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CHAIRMAN'S STATEMENT

Petrel has been active in Iraq for ten years. During that time, there have been a number of economic and political upheavals in the country, the area and in the wider world, but the events of the past eighteen months challenge even hardened optimists. Not only has Petrel faced ongoing civil strife in Iraq, continued legal uncertainty in the country, world markets where investors totally deserted small capital stocks, but we have not been paid for the work done on our large Subba and Luhais contract.

Since signing the US$197 million contract in 2005 and receiving US$20 million advance into a JV account from the Iraqi authorities, Petrel has completed approximately 50% of the project work. The work has been approved by the authorities. We have billed US$54 million against the project Letter of Credit, but the funds have not been disbursed. Protracted discussions have been ongoing for sixteen months. Agreements have been reached, the latest in March 2009, where payments are promised but to no avail. With extreme reluctance, we put the Subba and Luhais project on care and maintenance in October 2008, and temporarily disbanded a world class technical team.

What is frustrating is that solutions have been negotiated and agreed by both sides but not implemented. Petrel has proposed to the authorities that we are happy not to take payment in cash. Instead, we could take over operatorship of the field, complete the development ourselves, and take payment in the form of oil. This proposal is well received in certain circles, but the lack of a Hydrocarbon Law makes it difficult to implement.

It is difficult to convey to shareholders the current position in Iraq. The turmoil and chaos of the past six years has impacted on almost all administrative structures. The civil service, oil ministry and banking system have all seen significant changes in personnel. Political changes have further impacted on staff and policy. The Iraqi environment of 2008 / 2009 differs starkly from that of 2004 / 2005, when we tendered for, and won, the contract.

Our strategy has been to complete the development of Subba and Luhais as a first step to building an Iraqi oil company. We continue to explore every avenue to reach a settlement, but Petrel, and our contractors must either be paid or the contract must be changed, so that Petrel can take oil as payment. The agreements of September 2008 and March 2009 were comprehensive, covering payment, revisions to work programmes and rapid remobilisation. We are working assiduously to have the agreement implemented.

The impasse on Subba and Luhais is affecting our other operations in Iraq. In the past year, we have completed our work on the Merjan field, confirmed an agreement on Dhufriya, and maintained our interest in Block 6 in the Western Desert. The Merjan study was joint ventured with Itochu of Japan, one of the largest Asian conglomerates. All existing data was reviewed and analysed, and development proposals prepared. We have indicated to the authorities that we would develop Merjan. We completed documentation on Dhufriya during 2008. We have received all available seismic and geological information. It is with our team in Amman. Progress is on hold pending a solution to the payment problem.

We have been in the Western Desert of Iraq since 2000, when we were invited to study Block 6, a 10,000 square kilometre block, which had little prior exploration. We spent two years analysing all available data and conducting work on adjacent blocks, particularly in Jordan. We reached agreement on terms in 2002, but the final documents were not signed. The Ministry of Oil is aware of our status in relation to Block 6. We are hopeful that we will be awarded title when the Hydrocarbon Law is passed. We have an agreed work programme, which involves seismic and wells. We have a seismic team ready to move on short notice, but prior to commencing work, we would need title and confidence that agreements will be honoured.

Apart from Iraq, we are active in Jordan on the East Safawi block. Intensive work done by Petrel in recent years has identified drillable targets. This is a "frontier" area in terms of oil discoveries, so we prefer to joint venture the risk. Extensive discussions with a multinational came to nothing, while negotiations are ongoing with experienced Middle East corporates.

Finance

The US$20 million received by the joint venture from the Iraqi authorities on the commencement of the Subba and Luhais contract funded operations for some time, but as outlined above, completing almost 50% of a US$197 million contract is costly. All of the sums due are covered by the Project Letter of Credit. The net amount immediately due to Petrel is US$8 million. We have stopped work and cut expenditure.

In March of this year, a long standing institutional shareholder offered funding. Two other investors agreed to participate in the placing and US$3 million was raised at a price close to that prevailing in the market.

This money will keep Petrel going for the next eighteen months.

Future

We want to stay in Iraq. We want to be part of the oil industry development. We want to do this as a principal, not a contractor.

The opportunity in Iraqi oil has not changed. Oil costs US$2 a barrel to produce. There are over 70 known fields waiting to be developed. It makes absolutely no sense that oil production in Iraq is falling to less than 2.4 million barrels a day when it can rise to 10 million barrels a day. Iraq badly needs the revenue and the world needs the oil.

It is the potential which keeps Petrel in Iraq. The political, legal, administrative and banking uncertainty will, and must, clarify. We believe that we can work through the labyrinth of Baghdad, get paid, and deliver a 200,000 barrel a day oil field to the people of Iraq.

John Teeling
Chairman

17th June 2009

MANAGING DIRECTOR'S REPORT

HIGHLIGHTS

Petrel has four main operations in Iraq:

- Subba and Luhais
- Merjan
- Dhufriya
- Block 6

Petrel's main project is the US$197 million Engineering Procurement & supervision of Construction (EPC) Contract on the Subba & Luhais oil fields in southern Iraq. This project is now 49% complete. The project is delayed due to payment problems and changes in design.

Following extensive negotiations, in March 2009 Petrel received and accepted a formal payment proposal. An extended schedule for completion and other work changes were also agreed. Once payment is received, we will push the completion of the project. On the Merjan Oil Field, a comprehensive technical review of the work conducted by Petrel, in partnership with Japan's Itochu, was satisfactorily completed during 2008.

During the year, the Dhufriya gas & oil field Technical Cooperation Agreement was confirmed. Data sets were prepared and transferred to Petrel's seismic contractor. Petrel's team are now ready to conduct reprocessing and reinterpretation, on confirmation of the study timetable and necessary approvals of the proposed work programme.

Petrel has also been in early stage negotiations with funders and operators in the downstream sector. Typically these are capital intensive projects requiring very long-term gas (or oil) supply contracts at agreed price formulae.

A shallow oil target has been worked up on the Petrel 100% owned East Safawi project in the Jordanian panhandle. Farm-out discussions continue. Petrel has applied for an extension, offering a drill hole instead of additional seismic.

Circa US$3 million was raised from existing institutional shareholders, in May 2009.

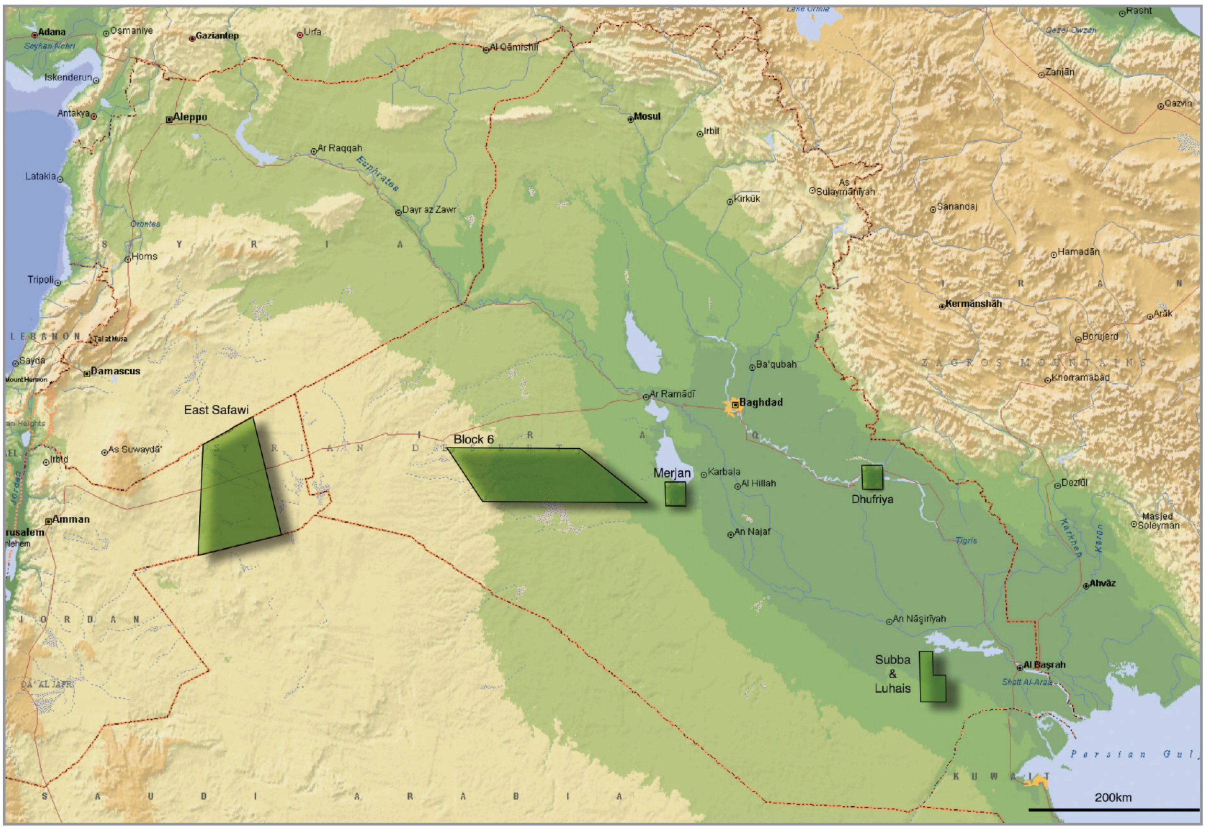


Figure 1: Regional Map of Petrel's Interests

Ten Years Active in Iraq

The Iraqi Ministry is going through a period of turbulence now, with senior personnel changes and policy review. Oil production is stagnating. We are optimistic that promised reforms will proceed, we will be paid and we can progress again.

Petrel's consistent objectives since 1999 have been to secure an oilfield in Iraq and to operate contracts with the Iraqi Ministry of Oil, completing them to the highest international standards.

Petrel continues to work only with the Iraqi Central Government Authorities and has no business relationships with any of the Regional Authorities. All of Petrel's contracts are with the official Ministry of Oil of the sovereign government of the Republic of Iraq. In our belief, this is the correct and secure way to proceed. Local relationships are important, but not to the point where they undermine legitimate authority.

Figure 2: Technical Workshop with Iraq Ministry of Oil Staff

As part of our relationship, Petrel has trained Ministry staff, undertaken technology transfer work on the Merjan and Dhufriya fields, and has studied, at the request of the Ministry, Block 6 in the Western Desert.

Our work on Merjan has been reviewed and endorsed by the Technical Committee of the Ministry. A subsequent thorough Ministry technical and Petroleum Licensing & Contracts Directorate (PLCD) review also endorsed our technical work.

Petrel works with, where possible, Iraqi sub-contractors to maximise flexibility and personal security. Petrel has maintained a continuous Baghdad presence since 2000.

No Western Junior Company Has More Recent Iraqi Experience

Petrel has been continuously active in Iraq for 10 years. Our management team has 200 man-years of Iraq oil experience. We are familiar with the difficulties and opportunities in what is one of the world's best oil provinces.

