Iraqi authorities wish to develop their industry as quickly and professionally as possible in challenging circumstances. They have done well to restore exports to circa 2 million barrels daily – given civil disturbance, security threats and limited resources. Many experienced people are near retirement age, while the new generation of recruits is not yet ready for onerous responsibilities.

The original plan was to pass a state of the art Hydrocarbon Law, on which new contracts could be awarded and the industry transformed. A political impasse with the Hydrocarbon Law forced the authorities to work with interim measures not dependent on ratification of the National Assembly.

So far the super majors, which dominate the industry internationally, have done little work in-country. In an effort to draw the industry's mainstream into more immediately useful work, the Iraqi Ministry has sought to negotiate an enhanced form of 'Technical Service Agreements' (TSAs) under which more detailed work would be conducted and equipment delivered. These would be limited to services with possible incentives, not allowing a major share of the upside. The contractor could not book reserves. The TSAs would last for 2 years, extendible to 3.

The aim is to increase crude oil production by 600,000 barrels daily by boosting output from six large producing oil fields.

To copper-fasten the primacy of central government and its oil ministry, and to draw major oil companies into working in Iraq, the Ministry of Oil placed 35 of the world's largest producing oil companies on an initial list of companies qualified to bid on future service contracts to develop existing super-giant development fields. None of them have much recent experience in Iraq and few have a significant presence on the ground.

We understand that additional, independent companies, especially those with recent in-country experience, will be added to a supplementary list. Apart from Petrel's own work and standing with the Iraqi authorities, Petrel also has excellent relations with more than one of the companies qualified under the majors list; we welcome their involvement in practical work to help develop Iraq's oil industry and will work with them where appropriate.

Petrel has proven ability to operate, quicker and more effectively than majors.

Iraqis tire of political sniping and unrealised plans. Though Iraq exports crude, it imports billions of dollars of refined products – which are sometimes in short supply.

Iraq needs work to boost production more urgently than more technical studies, however worthy. Practical results are achieved by companies prepared to risk their money and health by investing in Iraq and working on the ground now. Investment is an orphan; investors require to be paid an adequate risk-adjusted return and contracts respected. Companies will do some valuable introductory work to build goodwill, acquire data and understanding and build relationships. But there are limits to how much free work can be done effectively. The payment issue has proved to be a sticking point with contracts and cooperation agreements, especially the new 'Technical Service Agreements'. Ideally the authorities should align contractors' interests with those of the host country. Early progress is in everyone's interests, for example, over 1 billion cubic feet of gas is flared daily in southern Iraq; enough to generate 6 GW of power for all of Iraq's needs, yet Iraqi consumers have limited gas or power supplies.

In qualifying 35 majors to bid on service contracts for super-giant fields, the authorities are seeking relatively easy and early additional barrels; all fields listed, with the exception of Mansoureya and Akkas gas fields, are mature fields, which produced for decades, Kirkuk for about 70 years, South Rumaila about 50 years and the remainder in the range of 40 to 50 years. We believe it is unlikely that TSAs on such super-giant fields will evolve into Production Sharing Agreements (PSAs), due to the relatively straightforward nature of the work and nationalist sensitivities.

It is much more likely that risk-sharing arrangements will be negotiated with companies where there is exploration risk and significant value to be added, whether on new exploration acreage like the Western Desert or where there is scope to add reserves through development drilling/enhanced recovery or speedy development with responsible recovery/depletion.

There remains a gulf between international industry expectations on the need to book reserves and share in upside generated by contractors and what is politically accepted within Iraq in the context of resentment over apparent infringements of sovereignty. Privately key decision-makers increasingly accept that international operators have a positive role to play: for example, that increased reservoir yield alone more than compensates for private operators' cut.

So far opinion-leaders have not vigorously communicated these points to the wider populace. Sectarian divisions and sometimes short-termist policies of foreign players have confused and delayed progress. Yet the debate and process has subtly shifted from attributing blame to seeking solutions. The movement is hesitant and there will be shocks along the way, but the overall pattern is clear. The Iraqis have unique potential and challenges and are likely to work out a bespoke solution which gets the job done.

Prospects for the New Hydrocarbon Law

Legally, contracts including Production Sharing Arrangements, could be negotiated and ratified on the basis of the existing law – as they were in the 1980s and subsequently. In retrospect, it would have been wiser to proceed on the basis of existing legislation once the fully-sovereign elected government took power in 2006. The drafting and debate on a state-of-the-art hydrocarbon law has raised doubts about the efficacy of the existing legislation and created expectation for an up-to-date law. Ideally passage of a new hydrocarbons law would put future developments on a clean, fresh basis using cutting-edge legislation.

Government spokesmen recently indicated that there is political will to complete a long-awaited oil law designed to pave the way for international investment in Iraq's oil sector, though it could not be rushed. Iraqis value consensus highly and put less weight on the time value of money. The draft was first agreed by Cabinet in February 2007.

We expect the legislation will pass, but probably not until late 2008 or 2009. In the meantime, service contracts should allow the Iraqi authorities to steadily increase output at super-giant fields currently producing at below capacity due to past sanctions starving those projects of necessary investment.

By pre-qualifying and engaging majors in TSA discussions, international contractors are steadily drawn into engagement with the Iraqi industry. But time is being lost and majors are not always good at managing resource nationalism.

When the new law is passed it should be sufficiently solid in title and terms to form a satisfactory foundation for substantial new investments – playing a critical role in world supplies of conventional light crude for decades.

Status of Pre-2003 Agreements

Petrel was asked by the Oil Exploration Company of the Iraqi Ministry of Oil to study Western Desert Block 6 in 2000. We worked intensively with Ministry staff and reached agreement on the work programme and terms under the then Iraqi model Exploration and Development Contract in March 2002. Because of prevailing circumstances and expectation of imminent political change, we did not request the then necessary ministerial visit by our sponsoring country to formally sign and ratify this contract.

Since then Petrel and other parties interested in other pre-2003 blocks have carefully monitored developments. The normal legal position is that title passes across governments and that parties honour commitments made legitimately and in good faith. Of course, the hard reality in the real world is that title in most countries also depends on goodwill as much as formal legal title. There are many examples of resource nationalism from Russia to Venezuela whereby companies with proper title and professional work records have been nonetheless marginalised by politicians. Petrel fully accepts Iraqi sovereignty and continues to work to perfect title and participate fully in Iraqi oil exploration and development no matter how the Hydrocarbon Law debate plays out and which policy options are chosen by the authorities to develop its resources.

Article 40 of the draft hydrocarbon law stipulates that the ministry must review pre-2003 agreements "to ensure harmony with the objectives and general provisions of the law." New contracts must be approved by Iraq's Federal Oil and Gas Council, to be established.

It may prove necessary to adapt to the new model contracts, currently described as 'Service Exploration and Production Contracts' (SEPC), the ministry plans to introduce for exploration deals. Financial terms would be renegotiated to incorporate new work, and reflect the much higher oil price since 2002. The new model

