Petrel Resources Plc

Annual Report and Accounts

Year ended 31 December 2011

Contents

Chairman's Statement

Petrel is an Irish Hydrocarbon exploration company with current activities in Iraq, Ghana and now offshore Ireland. First formed in the 1980's to explore offshore Ireland, Petrel entered into Iraq in 1999. We worked diligently with the Iraqi Oil Ministry and in 2002 agreed an exploration lease on a 10,000 sq km area in the Western Desert. This was approved by the Oil Ministry but not the supreme authority. Post 2004, Petrel was successful in obtaining a large oil field construction contract, Subba and Luhais, and Technical Cooperation Agreements on two undeveloped oil fields, Merjan and Dhufriyah. A local partner was imposed on Petrel at the signing of the Subba and Luhais agreement. Difficulties arose in the execution of the contract and after extensive negotiations Petrel withdrew from the contract with $7m in compensation and a 10% net profits interest. The project is virtually complete but we expect no further payment.

Since 2008 we have applied to be pre-qualified for four licencing rounds. To date we have been unsuccessful. When compared to the super-major and giant national oil companies who applied in the early rounds, our small size militated against us – though we had strong in country experience. It must be said that even had we pre-qualified there is no certainty that we would have completed a deal. Iraqi terms are very difficult and it is not clear how economic they are for investors. But we remain committed to Iraq. It is the best and cheapest place in the world to find oil and gas. The current political, economic and legal uncertainties will be ironed out but it could take time. We have recognised that our existing structure has been unsuccessful so we are in the process of establishing a new Baghdad based specialist oil team who will further our Block 6 interests as well as seeking out new opportunities.

In 2007 we got an opportunity to join with an associate company, Pan Andean Resources, now Clontarf Energy, in an application to explore the Tano 2A Block onshore/offshore Ghana. Petrel brought a successful body of technical experience to the application. Our share was, and is, 30% (Clontarf Energy 60%, local Ghanaian interests 10%). An agreement was finalised in 2008 with the Ghanaian National Petroleum Company (GNPC). The agreement was revised in 2010 and then awaited cabinet and parliamentary approval. This has not yet been given. Delays in national resource agreements are common. Ghana has become in recent years an emerging world class oil province. Close to the Tano 2A Block, the Jubilee field and surrounding finds are estimated to contain billions of barrels of oil. Heightened levels of interest and activity in Ghanaian oil places pressure on all parties involved. There is now far greater interest in the Tano area than there was in 2008. While accepting and understanding the delays, your directors have engaged directly with the GNPC to determine how best to move the application through the process. We have agreed to certain guarantees and bonds. We are hopeful that current efforts will lead to a successful conclusion in 2012.

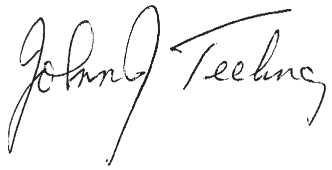
Petrel began life in the early 1980's as a minority partner in Irish offshore exploration. Given the technology of the times, tough Irish terms, the oil price, and alternative opportunities, it was a brave initiative. It failed, as it did for almost all offshore Irish drilling - only a few hits from 215 holes. But times change, exploration technology improves, as have fiscal terms. In recent years there has been a revival of interest. Success in the Corrib area of the Atlantic and more recently in the Celtic sea has sparked a revival. As always it is the juniors who are first in. Using the best expertise in Irish offshore hydrocarbons, Petrel applied for and obtained licence options over two groups of offshore blocks in the Porcupine Basin. Since the award of the licences,

Chairman’s Statement *(continued)*

Petrel has added to their large 1980’s database and began a seismic mapping and well analysis. We have specific areas within the licences where we expect to identify promising targets. It is still very early days in the revival but it is promising.

Looking Forward

For almost 30 years Petrel has been an oil explorer. Exploring is a high risk strategy which means we have a high probability of failure. To date we have failed to deliver real value to our investors but we have survived. In that time we have reinvented ourselves to work in three different continents, in Europe, Asia and Africa. Where do we stand now? We have cash, over $4m, expertise, data, skills and live operations. We will continue to work in Iraq, we are hopeful of a successful conclusion in Ghana and exciting prospects are opening up in Ireland. But we are not satisfied. We are examining ways in which we can use all of the assets and expertise in Petrel to revitalise interest in the company. In a time of massive economic uncertainty, Petrel, with cash, is in a good position.



Chairman
25 June 2012

Review of Operations

Overview

Petrel has interests in Ghana, Iraq and offshore Ireland.

2012 was another difficult year for players working in Iraq. Official decision-making is drawn out. Production has been slow to expand.

Iraqi oil output is currently about 3 million barrels daily, or about the pre-2003 war level. Production targets set since 2005 have been repeatedly missed.

Increasing production is essential for Iraq's development. The authorities have repeatedly announced plans to increase output. But after a period of growth in 2010, output seems again to have flattened.

The geology is undoubted. Global demand is close to record high (at 91 million barrels daily of all liquids) and growing at close to long-term trend. OPEC quota limitations are no longer a serious constraint. The Arab Spring and sanctions on Iran have effectively removed any over-capacity among oil producers. There has never been a better time, in terms of demand and oil price outlook to be an explorer or developer of oil projects.

In Ghana we continue to work towards ratification, having completed the initial technical work in 2011. This work has highlighted a number of potential leads and prospects to pursue following ratification.

Petrel was also awarded licensing options over two groups of Irish offshore blocks (5.5 blocks in total) in the Porcupine Basin in the 2011 Atlantic Margin Licensing Round. High oil prices, new technology and recent discoveries demonstrate the potential in the Irish offshore. Our technical team has 30 years' experience in this region. The key seismic and other data has been acquired and reprocessed, and already a number of leads and prospects have been identified.

The global oil fundamentals are strong:

At a macro level, 2012 was another challenging year due to the ongoing European financial crisis. Global demand is close to historic highs at 91 million barrels daily of all liquids. Emerging markets especially China continued to grow but at a reduced rate.

The international oil price has corrected in the 2nd quarter of 2012, but this is due to out-flows of speculative investments in commodities rather than to any underlying worsening of the supply-demand balance. Investors worry about the Eurozone crisis and recently slowing demand growth in the BRIC's. But OECD demand is now stable and no longer falling. Chinese growth remains strong, though not at the unsustainable level of recent years. Most industry planners anticipate average oil prices of circa $80. We do not anticipate a return to long-run average prices.

The aftermath of the 'Arab Spring' has taken a net 1 million barrels out of the market while delaying and deterring many new projects. Surplus capacity is at its lowest level in decades at circa 1.5 million barrels daily.

GHANA

Over the past year Ghana has solidified its status as the oil industry's new hotspot; following the recent success by Tullow / Kosmos in new (especially Cretaceous) plays generating an estimated 2.5 billion barrels of recoverable oil. This production is concentrated in Cretaceous reservoirs of the Tano Basin in western Ghana.

The 1,532 km2 Tano 2A Block licence is held via a Ghanaian private company, 'Pan Andean Resources Ltd.', owned 30% by Petrel, 60% by Clontarf Energy plc and 10% by Ghanaian interests. A revised Petroleum Agreement was signed in March 2010, and is now working its way through the official ratification process, as required by law.

While we await ratification, Petrel Resources, through our local company, has acquired all usable data available from GNPC and has integrated the geological and seismic data with our own regional database system to expedite the exploration work.