It has been a challenging time, with sanctions, war and civil disturbance. There have been highs and lows, but we have steadily built our expertise. Progress is slower than we would like, but so far the hurdles have always been overcome. No foreign company has a better safety or security record in Iraq - with zero casualties or incidents and no cost or harm to our reputation.

The Iraqi oil industry is stressed, over-stretched and needs fresh development. Personnel are ageing and equipment is rusting. There is high turnover, especially of senior staff - who are under extreme pressure. This is a critical bottleneck, as it can take many years to develop sufficient experience for key tasks.

Current tender processes are designed for more normal situations and are not best suited for quick acquisition of key equipment, and tailoring approaches to particular problems. The tendering strategy tends to accept the lowest price, with cheap and readily available equipment favoured over bespoke solutions that could boost recoveries and early production, strip out valuable liquids and use flared gas for power generation or re-injection. Such sensible measures may involve extra up-front CAPEX and/or OPEX, but generate high and quick returns. Individual managers and engineers understand these issues, but the system is not yet fine-tuned.

People turnover can lead to second-guessing and failure of collective memory. Of course, the background situation is far from ideal - but that is further reason for pragmatic, swift solutions. The theoretically perfect is often the enemy of the good.

The good news is that solutions can be devised and implemented with the right partnership structures. Geology and terrain are not great problems. The experience we have earned the hard way will prove valuable.

Given all the setbacks and challenges since 1980, it is a miracle that Iraqi oil production remains at 2.4 million barrels daily (mmbod). On the other hand, it is disappointing that, six years after the lifting of constraining sanctions, output remains below the level previously attained.

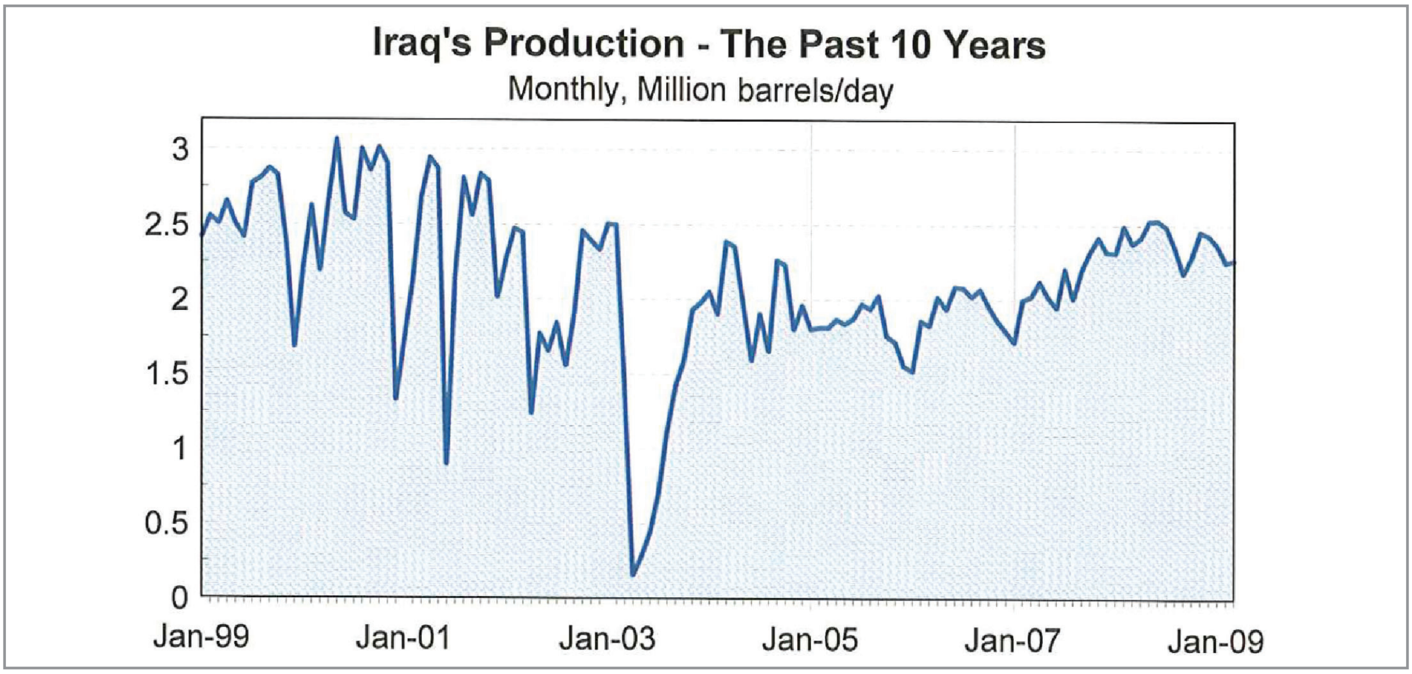


Figure 3: Iraqi Oil Production 1999-2009 (Source: ISI)

The Importance of Iraq
As access to major resources diminishes and fiscal returns shrink, the geology and economics of Iraqi oil have never been more attractive. Development delays are due to politics, not geology or market demand.

Iraq offers the perfect package of the lowest exploration costs combined with the lowest production cost worldwide. Iraqi structures are large, oil quality is excellent and exploration successes are the best worldwide.

The world needs Iraqi oil development urgently: global oil demand remains resilient. Almost no net oil capacity has been added outside OPEC since 2004. Many exporting countries are in decline. OPEC capacity additions have been slow to appear.

Iraq was a founder member of OPEC, but Iraqi output is not currently nor likely to be constrained by OPEC quotas. Comments from high officials, within Iraq and OPEC generally confirm that Iraq is a special case in need of refurbishment and new development.

There has never been a better time to add major new low-cost capacity.

Preparing For The Opportunity
Petrel has painstakingly built a team, trained people, husbanded resources and prepared for the opportunity which must come. Most shareholders have been patient and their patience may be tested again. We are in the right place, with the right people, and we are talking to the right potential partners at the right time. We never give up and we never go away.

A combination of regional and international issues, exacerbated by Ministry staff turnover and evolving policy has slowed development. But pressure for urgent reform is building. Stagnant output of 2.4 mmbod is increasingly being eaten into by domestic needs. While this is well under Iraq's potential, output might fall further without normal, routine refurbishment.
Iraq must increase its production. This is in the interest of Iraqis, consumers and the industry.

Legal Structures Gradually Clarifying
Uncertainty remains over the timing and detail of legal structures to develop Iraqi oilfields in partnership with the Ministry of Oil. Though adequate 1970s and 1980s legislation remains on the Statute Book, the ongoing divisive debate over a new Hydrocarbon

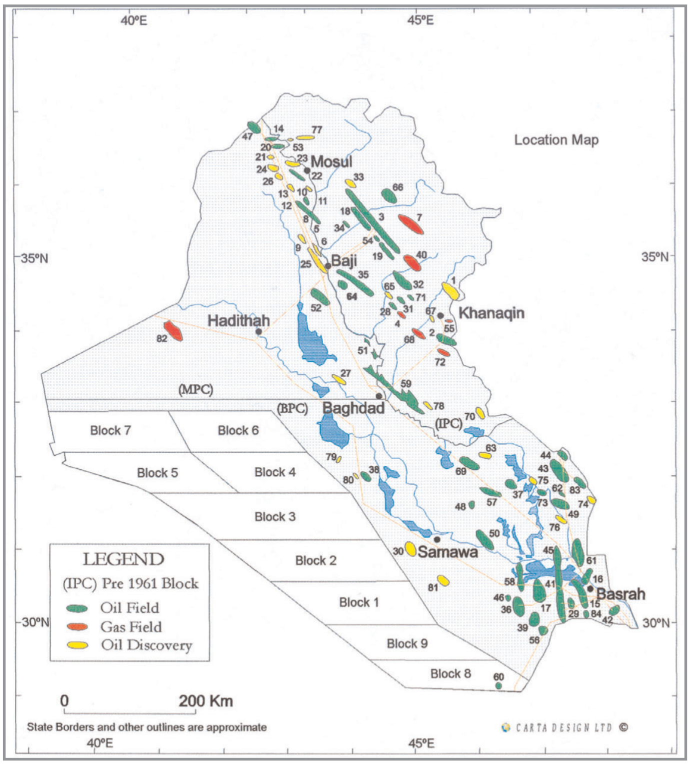


Figure 4: Iraq's Oil and Gas Fields

1. Chia Surkh	2. Naft Khaneh	3. Kirkuk	4. Khashm Al Ahmar
5. Qaiyarah	6. Khanuqah	7. Chemchemal	8. Najmah
9. Sadid	10. Qalian	11. Qasab	12. Jawan
13. Adaiyah	14. Ain Zalah	15. Zubair	16. Bin 'Umar (Nahr Umr)
17. Ratawi	18. Bai Hassan	19. Jambur	20. Butmah
21. Gusair	22. Atshan	23. Alan	24. Sarjoon (Sasan)
25. Makhul	26. Ibrahim	27. Falluja	28. Injana
29. Tuba	30. Samawa	31. Gilabat	32. Pulkhana
33. Demir Dagh	34. Qara Chauq	35. Hamrin	36. Luhais
37. Dujaila	38. Kifl	39. Rachi	40. Kor Mor
41. Rumaila N&S	42. Siba	43. Buzurgan	44. Abu Ghirab
45. West Qurna	46. West Luhais	47. Sufaiyah	48. Gharraf
49. Halfayah	50. Nasiriya	51. Balad	52. Tikrit
53. Raffan	54. Khabbaz	55. Jaria Pika	56. Jraishan
57. Rafidain	58. Subba	59. East Baghdad	60. Abu Khema
61. Majnoon	62. Noor	63. Dhufriya	64. Saddam
65. Judaida	66. Taq Taq	67. Nau Doman	68. Mansuriyah
69. Ahdab	70. Badra	71. Qamar	72. Tel Ghazal
73. Amara	74. Huwaiza	75. Kumait	76. Rifaee
77. Jabal Kand	78. Nahrawan	79. Merjan	80. West Kifl
81. Diwan	82. Akkas	83. Jabal Fauqi	84. Safwan (S. Zubair)

Law has raised worries - as have attempts of northern regional authorities to creep towards effective independence.

Anyone proceeding without actual and perceived legitimacy risks future difficulties or even expropriation. There are no short cuts or easy answers in such situations. In the race to gain a legitimate share of Iraqi oil development, the tortoise is likely to triumph over the hare. There are issues of legal and physical certainty. There is no absolute legal title in rapidly evolving, confused situations exacerbated by personnel changes. You need to patiently work your way around barriers and be accepted as useful by the proper authorities.

There have been delays in regularising and clarifying the legal framework for investment in the industry on terms sufficient to secure funding. This has frustrated early development, leading to lower than planned production as well as flaring of gas and even condensate - involving unnecessary pollution, a shortage of power generation and loss to the Exchequer.

During 2008/9, the authorities sought to develop output as far as possible via service contracts. Petrel was a pioneer of this. Like Ministries in many countries, the advantages of attracting super-majors and National Oil Companies seemed compelling. But as time passes, the disadvantages of relying on very large and inflexible organisations have also become apparent. We are confident that in time, there will evolve a balanced approach utilising the skills and resources of a range of players and aligning the interests of foreign investors and the Iraqi people.