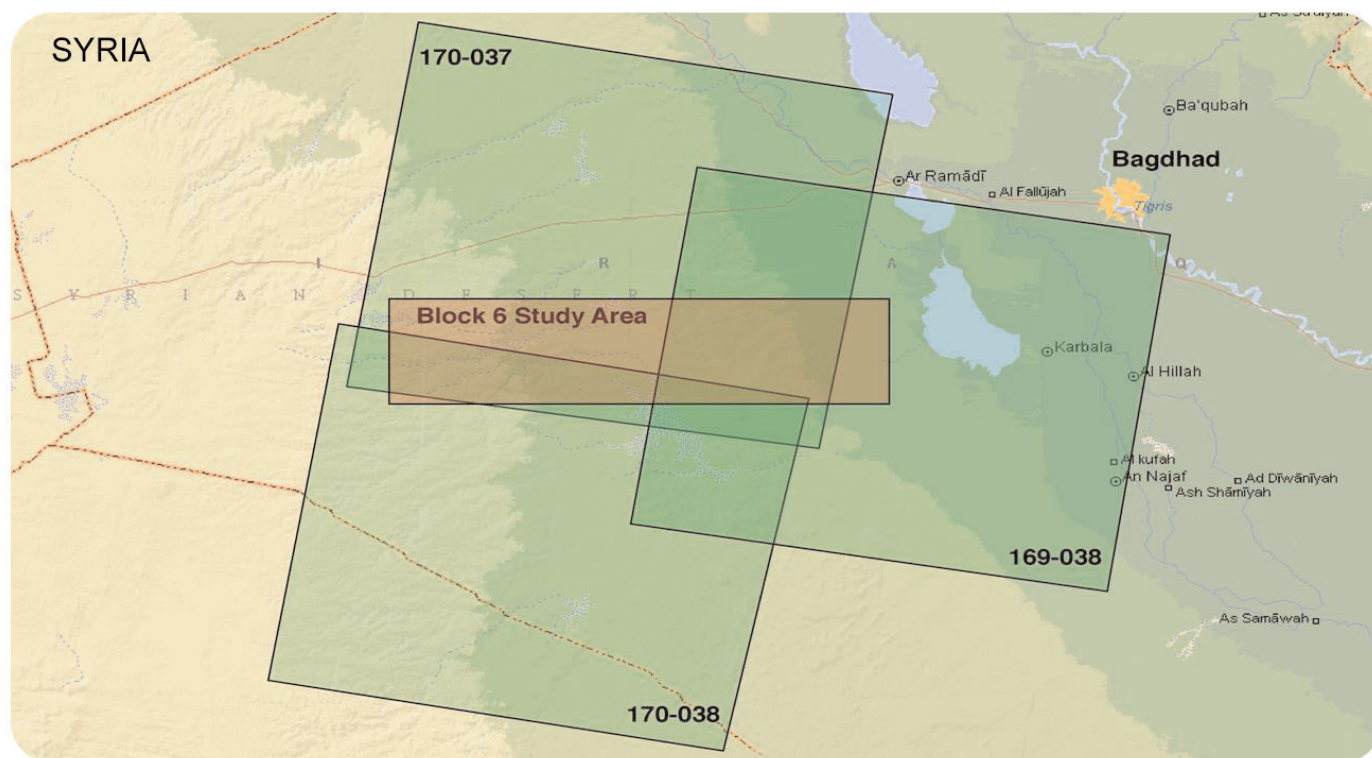


Image 2: Block 6 Base Map



Image 3: Entrance to the Luhais Production Facilities

currently envisages 5 years exploration period, extendible by 2 years, but development and production rights are limited to 20 years. There may also be payments at signing, discovery and start of production, as well as 12.5% royalty. Petrel is ready to start seismic acquisition and other field work as soon as title is confirmed.

PETREL OPERATIONS IN IRAQ

SUBBA & LUHAIS OIL FIELD DEVELOPMENT SERVICES CONTRACT

The Subba and Luhais oil field development services project continues to be a main focus of our attention and one of the largest EPC (Engineering, Procurement and supervision of Construction) contracts awarded by the Ministry of Oil.

The development of the Subba and Luhais oilfields will provide a minimum capacity of 200,000 barrels of oil daily and 120 million cubic feet of associated gas for export from the field area. Much of this gas is designated for use to support power generation for the Iraqi National Grid. The \$197 million development services contract continues to progress with overall progress reported at 46% and with deliveries of major equipment packages to the designated site location.

The recent emphasis by the Government to maintain oil production, especially at the already producing Luhais Site (circa 50,000 bopd), has resulted in design changes by SCOP relating to the plant layouts. We have now been allocated new areas outside of the plant perimeter boundary to locate the Oil Processing and Gas Processing and Export facilities. This has resulted in a major re-survey of the Plant areas and a re-design of the facilities layouts and processing tie-ins to ensure integration with the operational plant. In addition, water utility services to the new Subba Facilities are now required to be provided from the Luhais Central (LUC) plant to satisfy quality and environmental requirements.

At present there are also external schedule delays associated with the National Grid High Voltage power supply to the main SUC transformer station and we have been assisting SCOP in establishing potential power generation options local to the individual plant areas.



Image 4: Aerial View of Subba & Luhais

As a result of these relevant changes and influences by SCOP, Petrel has been holding discussions to establish an updated basis of design and a revised schedule for the redesign and the additional supply of materials and equipment for the facilities. Obviously, whilst it is a primary objective to complete the Project as fast as possible, without compromising quality and safety, there are attendant commercial issues that require to be resolved to incorporate vendor supply schedules and the overall cost implications to the Project.

Also, the recent disruptions and changes in the financial markets have required a review of the associated financial securities provided for the Project. We continue to be in discussion with SCOP and the Trade Bank of Iraq (TBI) along with our own Bankers to amend Letters of Credit, Bonds etc., in line with the present financial and contractual requirements for the remaining duration of the Project.

The absence of a normal, modern banking system complicates matters. The authorities prefer wordings and practices which differ from best recognised practice elsewhere in the industry. Companies need to carefully balance the desire to be flexible and provide excellent service against the equally important need to protect shareholder interests by not agreeing ambiguous or unsatisfactory terms. Likewise change orders involve extra cost and work that should be paid for. It isn't reasonable to expect companies to pay for duplicate bonds or incur additional expense outside the contract without reasonable recompense. Delays implementing approved payments will delay progress – particularly when costs are escalating and key items of equipment are subject to long lead-times.

Equipment already delivered is in safe and secure storage at the Site areas in the custody of the SCOP awaiting installation once SCOP commence their construction works at the Site areas. SCOP is continuing with the planning for their lengthy construction programme at the four main processing plants for an anticipated completion during 2009 - 2010. We anticipate that Petrel will support SCOP during the construction phases of the project. As the principal services contractor Petrel will commission the plants for handover to the Iraqi Ministry of Oil's Southern Oil Company (SOC) for operation and the SOC are now being represented in the numerous technical co-ordination meetings being held.



Image 5: Vessel with Compressors at Um Qasar Port.

While the overall work programme has now been delayed, we are continuing to work with the Ministry to prioritise design and materials supplies to their requirements and a major design programme is underway to establish the Civil Engineering work scope for Construction work by SCOP.

Even during the recent troubled times in the Basra area, we have been able to move equipment to the Site without extreme difficulties and are now scheduled to re-commence surveys for the new sites and pipeline export routes and telecoms in the second quarter of 2008.



Image 6: Existing Manifold at Luhais Central - To Be Doubled In Size

We developed relationships with logistical operators the southern area of Iraq and have experienced no insuperable security and logistical problems. After more than 2 years of working with the authorities on this project, Petrel's team have a good understanding and practical sense of how best to work and negotiate outstanding matters – although turnover of senior Ministry personnel due to the difficult prevailing circumstances complicates life.

Although the recent changes to the work scope and schedule will require a time extension for our involvement in the Luhais Project, we have completed the majority of all of the main tendering and procurement enquiries for the main equipment packages. Petrel's Project Team continues to complete and manage the procurement and contractual stages of the project and will support SCOP in a supervisory role, as required, during the Construction phase - as the Contractor to the project. We continue to be guided by the Iraqi authorities in choosing suppliers and partners.

The project is managed from Petrel's offices.

Main milestones:

- The Project Management team is fully operational in England, Italy, Jordan and Iraq.
- Detailed Design continues in Fano, Italy with ENERECO our Design Contractor. Periodic technical discussions and meetings occur with SCOP and SOC and we incorporate design and operational changes required by SCOP.
- The layouts for the Luhais and Subba processing plants are being revised to accommodate the changes requested by SCOP and SOC.
- Safety reviews (HAZID's and HAZOP's) are continuing as the design progresses to Approved for Construction (AFC).
- No insuperable security problems have yet been encountered and equipment has been safely delivered to secure storage at the Site area.
- Over 80% of the remaining Procurement enquiries have been issued and evaluated against the original contractual work scope with our Joint Venture Partner and Purchase Orders ready to be placed.
- The US\$197m Letter of Credit from the Trade Bank of Iraq is now being amended to incorporate the changes to the schedule and supply scope along with associated Bonds and Guarantees for the Project.