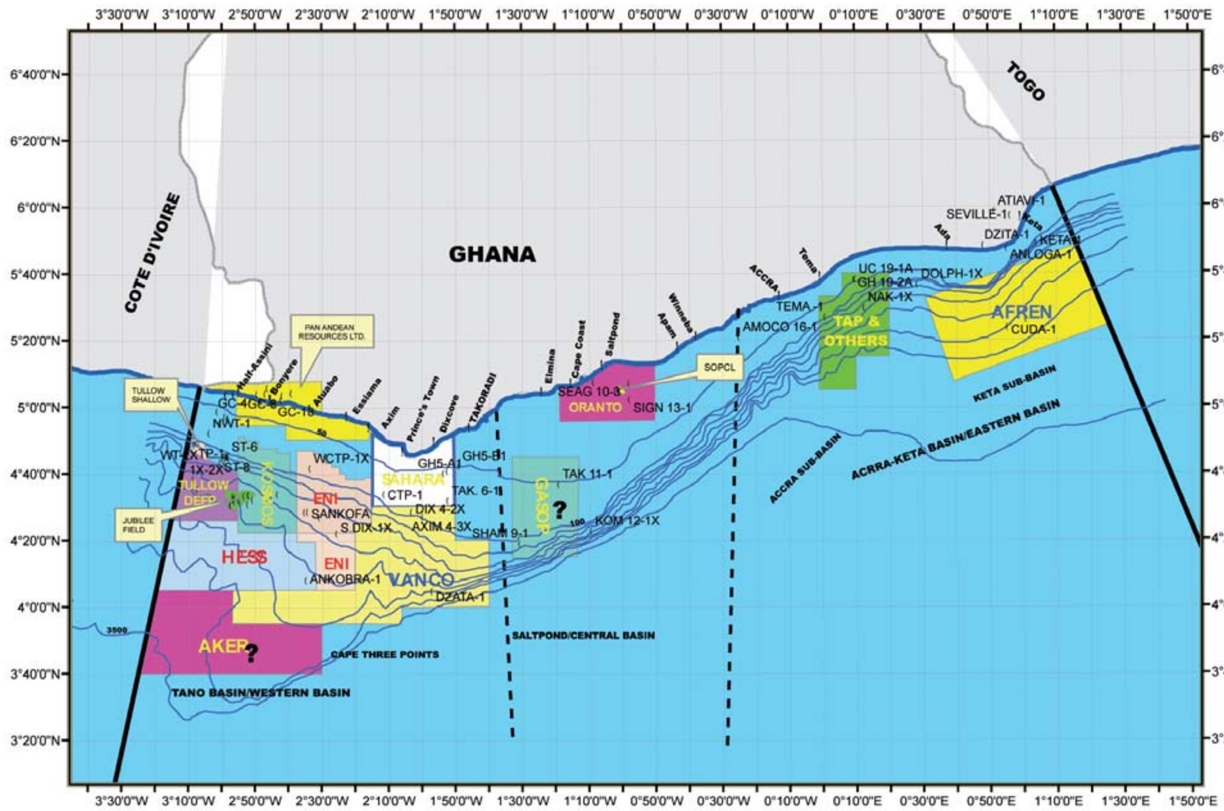


Fig.1 Pan Andean Resources Tano 2A Onshore/Offshore Block

The fiscal terms in Ghana are competitive and are favourable in comparison to best practices elsewhere. There is a royalty off the top of 12.5% for oil and 10% for gas, a 10% carried state interest (held by the national oil company, the GNPC) and a standard 35% income tax on profits. In addition the GNPC can elect to pay their way for a further 15%. There is also a super-profits tax or 'Additional Oil Entitlement (AOE)' which is payable according to the overall Rate of Return. This extra 'bonanza tax' does not apply for a rate of return under 12.5%. The Additional Oil Entitlement rises in a step function with returns to a maximum of 30% for project and an IRR over 27.5%. There are also the normal, relatively modest land rentals plus Training Allowance plus an additional 'Technology Support' one-time payment.

The primary terms of the renegotiated Tano Agreement are summarised as follows:

- The licence is divided into an initial period of three years (the "Initial Exploration Period"), a first extension period of two years ("First Extension Period") and a second extension period of one and a half years ("Second Extension Period")
- During the Initial Exploration Period, the Contractor must;
  (1) Reprocess all existing 2D seismic data covering the licence area (now done);
  (2) Acquire, process and interpret at least 1,000 km2 of new 3D seismic data; and
  (3) Drill a minimum of one exploration well.
- The minimum expenditure during the initial exploration period is US$25 million for one well onshore or US$35 million for an offshore well.
- A training allowance of $250,000 per annum and a one-off technology payment of $1 million.

This equates to a total state take of circa 50%, which compares well with other oil provinces.

There are risks in West Africa but contractors are well-remunerated if they discover and produce oil. We are now focused on the ratification of the agreement. All Ghanaian Petroleum Agreements are subject to Cabinet approval and ratification by Parliament. Ratification is a notoriously slow process in West Africa, so we used the time to push ahead with our technical work.

Operations

Our local company, Pan Andean Resources, purchased extensive data regarding the Tano 2A Block from GNPC including 42 geological reports and 676km of 2D seismic data. We reviewed the four seismic survey datasets – both onshore and offshore - which was shot and originally processed by different companies. Our team identified a significant number of leads and prospects from an analysis of the data. The initial interpretation of the main seismic surveys was completed in the middle of 2011.

Data quality was generally poor to fair, so much work was required to maximise the value of the database. This reflects the data's vintage, together with some apparent defects in the processing parameters. However, it also reflects the challenges in acquiring quality seismic data in the shallow water and surf zone conditions immediately offshore, and the frequently swampy nature of the coastal plain. Future reprocessing of diverse original data would provide a more uniform database, and improve the seismic data in terms of statics, velocities, frequency content and multiple elimination. In turn, this will help to minimise the 'mis-tie' problems between the different surveys that bedevil such exploration.

We interpreted five horizons of different depths, and produced 'time structure maps' of acceptable reliability for two horizons. While these maps show the overall form of the basin, they are insufficiently detailed to allow prospect definition. Therefore a second analysis was conducted to scrutinise all seismic lines individually. This work aimed to define areas of structural or stratigraphic potential, and develop play or prospect leads. This project was completed in May 2011. Data quality and grid spacing did not allow drillable prospects to be outlined, but we succeeded in identifying areas of greater promise within the Tano 2A Block.

There are numerous surface seeps and tar mats onshore and some of these were exploited by shallow wells in the 1890's and early 1900's. This prompted Gulf in the 1950's to drill four spaced onshore wells along the coastline, but without the benefit of seismic control. These proved a southward thickening (>3,000 metres) Cretaceous-Cenozoic sedimentary section, with oil shows. In the 1980's, under an assistance agreement GNPC/PetroCanada drilled a series of shallow (c. 600 metres) wells to gain further onshore control. Most of these wells, again drilled without seismic control, encountered oil shows. Seismic data acquired by GNPC in several short surveys after that time is only of poor to fair quality. One commercial well – Fusion 1X (1981) – drilled after the seismic acquisition – was located at the basin margin and had a Total Depth in Basement at only 590 metres, without success. The drilled onshore sections have generally low source potential and no mature source sequence has been identified in the onshore wells. The onshore oil seeps are being fed by active source systems in some part of the offshore area.

No wells have been drilled offshore on the Tano 2A Block and seismic data acquired by GNPC is of only fair quality. Wells drilled elsewhere on the Tano shelf in the 1960's and 1970's – generally located on Lower Cretaceous fault structures – all encountered flows of oil. However, the Lower Cretaceous sand reservoir quality proved to be poor, and despite prolonged and concerted efforts during the 1980's, it has not proved to be possible to bring these oil accumulations to production. After a period of relative inactivity, this picture has dramatically changed in the last few years. The discovery in the deep water of the Tano Basin of large volumes of oil in high quality Upper Cretaceous reservoirs has changed the outlook for the entire basin.

The following points can be made with respect to source rocks offshore in the Tano Basin:-

- Active oil and gas kitchens are clearly operating on a regional scale.
- Cenomanian-Turonian anoxic sediments have probably acted as the major source interval, whilst the Campanian - Maastrichtian has good source potential in some wells.
- Source rock sections in wells on the Tano shelf are in the oil window, particularly in the deeper off-structure areas.
- Upper Cretaceous source rocks probably entered the main oil generation phase in mid-Cenozoic time, and the systems are still active.

Studies carried out earlier by offshore operators, particularly on the South Tano Field, and Dana WT-1x wells on the outer shelf, together with onshore oil samples, suggest that all these oils were sourced from Cenomanian-Turonian source rocks in deeper water. It is evident that large volumes of oil from Upper Cretaceous source sequences on the outer shelf or slope have migrated shoreward and up-dip to the coast. When the licence is ratified, the challenge for the company is to improve the existing seismic database and to acquire new and better quality seismic data. The aim is to identify potential targets within which some of the shoreward migrating oil has been trapped, particularly within quality Upper Cretaceous reservoirs.

Accordingly, the initial work conducted so far has confirmed the prospectivity of the Block. We are ready to push ahead with the 2D seismic and other work as soon as the ratification is confirmed.

IRAQ

Petrel has a pre-2003 agreement in Iraq on the former Block 6 in the Western Desert between Baghdad and Jordan.

The critical problem in Iraq so far has been the service contract system which effectively limits returns to a level that is sub-economic in current circumstances. Qualification rules has effectively limited bidding to the largest major and National Oil Companies – who are not the most agile in challenging situations.

Since 2005 the Iraqi authorities have awarded only service contracts, especially during the four bid rounds that have been conducted so far. Production Sharing Agreements (PSAs) have been awarded by the Kurdish Regional authorities, though their validity is contested by Baghdad – which controls the export pipelines. Iraqi reserves have been revised upwards to 143 billion barrels, equal to 130 years at current production. Iraqi Gas reserves are 127 trillion cubic feet, of which free gas is 34.6, and associated gas 92.1tcf. Official export capacity is 3.25 million barrels daily, of which 2.6 is from southern facilities.