No formal national revenue sharing plan or renewed national oil company structure has yet been agreed. Attempts to agree service agreements with Super-Majors and National Oil Companies resulted only in the signature of the Chinese Al-Ahdab comprehensive field development and the Shell gas-gathering agreements, both arcane service arrangements, which ruffled nationalist feathers.

From a practical perspective, there is little alternative to patiently working our way around the impediments. Iraq's history with major oil companies and western powers impacts the debate and complicates decision-making.

Our experience and judgement now tells us that we are close to major policy and market changes that will open the opportunities for which Petrel has laboured for a decade. It is a time for boldness, confidence and energy.

Current Situation

Current Iraqi production is below 2000 levels and far below the 3.45 mmbod production of 1990. Iraq needs capital, people and technology to arrest the production decline and to boost exports. Many large, producing fields need water injection, well work-overs and intensive exploration and development drilling.

Up to 2003, it was frequently asserted that Iraqi production would soar under a change in political control. Instead, the Hydrocarbon Law to replace 1980s legislation has not yet been passed. A renewed National Oil Company structure has not yet been agreed. This results from the hollowing out of the Iraqi oil industry as a result of successive wars, civil conflict and sanctions from 1979 to date. It has nothing to do with geology.

At least half of Iraq's potential reserves and production lie in the predominantly Shia-populated south, close to existing infrastructure and export terminals. The balance of 4 to 5 mmbod production potential is about evenly split between the

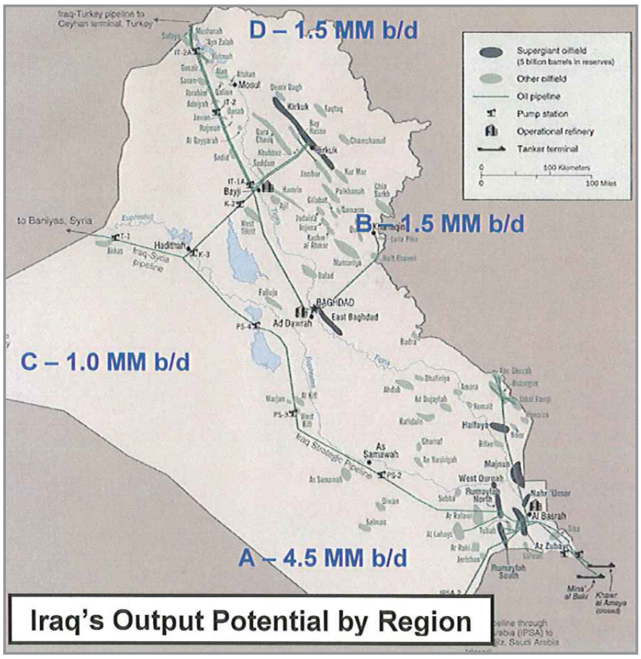


Figure 5: Iraq's Output Potential by Region (Source: ISI)

unexplored west, the centre and the north. Southern exports are effectively constrained only by field production capacity. Northern exports are constrained by practical difficulties transporting via Turkey and Syria. One of the export lines through Turkey is closed in need of repair of a 50 kilometre corroded section. The other has exported only about 25% of its rated capacity since 2007.

A small western oil pipeline exported to Haifa in then Palestine until 1948. The Hadithah to Tripoli export line was reopened in 2001, and exported up to 225,000 bod until the 2003 war.

Renewed interest in re-opening and extending the Syrian pipeline to Turkey and ultimately Europe, as well as development of the Arab pipeline from Egypt through Jordan, are transforming the Iraqi western desert from a sideshow to main export thoroughfare.
Until 1990 Iraq exported about 1.2 mmbod via 2 pipelines to Saudi Arabia, but these remain shut.

Nearly all of Iraq's export barrels are via the southern strategic pipeline to terminals at Khor al Amaya and Bakr on the Gulf near Basra. This area is familiar to Petrel, who has operated there and transported equipment through the container port throughout 2008.

Rising concerns over European dependence on Russian gas, sensitivities over the politics of countries through which alternative pipelines must pass, allied with economic issues over alternatives, heighten interest in the Iraqi western desert as both a producing area and access route. Petrel was a pioneer in studying and understanding the western desert, studying Block 6 since 1999 and conducting the Merjan Technical Cooperation Agreement study between 2006 and 2008. Until recently, this western desert area was widely considered to be barren or mainly gas-prone. More recent estimates by various bodies now estimate western desert potential resources as one of the largest unexplored frontier areas worldwide, with possibly, as much as 100 billion recoverable barrels of conventional oil.

IRAQI OPERATIONS

MERJAN OIL FIELD TECHNICAL COOPERATION AGREEMENT

In 2007, Petrel completed a study of the Merjan oil field on the western edge of the Euphrates river valley in central Iraq. This was updated with some additional data and reviewed at a high level by the Ministry during 2008.

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

The shallow depth Merjan oil field was discovered in 1983 by accident while exploring a deep reef target. This confirmed that Iraq's oil potential extended westwards. The discovery was not developed due to OPEC limitations and the political circumstances then prevailing.

The initial 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 range of modern oil industry techniques, including cutting-edge seismic inversion by Fugro-Jason, was used.

The work included a broadening of previous regional analysis of the western desert, including Block 6. Its output included detailed analysis of seismic data and well logs made available to our team. We confirmed that the oil-bearing structure extended well beyond the previously mapped structure. Definitive delineation of the field's extent requires a proposed work programme of targeted wells and 3D seismic, when suitable contract arrangements are in place.

During 2008, this study was reviewed by an expert technical team and also a review panel from senior officials of the Ministry's Petroleum Contracts & Licensing Directorate. Both the technical team and PCLD approved the work.

Petrel maintains its interest in this project and hopes to refine reserve estimates when additional information becomes available. We are interested in further exploring and developing this field if and when it is legally possible. The field has the possibility to become a 100,000 barrel a day producer.

DHUFRIYA GAS AND OIL FIELD TECHNICAL COOPERATION AGREEMENT

Following successful completion of the initial Merjan Oil Field work, the Chairman of Petrel's Framework of Case Study recommended Petrel for an additional Technical Cooperation Agreement (TCA).

The Dhufriya gas & oil field Technical Cooperation Agreement study was proposed by the Ministry in 2007 and confirmed in 2007, after which technical meetings reviewed available data and a work programme. Seismic and well data were then prepared and transferred to Petrel's Amman-based contractor during 2008. Our contractor, GSC, and the Petrel team will conduct reprocessing and reinterpretation, provided and as soon as we receive confirmation and approval of the proposed work programme.

WESTERN DESERT BLOCK 6

Other than regional work associated with the Merjan oil field, no geological or geophysical work was conducted on Western Desert Block 6 during 2008.

The Iraqi authorities are working their way through the pre-2003 contracts and agreements on Western Desert Exploration Blocks and have had discussions with ONGC on Block 8 and Pertamina on Block 2.

Petrel remains interested in the region and hopes to move forward with a full exploration programme as soon as title is confirmed. The security situation had been challenging in this area, but dramatically improved during 2008. Our geophysics contractor GSC has confirmed the availability of a field crew to shoot a state-off-the-art 2D, or if necessary 3D, seismic survey.

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 & 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 & 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 and usefulness as much as formal legal title. There are many examples of resource nationalism worldwide where 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 its title and participate fully in Iraqi oil exploration & development no matter how the Hydrocarbon Law debate plays out and which policy options are chosen by the authorities to develop Iraq's resources.

Figure 6: Edge of the Basalt Flows, East Safawi

Figure 7: RH - 1 Well Head, East Safawi

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 higher oil price since 2002.

The new model currently envisages a 5 year exploration period, extendible by 2 years extension, 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 remains ready to start seismic acquisition and other field work as soon as title is confirmed.

Figure 8: PS1 Oil Receiving Station Q4 2008 (Subba and Luhais)

SUBBA AND LUHAIS OIL FIELD DEVELOPMENT

The Subba and Luhais oil field development services project is one of the largest EPC (Engineering, Procurement and supervision of Construction) contracts awarded by the Ministry of Oil.

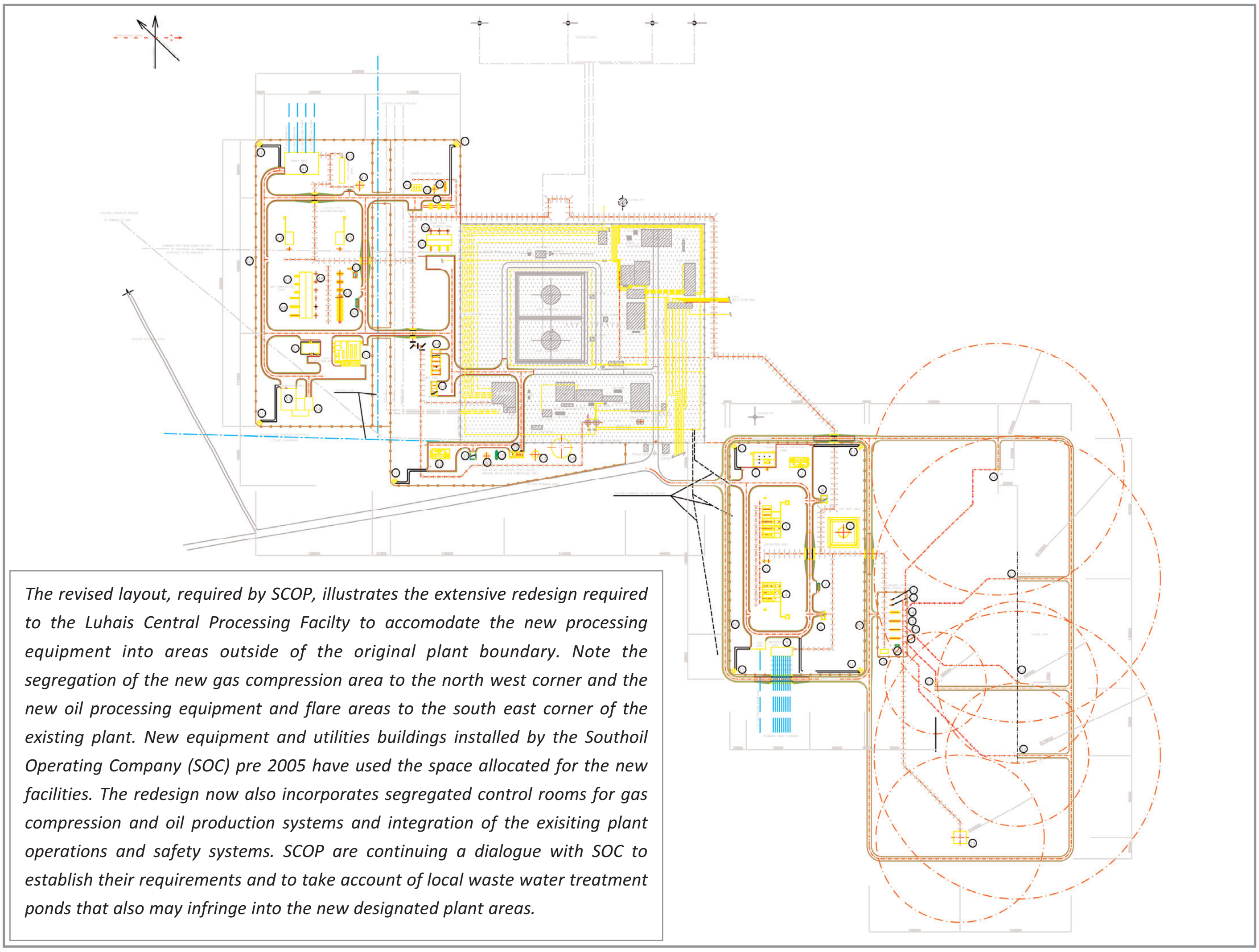
The development of the Subba and Luhais oilfields will provide a minimum capacity of 200,000 bod and 120 million cubic feet of associated gas for export from the field area. Much of this gas is designated for use to support power generation for the Iraqi National Grid. The US$197 million development services contract is almost half completed with deliveries of major equipment packages to the designated site location.