MERJAN OIL FIELD TECHNICAL COOPERATION AGREEMENT

In 2007 Petrel completed a study of the Merjan oil field southwest of the holy city of Kerbala between the river valleys and Western Desert in central Iraq. This work included a broadening of previous regional analysis of the Western Desert, especially Block 6. This study was conducted under a Technical Cooperation Agreement with the Ministry of Oil.

The shallow depth Merjan oil field was discovered in 1983 unexpectedly while drilling for a deep reef target with the Me-1 well, but has not yet been developed due to then OPEC limitations and political circumstances.

The study aimed to determine the oil entrapment mechanism of the discovery so as to estimate the limits of the field and its possible reserves. A wide range of modern oil industry techniques, including cutting-edge seismic inversion by Fugro-Jason, were used in this challenging project. The final report was submitted to the Ministry Steering Group in May 2007 with additional discussions with Ministry technical experts and officials in March and June 2008. Petrel continues to discuss the project with Ministry technical experts to update its work with additional information to refine reserve estimates. We anticipate further progress and involvement in this area.

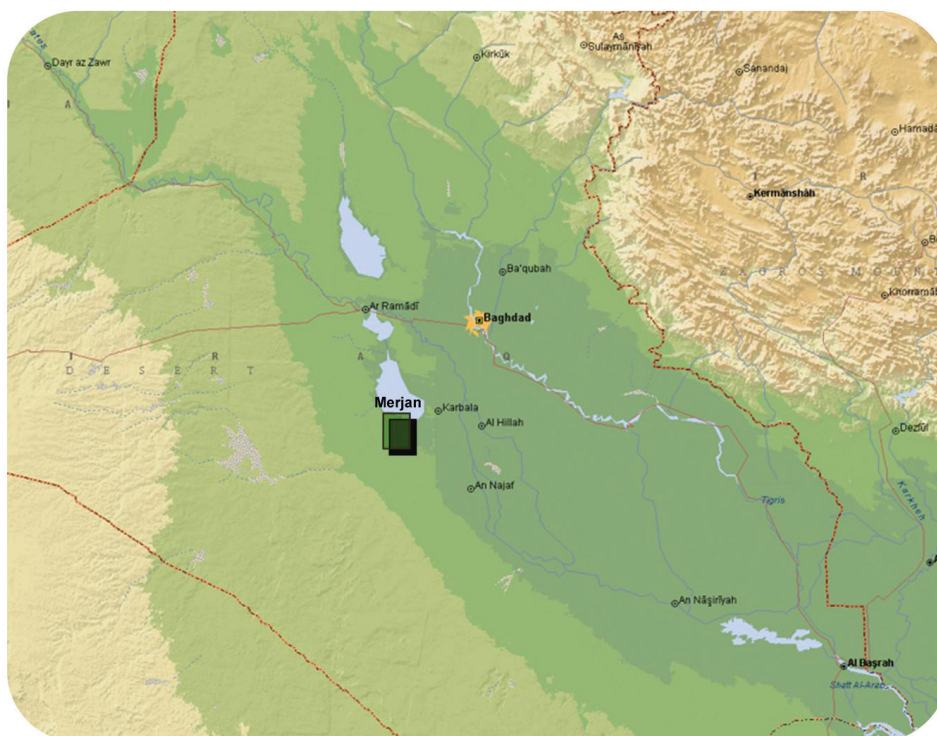


Image 7: Merjan Location

Petrel operated this work with Itochu, the Japanese conglomerate, as a 50% partner.

We are interested in exploring and developing this field if and when it is legally and politically possible.

DHUFRIYA OIL FIELD TECHNICAL COOPERATION AGREEMENT

During 2007 the then Chairman of Petrel's Framework of Case Study (FCS) with the Iraqi Ministry of Oil, Mr. Tayfoor Rushdi, recommended Petrel for an additional Technical Cooperation Agreement (TCA) study, following successful completion of the Merjan Oil Field project. The substantial Dhufriya gas and oil field near Kut in south-central Iraq was discussed. I am sorry to report that Mr. Rushdi fell ill, and passed away last September. He is sorely missed by all his colleagues and friends.

We are proud to report that the Head of Geology Division, Iraqi Ministry of Oil, was appointed Chairman of Petrel's Framework of Case Study in early 2008. Our technical cooperation with the Ministry of Oil has been extended for another year. The Technical Cooperation Agreement study of the Dhufriya gas and oil field has been confirmed by high authority and Petrel is collecting the available data during June 2008.

Petrel has approval to re-process and reinterpret this data at the facilities of our contractor GSC in Amman, Jordan, and of our partner Itochu in Japan. We intend to integrate the Petrel-Itochu team as far as possible with senior Ministry technical experts and plan to complete this study, data permitting, by end 2008 or early 2009.

EAST SAFAWI BLOCK, JORDAN

Petrel signed a Production Sharing Agreement (PSA) on the East Safawi Block with the Jordanian Natural Resources Authority (NRA) in May 2007. The 8,750sqkm block transects the Jordanian panhandle between the Saudi Arabian and Syrian borders. The acreage adjoins the National Petroleum Company Risha Block containing the Risha gas field that produces from a Palaeozoic sand reservoir. Petrel had already carried out a study of the area under a Memorandum of Understanding (MOU) before converting to a PSA that commences with a three year exploration phase.



Image 8: East Safawi Block

A Petrel technical team has since developed a moderate depth play in the Triassic, targeting medium-sized oil targets. This is a novel play. It could add considerable value in a country with only a 15% tax rate and whose Production Sharing Agreements (PSAs) start at 60% contractor share up to 10,000 barrels daily and never fall below 36%. But like most innovation, this project involves risk.

Petrel's recent East Safawi work allowed a better understanding of the basin development and the timing of hydrocarbon generation. Petrophysical studies of the well logs helped define the best reservoir intervals in the section. On the basis of the technical work carried out during 2007/2008 Petrel identified a new oil play in the region within a Triassic carbonate section that the company believes has potential to contain commercially significant volumes of hydrocarbons. During 2008 Petrel commissioned Fugro-Jason in London to carry out acoustic impedance inversion of selected seismic data in order to determine the distribution of reservoir porosity in a critical area. The company is currently assessing the technical data to determine the best exploration programme for the coming year.

The prospect lies in readily accessible terrain for drilling, seismic or development activities. To manage risk, Petrel will seek a joint venture partner to progress this exciting new play.

David Horgan
Managing Director

20th June 2008



Image 9: On-site at East Safawi

DIRECTOR'S REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The company is engaged in oil and gas exploration. The company commenced development of an oil field in Iraq in the current year.

Further details of the group's activities and future developments are given in the Chairman's Statement.

RESULTS FOR THE YEAR

The consolidated loss for the year after taxation was €518,935 (2006: loss after taxation €415,570).

The directors do not recommend that a dividend be declared for the year ended 31 December 2007 (2006: €Nil).

PERFORMANCE REVIEW

The performance review is set out in the Chairman's Statement and Managing Director's Report.

RISKS AND UNCERTAINTIES

The principal risks facing the group are set out below:

General and economic risk – include currency rate fluctuations and any potential adverse changes in government policy in countries in which the group is exploring which may affect the group.

Funding risk – include the on-going funding of the Subba & Luhais development services contract and raising of capital to fund further exploration.

Exploration risks – include the failure to identify economically recoverable reserves.

Further details of the risks facing the group are set out in Notes 10 and 15 and the Managing Directors Report.

KEY PERFORMANCE INDICATORS

Currently the groups main KPI is in relation to the stage of completion in respect of the Subba & Luhais development services contract. In addition, the group reviews expenditure incurred on exploration projects and successes thereon, and ongoing operating costs.

BOOKS OF ACCOUNT

To ensure that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990, the directors have employed appropriately qualified accounting personnel and have maintained appropriate computerised accounting systems. The books of account are located at the company's office at 162 Clontarf Road, Dublin 3.