Iraq has undertaken large-scale oil export projects, including development of new offshore loading facilities to deliver an additional 3.4 million barrels per day (bpd) in spare export capacity. A bottle-neck is water injection. But projects like ExxonMobil's water injection system, have been put in doubt by disputes between companies and the authorities. Without delivery of such infrastructure Iraq's oil investments cannot be implemented or generate adequate returns.

The authority of the central government has been eroded and it is possible that other regional authorities may seek to follow the example of the Kurdish Regional Authorities and seek to negotiate their own oil & gas contracts. We are monitoring these developments and will adjust our approach as appropriate.

Long delays and bureaucracy have been frustrating in recent years. Petrel is a junior, and not a super-major or NOC willing to subsidise projects for long-term strategic reasons yet we want to be involved. We are building a new organisation structure in Baghdad to pursue new opportunities.

The difficulty is to do with the licensing terms and remuneration rather than technical or geological concerns. With the departure of international forces and a diminution of civil conflict, there is now no serious security or logistical barrier to developing southern Iraqi oil fields or exploring in most of Iraq.

Most of Iraq's proven oil is in very large and fairly easy-to-access shallow oil fields convenient for transit lines and away from cities. This makes the hydrocarbons easy and cheap to lift, and thus profitable. But 32 years of conflict and sanctions have impacted infrastructure.

2010 Iraqi output averaged 2.36 million bpd, rising 12% to an average 2.65 million bpd in 2011. Current (June 2012) exports are estimated at circa 2.7 million bpd, out of total output of 3.03.

Despite the progress, official production targets, such as 3.4 million bpd by end 2011 have been missed. Iraq has not yet completed upgrades to export and storage facilities necessary for greater output. Iraqi oil production capacity is therefore effectively limited to export capacity, currently under 2 million bpd.

Iraq is working on expanding Basra's oil terminals' export capacity to 4.8 million bpd by 2014. Four mooring facilities, each of circa 0.9 million bpd of capacity, are due by 2014. Unfortunately, this key infrastructure project has also suffered delays. It is clear therefore that the current licensing terms and approach have not yet achieved the planned major increases in output and exports.

Petrel holds an interest in the Western Desert Block 6 pre-2003 Agreement, which in common with other pre-war arrangements awaits clarification of final terms. This may require passing of the long-awaited Hydrocarbons Law.

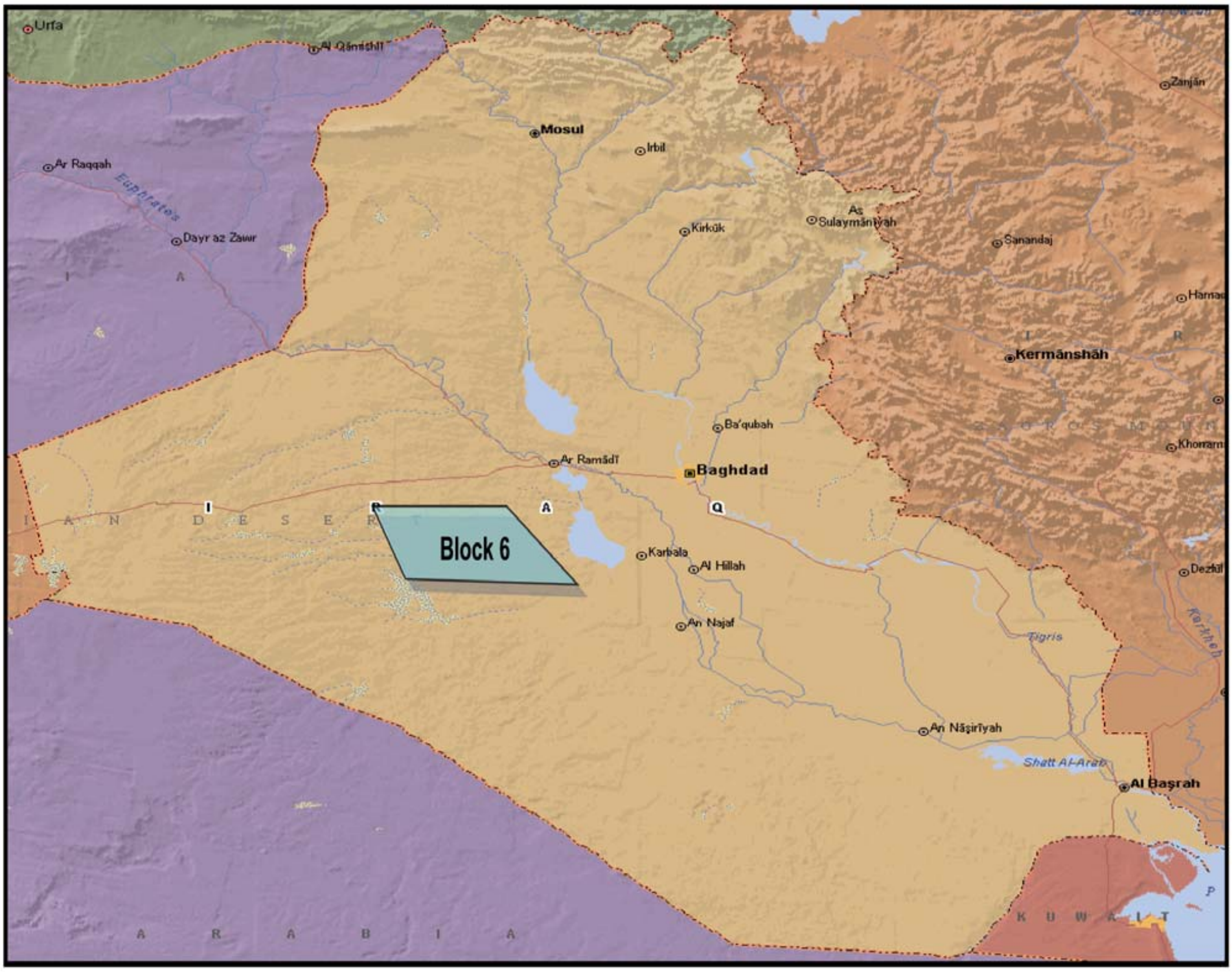


Fig.2 Block 6 in Iraq

OFFSHORE IRELAND

Recent drilling success has greatly enhanced the attractiveness of Offshore Ireland's oil & gas exploration acreage. The high and sustained oil price, attractive fiscal terms, a strong local gas market linked by interconnectors to Scotland and the greater European gas network and exploration successes in similar plays elsewhere are transforming industry attitudes to Ireland. Several inter-related improvements in technology have improved the efficiency of seismic and wells, which in turn has reduced capital cost and risk.

Recent attention has focused on re-entry of 1970's and 1980's discoveries that were formerly deemed to be sub-economic, culminating in the 2012 discovery at Ballyroe, offshore Cork in the Celtic Sea. Following the initial results it now appears that output of 50,000 barrels per day may now require only four wells (costing $25 million each) rather than the up to 30 wells previously assumed. This, in turn, transforms the economics and perceptions of offshore Irish oil production. However the really large potential lies in Atlantic waters where there is potential for much larger structures and stratigraphic traps. So the deeper water and more challenging conditions is more than compensated by the much greater potential.

All the relevant technical parameters have improved in recent years: 3D seismic allows explorers to better map structures, Technology opens doors & minds. The recent discovery at Ballyroe in the Celtic Sea is an example of this; shooting 3D seismic gave a clearer view of the structure, and connectivity of reservoirs. This allowed an increase in estimated reserves from a sub-economic level to 59 million barrels (P50) and possibly twice that. The lesson for us is that we should re-look at everything in the data record and see where it can be enhanced and what opportunities have arisen because of economic and technology changes. Exploration begins again every 15 years.

Licence Award

The 2011 Atlantic Margin Licensing Round saw a high number of applications for a frontier licensing round in the Irish offshore. Petrel Resources were successful in being awarded (October 2011) licensing options over two sets of blocks in the Porcupine Basin: Blocks 35/23, 35/24 and the western half of 35/25, and also Blocks 45/6, 45/11 and 45/16.

There was considerable industry interest in the current round and we are delighted to have been offered two of our applications (figure 3). A combination of good geological potential and fiscal terms as well as a team with a long history in Irish petroleum geology made this an opportune time to re-discover opportunities in Irish offshore.

Evolving industry knowledge is part of the general development of the Atlantic transform margin idea that has led to several major discoveries offshore Africa, which may extend further north to the northern European offshore and even across the Atlantic. Explorers are now looking for more subtle structures and potentially huge stratigraphic plays that were not visible on historic seismic.