We were awarded the project in Q4 of 2005. Petrel was guided by the Ministry on selection of partners and suppliers. We received a US$20 million advance payment.

The agreement stipulated that all money due be paid for completion of design and equipment deliveries should be paid into conventional accounts in a normal international bank over which Petrel has proper information and control. It was also agreed that Petrel be provided with full and proper details of Bank Guarantee and Letter of Credit conditions to ensure integrity and continuation of the Project.

Since our Contract signature in December 2005, Petrel has mobilised engineering and project personnel and completed work and delivered equipment at 49% of the project worth. Our reported progress has been fully documented in monthly reports and reviews and not questioned or refuted by the Iraqi authorities.

Under the Contract payment terms only US$54 million has so far been invoiced plus some US$1 million for additional survey and re-engineering. This amount has not been paid to date. In early 2008, we believed we had an agreement to pay. In September



The revised layout, required by SCOP, illustrates the extensive redesign required to the Luhais Central Processing Facilty to accomodate the new processing equipment into areas outside of the original plant boundary. Note the segregation of the new gas compression area to the north west corner and the new oil processing equipment and flare areas to the south east corner of the existing plant. New equipment and utilities buildings installed by the Southoil Operating Company (SOC) pre 2005 have used the space allocated for the new facilities. The redesign now also incorporates segregated control rooms for gas compression and oil production systems and integration of the exisiting plant operations and safety systems. SCOP are continuing a dialogue with SOC to establish their requirements and to take account of local waste water treatment ponds that also may infringe into the new designated plant areas.

Figure 9: Revised Layout of Subba and Luhais Central Processing Facility

2008, at subsequent comprehensive meetings in Istanbul, Petrel agreed with the Ministry's State Company for Oil Projects (SCOP) a basis for early re-mobilisation and completion of the Subba & Luhais project and for immediate payment. A further agreement in March 2009 clarified outstanding issues. We await payment.

The project was put on care and maintenance in October 2008, but we are ready to mobilise at short notice.

In addition to payment issues, official determination to maintain & increase oil production, during construction, resulted in design changes by SCOP relating to the plant layouts. This has primarily been as a result of the Ministry's South Oil Company (SOC) expanding its own operations within the Luhais Plant and using space allocated for the SCOP design. Similarly, delays to power distribution networks and availability of utilities to the Luhais area have continued.

Despite payment delays, Petrel continued with field survey work and submitted technical proposals and responses to SCOP and SOC requests.

Petrel presented proposals in late 2008, recently updated in 2009, for a revised basis of design and a revised Project schedule. Our re-scheduling has been accepted in principle by SCOP.

The absence of a normal, modern commercial banking system within Iraq complicates payments, particularly relating to Letters of Credit and Bonds. The Iraqi authorities use wordings and practices which differ from recognised practice elsewhere in the industry. Petrel needs 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 which could incur liabilities and penalties. Petrel has advised the Ministry that it is unreasonable to expect companies to pay for duplicate and extended bonds or incur additional expense outside the contract without reasonable recompense. Delays in decision making and implementing approved payments are compounding project schedule delays - particularly when costs have escalated and remaining key items of equipment are subject to long lead-times.

On a positive note equipment already delivered is in safe and secure storage at site in the custody of the Ministry awaiting installation once SCOP commence their construction works at the site areas. Ministry officials continue to plan the construction programme at the four main processing plants. 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.

Our established relationships with Iraqi logistical operators in the southern area of Iraq are intact. No security and logistical problems have occurred. After more than 3 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.

Chief milestones for 2008 were:
- The Project Management team were fully operational in Europe, Jordan and Iraq;
- Detailed Design status is reported at circa 66% completed, with overall Project completion of 49%. Technical discussions and meetings have continued with SCOP and SOC to incorporate design and operational changes required by SCOP;

Figure 10: Convoys Unloading at Basra, December 2008

- Layouts for the Luhais and Subba processing plants needed to be changed to accommodate changes requested by SCOP and SOC; and
- Deliveries continued to site. No security problems have been encountered.

Next Steps:

- The US$197 million Letter of Credit from the Trade Bank of Iraq must be amended to incorporate the changes to the timing schedule along with associated Bonds and Guarantees for the Project; and
- Petrel awaits receipt of outstanding monies owed under the signed letter received from SCOP in March 2009.

JORDANIAN OPERATIONS

From 2007 to date Petrel has maintained an office in Amman, Jordan. This supports both existing and potential projects in Jordan. It is mainly staffed by experienced Iraqi personnel as sub-contractors. It is also used to assist in Iraqi operations logistics.

EAST SAFAWI BLOCK, JORDANIAN PANHANDLE

During the first year of the East Safawi Production Sharing Agreement (PSA), Petrel identified potential drill targets in the Triassic section in the north of the East Safawi block. The carbonate prospects are relatively shallow and have the potential to hold commercial quantities of hydrocarbons. Petrel commissioned leading contractor, Fugro-Jason, to carry out acoustic impedance conversion of selected seismic data. The results supported our technical interpretation and provided a range of volumetric values for the reservoir.

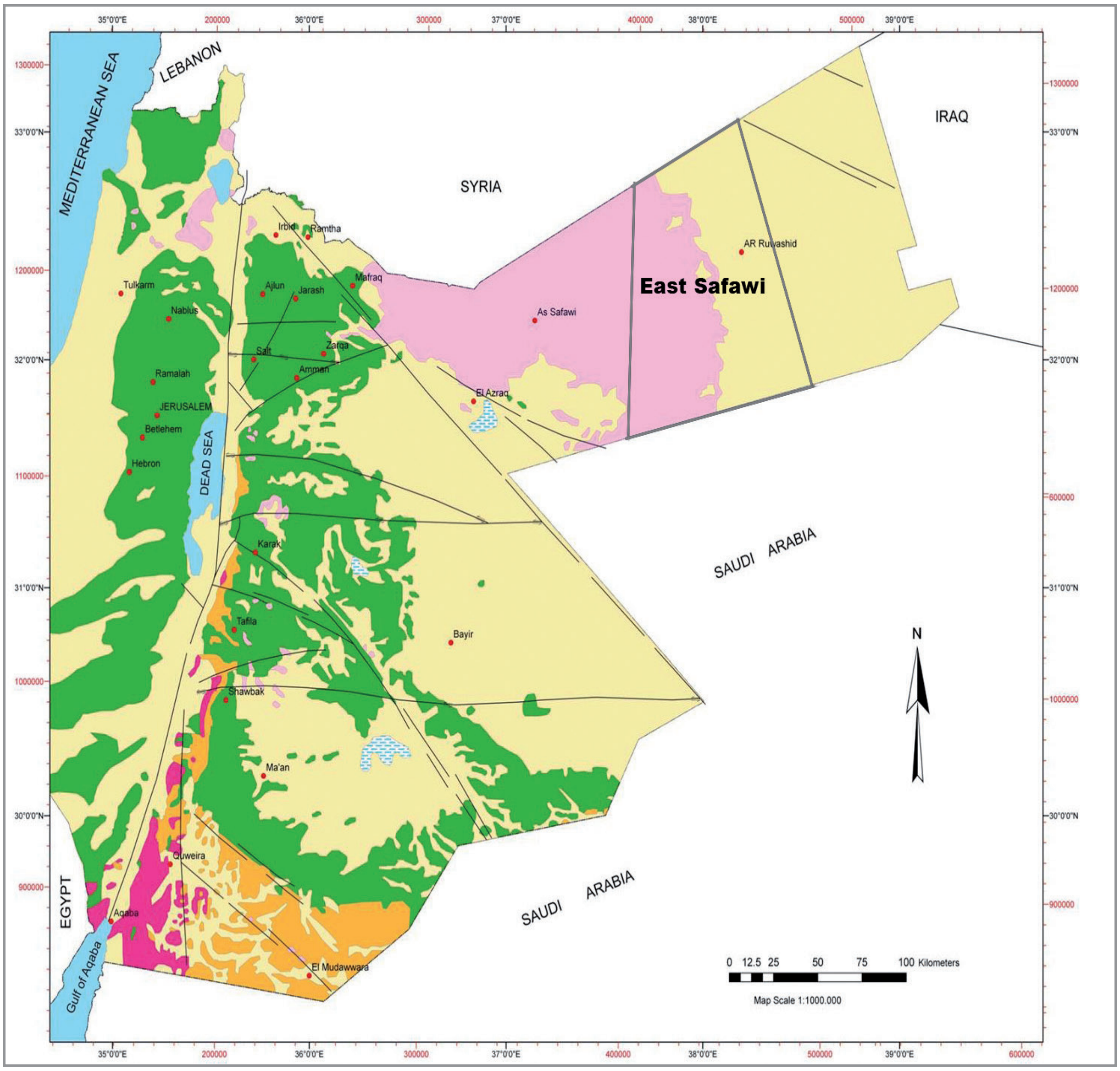


Figure 11: Jordan Hydrocarbons Block Map showing East Safawi

Detailed technical work between 2004 & 2008 did not identify the 'Risha type' deep gas targets we had originally sought in East Safawi. The sands at the target depth appear to be thin and tight.

However, our technical experts did develop a moderate depth oil play in the untested Triassic section. This is comparable to the reef plays in Libya, albeit of different age and it is so far untested. If this well were in Libya it might have a 50% chance of commercial success. In a new province, it is maybe a 20% chance. This is more or less in keeping with exploration-type 'wildcats' elsewhere.

On the positive side, Jordanian PSA terms are good for oil. Jordan is a secure, pro-investment country. There is good site access and a ready market.

Therefore this new play should be tested. This can only be done by drilling, as seismic would not significantly reduce the risk.

Need To Spread Risk & Amend PSA
Targets identified on the East Safawi acreage represent an entirely new play in a new basin that has not previously been drilled. Hence, there are unknown technical elements that add risk to the play. Accordingly, Petrel sought to minimise its exposure to the ongoing exploration costs by attracting partners.

Since the drill targets are well-defined on the existing seismic Petrel sought an amendment to the PSA work programme from the Jordanian Natural Resources Authority to allow postponement of the obligatory seismic survey until after a well had been drilled. This amendment was granted by the NRA in March 2009.

