Petrel Resources PLC

Annual Report and Accounts

Year ended 31 Dec 2009

Registration number: 92622

Turkey
Syria
Iraq
Iran
Baghdad
East Safawi
Block 6
Merjan
Dhufriyah
Subba
&
Luhais
Saudi Arabia

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for year ended 31 December 2009

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Chairman's Statement

Chairman's Statement

Progress is being made in Iraq. The Subba and Luhais oil field development restarted in May 2010. Within 14 months, the 200,000 barrel-a-day oil field project will be in production. After protracted negotiations and a number of false starts, agreement was reached between the Iraqi authorities, Petrel and our Iraqi partners Makman. Under the terms of the agreement, Petrel has received US$2 million cash, a further $5m is guaranteed, plus a 10 per cent profit interest. Makman has taken over as operator. The deal is satisfactory. We get most of the money due, suppliers have been paid, the project gets completed and our working relationship with the authorities has been restored. Given the changes in the world since we won the $197m tender in 2005, this is a satisfactory outcome. In the event that Makman can complete the project on budget, Petrel will receive 10 per cent of any profit. At least as important as the financial outcome is the fact that Petrel is now clear to pursue other oil opportunities in the country.

Since 2002, we have held a position on Block 6 in the desert between Iraq and Jordan. This 10,000 square kilometre (sq km) block is prospective for oil and gas. We are hopeful that when an Iraqi government is formed and an oil licence regime is put in place that the Petrel title to the ground will be formalised. We will then drill.

In recent years, at the request of the local authorities, we have undertaken technical development studies on two known oil fields – a full study on Merjan and scoping studies on Dhurfriyah. Our expectation was that we could turn our knowledge into a successful application to develop one or both fields. This has not happened. We were not included in a list of oil companies asked to tender for Iraqi oil fields, due in part, we believe, to our ongoing dispute over Subba and Luhais. No-one tendered for either of the above fields. You do not get title to any oil field, you simply develop them as a contractor. The current service contract terms on offer are not attractive to most operators. Petrel would take the same view. So, in Iraq, we wait and maintain our presence in Baghdad in the expectation that an oil licence regime with commercial terms will emerge. Iraq should become the world's leading oil producer. Production costs are the lowest in the world and oil exploration prospectivity is the best in the world. Licence terms must be commercially viable and title must be guaranteed.

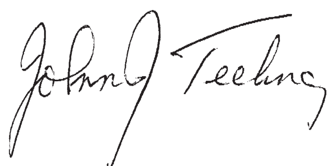
The job of the directors is to create wealth for shareholders. In recent years we had to accept that there was uncertainty over opportunities in Iraq, so in 2004, we looked at Jordan, and in 2007 won a production sharing licence on the East Safawi block. The results of our work indicated a high potential, high risk oil target that needs drilling. We decided against proceeding on sole risk drilling and sought farm-in partners. We have been unsuccessful. In the near future, a decision will be made on this block.

Shareholders of long standing may remember that Petrel began life as an African explorer with ground in Namibia and Uganda. We have gone back to our roots. Together with Hydrocarbon Exploration Plc and Persian Gold Plc, we have negotiated a 1,500 sq km concession in the Tano region of Ghana. The concession has been signed by the Ministry of Oil but must be ratified by cabinet and parliament. The concession is a four way joint venture – Petrel (30%), Hydrocarbon Exploration Plc (30%), Persian Gold Plc (30%) and local interests (10%). The block is onshore/offshore in the same area as the Tullow/Kosmos discoveries. Terms in Ghana are competitive. Negotiations are ongoing to revise certain terms and conditions in the existing agreement. In the meantime, data processing and interpretation is underway. It is possible that Ghana will be the first of a number of African oil/gas plays.

Chairman's Statement

THE FUTURE

Petrel is better placed today than it has been for some years. We are financially stable with $7m in cash or guaranteed cash. There is clarity in our position in Iraq. We will support Makman as they complete Subba and Luhais. We are ready to commence field work on Block 6 once title is ratified. When an Iraqi government is formed and an oil policy agreed, we will make strenuous attempts to obtain one or more oil fields. But we cannot wait indefinitely in hope. We have spent 11 years in Iraq. Our expedition into Jordan has not been successful so we have fallen back onto our African experience and contacts. The coming year will see a continued focus on Iraq with growing activities in Africa. Tano in Ghana is a first step.



Chairman
25 June 2010

Review Of Operations

Review Of Operations

PETREL HAS LONG-STANDING PROJECTS IN IRAQ, JORDAN AND HAS RECENTLY EXPANDED INTO GHANA.

IRAQ

The principal project in Iraq is the Subba and Luhais development contract. The company holds Block 6 under a pre-2003 agreement in the western desert.

Work re-started in Iraq in May 2010 after a two year delay. This was critical, as it removed remaining obstacles, allowing Petrel to move forward with other projects.

- The Petrel-Makman Joint Venture has re-started and will complete the Subba and Luhais oilfield development services contract by the end of 2011.
- Petrel has received $2 million.
- Petrel will receive a further $5 million in 2 tranches over 12 months, guaranteed by a leading Turkish Bank.
- Petrel maintains a 10% profit share.
- This solution clears the way for expansion in Iraq.

Petrel was a pioneer in Iraqi oil and is the only western company to have worked continuously in Iraq since 1999. We have never lost an employee or suffered serious sabotage or loss of equipment. This operating expertise is valuable and we have had discussions with larger groups interested in using our services. Our preference is to maintain our independence, and develop Petrel into an Iraq-based oil and gas producer as soon as this is commercially and legally practical.

Petrel/Makman joint venture is now reactivating its work on the Subba & Luhais EPC contract following an hiatus due to circumstances outside our control. This should facilitate other projects, possibly including the reactivation of and more detailed work on our studies with the Ministry of Oil on Dhufriya Field, and indeed negotiating or bidding for contracts on other projects.

We have an active Baghdad office and have maintained an Iraqi team continuously since 1999. They are familiar with prevailing circumstances.

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 oilfields will provide a minimum capacity of 200,000 barrels of oil daily for export and 120 million cubic feet of associated gas. Much of this gas is designated for use to support power generation for the Iraqi National Grid. The contract is half completed with major equipment packages delivered to the designated site.

Petrel Resources was awarded the $197 million Subba & Luhais oil field EPC contract in 2005. Work started immediately. There were no serious security problems. Technical work proceeded well but payments were initially slow and there were disputes over control of project bank accounts and related bank guarantees. The resulting uncertainty led to project delays from 2008 and de-mobilising of our project early in 2009. After several false dawns and lengthy negotiations, all outstanding issues on the Subba and Luhais oilfield development in Southern Iraq were satisfactorily resolved in early 2010. Petrel has handed over primary responsibility for the final phases of the work, in accordance with the original Joint Venture Agreement of December 2005, but maintains a role. Petrel maintains a 10% profit share.

Review Of Operations

Under the terms of the Agreement reached between Petrel Resources, our local Iraqi partner, and SCOP, an arm of the Iraqi Ministry of Oil:

1. Petrel will receive a total of $7 million, of which $2 million has been received, and two further bank guaranteed payments of $2.5 million each in 2 tranches over 12 months. This guarantee is furnished by Garanti Bank of Turkey;
2. The Petrel/Makman joint venture will complete the development, with Makman assuming primary responsibility for the final phases of the work, including bulk procurement and implementation;
3. Petrel will receive a 10% profit interest based on financial accounts;
4. A new Letter of Credit for the balance of the contract has been put in place by the Iraqi authorities;
5. All necessary official approvals have been delivered.
6. Petrel's engineering contractor Enereco (of Northern Italy) will remain as the engineering partner.

Payment for basic design engineering has been made. Payment for outstanding equipment, such as compressors, is now being processed.

Relationships are courteous and professional and we are optimistic that the work will be completed within a challenging 14-month schedule. Experts from the Iraqi Ministry of Oil's Project Company (SCOP) visited site and again inspected the compressors and confirmed that all remains correct and in order. Supporting documents (certificate of origin, insurance certificates, etc.) are being re-issued. There do not appear to be any major problems or issues at this stage. Requests for Quotations have been issued to international vendors and some supply contracts have been awarded.

IRAQI EXPLORATION AND DEVELOPMENT PROJECTS:

Petrel is an oil explorer, not a services contractor, so we are pleased to be able to refocus on growing our exploration interests in Iraq, which remains the world's best oil province.

Iraq remains a complicated and uncertain place to do business. The steady withdrawal of international forces continues. Power and authority are steadily returning to the sovereign central government.

The March 2010 election went well and peacefully but the election did not yield a clear result and as of June 2010 negotiations to form a new government continue.