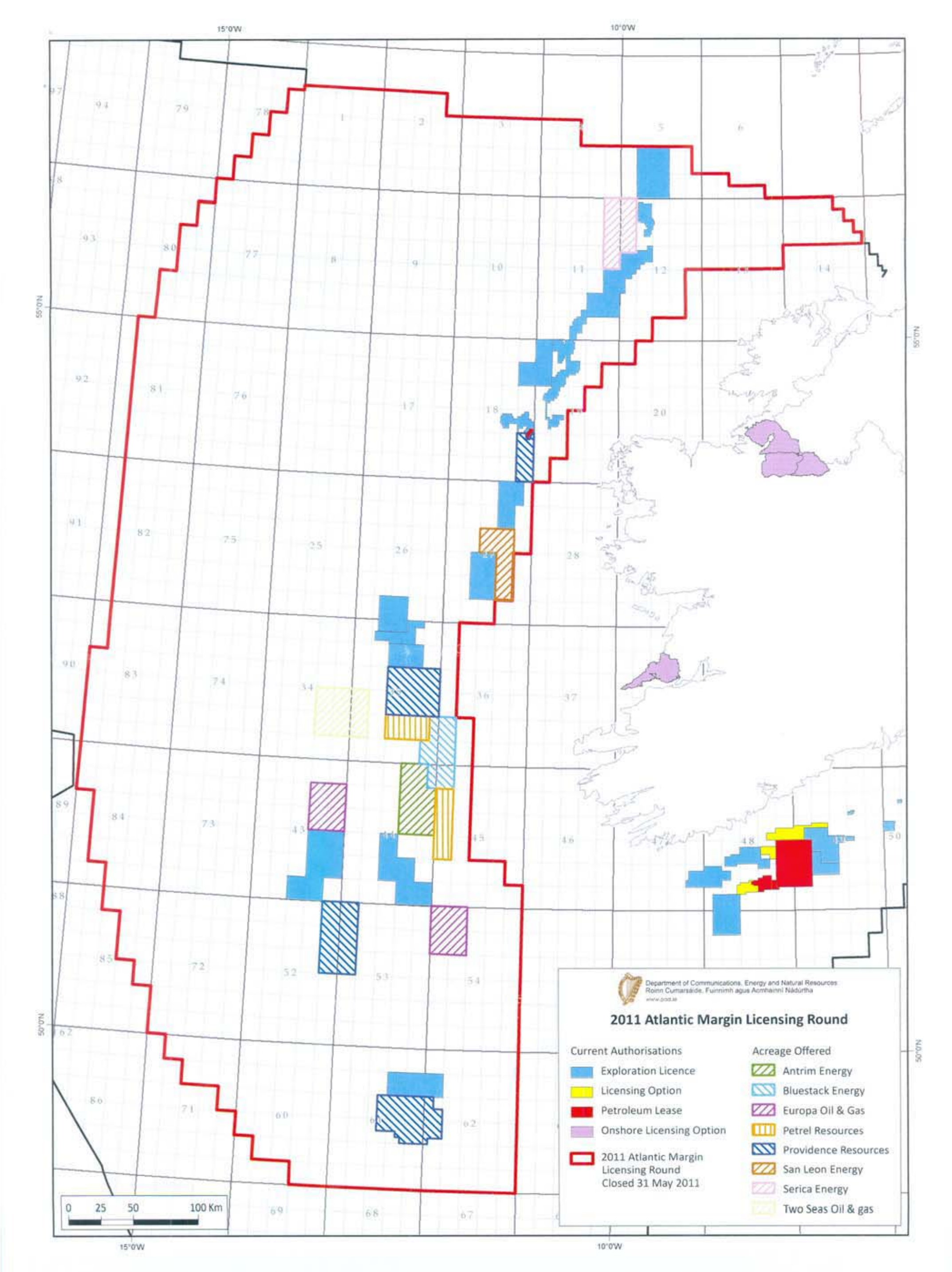


Fig.3 Licences Awarded In 2011 Irish Atlantic Margin Round

The Irish Atlantic margin has an established petroleum system, though there have not yet been large discoveries. The company's strategy was to investigate the initial leads identified principally at Early Tertiary, Early Cretaceous and Upper Jurassic levels. The Tertiary and Cretaceous leads are stratigraphic, while the Upper Jurassic leads are tilted fault blocks.

Irish fiscal terms are competitive internationally. The tax regime is a special Corporate Tax rate of 25% applying to profits from petroleum production and an additional Profit Resource tax of between 5% and 15% that applies in the case of more profitable fields. The Profit Resource Tax is determined by the ratio of profit to capital invested.

The 2011 Atlantic Margin Licensing Round held by the Department of Communications, Energy and Natural Resources closed in May 2011 and awards were made in October 2011. Almost 1,000 blocks were on offer in the Round comprising almost 500,000 km2 and covering most of the Irish Atlantic margin prospective acreage. Petrel Resources plc. held a significant seismic and well database for much of the Irish Atlantic margin. For both geological and strategic reasons it was decided to concentrate efforts on seeking acreage in the Porcupine Basin in the 2011 Irish Frontier Licensing Round. Using its database, the company carried out a regional assessment of the basin in order to identify potentially prospective prospects. Historically, exploration in the Porcupine Basin has been in pursuit of targets similar to those in the northern North Sea. Our regional study identified tilted Jurassic fault block prospects similar to those that have been a focus for drilling in the past. The drilling effort by the exploration industry has unfortunately failed to locate Jurassic reservoirs to match those of the North Sea province, and a more innovative exploration approach was clearly required. Therefore, while recognising that Jurassic structures held potential, Petrel Resources focused its studies on identifying prospects in the post-Jurassic succession within the basin. Significant pulses of potential reservoir sand input into the basin occurred during both Early Cretaceous and Early Tertiary times yielding potential reservoir rocks. However, such leads have remained largely undrilled because of the subtle stratigraphic nature of most of the potential traps.

The exploration potential at both stratigraphic levels was further enhanced in the company's regional study, and the decision taken to concentrate on potential plays and leads identified along the eastern margin of the basin. To this end, further seismic and well data were purchased to strengthen the dataset in the areas of interest and aid in the application. The recent discoveries by Tullow in Ghana, as well as other exploration companies, in stratigraphic traps have shown the potential for these plays.

There have been significant technical changes since the main phase of Porcupine Basin drilling in the late 1970's and early 1980's. Improved seismic techniques allow higher quality imaging than was possible at that time. Also, the discovery during the last decade of large volumes of hydrocarbons in subtle stratigraphic traps offshore West Africa, South America, the North Sea, and elsewhere has given the industry the confidence to pursue similar targets in other provinces and to move away from its traditional focus on drilling only closed structural traps. Despite the indications of active petroleum systems, the Porcupine Basin is under-explored and activity has languished in recent decades. The company feels the need to use its experience and be involved in the region. Re-appraisal of the basin is overdue, driven by higher oil prices, improved seismic and drilling techniques, and by a better understanding of subtle deep water sand reservoirs. A commercial discovery would change the whole outlook for the basin.

Technical Work

Since the award of the blocks Petrel Resources has acquired additional necessary seismic and well data from the Petroleum Affairs Division of the Department of Communications, Energy and Natural Resources in order to provide a more complete dataset. A detailed study involving integrating seismic mapping with petro physical well analysis is underway to follow up the initial leads identified and to attempt to map out robust prospects. The initial phase of this mapping will be completed in Q2 2012, with the next phase of the study involving seismic inversion of selected seismic lines in order to provide further confidence in the likely presence of reservoirs, cap rocks and trapping structures. Additional seismic lines will be purchased and integrated into the study, as required, to substantiate any leads. As the main leads are innovative stratigraphic features, the trapping component of such features are typically subtle and require very careful and detailed synthesis. A number of promising leads have been identified, some of which appear to stack vertically, and these will be the focus of the next phase of work.

Under the terms of the licensing award, Petrel Resources is funding two MSc students at the UCD School of Geological Sciences at University College Dublin, and is providing seismic and well data from its database for the research project. One project started in April 2012 and will involve a detailed seismic and sequence stratigraphic analysis of the eastern part of the Porcupine Basin with the aim of developing a better understanding of likely reservoir fairways within the clinoform and fan systems in the Early Tertiary and Early Cretaceous successions, and to evaluate the likely stratigraphic trapping components of the systems. The second project will start in Autumn 2012 and is aimed at improving the understanding of the nature and provenance of the early Tertiary sandstones in the eastern and south-eastern part of the basin. It is planned to use wireline log analysis to assess the reservoir characteristics and palaeocurrent directions; petrographic analysis to determine compositional variations through the succession; the Pb isotopic composition of K-feldspar grains to determine the provenance of first cycle material in the detrital components of the succession.

Basin Framework

The Porcupine Seabight is a large (320 x 240 km) north-south oriented deep water area overlying the Porcupine Basin. At its southern end it merges southwestwards into the Porcupine Abyssal Plain. It overlies a large and complex basin that contains up to approximately 10 km of Upper Palaeozoic to Tertiary sediments. The main north-south orientation of the basin probably developed during Middle and Upper Jurassic times, broadly coincident with the main phase of syn-rift basin development.