Because of the limited time between confirmation of the amendment to the PSA work programme (in March 2009), and the date then specified for completion of that phase of work (due to be completed by end May 2009), it was impractical to complete a farm-out or well funding. Accordingly, Petrel applied to extend this phase of the East Safawi PSA for six months to complete farm-out negotiations and to spud a well on the Triassic oil play.

Figure 12: Petrel Geological Field Work

The upside is substantial, with excellent PSA terms and a Fugro modelled oil potential over 1 billion barrels of oil-in-place, subject to technical assumptions. However, like most wildcats, the well would be odds-against. Given the risks and benefits, added to the non-central core nature of Jordanian operations, Petrel opted to avoid share dilution by negotiating with an oil major and with Middle East investors interested in this sort of venture.

Figure 13: Basalt Plateau, East Safawi

Provided we are given sufficient time and financial markets stabilise, this is the sort of farm-out opportunity that would normally attract interest on favourable terms.

Extension of Area

The East Safawi Block includes stretches of the border with Syria and Saudi Arabia. Delineation of the Block's parameters initially left a contiguous strip of Jordanian border area outside the Block. We are happy to report that as of May 2009, the area of the East Safawi PSA has been extended slightly as a result of NRA updating of its coordinates and policies. The new area of the East Safawi Block is 9,459 square kilometres.

FINANCE

Petrel has sought to limit shareholder dilution, and has raised a total of circa US$15 million since 1997. Circa US$3million of this was raised, from existing institutional shareholders, in May 2009. In addition, we have had discussions with potential investors who can supply long term finance, as well as Middle East experience and contacts.

The recent placing, undertaken at the initiative of a longstanding institutional shareholder, shows that Petrel's long-term commitment to working with the Iraqi authorities, to international professional standards, finds City support.

IRAQI OPERATIONS - THE FUTURE OPPORTUNITY

Petrel has worked intensively for 10 years on Iraqi oil. The objective remains, as it was in 1999, to end up with a Production Sharing Agreement or risk-sharing equivalent on a large Iraqi oil field. This might be achieved through the;

(a) gradual transition from a Services Contract (as with the Subba & Luhais EPC Contract) to an operated field arrangement with a share of the upside;

(b) development of a discovery under an Exploration & Development Contract or arrangement with the Iraqi Ministry on a substantial acreage such as Iraqi Western Desert Block 6; or

(c) outright award of an existing field for development, either by direct negotiation or bid round.

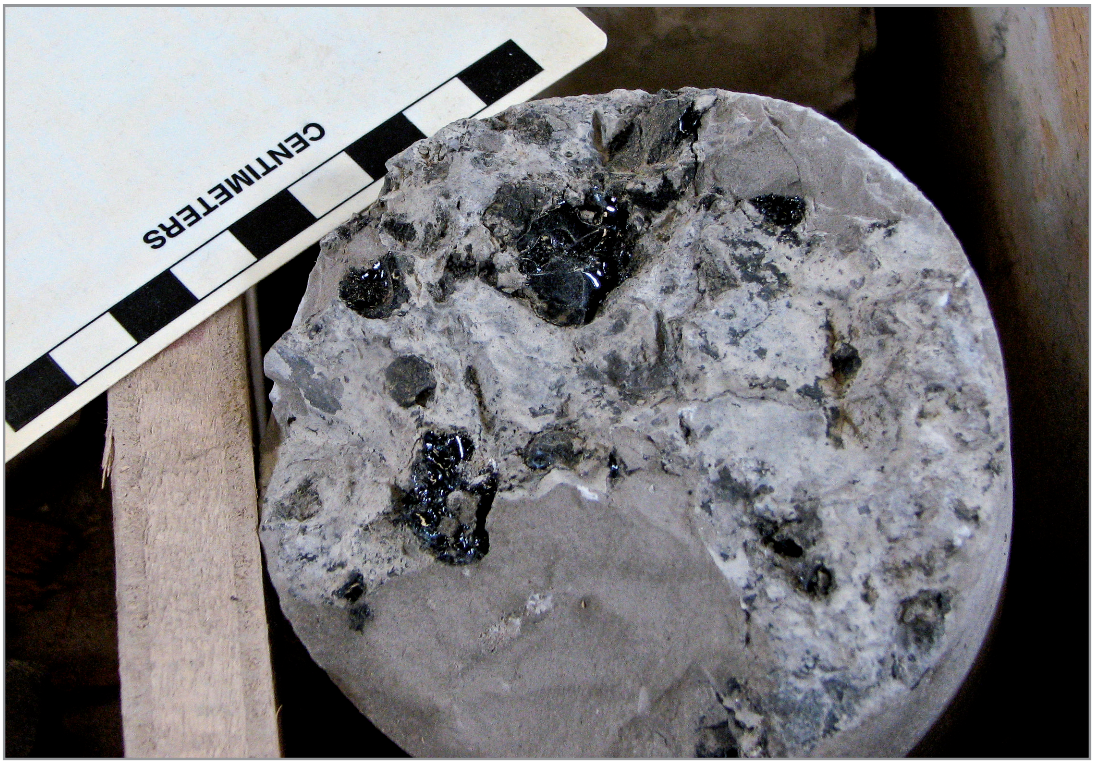


Figure 14: Bitumen in Well Core

The economic potential of a Production Sharing Agreement or equivalent on a large Iraqi oil field is very high compared to the market capitalisation of Petrel. Iraqi historical finding costs and extraction costs have approximated US$1 per barrel - the lowest worldwide. Even doubling this to reflect cost escalation gives circa 93% gross margins.

Most of such high economic returns will go to the State, as in any country. This causes no problems to committed, long-term players like Petrel, provided interests are aligned and returns adequate.

Field size (multi-billion barrel recoverable and similar potential at greater depth) is also very large in Iraq. Infrastructure in the centre and south of the country already exists, though in need of repair and expansion. Terrain is straightforward in the areas Petrel is working. Security is an issue, but improving. Petrel has demonstrated the ability to navigate the security challenges and political turbulence without casualties so far or untoward logistical delays. All of the important delays and problems faced to date centred around politics or administrative turnover.

Though Iraq was a founder member of OPEC, Iraqi output (2.4 mmbod) falls far short (70%) of the last effective quota (3.45 mmbod as of 1990) - though world consumption has nearly doubled in that period. Iraqi production is currently constrained only by personnel and engineering bottlenecks and not capped as a Government policy or limited by OPEC quotas.

Iraqi geological potential is generally estimated to be 8.5 - 10 mmbod, of which about two-thirds is in the southern and western zones, where Petrel is working. Both the Subba and Merjan oil fields are close to an existing strategic pipeline in which there is available capacity.

The ideal outcome for Petrel is to turn the existing Subba and Luhais contract into a Production Sharing Agreement (PSA). We could be in production in 24 months. Failing this, a PSA on Merjan would build on the work done by Petrel.

The opportunities are there.

David Horgan
Managing Director

17th June 2009

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The main activity of Petrel Resources plc and its subsidiaries (the Group) is oil and gas exploration. The Company commenced development of an oil field in Iraq in 2007.

Further information concerning the activities of the Group during the year and its future prospects is contained in the Chairman's Statement and Managing Director's Report.

RESULTS FOR THE YEAR

The consolidated loss for the year after taxation, transferred to reserves, was €761,637 (2007: €518,935).

The directors do not recommend that a dividend be declared for the year ended 31 December 2008 (2007: €Nil).

PERFORMANCE REVIEW

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

RISKS AND UNCERTAINTIES

The Group is subject to a number of significant potential risks including:

- Funding risks - including the ongoing funding of the Subba & Luhais development services contract and raising of capital to fund further exploration;
- Recoverability of receivables - Trade receivables relating to amounts billed in respect of the Subba & Luhais development services contract are past due at the reporting date for which the Group has not made any impairment provisions as the amounts are still considered recoverable;
- Going concern;
- Valuation of work in progress.
- Price fluctuations;
- Foreign exchange risks;
- Uncertainties over development and operational costs;
- Political and legal risks, including arrangements for licenses, profit sharing and taxation;
- Foreign investment risks including increases in taxes, royalties and renegotiation of contracts; and
- Liquidity risks

In addition to the above there can be no assurance that current exploration programmes will result in profitable operations. The recoverability of the carrying value of exploration and evaluation assets is dependent upon the successful discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Group to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write down of the carrying values of the Group assets.

KEY PERFORMANCE INDICATORS

Currently the Group's 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.

DIRECTORS

The current directors are listed on the inside back cover. There were no changes to the Board during the year.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES
The following directors held office at year end:

J. Teeling, D. Horgan, G. Delbes and S. Borghi.

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

	31/12/2008 Ordinary Shares of €0.0125	31/12/2008 Options - Ordinary Shares of €0.0125	1/01/2008 Ordinary Shares of €0.0125	1/01/2008 Options - Ordinary Shares of €0.0125
	No.	No.	No.	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	-	190,000	-
J. Finn (Secretary)	1,015,000	870,000	1,015,000	870,000
S. Borghi	155,000	450,000	155,000	450,000

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 2008 and at 30 May 2009;

	31 December 2008 Number of Ordinary Shares	%	30 May 2009 Number of Ordinary Shares	%
Citibank Nominees (Ireland) Limited (CLRLUX)	9,421,842	13.04	11,023,926	14.38
L. R. Nominees Limited	5,068,131	7.02	5,036,426	6.57
TD Waterhouse Nominee (Europe) Limited	3,521,485	4.87	3,615,445	4.72
HSBC Global Custody Nominee	2,940,000	4.07	2,940,000	3.83
Lynchwood Nominees	2,899,799	4.01	2,554,149	3.33

POST BALANCE SHEET EVENTS
Post balance sheet events are set out in Note 25.

FINANCIAL RISK MANAGEMENT
Details of the Group's financial risk management policies are set out in Note 19.

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. Further information is outlined in Note 3.

CORPORATE GOVERNANCE
The Board is committed to maintaining high standards of corporate governance and to managing the Company in an honest and ethical manner.

The Board approves the Group's strategy, investment plans and regularly reviews operational and financial performance, risk management, and Health, Safety, Environment and Community (HSEC) matters.

The Chairman is responsible for the leadership of the Board, whilst the Executive Directors are responsible for formulating strategy and delivery once agreed by the Board.

SUBSIDIARIES
Details of the Company's subsidiaries are set out in Note 13 to the financial statements.

CHARITABLE AND POLITICAL DONATIONS
The Company made no political or charitable contributions during the year.

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.