DIRECTORS

The current directors are set out on the inside back cover.

There were no changes in directors or secretary during the year.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary held the following beneficial interests in the shares of the company:

	31/12/2007 Ordinary Shares of €0.0125 No.	31/12/2007 Options - Ordinary Shares of €0.0125 No.	1/01/2007 Ordinary Shares of €0.0125 No.	1/01/2007 Options - Ordinary Shares of €0.0125 No.
J. Teeling	3,615,000	1,900,000	3,615,000	1,900,000
D. Horgan	2,715,000	1,650,000	2,715,000	1,650,000
G. Delbes	190,000	-	240,000	-
J. Finn (Secretary)	1,015,000	870,000	1,015,000	870,000
S. Borghi	155,000	450,000	155,000	250,000

During the year, 200,000 share options were granted to S. Borghi.

SUBSTANTIAL SHAREHOLDINGS

The share register records that, in addition to the directors, the following shareholders held 3% or more of the issued share capital as at 31 December 2007 and at 30 May 2008:

	31 December 2007 Number of Ordinary Shares	%	30 May 2008 Number of Ordinary Shares	%
Citibank Nominees (Ireland) Limited (CLRLUX)	6,831,834	9.46	8,800,139	12.18
HSBC Global Custody Nominee 813259	5,133,527	7.11	4,151,689	5.75
L.R. Nominees Limited	4,586,520	6.35	4,827,267	6.68
TD Waterhouse Nominee (Europe) Limited	3,463,242	4.79	3,655,043	5.06
HSBC Global custody Nominee 915810	3,090,000	4.28	2,940,000	4.07
W.B. Nominees Limited	2,170,869	3.01	2,035,196	2.82

POST BALANCE SHEET EVENTS

Post balance sheet events are set out in Note 22.

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in Note 15.

GOING CONCERN

The directors, having made the necessary enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The directors therefore propose the continued preparation of the financial statements on a going concern basis.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all periods up to and including the year ended 31 December 2006, the Group prepared its financial statements in accordance with Irish Generally Accepted Accounting Practice (Irish GAAP). These financial statements are the first annual statutory financial statements that the Group has prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted for use in the European Union. Details of the transition to IFRS are outlined in Note 2.

SUBSIDIARIES

Details of the company's subsidiaries are set out in Note 11 to the financial statements.

AUDITORS

Deloitte & Touche, Chartered Accountants, will continue in office as auditors in accordance with Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board :

John Teeling
David Horgan } **DIRECTORS**

20th June 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish 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 the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the Group and the Parent Company Financial Statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

We have audited the financial statements of Petrel Resources Plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Company Balance Sheet, the Group and Company Statements of Changes in Equity, the Consolidated Cash Flow Statement, the Company Cash Flow Statement, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible, as set out in the Statement of Directors' Responsibilities, for preparing the Annual Report, including the preparation of the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group Financial Statements and the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the financial statements. The other information comprises only the Chairman's Statement, the Managing Director's Report and the Directors' Report. Our responsibilities do not extend to other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the Group as at 31 December 2007 and of its loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006;
- the Parent Company's Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts, 1963 to 2006 and of the state of the parent company's affairs as at 31 December 2007; and
- the Parent Company's Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 10, 12 and 13 of the financial statements concerning the valuation of intangible assets, construction contracts, trade receivables and amounts due from group undertakings. The realisation of intangible assets of €4,189,643 included in the consolidated balance sheet and intangible assets of €4,178,406 included in the company balance sheet is dependent on the successful development of economic reserves including the ability of the Group to raise sufficient finance to develop these projects. The valuation and recoverability of construction contracts of €9,558,084 and trade receivables of €28,950,934 included in the consolidated balance sheet, and the recoverability of amounts due from group undertakings of €5,595,950 included in the company balance sheet is dependent on the successful completion of the Subba & Luhais development services contract and settlement thereof. The ultimate outcome of these uncertainties cannot presently be determined.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2007 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

20th June 2008

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 €	2006 €
Continuing operations			
Revenue		28,950,934	-
Cost of sales		(28,950,934)	-
GROSS PROFIT		-	-
Administrative expenses	4	(584,437)	(483,108)
Operating loss		(584,437)	(483,108)
Investment revenue	3	65,502	67,538
LOSS BEFORE TAX	4	(518,935)	(415,570)
Income tax expense	8	-	-
LOSS FOR THE YEAR: all attributable to equity holders of the parent	18	(518,935)	(415,570)
Loss per share – basic and diluted	9	(0.75c)	(0.62c)

The financial statements were approved by the Board of Directors on 20th June 2008 and signed on its behalf by:

John Teeling }
 David Horgan } DIRECTORS

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 €	2006 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	4,189,643	3,410,242
CURRENT ASSETS			
Construction contracts	12	9,558,084	10,396,141
Trade and other receivables	13	29,334,443	43,895
Cash and cash equivalents		6,710,767	9,450,875
		<u>45,603,294</u>	<u>19,890,911</u>
TOTAL ASSETS		<u>49,792,937</u>	<u>23,301,153</u>
CURRENT LIABILITIES			
Trade and other payables	14	(36,850,125)	(15,957,136)
NET CURRENT ASSETS		<u>8,753,169</u>	<u>3,933,775</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,942,812</u>	<u>7,344,017</u>
EQUITY			
Called-up share capital	16	902,873	843,351
Capital conversion reserve fund		7,694	7,694
Share premium		15,693,098	9,840,861
Share based payment reserve		205,971	-
Retained earnings - (deficit)		(3,866,824)	(3,347,889)
TOTAL EQUITY		<u>12,942,812</u>	<u>7,344,017</u>

The financial statements were approved by the Board of Directors on 20th June 2008 and signed on its behalf by:

John Teeling } DIRECTORS
David Horgan

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	2007 €	2006 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	10	4,178,406	3,399,005
Financial assets	11	11,237	11,237
		<u>4,189,643</u>	<u>3,410,242</u>
CURRENT ASSETS			
Trade and other receivables	13	5,694,363	2,977,540
Cash and cash equivalents		3,673,100	2,218,683
		<u>9,367,463</u>	<u>5,196,223</u>
TOTAL ASSETS		<u>13,557,106</u>	<u>8,606,465</u>
CURRENT LIABILITIES			
Trade and other payables	14	(614,294)	(1,262,448)
NET CURRENT ASSETS		<u>8,753,169</u>	<u>3,933,775</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,942,812</u>	<u>7,344,017</u>
EQUITY			
Called-up share capital	16	902,873	843,351
Capital conversion reserve fund		7,694	7,694
Share premium		15,693,098	9,840,861
Share based payment reserve		205,971	-
Retained earnings - (deficit)		(3,866,824)	(3,347,889)
TOTAL EQUITY		<u>12,942,812</u>	<u>7,344,017</u>

The financial statements were approved by the Board of Directors on 20th June 2008 and signed on its behalf by:

John Teeling }
 David Horgan } DIRECTORS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

Group	Share Capital €	Share Premium €	Capital Conversion Reserve fund €	Share Based Payment Reserve €	Retained Earnings Deficit €	Total €
At 1 January 2006	828,851	9,063,625	7,694	-	(2,932,319)	6,967,851
Shares issued	14,500	777,236	-	-	-	791,736
Share issue expenses	-	-	-	-	-	-
Loss for the year	-	-	-	-	(415,570)	(415,570)
At 31 December 2006	843,351	9,840,861	7,694	-	(3,347,889)	7,344,017
Share based payments	-	-	-	205,971	-	205,971
Shares issued	59,522	6,040,704	-	-	-	6,100,226
Share issue expenses	-	(188,467)	-	-	-	(188,467)
Loss for the year	-	-	-	-	(518,935)	(518,935)
At 31 December 2007	902,873	15,693,098	7,694	205,971	(3,866,824)	12,942,812

Company	Share Capital €	Share Premium €	Capital Conversion Reserve fund €	Share Based Payment Reserve €	Retained Earnings Deficit €	Total €
At 1 January 2006	828,851	9,063,625	7,694	-	(2,932,319)	6,967,851
Shares issued	14,500	777,236	-	-	-	791,736
Share issue expenses	-	-	-	-	-	-
Loss for the year	-	-	-	-	(415,570)	(415,570)
At 31 December 2006	843,351	9,840,861	7,694	-	(3,347,889)	7,344,017
Share based payments	-	-	-	205,971	-	205,971
Shares issued	59,522	6,040,704	-	-	-	6,100,226
Share issue expenses	-	(188,467)	-	-	-	(188,467)
Loss for the year	-	-	-	-	(518,935)	(518,935)
At 31 December 2007	902,873	15,693,098	7,694	205,971	(3,866,824)	12,942,812

Share capital

The share capital reserve comprises of share capital issued for cash.