This will be the sixth government Petrel has dealt with since 1999, but the first whose electoral legitimacy is not seriously questioned.

Recently, there have been oil development contracts awarded. Two bid rounds saw super-majors and National Oil Companies agreeing to marginal rates of return on service contracts with demanding work commitments. As of June 2010, the macro situation regarding the oil industry remains confused. No one is sure how the laws, contracts and general government will turn out. The best legal advice remains that oil contracts require explicit ratification by Parliament to be 100% reliable – unless there is a new General Hydrocarbon Law, which changes the entire legal framework. So far the recent contracts have not received such approval.

The understandable objective of the Iraqi authorities is to drive the best bargain for their citizens. For historical reasons there is public suspicion of the super-majors. Hence their attempts to develop the oil industry by means of service contracts. Such an attitude is normal in the region, but no country has experienced Iraq's difficult recent history.

Review Of Operations

Since the service contract bid rounds for development of giant fields, preliminary work has started and intentions are positive but not everything has gone smoothly. The risk appetite of BP and other companies may be impacted by a lower oil price and recent tragic events in the Gulf of Mexico. On the other hand the straightforward geology and low environmental risk of conventional Iraqi projects is very compelling.

Long experience in Iraq's special conditions suggest that it is unlikely that the bid-round contracts will be implemented as planned to the satisfaction of all parties. This is because bidding for service contracts does not really align the interests of the players or guarantee access to the best technology to maximise recovery from reservoirs.

One lesson of the first bid process was the demonstrated belief that leading oil industry players, who have studied Iraqi fields, are convinced that production can be dramatically increased – to the point that they were prepared to lock remuneration into achieved targets that until recently would have been considered very demanding. This confirms that the potential economic value of Iraqi is world class. The Iraqi industry will not be able to maximise this value for some years without international technology and capital. The challenge is persuading the authorities that 80% of a much bigger cake is better than 100% of a smaller cake.

THE ULTIMATE SOLUTION MUST BE RISK-SHARING ARRANGEMENTS WHICH ALIGN THE INTERESTS OF THE PARTIES. IRAQ WILL RECEIVE OVER 80% OF THE ECONOMIC VALUE BUT AGILE, HARD-WORKING PARTNERS WILL BE FAIRLY REMUNERATED.

Meantime oil production continues to stagnate at circa 2.4 million barrels daily, of which circa 1.8 million barrels is exported. We expect that 2 to 3 million barrels daily will be added under existing plans – but the announced expectation of 12.5 million barrels daily will be challenging to deliver under prevailing circumstances and hard to explain to OPEC partners. Since world oil demand has been effectively flat at 86 million barrels daily since 2005 and there are nearly 6 million barrels daily of surplus capacity already available within OPEC, mainly in Saudi Arabia.

We expect these issues to clarify over the coming months when the policy of the new government becomes clear. Divisions among the policy-making parties probably require the democratic endorsement of the upcoming elections in January 2011.

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.

MERJAN AND DHURFRIYAH OIL FIELD TECHNICAL COOPERATION AGREEMENTS

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

David Horgan meeting with Cameroon authorities

inversion by Fugro-Jason, was used.

The work included a broadening of previous regional analysis of the western desert, including Block 6 where we had already done work. 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, the study was reviewed by an expert technical team and a review panel of 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.

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 Dhurfriyah gas & oil field Technical Cooperation Agreement study was confirmed in 2007, after which technical meetings reviewed available data and a work programme was agreed. Initial work was completed in 2008.

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 2009.

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.

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.

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 we agreed terms in 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.

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 improved after 2007. 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.

EAST SAFAWI BLOCK, JORDAN

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.

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.

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 under a 20% chance. This is more or less in keeping with exploration-type 'wildcats' elsewhere. Accordingly Petrel decided that we would not fund more than a minority of this drilling expenditure, ideally seeking a full carry.

Prior to the economic collapse in late 2008, there was considerable industry interest in farming-in. After the financial crisis, the industry got cold feet about farming-in to pure exploration. So far, we have not concluded a deal. The Jordanian authorities have indulged us so far, but there is no certainty that this indulgence will continue. The issues that we have faced in East Safawi are similar to those faced by most of the operators elsewhere in Jordan and indeed in many other countries which are still frontier for oil exploration.

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

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.

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 and was awarded 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, and later extended until August 2010. There can be no certainty that any further extensions will be granted. If we are unable to deliver on the PSA work programme we will forfeit our $0.5 million bond. This has been fully provided for in the Audited Accounts to 31 December 2009.

David Horgan TV Interview on possible projects in Cameroon

Review Of Operations

WEST AFRICA:

Africa is not a new area for the team. Petrel started as an oil & gas explorer in Uganda & Namibia – before focusing on Iraq in 1999. Our group's management has 25 years continuous African experience.

There is now more than 330 Billion barrels of oil equivalent of reserves discovered in Africa, of which 50% is in Sub-Saharan Africa.

There are many hydrocarbon-rich basins in Africa, which remains under-explored. New ideas are constantly emerging. Discoveries since 2000 in Angola and Ghana alone exceed the entire Africa Yet-to-Find calculations of Peak Oil theorists in 1999.

Petrel's focus is on:

1. West Africa Offshore (Ghana and neighbours, Nigeria, Cameroon).
2. Unconventional oil & gas potential (Morocco, Southern Africa, Botswana).
3. Onshore Central Africa (Rift basins).

There are opportunities and a generally welcoming business environment for small E&P companies in these countries. The big up-front costs of the established provinces of Nigeria and Libya are a deterrent, as are the poor fiscal terms available in Algeria, Libya and Angola. We aim at areas of potential with attractive fiscal terms and limited up-front costs:

Ghana meets those objectives and moreover is the oil industry's new hotspot, especially following recent success by Tullow/Kosmos in new, especially Cretaceous, plays. Ghana offers competitive conditions and large exploration potential.

Petrel's management team has decades of west African experience, so was well placed to seize this opportunity. Ghana became our priority outside of Iraq. Petrel participated in a proposal to explore and develop the 1,500km, 2 Tano Block 2A.

We signed a Memorandum of Understanding with Ghanaian state petroleum company, GNPC, on the Tano 2A Block in November 2008, and a Petroleum Agreement with GNPC on Tano 2A Block in December 2008. The Block is held via a Ghanaian private company (called 'Pan Andean Resources limited'), owned 30% by Petrel, 30% by Hydrocarbon Exploration, 30% by Persian Gold and 10% by Ghanaian interests.

Details on the concession are given below:

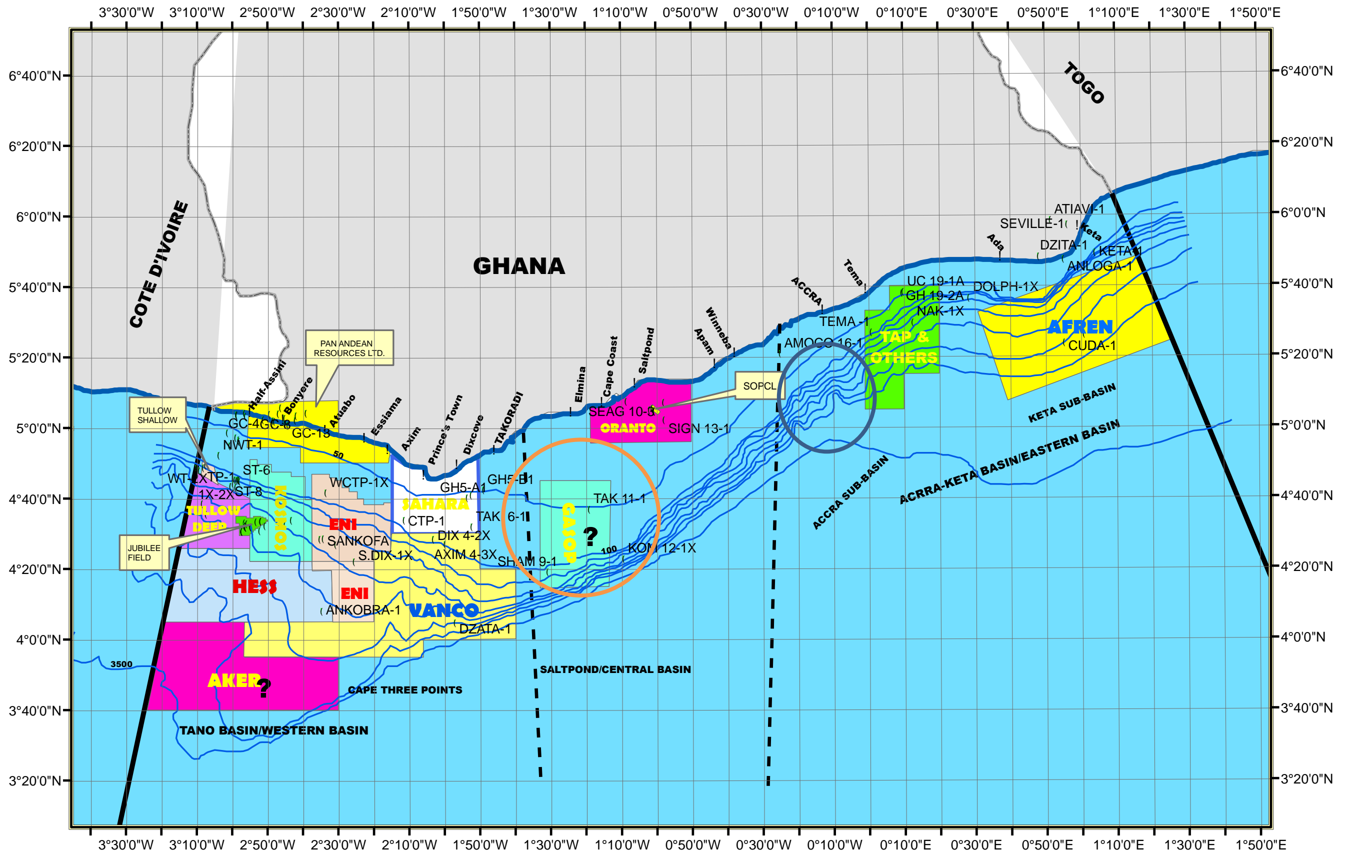
Block size: c. 1,500 km2 (150k hectares)
Basin: Tano
Geological Target: Cretaceous
Potential : multi-billion barrel recoverable