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**

17th June 2009

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 (IFRSs) 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PETREL RESOURCES PLC

We have audited the Group and Parent Company Financial Statements ('the financial statements') of Petrel Resources Plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Company Balance Sheet, the Group and Company Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Cash Flow Statement, and the related notes 1 to 25. 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 auditor, 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 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PETREL RESOURCES PLC (CONTINUED)

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 2008 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 of the state of the parent company's affairs as at 31 December 2008; 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 3, 12, 14 and 15 of the financial statements concerning going concern, the valuation of intangible assets, construction contracts, trade receivables and amounts due from group undertakings. The group incurred a loss for the year of €761,637 and has a retained earnings deficit of €4,628,461. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The company raised funds subsequent to the balance sheet date which the directors consider are adequate to meet working capital requirements for at least the next twelve months from the date of approval of the financial statements. On that basis the directors are satisfied that it is appropriate to continue to prepare the financial statements of the company on a going concern basis. The realisation of intangible assets of €4,781,953 included in the consolidated balance sheet and intangible assets of €4,770,716 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 €5,315,599 and trade receivables of €38,606,675 included in the consolidated balance sheet, and the recoverability of amounts due from group undertakings of €7,772,381 included in the company balance sheet is dependent on the successful completion of the Subba and Luhais development services contract and settlement thereof. Following negotiations, in March 2009, the Company received and has accepted a formal Ministry proposal on the Subba and Luhais EPC Contract payments schedule and a basis for proceeding with the work programme with an extended schedule for completion. Accordingly, in the opinion of the directors the trade receivable of €38,606,675 is considered to be fully recoverable and is not impaired. The financial statements do not include any adjustments relating to these uncertainties, and the ultimate outcome cannot, at present, 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 2008 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

17th June 2009

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	**2008** €	2007 €
REVENUE	4	**8,233,050**	28,950,934
Cost of sales		**(8,233,050)**	(28,950,934)
GROSS PROFIT		**-**	-
Administrative expenses	6	**(853,968)**	(584,437)
OPERATING LOSS		**(853,968)**	(584,437)
Investment revenue	5	**92,331**	65,502
LOSS BEFORE TAXATION	6	**(761,637)**	(518,935)
Income tax expense	10	**-**	-
LOSS FOR THE YEAR: all attributable to equity holders of the parent	22	**(761,637)**	(518,935)
Loss per share - basic and diluted	11	**(1.05c)**	(0.75c)

The financial statements were approved by the Board of Directors on 17th June 2009 and signed on its behalf by:

John Teeling
David Horgan } **Directors**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	2008 €	2007 €
ASSETS:			
NON-CURRENT ASSETS			
Intangible assets	12	**4,781,953**	4,189,643
CURRENT ASSETS			
Construction contracts	14	**5,315,599**	9,558,084
Trade and other receivables	15	**38,684,794**	29,334,443
Cash and cash equivalents	16	**559,599**	6,710,767
		44,559,992	45,603,294
TOTAL ASSETS		**49,341,945**	49,792,937
CURRENT LIABILITIES			
Trade and other payables	17	**(37,299,416)**	(36,850,125)
NET CURRENT ASSETS		**7,260,576**	8,753,169
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,042,529**	12,942,812
EQUITY:			
Called-up share capital	20	**902,873**	902,873
Capital conversion reserve fund		**7,694**	7,694
Share premium		**15,693,098**	15,693,098
Share based payment reserve		**205,971**	205,971
Translation reserve		**(138,646)**	-
Retained earnings - (deficit)		**(4,628,461)**	(3,866,824)
TOTAL EQUITY		**12,042,529**	12,942,812

The financial statements were approved by the Board of Directors on 17th June 2009 and signed on its behalf by:

John Teeling
David Horgan
} **Directors**

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	2008 €	2007 €
ASSETS:			
NON-CURRENT ASSETS			
Intangible assets	12	**4,770,716**	4,178,406
Investment in subsidiaries	13	**11,237**	11,237
		4,781,953	4,189,643
CURRENT ASSETS			
Trade and other receivables	15	**7,850,500**	5,694,363
Cash and cash equivalents	16	**498,512**	3,673,100
		8,349,012	9,367,463
TOTAL ASSETS		**13,130,965**	13,557,106
CURRENT LIABILITIES			
Trade and other payables	17	**(1,088,436)**	(614,294)
NET CURRENT ASSETS		**7,260,576**	8,753,169
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,042,529**	12,942,812
EQUITY:			
Called-up share capital	20	**902,873**	902,873
Capital conversion reserve fund		**7,694**	7,694
Share premium		**15,693,098**	15,693,098
Share based payment reserve		**205,971**	205,971
Translation reserve		**(138,646)**	-
Retained earnings - (deficit)		**(4,628,461)**	(3,866,824)
TOTAL EQUITY		**12,042,529**	12,942,812

The financial statements were approved by the Board of Directors on 17th June 2009 and signed on its behalf by:

John Teeling **David Horgan**	} **Directors**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

Group and Company	Share Capital €	Share Premium €	Capital Conversion Reserve fund €	Share Based Payment Reserve €	Translation Reserve €	Retained Earning/ (Deficit) €	Total €
At 1 January 2007	843,351	9,840,861	7,694	-	-	(3,347,889)	7,344,017
Share based payment	-	-	-	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
Loss for the year	-	-	-	-	(138,646)	(761,637)	(900,283)
At 31 December 2008	902,873	15,693,098	7,694	205,971	(138,646)	(4,628,461)	12,042,529

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.

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 share based payments granted which are not yet exercised and issued as shares.

Translation reserve
The translation reserve comprises accumulated translation adjustments in the current year and prior year.

Retained earnings (deficit)
Retained earnings (deficit) comprise accumulated profit and loss in the current year and prior year.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	**2008** €	2007 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(761,637)**	(518,935)
Investment revenue recognised in loss		**(92,331)**	(65,502)
Exchange movements		**273,150**	-
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**(580,818)**	(584,437)
Movements in working capital:			
Decrease in construction contracts		**4,242,485**	838,057
(Decrease)/increase in trade and other payables		**(4,077,001)**	3,859,194
Increase in trade and other receivables		**(9,350,351)**	(29,290,548)
CASH USED IN OPERATIONS		**(9,765,685)**	(25,177,734)
Investment revenue		**92,331**	65,502
NET CASH USED IN OPERATING ACTIVITIES		**(9,673,354)**	(25,112,232)
INVESTING ACTIVITIES			
Payments for intangible fixed assets		**(730,956)**	(515,708)
NET CASH USED IN INVESTING ACTIVITIES		**(730,956)**	(515,708)
FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**-**	5,984,780
Share issue costs		**-**	(130,743)
NET CASH GENERATED BY FINANCING ACTIVITIES		**-**	5,854,037
NET DECREASE IN CASH		**(10,404,310)**	(19,773,903)
Cash and cash equivalents at beginning of financial year		**(10,323,028)**	9,450,875
Effect of exchange rate changes on cash held in foreign currencies		**(273,150)**	-
Cash and cash equivalents at end of financial year	16	**(21,000,488)**	(10,323,028)

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 €	2007 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(761,637)**	(518,935)
Investment revenue recognised in loss		**(92,331)**	(65,502)
Exchange movement		**744,143**	-
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**(109,825)**	(584,437)
Movements in working capital:			
(Decrease)/increase in trade and other payables		**474,142**	(648,154)
Increase in trade and other receivables		**(2,156,137)**	(2,716,823)
CASH USED IN OPERATIONS		**(1,791,820)**	(3,949,414)
Investment revenue		**92,331**	65,502
NET CASH USED IN OPERATING ACTIVITIES		**(1,699,489)**	(3,883,912)
INVESTING ACTIVITIES			
Payments for intangible fixed assets		**(730,956)**	(515,708)
NET CASH USED IN INVESTING ACTIVITIES		**(730,956)**	(515,708)
FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**-**	5,984,780
Share issue costs		**-**	(130,743)
NET CASH GENERATED BY FINANCING ACTIVITIES		**-**	5,854,037
NET (DECREASE)/INCREASE IN CASH		**(2,430,445)**	1,454,417
Cash and cash equivalents at beginning of financial year		**3,673,100**	2,218,683
Effect of exchange rate changes on cash held in foreign currencies		**(744,143)**	-
Cash and cash equivalents at end of financial year	16	**498,512**	3,673,100

1. PRINCIPAL ACCOUNTING POLICIES

The significant accounting policies adopted by the Group and Company are as follows:

(i) Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRSs as adopted by the European Union. The Group recognises its proportionate share of jointly controlled assets, liabilities and operating costs.

(ii) Accounting convention
The financial statements are prepared under the historical cost convention.

(iii) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where necessary, adjustments have been made to the financial statements of the subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(iv) Investment in subsidiaries
Investment in subsidiaries held by the Company as fixed assets are stated at cost less any provision for 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 assets
Exploration and evaluation assets
Under the successful efforts method of accounting all license acquisition, exploration and appraisal costs are initially capitalised in well, field or specific geographical exploration cost centres as appropriate pending determination. Exploration expenditure relates to the initial search for oil and gas with economic potential in Iraq. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The cost of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation assets. Exploration costs are capitalised until technical feasibility and commercial viability of extraction of reserves are demonstrable. Exploration costs include an allocation of administration and salary costs (including share based payments) as determined by management.

Impairment of intangible assets
Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. The Company reviews and tests for impairment on an ongoing basis and specifically if the following occurs:

a) the period for which the Group has a right to explore in the specific area has expired or is expected to expire;
b) the exploration and evaluation has not led to the discovery of economic reserves;
c) the development of the reserves is not economically or commercially viable; and
d) the exploration is located in an area that has become politically unstable.

Prior to reclassification to property, plant and equipment, exploration and evaluation assets are assessed for impairment and any impairment loss recognised immediately in the income statement.

(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 exploration and evaluation relating to this project were transferred to work in progress after being tested for impairment.

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

(ix) Taxation

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.

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.

(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 Company, which are not specific to evaluation and exploration projects.
Operating loss is stated before finance income, finance costs and other gains and losses.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

Trade receivables

Trade receivables are measured at initial recognition at invoice value, which approximates to fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the carrying value of the asset exceeds the recoverable amount.

Trade receivables are classified as loans and receivables which are measured at amortised cost, using the effective interest method.

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. The bank overdraft, which represents the amount drawn down on a letter of credit with the Trade Bank of Iraq is credited in cash and cash equivalents.

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.

Trade payables

Trade payables are classified as financial liabilities, are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

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

(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 considers the nature of each cost incurred and whether it is deemed appropriate to capitalise it within intangible assets.

Costs can be demonstrated as project related, are included within exploration and evaluation assets. Exploration and evaluation assets related to exploration and related expenditure in Iraq prospecting.

The Group's exploration activities are subject to a number of significant and potential risks including:

- Price fluctuations;
- Foreign exchange risks;
- Uncertainties over development and operational costs;
- Political and legal risks, including arrangements for licenses, profit sharing and taxation;
- Foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- Liquidity risks;
- Funding risks - include the ongoing funding of the Subba & Luhais development services contract and raising of capital to fund further exploration;
- Recoverability of receivables - Trade receivables relating to amounts billed in respect of the Subba & Luhais development services contract are past due at the reporting date for which the Group has not made any impairment provisions as the amounts are still considered recoverable;
- Going concern; and
- Valuation of work in progress.

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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.

The assessment requires judgements as to:

- the likely future commerciality of the assets and when such commerciality should be determined, future revenue capital and operating costs and the discount rate to be applied to such revenues and costs.