Share premium reserve

The share premium reserve comprises of the excess of monies received in respect of share capital over the nominal value of shares issued, less share issue expenses.

Capital conversion reserve fund

The ordinary shares of the company were renominalised from €0.0126774 each to €0.0125 each in 2001 and the amount by which the issued share capital of the company was reduced was transferred to the capital conversion reserve fund.

Share based payment reserve

The share based payment reserve represents the amount capitalised to intangible assets of share based payments granted in 2007 which are not yet exercised and issued as shares.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 €	2006 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(518,935)	(415,570)
Investment revenue recognised in loss		(65,502)	(67,538)
		<hr/>	<hr/>
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		(584,437)	(483,108)
Movements in working capital:			
Decrease in construction contracts		838,057	-
Increase in trade and other payables		3,859,194	15,022,561
Increase in trade and other receivables		(29,290,548)	(6,179)
		<hr/>	<hr/>
CASH (USED IN)/GENERATED BY OPERATIONS		(25,177,734)	14,533,274
Investment revenue		65,502	67,538
		<hr/>	<hr/>
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES		(25,112,232)	14,600,812
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Payments for intangible fixed assets		(515,708)	(10,023,638)
Receipt in respect of disposal of intangible assets		-	1,136,622
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		(515,708)	(8,887,016)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Proceeds from issue of equity shares		5,984,780	7,958
Share issue costs		(130,743)	-
		<hr/>	<hr/>
NET CASH GENERATED BY FINANCING ACTIVITIES		5,854,037	7,958
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH		(19,773,903)	5,721,754
Cash and cash equivalents at beginning of financial year		9,450,875	3,729,121
Cash and cash equivalents at end of financial year	21	(10,323,028)	9,450,875
		<hr/> <hr/>	<hr/> <hr/>

COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 €	2006 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(518,935)	(415,570)
Investment revenue recognised in loss		(65,502)	(67,538)
		<u>(584,437)</u>	<u>(483,108)</u>
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL			
Movements in working capital: (Decrease)/increase in trade and other payables		(648,154)	913,441
Increase in trade and other receivables		(2,716,823)	(2,939,824)
		<u>(3,949,414)</u>	<u>(2,509,491)</u>
CASH USED IN OPERATIONS			
Investment revenue		65,502	67,538
		<u>(3,883,912)</u>	<u>(2,441,953)</u>
NET CASH USED IN OPERATING ACTIVITIES			
INVESTING ACTIVITIES			
Payments for intangible fixed assets		(515,708)	(213,065)
Receipt in respect of disposal of intangible assets		-	1,136,622
		<u>(515,708)</u>	<u>923,557</u>
NET CASH (USED IN)/GENERATED BY INVESTING ACTIVITIES			
FINANCING ACTIVITIES			
Proceeds from issue of equity shares		5,984,780	7,958
Share issue costs		(130,743)	-
		<u>5,854,037</u>	<u>7,958</u>
NET CASH GENERATED BY FINANCING ACTIVITIES			
NET INCREASE/(DECREASE) IN CASH			
Cash and cash equivalents at beginning of financial year		2,218,683	3,729,121
Cash and cash equivalents at end of financial year	21	<u>3,673,100</u>	<u>2,218,683</u>

1. PRINCIPAL ACCOUNTING POLICIES

The significant accounting policies adopted by the group and company are as follows:

(i) Basis of preparation

For all periods up to and including the year ended 31 December 2006, the Group and Parent Company prepared its financial statements in accordance with Irish Generally Accepted Accounting Practice (Irish GAAP). These financial statements, for the year ended 31 December 2007, are the first annual statutory financial statements that the Group and company have prepared in accordance with International Financial Reporting Standards (IFRSs). These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and in accordance with the Companies Acts, 1963 to 2006.

(ii) Accounting convention

The financial statements are prepared under the historical cost convention.

(iii) Basis of consolidation

The financial statements consist of the consolidation of the accounts of Petrel Resources Plc ("the company") and its subsidiaries (together "the Group").

Subsidiaries

Subsidiaries are entities over which the company has the power to govern the financial and operating policies in order to obtain benefits from their activities. Control is presumed to exist where the company owns more than one half of the voting rights (which does not always equate to percentage ownership) unless it can be demonstrated that ownership does not constitute control. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the company and its subsidiaries after eliminating inter-company balances, transactions and unrealised gains.

(iv) Investment in subsidiaries

Investment in subsidiaries held by the company as fixed assets are stated at cost less any provision for permanent diminution of value.

(v) Revenue

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts – see (vii) .

(vi) Intangible fixed assets

Exploration and evaluation assets

Exploration expenditure relates to the initial search for oil and gas in Iraq. Evaluation expenditure arises from a detailed assessment of an oil field that has been identified as having economic potential.

Costs are capitalised until the results of the projects, which are based on geographic areas, are known. Oil and gas exploration costs include an allocation of administration and salary costs (including share based payments) as determined by management.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(vi) Intangible fixed assets (continued)

Exploration and evaluation assets (continued)

When the project reaches the development stage, all costs which have been capitalised to date and included in exploration and evaluation assets, are assessed for impairment. If they are not impaired, then they are reclassified as either tangible assets or intangible assets. Costs which are deemed to be intangible assets are written off over the life of the estimated oil and gas reserve on a unit of production basis (accounted for under IAS 38 Intangible assets). Costs which are tangible are accounted for under IAS 16 Property, Plant and Equipment.

When a project is terminated, the related exploration costs are written off immediately. No amortisation is charged prior to commencement of production.

Impairment of intangible fixed assets

At each balance sheet date, the Group and Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

(vii) Construction contract

Work in progress relates to costs incurred to date on the Subba & Luhais oilfield development and is stated at the lower of cost and net realisable value. Amounts previously capitalised in intangible assets relating to this project were transferred to work in progress.

Where the outcome of the construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract at the balance sheet date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

Variations are included in contract revenue when it is probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured.

Where the outcome of the construction contract can not be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(viii) Foreign currencies

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Group is US Dollars. However, for the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Euro (the presentation currency). This is for the benefit of the Group's shareholders, the majority of whom reside in the Eurozone.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(ix) Taxation

(a) Current tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences arising on investments in subsidiaries and associates, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(x) Share-based payments

The group has applied the requirements of IFRS 2 "Share-Based Payment". In accordance with the transitional provisions, IFRS 2 has been applied to all equity instruments vesting after 1 January 2006.

The group issues equity-settled share based payments to directors and certain consultants. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Where the value of the goods or services received in exchange for the share-based payment cannot be reliably estimated the fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(xi) Operating loss

Operating loss comprises general administrative costs incurred by the Group, which are not specific to evaluation and exploration projects. Operating loss is stated before finance income, finance costs and other gains and losses.

(xii) Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity of three months or less from the date of acquisition.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(xiii) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies above, management has identified the judgemental areas as those that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below):

***Exploration and evaluation**

The assessment of whether general administration costs and salary costs are capitalised or expensed involves judgement. Management consider the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets.

***Impairment of intangible assets**

The assessment of intangible assets for any indications of impairment involves judgement. If an indication of impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use.