Fiscal terms are competitive: splitting into a royalty, carried state interest (held by the national oil company the GNPC) and income tax on profits.

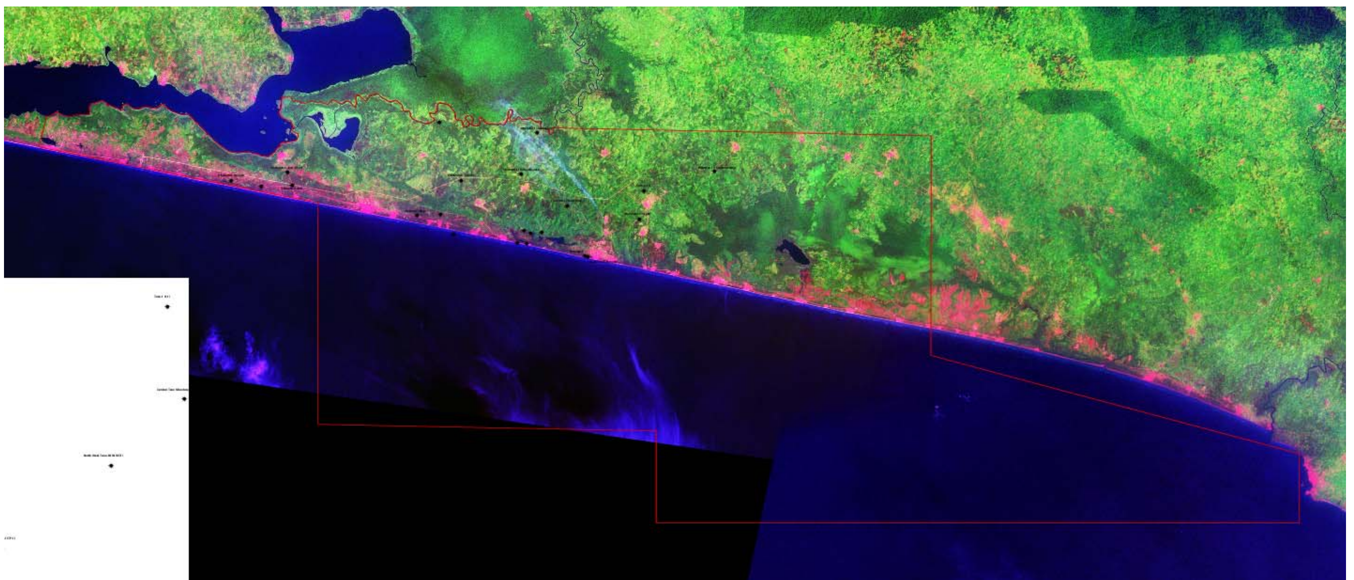
Fiscal Terms

Royalty Oil	12.5%
Royalty Gas	10.0%
Initial Interest of GNPC (Carried)	10.0%
Additional Interest of GNPC (Paying)	15.0%
Income Tax	35%

Review Of Operations



Ghana Block Map



Satelite Imagery of Ghana Block Map

Review Of Operations

There is also a super-profits tax or 'Additional Oil Entlement (AOE)' which is payable depending on the overall Rate of Return. This does not apply for a return under 12.5%. The AOE rises in a step function with returns to a maximum of 30% for project Rates of Return over 27.5%:

Additional Oil Tax is driven by Rate of Return	Additional Oil Tax
Less than 12.5%	0%
More than 12.5% but less than 17.5%	15%
More than 17.5% but less than 22.5%	20%
More than 22.5% but less than 27.5%	25%
More than 27.5%	30%

Area Rentals – US$/km2	
Initial Exploration Period	30
First Extension Period	50
Second Extension Period	75
Development and Production Period	100

There are also the normal, relatively modest land rentals plus Training Allowance & an additional Technology Support one-time payment.

Work Programme

Initial Exploration Period
Minimum Expenditure

Onshore	US$ 20m
Offshore	US$35m

(no sum was specified for the offshore area and upon conferring with the Exploration Department they gave US$35m as a reasonable figure)

First Extension Period
Minimum Expenditure

Onshore	US$15m
Offshore	US$30m

Second Extension Period
Minimum Expenditure

Onshore	US$15m
Offshore	US$30m

We have collected all data available from GNPC and are now consolidating and integrating the GNPC data with our regional database so as to expedite and focus the exploration work programme.

In 2008 our negotiating team had conceded the GNPC's desire for 3d seismic in the surf-zone and mangrove swamp areas of the block notwithstanding their technical concerns that 3d seismic in such circumstances was not appropriate or possible. Further technical work during 2009 confirmed these concerns and we proposed appropriate adjustments.

Simultaneously with these technical clarifications, the GNPC negotiators asked us to amend the Petroleum Agreement to grant greater entitlements pre-emption rights and the need for more comprehensive approvals of future corporate transactions involving the block. Our technical and senior management team have made several presentations to GNPC, the Ministry of Energy, Ghana Internal Revenue Service, as well as other branches of the Ghanaian authorities.

Review Of Operations

All Ghanaian Petroleum Agreements are subject to Cabinet approval and ratification by Parliament.

Initial data organization, processing and interpretation is now underway.

FINANCE

Petrel has sought to limit shareholder dilution, and has raised a total of circa US$15 million since 1997. Currently Petrel has $2 million in cash, with a further $5 million bank guaranteed to be received over the coming 12 months.

GLOBAL INDUSTRY BACKGROUND

The oil and related prices have been very strong, though volatile since 2004. Actual physical trades have been superseded by financial transactions. Traditionally total trades were 3 to 5 times the actual physical trades. From 2008 through 2010 this ratio has fluctuated around 20 times. Financial players are prepared to pay a large 'security risk premium' over the long-term average price. This is not new: the long term average price of oil in real dollars is about $24 per barrel. But in times of crisis the average price of oil in real dollars is about $45. Now oil is range trading between $65 and $80.

Energy prices have effectively been re-rated. The financial markets shrug off OPEC's circa 6 million barrels of surplus capacity, the need to slash OPEC quotas in late 2008, delaying of major new projects and flat oil demand since 2005.

Financial players are influenced by the 'peak oil theory', a long-established viewpoint that is controversial around the timing of peak production and shape of the decline curve. Ironically the higher oil prices since 2003 and technological progress have greatly increased economic reserves. The real problems for the energy industry today are 'above the ground' involving challenges of resource nationalism, logistics and politics. Geology is less of an issue for onshore, conventional oil as in Iraq.

One result of these trends is the growing popularity of service contracts. The Iranian Buy-back contract type severely limits returns to about 12% for development projects, though exploration projects can yield up to 17%. Venezuela is effectively capped at 15%.