Approximately 1,500 metres of Upper Carboniferous fluvial to deltaic and brackish sandstones, siltstones, mudstones and coals have been drilled on the eastern margin of the basin. These are overlain locally by Permo-Triassic shallow marine sandstones and evaporitic mudstones, and more regionally by extensive Middle and Upper Jurassic fluvial to shallow marine sandstones, mudstones and thin limestones, with more than 1,000 m drilled in places. Lower Jurassic limestones and marine mudstones were locally encountered and appear to be conformable with the underlying Upper Triassic succession.

Middle Jurassic strata are widely developed in the Porcupine Basin and typically rest upon the Upper Carboniferous succession, with no significant angular unconformity. The succession comprises sandy braided fluvial deposits. Upper Jurassic strata within the basin reflect deposition in a syn-rift setting, with the development of a range of lithologies and facies. These range from basin-edge alluvial fans and braided to meandering fluvial strata to deep marine submarine fans.

The Late Jurassic rifting waned during the early part of the Cretaceous and a major unconformity marks the approximate Jurassic-Cretaceous boundary. The syn-rift Jurassic succession is unconformably overlain by a thick (more than 1 km drilled in wells) Cretaceous succession of mudstones and local marine and deltaic sandstones, overlain in turn by a thick Upper Cretaceous chalk succession that onlaps the rifted Jurassic margins of the basin. Lower Cretaceous strata in the Porcupine Basin represent the product of two rift episodes - the last pulse of Late Jurassic rifting and locally an Aptian-Albian rift phase. The Lower Cretaceous remains largely untested by drilling.

A thickness of up to 2,000 metres of Cenozoic mudstones, sandstones and thin limestones has been drilled in the Porcupine Basin, with late Paleocene to Eocene deltaic sandstones in the north of the basin giving way southwards to deep water equivalents. The sandy Eocene succession is in deltaic to submarine fan facies.

Regional Exploration History

Seismic exploration of the Porcupine Basin began in the early 1970's and the first well in the basin, Shell 35/13-1 drilled in 1977, encountered a thick Tertiary and Cretaceous succession with some oil shows. However, seismic data quality in the basin at this time was generally poor, leading to lack of definition on the structures within the basins and consequently to generally disappointing results from the drilling. While the broad outlines of large Jurassic tilted fault blocks could be imaged on the flanks of the Porcupine Basin, little detail could be resolved of the pre-Late Cretaceous succession in the deeper parts of the basin, away from the margins. Due to the generally poor quality of seismic data in the region, the early exploration wells targeted mainly large structural traps. The majority of the early wells (to the mid-1980's) were drilled on tilted fault block structures on the northern margins of the Porcupine Basin.

While the early drilling led to some technical successes, there were no commercial successes. Indications of hydrocarbons were found in different stratigraphic horizons, including Middle and Upper Jurassic, Lower and Upper Cretaceous and Lower Tertiary levels. Four of the early wells in the Porcupine Basin flowed significant quantities of good quality (32-41° API) petroleum from Jurassic and Lower Cretaceous reservoirs. The Phillips 35/8-1 well, drilled in 1978, flowed at a rate of 730 barrels of oil per day (bopd) of oil from poor quality thin Lower Cretaceous turbiditic sandstone reservoirs (Burren prospect). BP drilled oil discovery wells 28/28-1 and 26/28-2 in 1979 and 1980 (Connemara oil accumulation). These flowed 5,589 bopd and 1,550 bopd respectively from Upper Jurassic fluvial sandstones within a structurally complex tilted fault block structure. In 1981, the Phillips 35/8-2 exploration well (Spanish Point prospect) encountered a gas / condensate accumulation that flowed oil and gas at rates of 925 bopd and 4.853 MM scfd respectively from Upper Jurassic turbiditic sandstones in a Jurassic tilted fault block structure draped by Lower Cretaceous marine mudstones. However, the seismic data quality from this part of the basin is generally relatively poor, due in significant part to the presence of Tertiary igneous intrusions.

Source Rocks

Most of the wells in the Porcupine Basin have encountered hydrocarbon shows or flows, indicating a widespread distribution of mature source rocks. The general southward dip of the basin means that regional migration of hydrocarbons is likely to have been northwards and towards the basin margins. The flows and shows of oil, gas and condensate from wells in the Porcupine Basin confirm the presence of a number of working petroleum systems. Source rock potential exists in the Late Carboniferous, Middle and Late Jurassic successions and these are generally mature throughout most of the basin. Some oil and gas potential also exists in the Cretaceous and Tertiary successions but these are immature where drilled in the basin. However, they may locally reach marginal maturity in the thicker undrilled parts of the basin. The Upper Carboniferous succession (source rocks for the Corrib Gasfield in the Slyne Basin further north), encountered in many of the wells drilled in the basin, contains thin coal beds with good potential for gas and condensate. The present oil generating threshold for the post-Carboniferous succession in the basin is at an approximate depth of 2,500 metres, while peak oil generation is occurring at a depth of approximately 3,000 metres.

Middle Jurassic shales drilled on the northwestern flank of the basin have locally good oil and gas potential with Total Organic Carbon (TOC) values in the range 1.0 -1.85%. These show a non-marine (lacustrine) geochemical signature and correlate with some of the oils encountered in the Middle Jurassic reservoirs in the Phillips 35/8-1 oil discovery (the Burren discovery). These Middle Jurassic source rocks are thought to be mature throughout most of the basin.

The Late Jurassic, and especially the Kimmeridgian, succession is a proven source in the northern, western and central parts of the basin. It is regarded as the single most important source rock interval throughout the basin with good to excellent oil and gas source potential. The TOC values in the richest horizons are in the range 3-4% and pyrolysis yields sometimes exceed 7 kg/tonne. The section, while immature in the northern part, is mature throughout the remainder of the basin.

The Early Cretaceous succession in the basin has source potential. The Ryazanian to Aptian marine shales increase in quality southwards in the basin It is likely to have been the predominant source for the oil in the Phillips 35/8-2 (Spanish Point) gas condensate discovery. Aptian-Albian shales in the Phillips 35/8-2 well also have fair oil-generating potential and contain TOC values up to 2.7%. The Early Cretaceous section is at an early mature stage in the Phillips 35/8-2 well. Modelling suggests that Cretaceous strata are immature to mature in the central part of the Porcupine Basin and immature on the basin flanks.

Reservoirs

The Porcupine Basin contains several proven and potential reservoir successions. Upper Carboniferous fluvial and deltaic sequences are regionally extensive and contain substantial thicknesses of sandstones with moderate reservoir potential. Triassic sandstones are thought to have only limited extent, but offer locally good reservoir potential, with 150 metres of net sandstones, with an average porosity of 22%, recorded in the Gulf 26/21-1 well. Middle and Upper Jurassic sandstones are best developed in the northern part of the basin where stacked packages of sandstones have a net/gross ratio of 0.25 in a gross interval of approximately 200 metres and porosities averaging 19%. However, a major uncertainty within the basin is the extent and quality of these reservoirs in the deeper and southern parts of the basin.

The Lower Cretaceous succession contains a wide range of proven and potential reservoir horizons developed in different facies. Late Ryazanian to Early Aptian shoreface to shallow marine sandstones with 22.5 metres of the net sandstones and porosities averaging 15% were recorded from the Gulf 26/21-1 well in the North Porcupine Basin, and similar sequences may occur elsewhere close to the basin margins. Deep marine basin-floor sandstones of Barremian to Aptian age were encountered in the more central parts of the basin (Phillips 35/8-1) where 10 metres of net sandstones in a 46 metres gross interval have porosities averaging 11% and locally up to 20%. A thick and important sequence of reservoir rocks in the Cretaceous succession comprises Upper Aptian to Albian deltaic and overlying shallow-marine sandstone-prone strata that occur in areas adjacent to the basin margins. Drilled thicknesses range from 94 to 366 metres, while net/gross ratios typically exceed 0.5 and porosities average 25-30%. Thick packages of sandstones have been encountered in Eocene deltaic and associated beach ridges, barrier bars and shallow-marine bar sandstones. The deltaic units are sometimes in excess of 200 m of net sandstones and have porosities up to 39%. The shallow marine sandstones contain up to 120 metres of net sandstones and have average porosities of 30%. The Paleocene-Eocene deeper water systems are also likely to contain reservoir systems ranging from thin and relatively complex channelized slope sandstones to thick and extensive basin floor fan sandstones.

Regional traps and play types

Working petroleum systems have also been demonstrated in the Porcupine Basin, with shows or flows of oil, gas and condensate recorded in several instances. Mature source and reservoir rocks occur at various levels in each of the basins, as described above. Cap rocks (typically mudstones) are widespread and have generally not been identified as being problematical in any of the basins. However, in a number of places along the margins of the basin, potentially sandy reservoir facies within the Cenozoic run close to the surface and there is a risk of trap failure due to an insufficient thickness of overlying compacted mudstones. In addition, the unknown and untested nature of reservoirs in the southern part of the Porcupine Basin remains a major risk factor.