***Deferred tax assets**

The assessment of availability of future taxable profits involves judgement. A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

***Going Concern**

The preparation of financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern concept is dependent on finance being available for the continuing working capital requirements of the group and finance for the development of the group's projects becoming available. Based on the assumptions that such finance will become available, the directors believe that the going concern basis is appropriate for these accounts.

The group's activities in respect of the Subba & Luhais development services contract are financed by a letter of credit with the Trade Bank of Iraq. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the group's assets, in particular the intangible fixed assets, to their realisable values.

Key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Share-based payments**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Group is the Black-Scholes valuation model.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

First time adoption of IFRS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB. The adoption of IFRS and IFRIC's has not resulted in any change to the reported position, results or cashflows of the group in respect of prior years. The implementation of IFRS has resulted in changes in disclosures only.

As previously reported, deferred development expenditure is now referred to as "Exploration and Evaluation". The group has accounted for these in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources', under which the group continued to adopt the accounting policy used previously in respect of such expenditure.

The adoption of IFRS 2 'Share-based payment' did not result in any change to the reported figures in previous years, as the Group had previously adopted FRS 20.

Standards and interpretations in issue but not yet adopted

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of embedded derivatives; and IFRIC 10 Interim reporting and impairments. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet adopted:

- IAS 1 (Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2008);
- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IAS 27 (Revised) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 2 (Revised) Share Based Payment (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 (Revised) Business Combinations (effective for accounting periods beginning on or after 1 July 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 January 2008);
- IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2009);

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

Standards and interpretations in issue but not yet adopted (continued)

IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008) and

IFRIC 14 IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008).

The directors are currently assessing the impact in relation to the adoption of these Standards and Interpretations for future periods of the Group. Given the current group operations, in the opinion of the Directors, the above will have no material impact on the group financial statements.

3. INVESTMENT REVENUE	2007	2006
	€	€
Investment bank deposits	65,502	67,538
	<u>65,502</u>	<u>67,538</u>

4. LOSS BEFORE TAXATION	2007	2006
	€	€

The loss before taxation is stated after charging the following items:

Depreciation	-	-
Directors' remuneration		
- fees	100,000	100,000
- salary	117,000	94,360
	<u>217,000</u>	<u>194,360</u>
Total	217,000	194,360

Auditors' remuneration	25,000	15,000
Staff costs - salaries (excluding directors)	17,282	11,162
- payroll taxes	-	-
Foreign exchange loss	17,527	10,427
	<u>59,809</u>	<u>36,589</u>

The analysis of auditors' remuneration is as follows:

Fees payable to the Group's auditors for the audit of the Group's financial statements	25,000	15,000
	<u>25,000</u>	<u>15,000</u>
Total audit fees	25,000	15,000

4. LOSS BEFORE TAXATION (CONTINUED)	2007	2006
	€	€
Administrative expenses comprise:		
Professional fees	180,825	131,294
Net foreign exchange losses	17,527	10,427
Directors' remuneration	217,000	194,360
Printing and stationery	31,163	27,343
Other administration	137,922	119,684
	<u>584,437</u>	<u>483,108</u>

5. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

The remuneration of the key management personnel of the group is set out below in aggregate in accordance with IAS 24 'Related Party Disclosures'.

	2007	2006
	€	€
Short term employee benefits	<u>391,000</u>	<u>366,360</u>
Amounts receivable under long term incentive schemes:		
Share based payments	<u>205,971</u>	<u>-</u>

Included in the above is €74,000 (2006: €72,000) of short term employee benefits and €205,971 (2006: €Nil) of share based payments which were capitalised within exploration and evaluation assets.

During the year the company paid consultancy fees to Guy Delbes amounting to €10,450 (2006 : €31,919) Guy Delbes is a director of the company.

6. STAFF NUMBERS

The company had an average of three employees during the year. The number of employees at the end of the year was three (2006: one).

7. SEGMENTAL ANALYSIS

The group currently operates in two geographical markets; Iraq and Jordan. This is the basis on which the Group records its primary segment information.

By geographical market:

	Loss		Net assets		Intangible assets	
	2007	2006	2007	2006	2007	2006
	€	€	€	€	€	€
Iraq	-	-	12,294,710	6,963,930	3,541,541	3,030,155
Jordan	-	-	648,102	380,087	648,102	380,087
			<u>12,942,812</u>	<u>7,344,017</u>	<u>4,189,643</u>	<u>3,410,242</u>

The operations of the Group comprise one class of business, being oil and gas exploration and development.

8. INCOME TAX EXPENSE

No charge to taxation arises in the current period as the group has incurred tax losses. No deferred tax asset has been recognised on accumulated tax losses as the recoverability of any assets is not likely in the foreseeable future.

The deferred tax asset not recognised is analysed as follows:

	2007	2006
	€	€
<i>Deferred tax asset arising from:</i>		
Share based payments	25,746	-
Losses forward	483,353	418,486
	<u>509,099</u>	<u>418,486</u>
Loss before tax	(518,935)	(415,570)
Income tax calculated at 12.5%	(64,867)	(51,946)
<i>Effects of:</i>		
Losses carried forward	64,867	51,946
Income tax expense	<u>-</u>	<u>-</u>

9.	LOSS PER SHARE	2007	2006
		€	€
	Loss per share - Basic and diluted	(0.75c)	(0.62c)

Basic loss per share

The earnings and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2007	2006
	€	€
Loss for the year attributable to equity holders of the parent	(518,935)	(415,570)
	<u> </u>	<u> </u>
	2007	2006
	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	69,024,259	67,314,450
	<u> </u>	<u> </u>

Basic and diluted loss per share are the same as the effect of the outstanding share options is anti-dilutive and is therefore excluded.

10. INTANGIBLE ASSETS

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
Exploration and evaluation assets:				
Cost:				
Opening balance	3,410,242	4,919,367	3,399,005	4,322,562
Additions	779,401	3,421,929	779,401	3,302,716
Disposals	-	(1,997,409)	-	(1,292,628)
Transfer to construction contracts	-	(2,933,645)	-	-
Transfer to subsidiary undertakings	-	-	-	(2,933,645)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing balance	4,189,643	3,410,242	4,178,406	3,399,005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value:				
Opening balance	3,410,242	4,919,367	3,399,005	4,322,562
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Closing balance	4,189,643	3,410,242	4,178,406	3,399,005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Exploration and evaluation assets at 31 December 2007 represents exploration and related expenditure in respect of projects in Iraq and Jordan.

10. INTANGIBLE ASSETS (CONTINUED)

No amortisation is charged prior to the commencement of production. When production commences within an area of interest previously capitalised in respect of exploration, evaluation and development, these costs are amortised over the commercial reserves of the mining property on a unit of production basis.

The group's activities are subject to a number of significant potential risks including:

- Uncertainties over development and operational costs
- Operational and environmental risks
- Availability of funding

The realisation of these intangible assets is dependent on the successful development of economic reserves, including the ability to raise finance to develop the projects. Should this prove unsuccessful the value included in the balance sheet would be written off.

The transfer to construction contracts of €2,933,645 in 2006 relates to specific costs incurred in respect of the Subba & Luhais development services contract which were initially included within intangible assets. As these costs represented specific costs in respect of the contract they were transferred to construction contracts (Note 12).

The directors are aware that by its nature there is an inherent uncertainty in such development expenditure as to the value of the asset. In addition, the current economic and political situation in Iraq is uncertain. Having reviewed the exploration and evaluation assets at 31 December 2007, the directors are satisfied that the value of the intangible asset is not less than net book value.