Valuation of work in progress and land
Valuations of site work in progress are carried out at regular intervals by the Group's quantity surveying team. This process involves estimating costs to complete and anticipated revenues and therefore involves considerable judgement.

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. 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.

Based on the assumptions that such finance will become available, the directors believe that the going concern basis is appropriate for these accounts. 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. Further information is disclosed in Note 3 regarding going concern.

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. STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED

Standards and interpretations in issue but not yet adopted.

Three interpretations issued by the international financial reporting interpretations committee are effective for the current period. These are: IFRIC 11 Group and Treasury Share Transactions; IFRIC 12 Service Concession Arrangements; and IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions. 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 (Amendment) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);

IAS 7 (Amendment) Statement of Cash Flows (effective for accounting periods beginning on or after 1 January 2010);

IAS 17 (Amendment) leases (effective for accounting periods beginning on or after 1 January 2010);

IAS 23 (Amendment) Borrowing costs (effective for accounting periods beginning on or after 1 July 2009);

IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2010);

IAS 32 (Amendment) Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 January 2009);

2. STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED (CONTINUED)

IAS 36 (Amendment) Impairment of Assets (effective for accounting periods beginning on or after 1 January 2010);

IAS 38 (Amendment) Intangible Assets (effective for accounting periods beginning on or after 1 July 2009);

IAS 39 (Amendment) Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2010);

IFRS 1 (Amendment) First-time Adoption of Financial Reporting Standards (effective for accounting periods beginning on or after 1 July 2009);

IFRS 2 (Amendment) Share Based Payment (effective for accounting periods beginning on or after 1 July 2009);

IFRS 3 (Amendment) Business Combinations (effective for accounting periods beginning on or after 1 July 2009);

IFRS 5 (Amendment) Non-current Assets Held for Sale and Discontinued Operations (effective for accounting periods beginning on or after 1 January 2010);

IFRS 7 (Amendment) Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2009);

IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2010);

IFRIC 9 (Amendment) Embedded Derivatives (effective for accounting periods beginning on or after 30 July 2009);

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

IFRIC 15 Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009);

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 July 2009);

IFRIC 17 Distributions of Non-Cash Assets to Owners (effective for accounting periods beginning on or after 1 July 2009);

IFRIC 18 Transfers of Assets from customers (effective for transfer of assets from customers received on or after 1 July 2009)

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 operation, in the opinion of the Directors, the above should have no material impact on the Group financial statements.

3. GOING CONCERN

The Group incurred a loss for the year of €761,637 and has a retained earnings deficit of €4,628,461 leading to concern about the Group's ability to continue as a going concern. The Group had a cash balance of €559,599 at the balance sheet date together with a bank overdraft of €21,560,087, representing the amount drawn down on a letter of credit which is in place in respect of the Subba & Luhais development contract.

As outlined in note 25 the Company raised £1,840,500 subsequent to the year end which in the opinion of the directors will be sufficient working capital to advance Petrel's projects in Iraqi oil exploration and development, and will fully cover Petrel's existing and normally anticipated working capital requirements until the end of 2010. Accordingly the directors are satisfied that it is appropriate to continue to prepare the financial statements of the Group on the going concern basis. The financial statements do not include any adjustment to the carrying amount, or classification of assets and liabilities, if the Company was unable to continue as a going concern.

4. REVENUE

	2008	2007
	€	€
An analysis of the Group's revenue is as follows:		
Revenue from construction contract	**8,233,050**	28,950,934

5. INVESTMENT REVENUE

	2008	2007
	€	€
Investment bank deposits	**92,331**	65,502

6. LOSS BEFORE TAXATION

	2008 €	2007 €
The loss before taxation is stated after charging the following items:		
Depreciation	**-**	-
Directors' remuneration		
- fees	**100,000**	100,000
- salary	**73,275**	117,000
Total	**173,275**	217,000
Auditors' remuneration	**30,000**	25,000
Staff costs - salaries	**40,652**	17,282
- payroll taxes	**-**	-
Foreign exchange loss	**286,776**	17,527

The analysis of auditors' remuneration is as follows:

	2008 €	2007 €
Fees payable to the Group's auditors for the audit of the Group's financial statements	**30,000**	25,000
Total audit fees	**30,000**	25,000

Administrative expenses comprise:

	2008 €	2007 €
Professional fees	**198,354**	180,825
Net foreign exchange losses/(gains)	**286,776**	17,527
Directors' remuneration	**173,275**	217,000
Other administration expenses	**195,563**	169,085
	853,968	584,437

7. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

Group

- Key management compensation

	2008 €	2007 €
Short- term employee benefits	**241,175**	391,000
Share based payments	**-**	205,971
	241,175	596,971

- Common Directorship

Cooley Distillery Plc is a related party by virtue of common directors. Petrel Resources Plc shares offices and overheads with Cooley Distillery PLC and a number of resources companies also based at 162 Clontarf Road. During the year €11,234 was incurred in respect of these overheads and office costs. At the year end there was €40,557 due to Petrel Resources in respect of overheads incurred.

Company

During the year, the Company paid consultancy fee to Guy Delbes amounting to €25,567 (2007: €10,450). Guy Delbes is a director of the Company.

At 31 December the following amount was due to the Company by its subsidiaries:

	2008 €	2007 €
Amounts due from subsidiary companies	**7,772,381**	5,595,950

8. STAFF NUMBERS

There were no employees of the Group other than the directors during the current or prior year.

9. SEGMENTAL ANALYSIS

The Group has two classes of business: mining exploration and development, and construction of an oil field.

The businesses are located in Iraq and Jordan. The analysis of turnover, the loss before taxation, assets, liabilities, depreciation and additions to non current assets by geographical segment is shown below:

	Exploration and evaluation		**Construction of an old field**		**Total**	
	2008	2007	**2008**	2007	**2008**	2007
	€	€	**€**	€	**€**	€
9A. Segment Revenue						
Continuing Operations						
Iraq	**-**	-	**8,233,050**	28,950,394	**8,233,050**	28,950,394
Jordan	**-**	-	**-**	-	**-**	-
Total for continuing operations	**-**	-	**8,233,050**	28,950,394	**8,233,050**	28,950,394
Unallocated head office	**-**	-	**-**	-	**-**	-
	-	-	**8,233,050**	28,950,394	**8,233,050**	28,950,394
9B. Segment Result						
Continuing Operations						
Iraq	**-**	-	**-**	-	**-**	-
Jordan	**-**	-	**-**	-	**-**	-
Total for continuing operations	**-**	-	**-**	-	**-**	-
Unallocated head office	**(761,637)**	-	**-**	-	**-**	-
Income tax expense	**-**	-	**-**	-	**-**	-
	(761,637)	-	**-**	-	**-**	-
9C. Segment Assets						
Group						
Iraq	**3,813,770**	3,541,541	**43,983,361**	41,546,685	**47,797,131**	45,088,226
Jordan	**968,183**	648,102	**-**	-	**968,183**	648,102
Total for continuing operations	**4,781,953**	4,189,643	**43,983,361**	41,546,685	**48,765,314**	45,736,328
Unallocated head office	**595,441**	4,056,609	**-**	-	**595,441**	4,056,609
	5,377,394	8,246,252	**43,983,361**	41,546,685	**49,360,755**	49,792,937
Company						
Iraq	**3,813,770**	3,541,541	**-**	-	**3,813,770**	3,541,541
Jordan	**968,183**	648,102	**-**	-	**968,183**	648,102
Total for continuing operations	**4,781,953**	4,189,643	**-**	-	**4,781,953**	4,189,643
Unallocated head office	**8,367,822**	9,367,463	**-**	-	**8,367,822**	9,367,463
	13,149,775	13,557,106	**-**	-	**13,149,775**	13,557,106

9. SEGMENTAL ANALYSIS (CONTINUED)

9D. Segment Liabilities

	Exploration and evaluation		Construction of an old field		Total	
	2008	2007	**2008**	2007	**2008**	2007
	€	€	**€**	€	**€**	€
Group						
Iraq	**-**	-	**(36,210,980)**	(36,235,831)	**(36,210,980)**	(36,235,831)
Jordan	**-**	-	**-**	-	**-**	-
Total for continuing operations	**-**	-	**(36,210,890)**	(36,235,831)	**(36,210,980)**	(36,235,831)
Unallocated head office	**(1,107,246)**	(614,294)	**-**	-	**(1,107,246)**	(614,294)
	(1,107,246)	(614,294)	**(36,210,890)**	(36,235,831)	**(37,318,226)**	(36,850,125)
Company						
Iraq	**-**	-	**-**	-	**-**	-
Jordan	**-**	-	**-**	-	**-**	-
Total for continuing operations	**-**	-	**-**	-	**-**	-
Unallocated head office	**(1,107,246)**	(614,294)	**-**	-	**(1,107,246)**	(614,294)
	(1,107,246)	(614,294)	**-**	-	**(1,107,246)**	(614,294)

9E. Segment Liabilities

Depreciation (Group and Company)						
Iraq	**-**	-	**-**	-	**-**	-
Jordan	**-**	-	**-**	-	**-**	-
Total for continuing operations	**-**	-	**-**	-	**-**	-
Unallocated head office	**-**	-	**-**	-	**-**	-
	-	-	**-**	-	**-**	-
Additions to new current assets (Group and Company)						
Iraq	**405,957**	511,386	**-**	-	**405,957**	511,386
Jordan	**324,999**	268,015	**-**	-	**324,999**	268,015
Total for continuing operations	**730,956**	779,401	**-**	-	**730,956**	779,401
Unallocated head office	**-**	-	**-**	-	**-**	-
	730,956	779,401	**-**	-	**730,956**	779,401

10. INCOME TAX EXPENSE

	2008 €	2007 €
Current tax	**-**	-
Deferred tax	**-**	-
Tax on loss	**-**	-
Factors affecting the tax expense:		
Loss on ordinary activities before tax	**(761,637)**	(518,935)
Income tax calculated @ 12.5%	**(95,205)**	(64,867)
Effects of:		
Tax losses carried forward	**95,205**	64,807
Tax charge	**-**	-

No corporation tax charge arises in the current year or the prior year due to losses brought forward.

At the balance sheet date, the Group had unused tax losses of €4,628,461 (2007: €3,866,824) and share based payment reserve of €205,971 (2007: €205,971) available for offset against future profits which equates to a deferred tax asset of €630,052 (2007: €509,099). No deferred tax asset has been recognised due to the unpredictability of the future profit streams. Losses may be carried forward indefinitely.

11. LOSS PER SHARE

	2008 €	2007 €
Loss per share - Basic and diluted	**(1.05c)**	(0.75c)

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:

	2008 €	2007 €
Loss for the year attributable to equity holders of the parent	**(761,637)**	(518,935)

	2008 Number	2007 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**72,229,796**	69,024,259

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

12. INTANGIBLE ASSETS

	Group		Company	
	2008 €	2007 €	2008 €	2007 €
Exploration and evaluation assets:				
Cost:				
Opening balance	**4,189,643**	3,410,242	**4,178,406**	3,399,005
Additions	**730,956**	779,401	**730,956**	779,401
Exchange translation adjustment	**(138,646)**	-	**(138,646)**	-
Closing balance	**4,781,953**	4,189,643	**4,770,716**	4,178,406
Carrying value:				
Opening balance	**4,189,643**	3,410,242	**4,178,406**	3,399,005
Closing balance	**4,781,953**	4,189,643	**4,770,716**	4,178,406

Exploration and evaluation assets at 31 December 2008 represents exploration and related expenditure in respect of projects in Iraq and Jordan.