The main play type groups within the Porcupine Basins are:

- Carboniferous and Jurassic tilted fault block traps
- Jurassic, Lower Cretaceous and Lower Tertiary submarine fans
- Early Cretaceous and Early Tertiary deltas and clinoforms

Most of the exploration to date has been on large structural traps (typically Jurassic tilted fault blocks). Exploration in the Porcupine Basin within the past few years has begun to target some of the large stratigraphic targets at Cretaceous and Early Tertiary levels.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The main activity of Petrel Resources plc and its subsidiaries (the Group) is oil and gas exploration. The Group has exploration interests in Iraq, Ghana and Ireland.

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

RESULTS FOR THE YEAR

The consolidated loss after taxation for the year, transferred to reserves, amounted to €459,821 (2010: loss of €448,872).

The directors do not recommend that a dividend be declared for the year ended 31 December 2011 (2010: €Nil).

PERFORMANCE REVIEW

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

RISKS AND UNCERTAINTIES

The Group is 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 licences, 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 risks.

In addition to the above there can be no assurance that current exploration programmes will result in profitable operations. The recoverability of the carrying value of exploration and evaluation assets is dependent upon the successful discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Group to raise additional financing, if necessary, or alternatively upon the 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.

DIRECTORS

On 21 May 2012 Stefano Borgi resigned as director.
The current directors are listed on the inside back cover.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

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

	31/12/2011 Ordinary Shares of €0.0125 Number	31/12/2011 Options - Ordinary Shares of €0.0125 Number	1/1/2011 Ordinary Shares of €0.0125 Number	1/1/2011 Options - Ordinary Shares of €0.0125 Number
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 2011 and 31 May 2012:

	31 December 2011 Number of Ordinary Shares	%	31 May 2012 Number of Ordinary Shares	%
Citibank Nominees (Ireland) Limited (CLRLUX)	**10,955,694**	14.29	10,861,492	14.17
L. R. Nominees Limited	**5,444,294**	7.10	4,876,687	6.36
TD Direct Investing Nominee (Europe) Limited	**4,647,405**	6.06	4,782,488	6.24
HSBC Global Custody Nominee	**2,940,000**	3.83	2,940,000	3.83
HSDL Nominees Limited	**2,295,169**	2.99	2,445,524	3.19

FINANCIAL RISK MANAGEMENT

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

GOING CONCERN

Information in relation to going concern is outlined in Note 3.

CORPORATE GOVERNANCE

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

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

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

SUBSIDIARIES

Details of the company's 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 involved 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

Details of significant subsequent events are outlined in Note 25.

AUDITORS

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

Signed on behalf of the Board:

John Teeling	David Horgan
Director	Director

25 June 2012

Statement of Directors' Responsibilities

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the Group and the Parent Company Financial Statements and then apply them consistently;
- make 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. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Petrel Resources Plc

We have audited the financial statements of Petrel Resources Plc for the year ended 31 December 2011 which comprise the Group Financial Statements: the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Group Statement of Changes in Equity and 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 Company Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

We report to you our opinion as to whether the Group Financial Statements and the Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising 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, other 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 the 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 any 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 the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the Group as at 31 December 2011 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 2011; and
- the Parent Company's Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

Emphasis of matter – Realisation of intangible assets

Without qualifying our opinion we draw your attention to Note 12 to the financial statements concerning the valuation and realisation of intangible assets. The realisation of intangible assets of €2,700,960 (2010: €2,149,670) included in the consolidated balance sheet and intangible assets of €2,689,723 (2010: €2,138,433) included in the company balance sheet is dependent on the discovery and successful development of economic reserves including the ability of the Group to raise sufficient finance to develop these projects. The ultimate outcome of these uncertainties cannot, at present, be determined.

We have obtained all the information and explanations we consider 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 2011 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.

Ciarán O'Brien
For and on behalf of Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

25 June 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	2011 €	2010 €
CONTINUING OPERATIONS			
Administrative expenses	5	**(466,961)**	(462,646)
OPERATING LOSS		**(466,961)**	(462,646)
Investment revenue	4	**7,140**	13,774
LOSS BEFORE TAXATION	5	**(459,821)**	(448,872)
Income tax expense	10	**-**	-
LOSS FOR THE YEAR: all attributable to equity holders of the parent		**(459,821)**	(448,872)
Exchange differences on translation of foreign operations		**160,587**	(258,964)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(299,234)**	(707,566)
Loss per share – basic and diluted	11	**(0.60c)**	(0.59c)

The financial statements were approved by the Board of Directors on 25 June 2012 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Consolidated Balance Sheet

as at 31 December 2011

	Notes	2011 €	2010 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	**2,700,960**	2,149,670
CURRENT ASSETS			
Trade and other receivables	15	**32,474**	2,139,269
Cash and cash equivalents	16	**4,150,649**	2,748,831
		4,183,123	4,888,100
TOTAL ASSETS		**6,884,083**	7,037,770
CURRENT LIABILITIES			
Trade and other payables	17	**(230,760)**	(85,213)
NET CURRENT ASSETS		**3,952,363**	4,802,887
NET ASSETS		**6,653,323**	6,952,557
EQUITY			
Called-up share capital	20	**958,308**	958,308
Capital conversion reserve fund		**7,694**	7,694
Share premium		**17,784,268**	17,784,268
Share based payment reserve		**205,971**	205,971
Retained deficit		**(12,302,918)**	(12,003,684)
TOTAL EQUITY		**6,653,323**	6,952,557

The financial statements were approved by the Board of Directors on 25 June 2012 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Company Balance Sheet

as at 31 December 2011

	Notes	2011 €	2010 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	**2,689,723**	2,138,433
Investment in subsidiaries	13	**11,237**	11,237
		2,700,960	2,149,670
CURRENT ASSETS			
Trade and other receivables	15	**32,474**	2,139,269
Cash and cash equivalents	16	**4,150,649**	2,748,831
		4,183,123	4,888,100
TOTAL ASSETS		**6,884,083**	7,037,770
CURRENT LIABILITIES			
Trade and other payables	17	**(230,760)**	(85,213)
NET CURRENT ASSETS		**3,952,363**	4,802,887
NET ASSETS		**6,653,323**	6,952,557
EQUITY			
Called-up share capital	20	**958,308**	958,308
Capital conversion reserve fund		**7,694**	7,694
Share premium		**17,784,268**	17,784,268
Share based payment reserve		**205,971**	205,971
Retained deficit		**(12,302,918)**	(12,003,684)
TOTAL EQUITY		**6,653,323**	6,952,557

The financial statements were approved by the Board of Directors on 25 June 2012 and signed on its behalf by:

John Teeling	David Horgan
Director	Director

Statements Of Changes In Equity

for the year ended 31 December 2011

Group and company

	Share Capital €	Share Premium €	Capital Conversion Reserve fund €	Share Based Payment Reserve €	Retained Deficit €	Total €
At 1 January 2010	958,308	17,784,268	7,694	205,971	(11,296,118)	7,660,123
Total comprehensive income for the year	-	-	-	-	(707,566)	(707,566)
At 31 December 2010	958,308	17,784,268	7,694	205,971	(12,003,684)	6,952,557
Total comprehensive income for the year	-	-	-	-	(299,234)	(299,234)
At 31 December 2011	958,308	17,784,268	7,694	205,971	(12,302,918)	6,653,323

Share premium

The share premium comprises of the excess of monies received in respect of the issue 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 deficit

Retained deficit comprises accumulated losses in the current year and prior years.

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 €	2010 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(459,821)**	(448,872)
Investment revenue recognised in loss		**(7,140)**	(13,774)
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**(466,961)**	(462,646)
Movements in working capital:			
Decrease in construction contracts		**-**	5,361,939
Increase/(Decrease) in trade and other payables		**145,547**	(37,592,237)
Decrease in trade and other receivables		**1,949,465**	34,888,918
CASH GENERATED BY OPERATIONS		**1,628,051**	2,195,974
Investment revenue		**7,140**	13,774
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1,635,191**	2,209,748
INVESTING ACTIVITIES			
Payments for exploration and evaluation assets		**(481,014)**	(376,702)
NET CASH USED IN INVESTING ACTIVITIES		**(481,014)**	(376,702)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,154,177**	1,833,046
Cash and cash equivalents at beginning of financial year		**2,748,831**	923,429
Effect of exchange rate changes on cash held in foreign currencies		**247,641**	(7,644)
Cash and cash equivalents at end of financial year	16	**4,150,649**	2,748,831

Company Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 €	2010 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		**(459,821)**	(448,872)
Investment revenue recognised in loss		**(7,140)**	(13,774)
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**(466,961)**	(462,646)
Movements in working capital:			
Decrease in construction contracts		**-**	5,361,939
Increase/(Decrease) in trade and other payables		**145,547**	(37,592,237)
Decrease in trade and other receivables		**1,949,465**	34,888,918
CASH GENERATED BY OPERATIONS		**1,628,051**	2,195,974
Investment revenue		**7,140**	13,774
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1,635,191**	2,209,748
INVESTING ACTIVITIES			
Payments for exploration and evaluation assets		**(481,014)**	(376,702)
NET CASH USED IN INVESTING ACTIVITIES		**(481,014)**	(376,702)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,154,177**	1,833,046
Cash and cash equivalents at beginning of financial year		**2,748,831**	923,429
Effect of exchange rate changes on cash held in foreign currencies		**247,641**	(7,644)
Cash and cash equivalents at end of financial year	16	**4,150,649**	2,748,831

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) as adopted by the European Union. 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.