Regional Analysis – Group

	Iraq	Jordan	Total
	€	€	€
At 1 January 2006	4,584,584	334,783	4,919,367
Additions	3,376,625	45,304	3,421,929
Disposals	(1,997,409)	-	(1,997,409)
Transfer to WIP	(2,933,645)	-	(2,933,645)
	<hr/>	<hr/>	<hr/>
At 1 January 2007	3,030,155	380,087	3,410,242
Additions	511,386	268,015	779,401
	<hr/>	<hr/>	<hr/>
	3,541,541	648,102	4,189,643
At 31 December 2007	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11. FINANCIAL ASSETS	2007	2006
	€	€
Investment in subsidiary companies		
Shares at cost - unlisted:		
Opening balance	11,237	11,237
Closing balance	11,237	11,237

The group consisted of the parent company and the following wholly owned subsidiaries as at 31 December 2007:

Name	Registered Office	Group Share	Nature of Business
Petrel Industries Limited	162 Clontarf Road, Dublin 3, Ireland	100%	Dormant
Petrel Resources of the Middle East Offshore S.A.L.	Damascus Street, Beirut, Lebanon	100%	Dormant

The company has entered into a joint venture arrangement with Makman Oil & Gas Engineering Limited to develop the Subba & Luhais development project in Iraq. The company has ultimate control of this project and accordingly it has been consolidated as a subsidiary. This joint venture arrangement did not generate either a profit or loss and accordingly no minority interest arises at the balance sheet date.

The directors are satisfied that the carrying value of the investment has not become impaired.

12. CONSTRUCTION CONTRACTS

	Group		Company	
	2007	2006	2007	2006
Work in progress:	€	€	€	€
Opening balance	10,396,141	-	-	-
Transferred from exploration and evaluation assets	-	2,933,645	-	-
Expenditure incurred in period	28,112,877	7,462,496	-	-
Work completed	(28,950,934)	-	-	-
Closing balance	9,558,084	10,396,141	-	-

The above relates to expenditure incurred and not billed in respect of the Subba & Luhais development services contract.

12. CONSTRUCTION CONTRACTS (CONTINUED)

The Subba & Luhais development services contract represents a contract with the Iraqi Ministry of Oil to assist design, supply materials and services for the development of this oil field. The total amount of this contract is US\$197 million.

The contract sets out details of when invoices should be raised and on that basis, in the opinion of the directors the carrying value is recoverable under the terms of the contract.

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
Current assets:				
VAT refund due	26,221	28,646	26,221	28,646
Other receivables	357,288	15,249	72,192	15,249
Trade receivables	28,950,934	-	-	-
Non-current assets:				
Amounts due from group undertakings	-	-	5,595,950	2,933,645
	<u>29,334,443</u>	<u>43,895</u>	<u>5,694,363</u>	<u>2,977,540</u>

As further outlined in Note 10 the value of the assets due from group undertakings is dependent on the successful development of economic mineral reserves, together with the successful completion of the Subba & Luhais development services contract and settlement thereof.

Trade receivables relates to amounts billed in respect of the Subba & Luhais development services contract during 2007. As disclosed in Note 12, there is an amount of €9,558,084 included as work in progress on this contract. The project is financed by a letter of credit, of which the amount outstanding at year end is €17,033,795 to the Trade Bank of Iraq, together with a 10% payment on account of €13,279,860 (as disclosed in note 14).

In the opinion of the directors the amount above is considered to be fully recoverable.

Other debtors are non interest bearing and are generally repayable within 90 days.

The carrying value of the receivables approximates to their fair value.

Included in the Group trade receivable balance are debtors with a carrying amount of €23,528,278 (2006: €Nil) which are past due at the reporting date for which the Group has not made any impairment provisions as there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables is 151 days (2006: Nil).

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Ageing of past due but not impaired.

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
90 – 120 days	4,923,967	-	-	-
> 120 days	18,604,311	-	-	-
Total	23,528,278	-	-	-

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date.

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	2007	2006
	€	€	€	€
Trade payables	5,237,385	-	-	-
Bank overdraft	17,033,795	-	-	-
Accruals	601,141	1,229,169	601,138	1,229,165
Amount due to group undertaking	-	-	3	3
Other creditors	697,944	33,280	13,153	33,280
Customer deposits	13,279,860	14,694,687	-	-
	36,850,125	15,957,136	614,294	1,262,448

The bank overdraft represents the amount drawn down on a letter of credit which is in place in respect of the Subba & Luhais development contract.

The customer deposits relate to payments on account received in respect of the Subba & Luhais development services contract – further details are set out in Notes 12 and 13.

It is the Group's normal practice to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, it is the Group's policy that payments are made between 30 - 45 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The carrying value of trade and other payables approximates to their fair value.

15. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash balances and various items such as trade receivables and trade payables which arise directly from trading operations. The main purpose of these financial instruments is to provide working capital to finance Group operations.

The Group does not enter into any derivative transactions, and it is the Group's policy that no trading in financial instruments shall be undertaken.

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group holds cash as a liquid resource to fund the obligations of the Group. The Group's cash balances are held in euro, sterling and in US dollar. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure.

The company has a policy of not hedging and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposures regularly and may consider the use of currency hedges in the future.

To date, the Group has relied upon equity funding to finance operations. The Directors are confident that adequate cash resources exist to finance operations for future exploration but controls over expenditure are carefully managed.

The group has a letter of credit in place with the Trade Bank of Iraq for €22,632,117. The amount drawn down and outstanding at year end in respect of this was approximately US\$24.8 million.

The main financial risk arising from the Group's financial instruments is liquidity risk.

Interest Rate Risk

The Group finances its operations through the issue of equity shares, and has no fixed interest rate agreements. The Group has no significant exposures to interest rate risk.

Liquidity Risk

As regards liquidity, the Group's exposure is confined to meeting obligations under short term trade creditor agreements. This exposure is not considered to be significant, and is fully financed from operating cashflow, or where there are insufficient funds during the development stage, through additional issues of ordinary equity shares.

Foreign Currency Risk

Although the Group is based in the Republic of Ireland, amounts held as exploration and evaluation assets were originally expended in currencies other than Euro aligned currencies. However, this expenditure is not considered to be a monetary asset, and has been translated to the reporting currency at the rates of exchange ruling at the dates of the original transactions.

The Group also has transactional currency exposures. Such exposures arise from expenses incurred by the Group in currencies other than the functional currency. It is expected that almost all future revenue will arise in US dollars. The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates, and restricting the buying and selling of currencies to predetermined exchange rates within specified bands.

15. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign Currency Risk (continued)

The Group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

Group

	Assets		Liabilities	
	2007	2006	2007	2006
Sterling	3,407,920	60,854	181,002	229,327
US Dollar	32,508,552	8,535,986	36,314,700	14,702,090

Company

	Assets		Liabilities	
	2007	2006	2007	2006
Sterling	3,407,920	60,854	181,002	229,327
US Dollar	5,815,300	4,237,439	78,869	7,403

16. SHARE CAPITAL

Group and Company
2007 2006
€ €

Authorised:

200,000,000 ordinary shares of € 0.0125 2,500,000 2,500,000

Allotted, Called-Up and Fully Paid:

Opening 67,468,039 (2006: 66,308,039) ordinary shares of € 0.0125 each 843,351 828,851

Issued:

4,761,757 (2006: 1,160,000) ordinary shares of €0.0125 each 59,522 14,500

Closing 72,229,796 (2006: 67,468,039) ordinary shares of € 0.0125 each 902,873 843,351

During the year, 4,761,757 ordinary shares were issued for cash at prices ranging from Stg£0.50 (€0.679) to Stg£1.15 (€1.562) to fund working capital.

The total number of options outstanding at 31 December 2007, including to directors was 4,870,000 (2006: 4,670,000) shares. The options are exercisable at prices ranging between €0.0339 and €1.78 in accordance with the option agreement.

17. SHARE BASED PAYMENTS

The Group has applied the requirements of IFRS 2 'Share-Based Payment'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested by 1 January 2006.

The Group issues equity-settled share-based payments to certain directors and individuals who have performed services for the Group. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is capitalised as the transaction relates to the payment of goods and services which qualify to be recognised as an asset.

Fair value is measured by use of a Black-Scholes model.

The Group plan provides for a grant price equal to the average quoted market price of the ordinary shares on the date of grant. The options vest immediately.

	2007	2007
	Options	Weighted average exercise price
Outstanding at beginning of year	-	-
Granted during the year	200,000	€1.78
Outstanding and exercisable at the end of the year	200,000	€1.78
Exercisable at the end of the year	200,000	€1.78

The options outstanding at 31 December 2007 had a weighted average exercise price of 178c, and a weighted average remaining contractual life of 7.75 years.