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.

12. INTANGIBLE ASSETS (CONTINUED)

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

- Funding risks - including the ongoing funding of the Subba & Luhais development services contract and raising of capital to fund further exploration;
- Recoverability of receivables - Trade receivables relating to amounts billed in respect of the Subba & Luhais development services contract are past due at the reporting date for which the Group has not made any impairment provisions as the amounts are still considered recoverable;
- Going concern;
- Valuation of work in progress.
- Price fluctuations;
- Foreign exchange risks;
- Uncertainties over development and operational costs;
- Political and legal risks, including arrangements for licenses, profit sharing and taxation;
- Foreign investment risks including increases in taxes, royalties and renegotiation of contracts; and
- Liquidity risks.

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 directors are aware that by its nature there is an inherent uncertainty in such 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 expenditure at 31 December 2008, the directors are satisfied that the value of the intangible asset is not impaired.

Regional Analysis - Group	**Iraq** **€**	**Jordan** **€**	**Total** **€**
At 1 January 2007	3,030,155	380,087	3,410,242
Additions	511,386	268,015	779,401
At 1 January 2008	**3,541,541**	**648,102**	**4,189,643**
Additions	**405,957**	**324,999**	**730,956**
Exchange translation adjustment	**(133,728)**	**(4,918)**	**(138,646)**
At 31 December 2008	**3,813,770**	**968,183**	**4,781,953**

13. INVESTMENT IN SUBSIDIARIES

	2008 **€**	2007 €
Company		
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 2008:

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

In December 2005, the Company entered into an agreement with Makman Oil & Gas Engineering Limited, which is referred to as a joint venture arrangement to develop the Subba and Luhais Development Project in Iraq. The Company has ultimate control of this project and accordingly it has been consolidated as a subsidiary. This project 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.

14. CONSTRUCTION CONTRACTS

	Group		Company	
	2008	2007	**2008**	2007
	€	€	**€**	€
Work in progress:				
Opening balance	**9,558,084**	10,396,141	**-**	-
Expenditure incurred in period	**3,990,565**	28,112,877	**-**	-
Work completed	**(8,233,050)**	(28,950,934)	**-**	-
	5,315,599	9,558,084	**-**	-

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

The Subba and 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.

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	€	€	**€**	€
Current assets:				
Trade receivables	**38,606,675**	28,950,934	**-**	-
VAT refund due	**27,628**	26,221	**27,628**	26,221
Other receivables	**50,491**	357,288	**50,491**	72,192
Non-current assets:				
Amounts due from Group undertakings	**-**	-	**7,772,381**	5,595,950
	38,684,794	29,334,443	**7,850,500**	5,694,363

Trade receivables relates to amounts billed in respect of the Subba and Luhais development services contract during 2008. As disclosed in Note 14, there is an amount of €5,315,599 (2007: €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 €21,560,087 (2007: €17,033,795) to the Trade Bank of Iraq, together with a 10% payment on account of €13,932,451 (2007: €13,279,860) (as disclosed in note 17).

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

As further outlined in Note 12 the value of the assets due from Group undertakings is dependent on the successful development of economic mineral reserves.

Included in the Group trade receivable balance are debtors with a carrying amount of €36,252,298 (2007: €23,258,278) 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 415 days (2007: 151).

Ageing of past due but not impaired.

	Group		Company	
	2008	2007	**2008**	2007
	€	€	**€**	€
90 - 120 days	**4,761,128**	4,923,967	**-**	-
> 120 days	**31,491,170**	18,604,311	**-**	-
Total	**36,252,298**	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.

Following negotiations, in March 2009, the Company received and has accepted a formal Ministry proposal on the Subba & Luhais EPC Contract payments schedule and a basis for proceeding with the work programme with an extended schedule for completion. This includes payment of due sums already cleared to be paid to Petrel and suppliers. Accordingly, in the opinion of the directors the trade receivable of €38,606,675 is considered to be fully recoverable and is not impaired.

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	€	€	**€**	€
Cash and cash equivalents	**559,599**	6,710,767	**498,512**	3,673,100
Bank overdraft	**(21,560,087)**	(17,033,795)	**-**	-
	(21,000,488)	(10,323,028)	**498,512**	3,673,100

Cash at bank earns interest at floating rates on daily bank rates. The fair value for cash and cash equivalents is €21,000,488 (2007: €10,323,028) for Group and €498,512 (2007: €3,673,100) for Company. The Group and Company only deposits cash surpluses with major banks.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	€	€	**€**	€
Trade payables	**-**	5,237,385	**-**	-
Bank overdraft	**21,560,087**	17,033,795	**-**	-
Accruals	**1,088,436**	601,141	**1,088,433**	601,138
Amount due to Group undertaking	**-**	-	**3**	3
Other creditors	**718,442**	697,944	**-**	13,153
Customer deposits	**13,932,451**	13,279,860	**-**	-
	37,299,416	36,850,125	**1,088,436**	614,294

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 letter of credit has been guaranteed by Makman.

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 14 and 15.

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.

18. FINANCIAL INSTRUMENTS

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

The Group and Company 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 Group and 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.

The Group has a letter of credit in place with the Trade Bank of Iraq for €21,560,087 (2007: €17,033,795). The amount drawn down and outstanding at year end in respect of this was approximately US$30 million.

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

Group	Assets		Liabilities	
	2008	2007	**2008**	2007
	€	€	**€**	€
Sterling	**282,276**	3,407,920	**315,092**	181,002
US Dollar	**38,848,187**	32,508,552	**36,332,938**	36,314,700

Company	Assets		Liabilities	
	2008	2007	**2008**	2007
	€	€	**€**	€
Sterling	**282,276**	3,407,920	**315,092**	181,002
US Dollar	**7,952,794**	5,815,300	**121,958**	78,869

19. RISK MANAGEMENT

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

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 fully financed from additional issues of ordinary equity shares, together with a letter of credit.

Foreign Currency Risk

Although the Group is based in the Republic of Ireland, amounts held as deferred development expenditure 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. At 31 December 2008, the Group held €523,775 in sterling and U.S. dollar denominated bank accounts (2007: €6,664,937). The Group had a bank overdraft in US$ of €21,560,087 (2007: €17,033,795).

The Group also has transactional currency exposures. Such exposures arise from expenses incurred by the Group in currencies other than the functional currency. 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.

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.

Approximately 20% of costs are denominated in currencies other than the functional currency. In the opinion of the directors a 10% movement in exchange rates will not have a material impact.

Credit risk

With respect to credit risk arising from financial assets of the group which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Further information is outlined in Note 16.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains an adequate capital ratio in order to support its business and maximise shareholder value. The capital structure of the Group consists of equity (comprising issued share capital and reserves).

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives policies or processes during the years ended 31 December 2008 and 31 December 2007.

20. SHARE CAPITAL

	Group and Company 2008 €	2007 €
Authorised:		
200,000,000 ordinary shares of € 0.0125	**2,500,000**	2,500,000
Allotted, Called-Up and Fully Paid:		
Opening 72,229,796 (2007: 67,468,039) ordinary shares of € 0.0125 each	**902,873**	843,351
Issued:		
Nil (2007: 4,761,757) ordinary shares of €0.0125 each	**-**	59,522
Closing 72,229,796 (2007: 72,229,796) ordinary shares of € 0.0125 each	**902,873**	902,873

The total number of options outstanding at 31 December 2008, including to directors was 4,870,000 (2007: 4,870,000) shares. The options are exercisable at prices ranging between €0.0339 and €1.78 in accordance with the option agreement.

21. SHARE BASED PAYMENTS

The Group has applied the requirement of IFRS 2 'Share Based Payments'. 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.

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.

	Year ended 31/12/2008` Options	**Year ended 31/12/2008 Weighted average exercise price in cent**	Year ended 31/12/2007 Options	Year ended 31/12/2007 Weighted average exercise price in cent
Outstanding at beginning of year	**200,000**	**178**	-	-
Granted during the year	**-**	**-**	200,000	178
Outstanding and exercisable at the end of year	**200,000**	**178**	200,000	178
Exercisable at the end of year	**200,000**	**178**	200,000	178

The options outstanding at 31 December 2008 had a weighted average exercise price of 178c, and a weighted average remaining contractual life of 6.75 years.

The fair value of the options were calculated using the Black Scholes option pricing model. The inputs into the model were as follows:

	2008	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. The expected useful 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.

The Group capitalised expenses of €Nil (2007: €205,971) related to equity-settled share-based payments transactions during the period. No share options were issued in 2008.

22. 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 €761,637 (2007: Loss €518,935).

23. NON-CASH TRANSACTIONS

There were no non-cash transactions during 2008. 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.

24. CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date other than the Subba and Luhais development services contract, a total contract price of US$197m.

25. POST BALANCE SHEET EVENTS

On 11 May 2009, the Company raised £1,840,500, before expenses, through the placing of 4,090,000 new ordinary shares of €0.0125 at a price of 45p with three long-standing institutional shareholders, who were interested in increasing their stakes.

The funds will be used as working capital to advance Petrel's projects in Iraqi oil exploration and development, and fully covers Petrel's existing and normally anticipated working capital requirements until end 2010.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of Petrel Resources plc will be held on 30th July 2009 at 12 noon at The Stephen's Green Hibernian Club, 9 St. Stephen's Green, Dublin 2 for the following purposes:

1. To receive and consider the Directors' Report, Audited Accounts and Auditors' Report for the year ended December 31, 2008.

2. To re-elect Director:
   Stefano Borghi retires in accordance with Article 95 and seeks re-election.

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 following ordinary resolution:
   That the Directors are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities within the meaning of Section 20 of the Companies (Amendment) Act 1983. The maximum amount of the relevant securities which may be allotted under the authority hereby conferred shall be the authorised but unissued Ordinary Shares in the capital of the company. The authority hereby conferred shall expire on 30th July 2014 unless and to the extent that such authority is renewed, revoked or extended prior to such date. The company may, before such expiry, make an offer or arrangement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement, notwithstanding that the authority hereby conferred had expired.

6. To consider and if thought fit, pass the following special resolution:
   That the Directors are hereby empowered pursuant to Sections 23 and 24(1) of the Companies (Amendment) Act 1983 to allot within the meaning of said Section 23 for cash as if Section 23(1) of the said Act did not apply to any such allotment, provided that this power shall expire on 30th July 2014 unless and to the extent that such authority is renewed, revoked or extended prior to such date, save that the Company may before such expiry make an offer or arrangement which would or might require securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this paragraph has not expired.

By order of the Board:

James Finn
Secretary

17th June 2009

Note: A member of the Board who is unable to attend and vote at the above Annual General Meeting is entitled to appoint a proxy to attend, speak and vote in his stead. A proxy need not be a member of the Company.