Against this background the outgoing Iraqi Government opted for a service model involving tight fees per barrel on demanding production targets. Only the super-majors and largest of the National Oil Corporations (NOCs) can realistically work under such terms. Iraqi geology is the best worldwide but many of the super-giant and giant fields in Iraq have been produced in sub-optimal conditions since 1990. This introduces an element of engineering and even geological uncertainty. The challenging circumstances under which Iraqi oil professionals had to work in recent decades mean that there is inadequate infrastructure.

After a shaky start the Iraqi authorities succeeded in getting super-majors and National Oil Corporations to agree to what most informed observers believe are uneconomic conditions in that Iraqi operating circumstances are not ideal. There are operating risks. Our long-standing view is that under current laws parliamentary approval is necessary, which is one of the reasons why post-2003 Iraqi Governments have declared an intention to pass a new Hydrocarbon Law. The Iraqi negotiating success appears to have delivered such a demanding deal that even the most wary nationalist would see the value to Iraq. Unfortunately, involvement of super-majors from Coalition countries who have been prior shareholders of the former Iraq Petroleum Company which operated from the 1920s till the 1970s, has enraged many nationalists.

Reports & Accounts

Directors’ Report
for year ended 31 December 2009

The directors present their annual report and the audited financial statements for the year ended 31 December 2009.

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 2008. The company is also involved in exploration in Jordan. On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais Oilfield Development in Southern Iraq which will result in the company having a significantly reduced role in the Project going forward. See Note 3 for further details.

Further information concerning the activities of the Group during the year and its future prospects is contained in the Chairman’s Statement and Review of Operations.

RESULTS FOR THE YEAR

The consolidated loss after taxation for the year, transferred to reserves, amounted to €6,526,075 (2008: €761,637).

The directors do not recommend that a dividend be declared for the year ended 31 December 2009 (2008: €Nil).

PERFORMANCE REVIEW

The performance review is set out in the Chairman’s Statement and Review of Operations.

RISKS AND UNCERTAINTIES

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

- Foreign exchange risks;
- Solvency of counterparty entities on contracts;
- 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;
- Operations and environmental risks and.
- Going Concern.

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 Group’s and 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’s assets.

KEY PERFORMANCE INDICATORS

The Group reviews expenditure incurred on exploration projects and successes thereon, and ongoing operating costs. In addition the Group reviewed the stages of completion in respect of the Subba & Luhais development services contract up to the date of the primary responsibility of the project being transferred to Makman, as outlined in the financial statements.

DIRECTORS

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

DIRECTORS’ AND SECRETARY’S INTERESTS IN SHARES

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

	31/12/2009 Ordinary Shares of €0.0125	**31/12/2009 Options - Ordinary Shares of €0.0125**	31/12/2008 Ordinary Shares of €0.0125	31/12/2008 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	**2,715,384**	**1,650,000**	2,715,384	1,650,000
G. Delbes	**190,000**	**-**	190,000	-
J. Finn (Secretary)	**1,015,384**	**870,000**	1,015,384	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 2009 and at 31 May 2010

	31 May 2010 Number of Ordinary Shares	%	31 December 2009 Number of Ordinary Shares	%
Citibank Nominees (Ireland) Limited (CLRLUX)	10,873,735	14.18	12,057,506	15.73
L. R. Nominees Limited	5,127,756	6.69	5,006,418	6.53
TD Waterhouse Nominee (Europe) Limited	4,123,143	5.38	3,114,642	4.06
Lynchwood Nominees Limited	2,646,134	3.45	2,252,334	2.94
HSBC Global Custody Nominee	2,940,000	3.83	2,940,000	3.83
Smith & Williamson Nominees Limited	2,526,000	3.29	3,066,000	4.00
Barclayshare Nominee	2,310,038	3.01	1,964,441	2.56

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in Note 19 to the financial statements.

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. Regional leaders and country managers are responsible for the implementation of the Group's strategy.

SUBSIDIARIES

Details of the company's significant 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.

SUBSEQUENT EVENTS

On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq which will result in the company having a significantly reduced role in the Project going forward. See the terms of the agreement between Petrel, Makman and SCOP (State Company of Oil Projects) in Note 3 to the financial statements.

Directors' Report (continued)

for year ended 31 December 2009

AUDITORS

Deloitte & Touche, Chartered Accountants, 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
Director	Director

25 June 2010

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 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 judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper 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 2009. 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 Auditor's 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 2009 which comprise the Group Financial Statements: the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Group Statement of Changes in Equity, the Consolidated Cash Flow Statement; and the Company Financial Statements: the Company Balance Sheet, the Company Statement of Changes in Equity, the Company Cash Flow Statement; and the related notes 1 to 26. 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 and the Parent Company 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 Irish statue comprising of the Companies Acts, 1963 to 2009. 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 the information and explanations necessary for the purpose 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 implications for our report if we become aware of any apparent misstatement or material inconsistencies with the Financial Statements. The other information comprises only the Chairman's Statement, the Review of Operations 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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the Group as at 31 December 2009 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 2009;
- 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 2009 of the state of the parent company's affairs as at 31 December 2009; and
- the Parent Company's Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

Independent Auditor's Report To The Members Of Petrel Resources Plc (continued)

Emphasis of matter - valuation of intangible assets

Without qualifying our opinion we draw your attention to Note 12 to the financial statements concerning the valuation of intangible assets. The realisation of intangible assets of €1,644,482 included in the consolidated balance sheet and intangible assets of €1,633,245 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 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 2009 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

25 June 2010

Consolidated Statement Of Comprehensive Income

for the year ended 31 December 2009

	Notes	2009 €	2008 €
CONTINUING OPERATIONS			
REVENUE	4	-	8,233,050
Cost of sales		-	(8,233,050)
GROSS PROFIT		-	-
Administrative expenses	6	**(545,835)**	(853,968)
Impairment of exploration and evaluation expenditure	12	**(3,923,885)**	-
Impairment of construction costs	14	**(2,085,100)**	-
OPERATING LOSS		**(6,554,820)**	(853,968)
Investment revenue	5	**28,745**	92,331
LOSS BEFORE TAXATION	6	**(6,526,075)**	(761,637)
Income tax expense	10	-	-
LOSS FOR THE YEAR: all attributable to equity holders of the parent		**(6,526,075)**	(761,637)
Exchange differences on translation of foreign operations		**(2,936)**	(138,646)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(6,529,011)**	(900,283)
Loss per share – basic and diluted	11	**(8.73c)**	(1.05c)

The financial statements were approved by the Board of Directors on 25 June 2010 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Consolidated Balance Sheet
as at 31 December 2009

	Notes	2009 €	2008 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	*12*	**1,644,482**	4,781,953
CURRENT ASSETS			
Construction contracts	*14*	**5,361,939**	5,315,599
Trade and other receivables	*15*	**37,407,723**	38,684,794
Cash and cash equivalents	*16*	**923,429**	559,599
		43,693,091	44,559,992
TOTAL ASSETS		**45,337,573**	49,341,945
CURRENT LIABILITIES			
Trade and other payables	*17*	**(37,677,450)**	(37,299,416)
NET CURRENT ASSETS		**6,015,641**	7,260,576
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,660,123**	12,042,529
EQUITY			
Called-up share capital	*20*	**958,308**	902,873
Capital conversion reserve fund		**7,694**	7,694
Share premium		**17,784,268**	15,693,098
Share based payment reserve		**205,971**	205,971
Retained earnings - (deficit)		**(11,296,118)**	(4,767,107)
TOTAL EQUITY		**7,660,123**	12,042,529

The financial statements were approved by the Board of Directors on 25 June 2010 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Company Balance Sheet
as at 31 December 2009

	Notes	2009 €	2008 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	*12*	**1,633,245**	4,770,716
Investment in subsidiaries	*13*	**11,237**	11,237
		1,644,482	4,781,953
CURRENT ASSETS			
Trade and other receivables	*15*	**5,865,154**	7,850,500
Cash and cash equivalents	*16*	**864,644**	498,512
		6,729,798	8,349,012
TOTAL ASSETS		**8,374,280**	13,130,965
CURRENT LIABILITIES			
Trade and other payables	*17*	**(714,157)**	(1,088,436)
NET CURRENT ASSETS		**6,015,641**	7,260,576
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,660,123**	12,042,529
EQUITY			
Called-up share capital	*20*	**958,308**	902,873
Capital conversion reserve fund		**7,694**	7,694
Share premium		**17,784,268**	15,693,098
Share based payment reserve		**205,971**	205,971
Retained earnings - (deficit)		**(11,296,118)**	(4,767,107)
TOTAL EQUITY		**7,660,123**	12,042,529

The financial statements were approved by the Board of Directors on 25 June 2010 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Statement Of Changes In Equity

for the year ended 31 December 2009

GROUP AND COMPANY	Share Capital €	Share Premium €	Capital Conversion Reserve fund €	Share Based Payment Reserve €	Retained Earnings-(Deficit) €	Total €
At 1 January 2008	902,873	15,693,098	7,694	205,971	(3,866,824)	12,942,812
Total comprehensive income for the period	-	-	-	-	(900,283)	(900,283)
At 31 December 2008	902,873	15,693,098	7,694	205,971	(4,767,107)	12,042,529
Shares issued	**55,435**	**2,137,544**	**-**	**-**	**-**	**2,192,979**
Share issue expenses	**-**	**(46,374)**	**-**	**-**	**-**	**(46,374)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(6,529,011)**	**(6,529,011)**
At 31 December 2009	**958,308**	**17,784,268**	**7,694**	**205,971**	**(11,296,118)**	**7,660,123**

Share premium

The share premium 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.