During 2007, 200,000 options were granted with a fair value of €205,971 (2006: Nil). These fair values were calculated using the Black-Scholes model.

The Group has availed of the exemptions available under IFRS 2 from including options vested before 1 January 2006 in the Black-Scholes calculations.

The inputs into the Black Scholes model are as follows:

	2007
Weighted average share price at date of grant (in cent)	131
Weighted average exercise price (in cent)	131
Expected volatility	48%
Expected life	7 years
Risk free rate	5.75%
Expected dividends	-

Expected volatility was determined by management based on their cumulative experience of the movement in share prices over the previous number of years.

17. SHARE BASED PAYMENTS (CONTINUED)

The terms of the options granted do not contain any market conditions within the meaning of IFRS 2.

The Group capitalised expenses of €205,971 (2006: €Nil) related to equity-settled share-based payments transactions during the period.

18. PROFIT ATTRIBUTABLE TO PETREL RESOURCES PLC

In accordance with Section 148 (8) of the Companies Act, 1963 and Section 7 (1A) of the Companies (Amendment) Act, 1986, the company is availing of the exemption from presenting its individual profit and loss account to the Annual General Meeting and from filing it with the Registrar of Companies. The loss for the year in the parent company was €518,935 (2006: Loss €415,570).

19. NON-CASH TRANSACTIONS

On 7 March 2007, the company issued 77,796 shares at Stg£0.50 each to financial intermediaries in lieu of commission on share placing.

On 10 February 2006, the company issued 1,000,000 shares at Stg£0.54 each to engineering consultants engaged by the company in lieu of fees for work done during the year.

20. CAPITAL COMMITMENTS

There were no capital commitments at the Balance Sheet date other than the Subba and Luhais development services contract.

21. CASH AND CASH EQUIVALENTS

	2007	2006
Group	€	€
Cash at bank	6,710,767	9,450,875
Bank Overdraft	(17,033,795)	-
	<hr/>	<hr/>
Cash and cash equivalents	(10,323,028)	9,450,875
	<hr/> <hr/>	<hr/> <hr/>
Company		
Cash at bank	3,673,100	2,218,683
	<hr/> <hr/>	<hr/> <hr/>

22. POST BALANCE SHEET EVENTS

There are no significant post Balance Sheet events affecting the Group.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of Petrel Resources plc will be held on 18 August 2008 in the Westbury Hotel, Grafton Street, Dublin 2 at 11:30 am for the following purposes:

1. To receive and consider the Directors Report, Audited Financial Statements and Auditors Report for the year ended December 31, 2007.
2. To approve the appointment of Guy Delbes as a Director.
3. To authorise the directors to fix the remuneration of the auditors.
4. To transact any other ordinary business of an annual general meeting.

Special Business

5. To consider and, if thought fit, pass the special resolution that the Articles of Association be amended as follows, to authorise the Company to send, convey or supply all types of notices, documents or information to the shareholders by means of electronic equipment for the processing (including digital compression), storage and transmission of data, employing wires, radio optical technologies, or any other electromagnetic means, including by making such notices, documents or information available on a website to all members who have consented or who have been deemed to have consented to such communications in accordance with the provisions of the Regulations:

(b) After the heading "136.", insert: "(a)";

(c) After the new Article 136(a), insert:

"(b) Notice of a meeting of members or class of members or any other document or information (whether or not required by law to be furnished) may be given by the Company using electronic communications to such address as may for the time being be notified to the Company for that purpose by a person entitled to such notice or such other document or information. Such notification by the person to the Company may, for the avoidance of doubt, be made by an electronic communication by or on behalf of that person. An address shall include an e-mail address or fax number as the Directors may from time to time decide. In such event, the notice shall be deemed signed if the name of the signatory is stated with the words "Signed" before that word.

(c) Without affecting Article 136(b), a notice in writing of a meeting and any such other document or information may be deemed to have been given to a person where:

- (i) The Company and that person have agreed (which agreement may, for the avoidance of doubt be made and/or evidenced by an electronic communication by or on behalf of the person) that notices of meetings and any such other document or information required to be given to that person may instead be accessed by him/her on a website;
- (ii) In the case of a meeting, the meeting is a meeting or of a class of meetings to which that agreement applies;
- (iii) That person is notified, in a manner for the time being agreed between him and the Company for that purpose, of:
 - (A) The publication of the notice or such other document or information on a website;
 - (B) The address of that website; and
 - (C) The place on that website where the notice may be accessed, and how it may be accessed; and

- (iv) The notice, or as the case may be, such other document or information continues to be published on that website, in the case of a notice of meeting throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting and in other cases for a period or not less than one month from the date of the notification.
- (d) A notice for such other document or information treated in accordance with Article 136(c) as given to any person is to be treated as so given at the time of the notification mentioned in Article 136(c)(iii). In such event the notice or such other document or information shall be deemed signed if the name of the signatory is stated with the words "Signed" before that word.
- (e) For the purpose of Article 136(c)(iii), the Company and a person shall be deemed to have agreed that notice of meetings and any such other document or information required to be given to that person may instead be accessed by him on a website if the person is contacted in writing to request his/her consent for the use of a website as a means for conveying information and the person does not object within 28 days of the date of such notice.
- (f) A notification of a notice of a meeting given for the purposes of Article 136(c)(iii) must:
 - (i) State that it concerns a notice of a company meeting serviced in accordance with the Articles;
 - (ii) Specify the place, date and time of the meeting; and
 - (iii) State whether the meeting is to be an annual or extraordinary general meeting.
- (g) This Article 136 shall be treated as being complied with, and in the case of a meeting nothing in Article 136(c) shall invalidate the proceedings for a meeting where:
 - (i) any notice or other document or information that is required to be published as mentioned in Article 136(c)(iv) is published for a part, but not all, of the period mentioned in that paragraph; and
 - (ii) the failure to publish that notice or other document or information throughout that period is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.
- (h) Where the Company sends documents to members otherwise than in hard copy form, any member can require the Company to send to him a hard copy version and the Company must do so free of charge and within 21 days of the date of the date of the member's request."

By order of the Board
James Finn
Secretary
20th June 2008

FORM OF PROXY

I/We
(BLOCK LETTERS)

of

being (an) ordinary shareholder(s) of Petrel Resources plc, hereby appoint the Chairman of the Meeting #

.....

of

as my / our proxy to vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on 18 August 2008 in the Westbury Hotel, Grafton Street, Dublin 2 at 11:30am and at any adjournment thereof.

I/We direct my / our proxy to vote on the resolutions set out in the Notice convening the Meeting as follows:

		FOR *	AGAINST *
1.	Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>
2.	Approve appointment of G. Delbes	<input type="checkbox"/>	<input type="checkbox"/>
3.	Remuneration of Auditors	<input type="checkbox"/>	<input type="checkbox"/>
4.	To transact any other ordinary business of an annual general meeting	<input type="checkbox"/>	<input type="checkbox"/>
5.	Amendment of Articles of Association To allow the Company to supply notices, documents or information to the shareholders by electronic means	<input type="checkbox"/>	<input type="checkbox"/>

Signature

Dated thisday of.....2008

If it is desired to appoint another person as proxy other than the Chairman of the Meeting the name and address of the proxy, who need not be a member of the Company, should be inserted, the words "the Chairman of the meeting" deleted and the alterations initialled.

* The manner in which the proxy is to vote should be indicated by inserting an "X" in the boxes provided. Proxies not marked as for or against will be regarded as giving the proxy authority to vote, or to abstain at his/her discretion.

NOTES:

1. In the case of a corporation this proxy must be under its common seal or under the hand of an officer or attorney duly authorised in writing.

2. To be effective this proxy must reach the address on the reverse hereof not less than 48 hours before the time of the meeting.

3. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of member in respect of such holding.

FOLD 2

The Company Registrar,
Computershare Services (Ireland) Ltd,
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18.

FOLD 3
(then turn in)

FOLD 1