The financial statements are prepared under the Companies Acts, 1963 to 2009.

(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.

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) Intangible assets

Exploration and evaluation assets
Exploration expenditure relates to the initial search for mineral deposits with economic potential in Iraq, Ireland and Ghana. 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.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(v) Intangible assets *(continued)*

Impairment of intangible assets

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

a) the period for which the group has a right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

b) substantive expenditure on further exploration for and evaluation of oil or gas resources in the specific area is neither budgeted nor planned;

c) exploration for an evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of oil or gas resources and the group has decided to discontinue such activities in the specific area; and

d) sufficient data exists to indicate that although a development in the specific area is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

(vi) 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 company is US Dollars. However, for the purpose of the consolidated financial statements, the results and financial position of the Group 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.

(vii) Taxation

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

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

(vii) Taxation ***(continued)***

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.

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.

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.

(viii) Share-based payments

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

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(viii) Share-based payments *(continued)*

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.

(ix) 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.

(x) 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.

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

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

(xi) Comparative Amounts

Comparative amounts have been re-classified, where necessary, on the same basis as the current year.

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

(xii) 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
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 Ireland, Iraq and Ghana.

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 licences, profit sharing and taxation;
- Foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- Liquidity risks;
- Operation and environmental risks;
- 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 the carrying amount exceeds the 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 and operating costs and the discount rate to be applied to such revenues and costs.

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.

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

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

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

Share-based payments
The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group 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.

Impairment of Intangible Assets
The assessment of intangible assets for any indication of impairment involves uncertainty. There is uncertainty as to whether the exploration activity will yield any economically viable discovery. Aspects of uncertainty surrounding the group's intangible assets include the amount of potential reserves, ability to be awarded exploration licences, and the ability to raise sufficient finance to develop the group's projects.

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group did not adopt any new International Financial Reporting Standards (IFRS) or Interpretations in the year that had a material impact on the Group's Financial Statements. The following IFRS became effective since the last Annual Report but had no material impact on the Financial Statements:

IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 July 2010
IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 January 2011
IFRS 3 (amendment)	Business Combinations	1 July 2010
IFRS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 January 2011
IAS 1 (amendment)	Presentation of Financial Statements	1 January 2011
IAS 24 (amendment)	Related Party Transactions	1 January 2011
IAS 27 (amendment)	Consolidated and Separate Financial Statements	1 July 2010
IAS 32 (amendment)	Financial Statements Presentation	1 July 2010
IAS 34 (amendment)	Interim Financial Reporting	1 January 2011
IFRIC 13 (amendment)	Customer Loyalty Programmes – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IFRIC 14 (amendment)	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
IFRIC 19 (amendment)	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

2. INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

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:

IAS 32 (amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 7 (amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 1 (amendment)	Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 (amendment)	Employee Benefits	1 January 2013
IFRS 13 (amendment)	Fair Value Measurement	1 January 2013
IFRS 12 (amendment)	Disclosure of Interests in Other Entities	1 January 2013
IFRS 11 (amendment)	Joint Arrangements	1 January 2013
IFRS 10 (amendment)	Consolidated Financial Statements	1 January 2013
IAS 28 (amendment)	Investments in Associates and Joint Ventures	1 January 2013
IAS 27 (amendment)	Separate Financial Statements	1 January 2013
IFRS 7 (amendment)	Disclosures – Initial Application of IFRS 9	1 January 2015
IAS 12 (amendment)	Deferred Tax Recovery of Underlying Assets	1 January 2012
IFRS 1 (amendment)	Government Loans	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

The Directors are currently assessing the impact in relation to the adoption of these Standards and Interpretations for future periods of the Group, however, at this point they do not believe they will have a significant impact on the financial statements of the Group in the period of initial application.

3. GOING CONCERN

The Group and Company incurred a loss for the year of €459,821 (2010: loss of €448,872) and had a retained earnings deficit of €12,302,918 (2010: deficit of €12,003,684), at the balance sheet date leading to doubt about the Group and Company's ability to continue as a going concern.

The Group and Company had a cash balance of €4,150,649 at the balance sheet date. 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 group has sufficient cash resources that can be used to develop exploration projects along with the day to day running of the Group. The financial statements do not include any adjustment to the carrying amount, or classification of assets and liabilities, which would be required if the Group or Company was unable to continue as a going concern.

4. INVESTMENT REVENUE

	2011	2010
	€	€
Interest on bank deposits	**7,140**	13,774

5. LOSS BEFORE TAXATION

	2011 €	2010 €
The loss before taxation is stated after charging/(crediting) the following items:		
Administrative expenses:		
Professional fees	**137,132**	206,851
Staff costs - salaries	**254,839**	182,535
- payroll taxes	**19,885**	21,390
Other administration expenses	**55,105**	51,870
	466,961	462,646

Details of auditor's and directors' remuneration are set out in Notes 6 and 7 respectively

6. AUDITOR'S REMUNERATION

Auditor's remuneration for work carried out for the Group and Company in respect of the financial year is as follows:

	2011 €	2010 €
Group		
Audit of Group accounts	**19,000**	18,000
Other assurance services	**1,500**	1,000
Tax advisory services	**1,600**	3,300
Other non-audit services	**-**	-
Total	**22,100**	22,300
Company		
Audit of individual company accounts	**9,750**	9,000
Other assurance services	**9,750**	9,000
Tax advisory services	**1,600**	3,300
Other non-audit services	**-**	-
Total	**21,100**	21,300

7. RELATED PARTY AND OTHER TRANSACTIONS

Group and Company

Directors' remuneration
The remuneration of the directors is as follows:

	2011 Fees – services as directors €	2011 Fees – other services €	2011 Total €	2010 Fees – services as directors €	2010 Fees – other services €	2010 Total €
John Teeling	**5,000**	**95,000**	**100,000**	5,000	95,000	100,000
David Horgan	**5,000**	**145,000**	**150,000**	5,000	145,000	150,000
Guy Delbes	**5,000**	**5,378**	**10,378**	5,000	9,095	14,095
Total	**15,000**	**245,378**	**260,378**	15,000	249,095	264,095

The number of directors to whom retirement benefits are accruing is nil. There were no entitlements to pension schemes or retirement benefits. There were no gains made by directors on the exercise of share options. Details of directors' interest in the shares of the company are set out in the Directors' Report.

Directors' remuneration of €110,378 (2010: €114,095) was capitalised as exploration and evaluation expenditure as set out in Note 12.

Key management compensation

Key management personnel are deemed to be John Teeling (Chairman), David Horgan (Managing Director), Guy Delbes (Director) and James Finn (Chief Financial Officer). The total compensation expense comprising solely of short-term benefits in respect of key management personnel was as follows:

	2011 €	2010 €
Short-term employee benefits	**360,378**	364,095

7. RELATED PARTY AND OTHER TRANSACTIONS *(continued)*

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.

Transactions with these companies during the year are set out below:

	African Diamonds plc €	Botswana Diamonds plc €	Clontarf Energy plc €	Connemara Mining plc €	Cooley Distillery plc €	Pan Andean Resources plc €	Hydro-carbon Exploration plc €	Stellar Diamonds plc €	Total €
Balance at 1 January 2010	11,836	-	19,153	1,343	(14,075)	35,384	-	13,178	66,819
Office and overhead costs recharged	(22,926)	-	16,555	569	(35,300)	-	23,107	-	(17,995)
Exploration and evaluation expenditure recharged by Petrel	-	-	44,464	-	-	-	-	-	44,464
Exploration and evaluation expenditure recharged to Petrel	-	-	-	-	-	-	(67,560)	-	(67,560)
Transfer on demerger	11,090	(11,090)	-	-	-	(35,384)	35,384	-	-
Repayments	-	-	-	-	49,375		97,739	(13,178)	133,936
Balance at 31 December 2010	**-**	**(11,090)**	**80,172**	**1,912**	**-**	**-**	**88,670**	**-**	**159,664**
Office and overhead costs recharged	-	(10,069)	4,150	2,536	(37,500)	-	-	-	40,883
Exploration and evaluation expenditure recharged by Petrel	-	-	13,844	-	-	-	13,844	-	27,688
Exploration and evaluation expenditure recharged to Petrel	-	-	(1,260)	-	-	-	(17,856)	-	(19,116)
Repayments	-	26,168	(90,329)	(709)	37,500	-	(88,670)	-	(116,040)
Balance at 31 December 2011	**-**	**5,009**	**6,577**	**3,739**	**-**	**-**	**(4,012)**	**-**	**11,313**

7. RELATED PARTY AND OTHER TRANSACTIONS *(continued)*

Other *(continued)*

On 4 April 2010 certain assets of Pan Andean Resources plc were demerged to Hydrocarbon Exploration plc. The assets demerged included amounts due by Pan Andean Resources plc to Petrel Resources plc.