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 2009

	Notes	**2009** €	2008 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(6,526,075)**	(761,637)
Investment revenue recognised in loss		**(28,745)**	(92,331)
Exchange movements		**(5,659)**	273,150
Shares issued in lieu of fees		**107,434**	-
Impairment of exploration and evaluation expenditure		**3,923,885**	-
Impairment of construction costs		**2,085,100**	-
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**(444,060)**	(580,818)
Movements in working capital:			
(Increase)/decrease in construction contracts		**(154,765)**	5,664,224
Decrease in trade and other payables		**(869,557)**	(4,077,001)
Decrease/(increase) in trade and other receivables		**1,277,070**	(9,350,351)
CASH USED IN OPERATIONS		**(191,312)**	(8,343,946)
Investment revenue		**28,745**	92,331
NET CASH USED IN OPERATING ACTIVITIES		**(162,567)**	(8,251,615)
INVESTING ACTIVITIES			
Payments for intangible fixed assets		**(789,347)**	(730,956)
NET CASH USED IN INVESTING ACTIVITIES		**(789,347)**	(730,956)
FINANCING ACTIVITIES			
Increase in bank loan		**-**	2,531,338
Proceeds from issue of equity shares		**2,085,544**	-
Share issue costs		**(46,374)**	-
NET CASH GENERATED BY FINANCING ACTIVITIES		**2,039,170**	2,531,338
NET INCREASE/(DECREASE) IN CASH		**1,087,256**	(6,451,233)
Cash and cash equivalents at beginning of financial year		**559,599**	6,710,767
Effect of exchange rate changes on cash held in foreign currencies		**(723,426)**	300,065
Cash and cash equivalents at end of financial year	*16*	**923,429**	559,599

Company Cash Flow Statement
for the year ended 31 December 2009

	Notes	2009 €	2008 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(6,526,075)**	(761,637)
Investment revenue recognised in loss		**(28,745)**	(92,331)
Exchange movement		**(5,659)**	744,143
Shares issued in lieu of fees		**107,434**	-
Impairment of exploration and evaluation expenditure		**3,923,885**	-
Impairment of construction costs		**2,085,100**	-
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**(444,060)**	(109,825)
Movements in working capital:			
(Decrease)/increase in trade and other payables		**(374,279)**	474,142
Increase in trade and other receivables		**(99,756)**	(2,156,137)
CASH USED IN OPERATIONS		**(918,095)**	(1,791,820)
Investment revenue		**28,745**	92,331
NET CASH USED IN OPERATING ACTIVITIES		**(889,350)**	(1,699,489)
INVESTING ACTIVITIES			
Payments for intangible fixed assets		**(789,347)**	(730,956)
NET CASH USED IN INVESTING ACTIVITIES		**(789,347)**	(730,956)
FINANCING ACTIVITIES			
Proceeds from issue of equity shares		**2,085,544**	-
Share issue costs		**(46,374)**	-
NET CASH GENERATED BY FINANCING ACTIVITIES		**2,039,170**	-
NET INCREASE/(DECREASE) IN CASH		**360,473**	(2,430,445)
Cash and cash equivalents at beginning of financial year		**498,512**	3,673,100
Effect of exchange rate changes on cash held in foreign currencies		**5,659**	(744,143)
Cash and cash equivalents at end of financial year	16	**864,644**	498,512

Notes To The Financial Statements
for the year ended 31 December 2009

1. PRINCIPAL ACCOUNTING POLICIES

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

(i) Basis of preparation
The financial statements are prepared under the historical cost convention. The consolidated financial statements are presented in Euro.

(ii) Statement of compliance
The financial statements of Petrel Resources plc and all its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union.

(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.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Goodwill and acquisitions are recognised in accordance with IFRS 3 (2004) as an asset measured at cost initially, then at cost less any accumulated impairment loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal.

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

(iv) Investment in subsidiaries
Investment in subsidiaries is stated at cost less any provision for impairment.

(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

Exploration expenditure relates to the initial search for mineral deposits with economic potential in Iraq and Jordan. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights and costs incurred in exploration and evaluation activities, are capitalised as intangible assets as part of exploration and evaluation assets.

Exploration costs are capitalised as an intangible asset until technical feasibility and commercial viability of extraction of reserves are demonstrable, when the capitalised exploration costs are re-classed to property plant and equipment. Exploration costs include an allocation of administration and salary costs (including share based payments) as determined by management, where they relate to specific projects.

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

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 and Company 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;
d) the exploration is located in an area that has become politically unstable;
e) the board resolves to exit a particular project or region.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(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 expenditure 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 cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

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

(viii) Foreign currencies

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

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was re-determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of comprehensive income 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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(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 statement of comprehensive income 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(ix) Taxation (continued)

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 statement of comprehensive income, 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 and Company have 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 and Company issue 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 excludes the effect of non market based vesting conditions. 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 and Company’s estimate of shares that will eventually vest. At the balance sheet date the Group reviews its estimate of the nature of equity instruments expected to vest as a result of 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.

(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.

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

(xiii) Financial instruments
Financial assets and financial liabilities are recognised in the Group and Company balance sheet when the Group and Company 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 statement of comprehensive income when there is objective evidence that the carrying value of the asset exceeds the recoverable amount. Subsequently, 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 Company and short-term bank deposits with a maturity of three months or less from the date of acquisition.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(xiii) Financial instruments (continued)

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.

Borrowings
Borrowings are initially recorded at the value of proceeds received, net of transaction costs. Subsequently they are measured at amortised cost.

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

(xiv) Comparative Amounts
Comparative amounts have been reclassed, where necessary, on the same basis as the current year.

(xv) Critical accounting judgments and key sources of estimation uncertainty

Critical judgments in applying the Group and company accounting policies
In the process of applying the Group and company accounting policies above, management has identified the judgmental 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 expenditure
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 which can be demonstrated as project related, are included within exploration and evaluation assets. Exploration and evaluation assets relate to exploration and related expenditure in Iraq and Jordan.

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

- 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;
- Operation and environmental risks and;
- Going Concern.

The recoverability of these exploration and evaluation 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 as an impairment to the statement of comprehensive income.

- 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.

- Work in progress
Reviews of the carrying value of site work in progress are carried out at regular intervals to ensure the cost is lower than the net realisable value. This process involves assessing the overall outcome of the projects which includes estimating the costs to complete and anticipated revenues and therefore requires 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 assumption is dependent on finance being available for the continuing working capital requirements of the Group and Company and finance for the development of the Group's projects. The Group and

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(xv) Critical accounting judgments and key sources of estimation uncertainty (continued)

- Going Concern (continued)

Company activities in respect of the Subba & Luhais development services contract are financed by a letter of credit with the Trade Bank of Iraq. Subsequent to year end the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq which resulted in the company having a reduced role in the project and a net cash inflow of $2 million with a guarantee of a further $5 million within 12 months of the effective date of the contract. Further information is disclosed in Note 3.

Based on this subsequent event, the directors believe that the going concern basis continues to be appropriate. Should the going concern basis not be appropriate, adjustments would have to be made to reduce the value of the Group and Company assets, in particular the intangible fixed assets, to their realisable values.

Key sources of estimation uncertainty
The preperation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported in the statement of comprehensive income for the year. The key of estimation uncertainty 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 and Company have 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 and Company is the Black-Scholes valuation model.

2. **STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET ADOPTED**

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. As a result of this adoption there has been a change in the identification of the Group's reportable segments (Note 9).

The Group did not adopt any other new International Financial Reporting Standards (IFRSs) or Interpretations in the year that had a material impact on the Group's Financial Statements.

The following IFRSs also become effective since the last Annual Report but had no material impact on the Financial Statements:

IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009);

IAS 16 (Amendment) Property, Plant and Equipment (effective for accounting periods beginning on or after 1 January 2009);

IAS 19 (Amendment) Employee Benefits (effective for accounting periods beginning on or after 1 January 2009);

IAS 20 (Amendment) Accounting for Government Grants and disclosure of Government assistance (effective for accounting periods beginning on or after 1 January 2009);

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

IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2009);

IAS 28 (Amendment) Investments in Associates (effective for accounting periods beginning on or after 1 January 2009);

IAS 29 (Amendment) Financial Reporting in Hyperinflation Economies (effective for accounting periods beginning on or after 1 January 2009);

IAS 31 (Amendment) Interest in Joint Ventures (effective for accounting periods beginning on or after 1 January 2009);

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

IAS 36 (Amendment) Impairment of Assets (effective for accounting periods beginning on or after 1 January 2009);

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

IAS 40 (Amendment) Investment in Property (effective for accounting periods beginning on or after 1 January 2009);

IAS 41 (Amendment) Agriculture (effective for accounting periods beginning on or after 1 January 2009);

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

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

IFRS 7 (Amendment) Financial Instruments: Disclosures (effective for accounting period beginning on or after 1 July 2008);

FRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 January 2009);

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

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008).

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 effective:

IFRS 1 (Amendment) First-time Adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after 1 January 2010);

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

IFRS 2 (Amendment) Share Based Payments (effective for accounting periods beginning on or after 1 July 2009 and 1 January 2010);

IFRS 3 (Revised) 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 period beginning on or after 1 July 2009 and 1 January 2010);

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

IFRS 9 Financial Instruments; Classification and Measurement (effective for accounting periods beginning on or after 1 January 2013);

IAS 1 (Amendment) Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2010);

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 24 (Revised) Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011);

IAS 27 (Amendment) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);

IAS 28 (Amendment) Investments in Associates (effective for accounting periods beginning on or after 1 July 2009);

IAS 31 (Amendment) Interests in Joint Ventures (effective for accounting periods beginning on or after 1 July 2009);

IAS 32 (Amendment) Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 February 2010);

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 period beginning on or after 1 July 2009 and 1 January 2010);

IFRIC 14 (Amendment) Prepayments of a Minimum Funding Requirement (effective for accounting periods beginning on or after 1 January 2011);

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 accounting periods beginning on or after 1 July 2009); and

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010).

Improvements to IFRSs 2009 (effective for accounting periods beginning on or after 1 January 2010).

Improvements to IFRSs 2010 (effective for accounting periods beginning on or after 1 January 2011).

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 and Company incurred a loss for the year of €6,526,075 and had a retained earnings deficit of €11,296,118, at the balance sheet date leading to concern about the Group and Company's ability to continue as a going concern. The Group had a cash balance of €923,429 at the balance sheet date together with a bank loan of €23,501,833 representing the amount drawn down on a letter of credit which is in place in respect of the Subba & Luhais development contract. The company had a cash balance of €864,644 at the balance sheet date.

Subsequent to year end, on 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq. Under the terms of the agreement reached between Petrel, Makman FZC(Makman), its local Iraqi partner, and SCOP (State Company for Oil Projects):

- Petrel will receive a total of $7 million, of which $2 million has been received post year end. Two further payments of $2.5 million each, for which bank guarantees have been received, are due on 1 November 2010 and 1 May 2011, respectively.
- Petrel no longer has any significant liability or exposure to possible project losses but maintains a profit share.
- Petrel will receive a 10% profit interest based on accounts for the project.
- The Petrel/Makman joint venture will complete the development, with Makman assuming primary responsibility for the final phases of the work. A new Letter of Credit for the balance of the contract is being put in place by the Iraqi Authorities.
- Petrel transfers its controlling interest of its shares in Petrel/Makman Joint Venture Agreement to Makman.

Accordingly the directors are satisfied that it is appropriate to continue to prepare the financial statements of the group and company on the going concern basis, as the agreement outlined above removes the Group's ongoing responsibility in respect of the contract and the additional cash resources of $7 million realised can be used on other projects. The financial statements do not include any adjustment to the carrying amount, or classification of assets and liabilities, if the Group or Company was unable to continue as a going concern.

4. REVENUE

	2009	2008
	€	€
An analysis of the Group's revenue is as follows:		
Revenue from construction contract	**-**	8,233,050

5. INVESTMENT REVENUE

	2009	2008
	€	€
Investment bank deposits	**28,745**	92,331

6. LOSS BEFORE TAXATION

	2009	2008
	€	€
The loss before taxation is stated after charging/(crediting) the following items:		
Directors' remuneration		
- fees for services as directors	**100,000**	100,000
- fees for other services	**112,200**	73,275
Total	**212,200***	173,275

6. LOSS BEFORE TAXATION (continued)

* Additional directors' remuneration of €82,500 was capitalised as exploration and evaluation expenditure during 2009.

	2009 €	2008 €
Auditor remuneration	**30,000**	30,000
Staff costs - salaries	**229,671**	208,552
- payroll taxes	**43,000**	5,375
Foreign exchange (gain)/loss	**(5,659)**	286,776

The analysis of auditor remuneration is as follows:

	2009 €	2008 €
Fees payable to the Group's auditor for the audit of the Group's financial statements	**25,000**	25,000
Fees for Taxation Services	**5,000**	5,000
Total fees paid to auditor	**30,000**	30,000

Administrative expenses comprise:

	2009 €	2008 €
Professional fees	**263,720**	198,354
Net foreign exchange (gains)/losses	**(5,659)**	286,776
Directors' remuneration	**212,200**	173,275
Other administration expenses	**75,574**	195,563
	545,835	853,968
Impairment of exploration and evaluation expenditure	**3,923,885**	-
Impairment of construction costs	**2,085,100**	-

7. RELATED PARTY AND OTHER TRANSACTIONS

Group and Company

- **Key management compensation**

	2009 €	2008 €
Short- term employee benefits	**407,200**	341,175

- **Other**

Petrel Resources plc shares offices and overheads with a number of companies also based at 162 Clontarf Road. These companies have some common directors. During the year €25,699 (2008: €11,234) was paid by other companies and re-charged to the company in respect of these overheads and office costs as follows:

	2009 €	2008 €
Pan Andean Resources plc	**19,330**	10,707
Cooley Distillery plc	**(27,658)**	(18,332)
African Diamonds plc	**10,191**	3,869
Persian Gold plc	**7,757**	-
Connemara Mining Company plc	**1,343**	-
West African Diamonds plc	**14,706**	14,990
	25,669	11,234

7. RELATED PARTY AND OTHER TRANSACTIONS (continued)

- **Other (continued)**

The following amounts were due to/ (by) the company at 31 December:	2009 €	2008 €
Swala Resources plc	-	217
Pan Andean Resources plc	35,384	27,214
African Diamonds plc	11,836	(9,284)
Persian Gold plc	19,153	11,396
Connemara Mining Company plc	1,343	-
West African Diamonds plc	13,178	20,539
Cooley Distillery plc	(14,075)	(9,525)
	66,819	(40,557)

Company

During the year, the company paid consultancy fees to Guy Delbes amounting to €14,303 (2008: €25,567). Guy Delbes is a director of the company.

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

	2009 €	2008 €
Amounts due from the Petrel/ Makman Service Contract Joint Venture	5,758,994	7,772,381

8. STAFF NUMBERS

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

9. SEGMENTAL ANALYSIS

The group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about the Group that are regularly reviewed by the chief operating decision maker. The Board is deemed the chief operating decision maker within the Group. As a result of this adoption, there has been a change in the identification of the Group's reportable segments and this change has been adjusted for retrospectively. For management purposes, the Group has two classes of business: mining exploration and development and construction of an oil field. These are analysed on a project by project basis.

Segment information about the Group's activities is presented below:

	Exploration and evaluation		Construction of an oil field		Total	
	2009 €	2008 €	2009 €	2008 €	2009 €	2008 €
9A. Segment Revenue						
Continuing Operations						
Subba & Luhais Oil Field Development	-	-	-	8,233,050	-	8,233,050
Merjan and Dhufriya Oil Field Agreement	-	-	-	-	-	-
Western Dessert Block 6	-	-	-	-	-	-
East Safawi Block, Jordan	-	-	-	-	-	-
Total for continuing operations	-	-	-	8,233,050	-	8,233,050
Unallocated head office	-	-	-	-	-	-
	-	-	-	8,233,050	-	8,233,050

9. SEGMENTAL ANALYSIS (continued)

	Exploration and evaluation		Construction of an oil field		Total	
	2009	2008	**2009**	2008	**2009**	2008
	€	€	**€**	€	**€**	€
9B. Segment Results						
Continuing Operations						
Subba & Luhais Oil Field Development	**(4,420,290)**	-	**-**	-	**(4,420,290)**	-
Merjan and Dhufriya Oil Field Agreement	**(36,925)**	-	**-**	-	**(36,925)**	-
Western Dessert Block 6	**-**	-	**-**	-	**-**	-
East Safawi Block, Jordan	**(1,551,769)**	-	**-**	-	**(1,551,769)**	-
Total for continuing operations	**(6,008,984)**	-	**-**	-	**(6,008,984)**	-
Unallocated head office	**(517,091)**	(761,637)	**-**	-	**(517,091)**	(761,637)
	(6,526,075)	(761,637)	**-**	-	**(6,526,075)**	(761,637)
9.B Segment Assets						
Group						
Subba & Luhais Oil Field Development	**-**	2,076,305	**42,722,287**	43,983,361	**42,722,287**	46,059,666
Merjan and Dhufriya Oil Field Agreement	**402,749**	452,102	**-**	-	**402,749**	452,102
Western Dessert Block 6	**1,241,733**	1,285,363	**-**	-	**1,241,733**	1,285,363
East Safawi Block, Jordan	**-**	968,183	**-**	-	**-**	968,183
Total for continuing operations	**1,644,482**	4,781,953	**42,722,287**	43,983,361	**44,366,769**	48,765,314
Unallocated head office	**970,804**	576,631	**-**	-	970,804	576,631
	2,615,286	5,358,584	**42,722,287**	43,983,361	**45,337,573**	49,341,945
9.C **Company**						
Subba & Luhais Oil Field Development	**-**	2,076,305	**-**	-	**-**	2,076,305
Merjan and Dhufriya Oil Field Agreement	**402,749**	452,102	**-**	-	**402,749**	452,102
Western Dessert Block 6	**1,241,733**	1,285,363	**-**	-	**1,241,733**	1,285,363
East Safawi Block, Jordan	**-**	988,183	**-**	-	**-**	988,183
Total for continuing operations	**1,644,482**	4,781,953	**-**	-	**1,644,482**	4,781,953
Unallocated head office	**6,729,798**	8,349,012	**-**	-	**6,729,798**	8,349,012
	8,374,280	13,130,965	**-**	-	**8,374,280**	13,130,965
9D. Segment Liabilities						
Group						
Subba & Luhais Oil Field Development	**-**	-	**(36,963,293)**	(36,210,890)	**(36,963,293)**	(36,210,890)
Merjan and Dhufriya Oil Field Agreement	**-**	-	**-**	-	**-**	-
Western Dessert Block 6	**-**	-	**-**	-	**-**	-
East Safawi Block, Jordan	**(411,357)**	-	**-**	-	**(411,357)**	-
Total for continuing operations	**(411,357)**	-	**(36,963,293)**	(36,210,890)	**(37,374,650)**	(36,210,980)
Unallocated head office	**(302,800)**	(1,088,436)	**-**	-	**(302,800)**	(1,088,436)
	(714,157)	(1,088,436)	**(36,963,293)**	(36,210,890)	**(37,677,450)**	(37,299,416)

9. SEGMENTAL ANALYSIS (continued)

9D. Segment Liabilities (continued)

	Exploration and evaluation		Construction of an oil field		Total	
	2009	2008	**2009**	2008	**2009**	2008
	€	€	**€**	€	**€**	€
Company						
Subba & Luhais Oil Field Development	-	-	-	-	-	-
Merjan and Dhufriya Oil Field Agreement	-	-	-	-	-	-
Western Dessert Block 6	-	-	-	-	-	-
East Safawi Block, Jordan	(411,357)	-	-	-	(411,357)	-
Total for continuing operations	(411,357)	-	-	-	(411,357)	-
Unallocated head office	(302,800)	(1,088,436)	-	-	(302,800)	(1,088,436)
	(714,157)	(1,088,436)	-	-	(714,157)	(1,088,436)

Additions to new current assets (Group and Company)

	Exploration and evaluation 2009 €	2008 €	Construction of an oil field 2009 €	2008 €	Total 2009 €	2008 €
Subba & Luhais Oil Field Development	**210,679**	-	**-**	-	**210,679**	-
Merjan and Dhufriya Oil Field Agreement	**-**	-	**-**	-	**-**	-
Western Dessert Block 6	**-**	-	**-**	-	**-**	-
East Safawi Block, Jordan	**578,668**	-	**-**	-	**578,668**	-
Total for continuing operations	**789,347**	730,956	**-**	-	**789,347**	730,956
Unallocated head office	**-**	-	**-**	-	**-**	-
	789,347	730,956	**-**	-	**789,347**	730,956

10. INCOME TAX EXPENSE

	2009	2008
	€	€
Factors affecting the tax expense:		
Loss on ordinary activities before tax	**(6,526,075)**	(761,637)
Income tax calculated @ 12.5%	**(815,759)**	(95,205)
Effects of:		
Expenses not allowable	**748,261**	-
Tax losses carried forward	**62,708**	95,205
Income taxed at higher rate	**4,790**	-
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 €5,444,220 (2008: €4,628,461) which equates to a deferred tax asset of €680,527 (2008: €578,558). 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

	2009	2008
	€	€
Loss per share - Basic and diluted	**(8.73c)**	(1.05c)

11. LOSS PER SHARE (continued)

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:

	2009	2008
	€	€
Loss for the year attributable to equity holders of the parent	**(6,526,075)**	(761,637)

	2009	2008
	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**74,727,222**	72,229,796

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

12. INTANGIBLE ASSETS

	Group		Company	
	2009	2008	**2009**	2008
	€	€	**€**	€
Exploration and evaluation assets:				
Cost:				
Opening balance	**4,781,953**	4,189,643	**4,770,716**	4,178,406
Additions	**789,347**	730,956	**789,347**	730,956
Impairment	**(3,923,885)**	-	**(3,923,885)**	-
Exchange translation adjustment	**(2,933)**	(138,646)	**(2,933)**	(138,646)
Closing balance	**1,644,482**	4,781,953	**1,633,245**	4,770,716

Exploration and evaluation assets at 31 December 2009 represent exploration and related expenditure in respect of projects in Iraq. The directors are aware that by its nature there is an inherent uncertainty in relation to the recoverability of amounts capitalised on the exploration projects. In addition, the current economic and political situation in Iraq is uncertain. Having reviewed the exploration and evaluation expenditure at 31 December 2009 and as a result of a subsequent event regarding the settlement of all outstanding operational issues on the Subba and Luhais Oilfield development in Southern Iraq, the directors have decided to write off €2,372,116 of the exploration and evaluation costs capitalised in relation to the projects in Iraq in the current year. See Note 3 for further details regarding this subsequent event.

In addition, the directors have impaired all exploration and evaluation costs amounting to €1,551,769 relating to the project in Jordan due to an anticipated loss of the license on the block as a result of the group being unable to identify a partner to progress and fund development of the project.

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

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

- 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;
- Operations and environmental risks and;
- Going Concern.

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 to the statement of comprehensive income.

12. INTANGIBLE ASSETS (continued)

Regional Analysis – Group

	Iraq €	Jordan €	Total €
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 1 January 2009	3,813,770	968,183	4,781,953
Additions	210,679	578,668	789,347
Impairment	(2,372,116)	(1,551,769)	(3,923,885)
Exchange translation adjustment	(7,851)	4,918	(2,933)
At 31 December 2009	**1,644,482**	**-**	**1,644,482**

13. INVESTMENT IN SUBSIDIARIES

	2009 €	2008 €
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 2009:

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

During 2005 the company entered into an agreement with Makman, which is referred to as a joint venture arrangement to develop the Subba and Luhais Development Project in Iraq. At the balance sheet date the company had 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. However on 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq which resulted in control of the Joint Venture Agreement passing to Makman. See Note 3 for further details.

The company holds a 30% interest in a Ghanaian private company, Pan Andean Resources Limited, which is an early stage exploration vehicle in Africa.

The directors are satisfied that the carrying value of the investments is not impaired.

14. CONSTRUCTION CONTRACTS

	Group		Company	
	2009 €	2008 €	**2009 €**	2008 €
Work in progress:				
Opening balance	**5,315,599**	9,558,084	**-**	-
Expenditure incurred in period	**2,131,440**	3,990,565	**-**	-
Impairment	**(2,085,100)**	-	**-**	-
Work completed	**-**	(8,233,050)	**-**	-
	5,361,939	5,315,599	**-**	-

14. CONSTRUCTION CONTRACTS (continued)

The above expenditure relates to costs 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, and SCOP (State Company of Oil Projects) to assist design, supply materials and services for the development of an oil field.

On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq. See Note 3 for further details. Under the terms of the agreement Petrel will receive a minimum consideration of $7 million. The directors have assessed the carrying value of the amounts recoverable under construction contracts at the year end date. As a result an impairment of €2,085,100 was recognised to bring the values recoverable under the contract to the actual amount receivable under the terms of the settlement.

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	€	€	**€**	€
Current assets:				
Trade receivables	**37,301,562**	38,606,675	**-**	-
VAT refund due	**19,953**	27,628	**19,953**	27,628
Other receivables	**86,208**	50,491	**86,207**	50,491
Non-current assets:				
Amounts due from group undertakings	**-**	-	**5,758,994**	7,772,381
	37,407,723	38,684,794	**5,865,154**	7,850,500

Trade receivables relate to amounts billed in respect of the Subba and Luhais development services contract up to 31 December 2009. Included in the Group trade receivable balance are debtors with a carrying amount of €37,301,562 (2008: €36,252,298) which are past due at the reporting date and for which the Group has not made any impairment provisions. As disclosed in note 3, subsequent to year end the risks and the substantial rewards relating to the Subba and Luhais Development Contract were transferred to Makman.

In respect to the amounts due from group undertakings, recognised in the company balance sheet, an amount of $2 million has been received subsequent to year end and, as outlined in note 3, guarantees have been received for further payments of $5 million due within 12 months from the 26 April 2010.

Accordingly, in the opinion of the directors the amounts above are considered to be fully recoverable.

Ageing of past due but not impaired.

	Group		Company	
	2009	2008	**2009**	2008
	€	€	**€**	€
90 – 120 days	-	4,761,128	-	-
> 120 days	37,301,562	31,491,170	-	-
Total	37,301,562	36,252,298	-	-

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	€	€	**€**	€
Cash and cash equivalents	**923,429**	559,599	**864,644**	498,512

Cash at bank earns interest at floating rates on daily bank rates. The fair value for cash and cash equivalents is €923,429 (2008: €559,599) for Group and €864,644 (2008: €498,512) for Company. The Group and Company only deposits cash surpluses with major banks.

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	**2009**	2008
	€	€	**€**	€
Bank loan	**23,501,833**	21,560,087	**-**	-
Accruals	**119,074**	1,088,436	**119,074**	1,088,433
Amount due to group undertaking	**-**	-	**3**	3
Other creditors	**595,083**	718,442	**595,080**	-
Customer deposits	**13,461,460**	13,932,451	**-**	-
	37,677,450	37,299,416	**714,157**	1,088,436

The bank loan represents the amounts drawn down on a letter of credit which was in place at the year end 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. The Petrel/Makman Joint Venture Service Agreement which includes both the bank loan and the customer deposits was transferred to Makman subsequent to year end. For further details see note 3

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, and 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 due to no significant dealings in currencies other than the reporting currency and euro denominated transactions and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposures on an adhoc basis.

The group had a letter of credit in place at the year end with the Trade Bank of Iraq for €23,501,833 (2008: €21,560,087). The amount drawn down and outstanding at year end in respect of this was approximately US$30 million.

The Group and Company has relies 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	
	2009	2008	**2009**	2008
	€	€	**€**	€
Sterling	**434,885**	282,276	**5,334**	315,092
US Dollar	**38,331,152**	38,848,187	**37,388,463**	36,332,938

Company	Assets		Liabilities	
	2009	2008	**2009**	2008
	€	€	**€**	€
Sterling	**434,883**	282,276	**5,334**	315,092
US Dollar	**6,135,042**	7,952,794	**425,170**	121,958

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. The main financial risk arising from the group's financial instruments is currency risk. The board reviews and agrees policies for managing this risk and they are summarised below.

Interest rate risk profile of financial assets and financial liabilities
The Group finances its operations through the issue of equity shares, and had no exposure to interest rate agreements at the year end date.

Liquidity Risk
As regards liquidity, the Group's policy is to ensure continuity of funding primarily through fresh issues of shares. Short-term funding is achieved through utilizing and optimising the management of working capital. The directors are confident that adequate cash resources exist to finance operations in the short term, including exploration and development.

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 2009, the Group held €869,731 in sterling and U.S. dollar denominated bank accounts (2008: €523,775). The group had a bank loan of US$33,856,741 translated at the year end rate to €23,501,833 (2008: €21,560,087).

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.

Credit risk
With respect to credit risk arising from financial assets of the group which comprise cash and cash equivalents and trade receivables, 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 15 and 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 2009 and 31 December 2008.

Financial Assets
The group has no financial assets, other than short-term receivables and cash at bank.

20. SHARE CAPITAL

	Group and Company	
	2009	2008
	€	€
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 (2008: 72,229,796) ordinary shares of €0.0125 each	**902,873**	902,873
Issued:		
4,434,828 (2008:Nil) ordinary shares of €0.0125 each	**55,435**	-
Closing 76,664,624 (2008: 72,229,796) ordinary shares of €0.0125 each	**958,308**	902,873

20. SHARE CAPITAL (continued)

The total number of options outstanding at 31 December 2009, including directors was 4,870,000 (2008: 4,870,000) shares. The options are exercisable at prices ranging between €0.0339 and €1.78 in accordance with the option agreement.

Movements in issued share capital
On 4 February 2009, 344,828 shares were issued at a price of 29p per share to consultants in lieu of consulting fees that were due to them.

On 14 May 2009, 4,090,000 shares were issued at a price of 45p per share to provide additional working capital and fund development costs.

21. SHARE BASED PAYMENTS

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 part of exploration and evaluation assets as the transaction relates to the payment of goods and services which qualify to be recognised as an asset. Fair value is measured by the use of a Black-Scholes model.

OPTIONS

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 31/12/2009` Options	Year ended 31/12/2009 Weighted average exercise price in cent	Year ended 31/12/2008 Options	Year ended 31/12/2008 Weighted average exercise price in cent
Outstanding at beginning of year	**200,000**	**178**	200,000	178
Granted during the year	**-**	**-**	-	-
Outstanding and exercisable at the end of year	**200,000**	**-**	200,000	178
Exercisable at the end of year	**200,000**	**178**	200,000	178

The options outstanding at 31 December 2009 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 was calculated using the Black Scholes option pricing model. No options were granted in 2009. The inputs into the model were as follows:

	2009	2008
Weighted average share price at date of grant (in cent)	-	-
Weighted average exercise price (in cent)	-	-
Expected volatility	-	-
Expected life	-	-
Risk free rate	-	-
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 behavioral considerations.

The Group capitalised expenses of €Nil (2008: € Nil) related to equity-settled share-based payments transactions during the period. No share options were issued in 2009 (2008: €Nil).

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 €6,526,075 (2008: €761,637).

23. NON-CASH TRANSACTIONS

During the year a total impairment charge of €6,008,985 was expensed to the Statement of Comprehensive Income due to an announcement by the company, on 26 April 2010, of the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq. For more details see note 3. There were no other non-cash transactions during 2009 except as reflected in Note 20.

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. On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq. See note 3 for further details.

25. POST BALANCE SHEET EVENTS

On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq. See note 3 for further details.

26. CONTINGENT LIABILITIES

There are no contingent liabilities (2008: Nil).

Notice Of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Petrel Resources plc will be held on 26 July 2010 in The Stephen's Green Hibernian Club, 9 St. Stephen's Green, Dublin 2 at 12 noon for the following purposes:

1. To receive and consider the Directors Report, Audited Accounts and Auditors Report for the year ended December 31, 2009.

2. To re-elect Director:
   John Teeling 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.

By order of the Board:

James Finn
Secretary

25 June 2010

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.

Corporate Directory

Directors' and Other Information

CURRENT DIRECTORS	J. Teeling (Chairman) D. Horgan (Managing) G. Delbes S. Borghi
SECRETARY	J. Finn
REGISTERED OFFICE	162 Clontarf Road Dublin 3. T: 353-1-8332833 F: 353-1-8333505 E: petrel@iol.ie www.petrelresources.com
AUDITORS	Deloitte & Touche Chartered Accountants Deloitte & Touche House Earlsfort Terrace Dublin 2.
BANKERS	Allied Irish Banks plc. Annesley Bridge North Strand Road Dublin 3.
	Trade Bank of Iraq Eskan Street Building N.359 Erbil Republic of Iraq
SOLICITORS	McEvoy & Partners Connaught House Burlington Road Dublin 2.
NOMINATED BROKER & ADVISOR	Astaire Securities 46 Worship Street London EC2A 2EA, UK.
REGISTRATION NUMBER	92622
WEBSITE	www.petrelresources.com