On 20 December 2010 certain assets of African Diamonds plc were demerged to Botswana Diamonds plc. The assets demerged included amounts due to African Diamonds plc by Petrel Resources plc.

Petrel Resources plc owns 30% of Pan Andean Resources Limited, an early stage exploration vehicle registered in Ghana. Clontarf Energy plc, Hydrocarbon Exploration plc and Abbey Oil & Gas own the remaining 70%. During 2011 exploration and evaluation expenditure was paid by Petrel Resources plc in relation to the Ghanian operations. This expenditure was recharged to Clontarf Energy plc and Hydrocarbon Exploration plc during the year. Exploration and evaluation expenditure was also paid by both companies and recharged to Petrel Resources plc during the year.

Cash Held in Escrow Accounts

During the year €1,197,425 and €580,890 of cash and cash equivalents were held on behalf of Botswana Diamonds Plc and Connemara Mining Plc, under a Security Escrow Agreement dated 26 November 2010. All funds were returned in early 2011 and at 31 December 2011 €Nil was held by Petrel Resources plc on behalf of Botswana Diamonds Plc and Connemara Mining Plc.

8. STAFF NUMBERS

The average number of persons employed by the group (including directors) during the year was:

	2011 Number	2010 Number
Management and administration	**5**	4

Staff costs for the above persons were:	€	€
Wages and salaries	**385,378**	385,686
Social welfare costs	**19,885**	21,390
Pension costs	**-**	-
	405,263	407,076

9. SEGMENTAL ANALYSIS

The Group 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. For management purposes, the Group has one class of business: oil exploration and development. These are analysed on a project by project basis.

9. SEGMENTAL ANALYSIS *(continued)*

9A. Segment Results

	2011 €	2010 €
Continuing Operations		
Western Desert Block 6	-	-
Ghana	-	-
Ireland	-	-
Total for continuing operations	-	-
Unallocated head office	(459,821)	(448,872)
	(459,821)	(448,872)

There was no revenue earned during the year (2010: €Nil).

9B. Segment Assets and Liabilities

	Assets		Liabilities	
	2011 €	2010 €	2011 €	2010 €
Western Desert Block 6	2,068,931	1,900,663	-	-
Ghana	418,228	249,007	(4,738)	-
Ireland	213,801	-	-	-
Total for continuing operations	2,700,960	2,149,670	(4,738)	-
Unallocated Head Office	4,183,123	4,888,100	(226,022)	(85,213)
	6,884,083	7,037,770	(230,760)	(85,213)

Additions to non-current assets (Group and Company)

	2011 €	2010 €
Western Desert Block 6	121,024	127,695
Ghana	146,189	249,007
Ireland	213,801	-
Total for continuing operations	481,014	376,702
Unallocated head office	-	-
	481,014	376,702

10. INCOME TAX EXPENSE

	2011 €	2010 €
Factors affecting the tax expense:		
Loss on ordinary activities before tax	**(466,961)**	(462,646)
Income tax calculated @ 12.5%	**(58,370)**	(57,831)
Effects of:		
Expenses not allowable	**20,759**	54,402
Tax losses carried forward	**36,681**	2,905
Income taxed at higher rate	**930**	524
Tax charge	**-**	-

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

At the balance sheet date, the Group had unused tax losses of €4,253,632 (2010: €3,960,185) which equates to a deferred tax asset of €531,704 (2010: €495,023). 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

	2011 €	2010 €
Loss per share - basic and diluted	**(0.60c)**	(0.59c)

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:

	2011 €	2010 €
Loss for the year attributable to equity holders	**(459,821)**	(448,872)

	2011 Number	2010 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	**76,664,624**	76,664,624

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

12. INTANGIBLE ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	€	€	**€**	€
Exploration and evaluation assets:				
Cost:				
Opening balance	**2,149,670**	1,644,482	**2,138,433**	1,633,245
Additions	**481,014**	376,702	**481,014**	376,702
Exchange translation adjustment	**70,276**	128,486	**70,276**	128,486
Closing balance	**2,700,960**	2,149,670	**2,689,723**	2,138,433

Segmental Analysis

	Group	Group
	2011	2010
	€	€
Western Desert Block 6	**2,068,931**	1,900,663
Ghana	**418,228**	249,007
Ireland	**213,801**	-
	2,700,960	2,149,670

Exploration and evaluation assets at 31 December 2011 represent exploration and related expenditure in respect of projects in Ireland, Iraq and Ghana. 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.

The directors believe there were no facts or circumstances indicating that the carrying value of the intangible assets may exceed their recoverable amount and thus no impairment review was deemed necessary by the directors. The realisation of these intangible assets is dependent on the successful discovery and development of economic reserves and is subject to a number of significant potential risks, as set out in Note 1 (xii).

Directors' remuneration of €110,378 (2010: €114,095) was capitalised as exploration and evaluation expenditure during the year.

13. INVESTMENT IN SUBSIDIARIES

	2011	2010
	€	€
Company		
Shares at cost - unlisted:		
Opening and closing balance	**11,237**	11,237

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

13. INVESTMENT IN SUBSIDIARIES *(continued)*

The Group consisted of the parent company and the following wholly owned subsidiaries as at 31 December 2011:

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

The company also holds a 30% interest in Pan Andean Resources Limited, an early stage exploration company incorporated in Ghana. Pan Andean Resources Limited was a dormant company in the current and prior year.

14. CONSTRUCTION CONTRACTS

	Group 2011 €	Group 2010 €
Work in progress:		
Opening balance	**-**	5,361,939
Transfer to trade and other receivables	**-**	(5,361,939)
	-	-

The above expenditure related 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. Under the terms of the agreement Petrel were to receive a minimum consideration of $7 million, all of which had been received as at 31 December 2011.

15. TRADE AND OTHER RECEIVABLES

	Group 2011 €	Group 2010 €	**Company 2011 €**	Company 2010 €
Current assets:				
Trade receivables	**-**	1,870,977	**-**	1,870,977
VAT refund due	**14,150**	11,969	**14,150**	11,969
Other receivables	**18,324**	256,323	**18,324**	256,323
	32,474	2,139,269	**32,474**	2,139,269

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

16. CASH AND CASH EQUIVALENTS

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Cash and cash equivalents	**4,150,649**	2,748,831	**4,150,649**	2,748,831

Cash at bank earns interest at floating rates on daily bank rates. The fair value for cash and cash equivalents is €4,150,649 (2010: €2,748,831) for Group and €4,150,649 (2010: €2,748,831) for Company. The Group and Company only deposits cash surpluses with major banks.

Cash Held in Escrow Accounts

During the year €1,197,425 and €580,890 of cash and cash equivalents were held on behalf of Botswana Diamonds Plc and Connemara Mining Plc, under a Security Escrow Agreement dated 26 November 2010. All funds were returned in early 2011 and at 31 December 2011 €Nil was held by Petrel Resources plc on behalf of Botswana Diamonds Plc and Connemara Mining Plc. Petrel Resources Plc shares offices with both Botswana Diamonds Plc and Connemara Mining Plc at 162 Clontarf Road and has some common directors.

17. TRADE AND OTHER PAYABLES

	Group 2011 €	Group 2010 €	Company 2011 €	Company 2010 €
Accruals	**175,000**	25,000	**175,000**	25,000
Other payables	**55,760**	60,213	**55,760**	60,213
	230,760	85,213	**230,760**	85,213

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

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 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 and Company has relied upon equity funding to finance operations. The Directors are confident that adequate cash resources exist to finance operations for future exploration but expenditure is carefully managed and controlled.

18. FINANCIAL INSTRUMENTS *(continued)*

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 AND COMPANY

	Assets 2011 €	Assets 2010 €	**Liabilities 2011 €**	Liabilities 2010 €
Sterling	**50,916**	77,630	**7,057**	18,408
US Dollar	**4,047,314**	4,538,635	-	18,710

19. FINANCIAL RISK MANAGEMENT

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

The Group and Company do 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 utilising 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

The Group 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

The 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).

19. FINANCIAL RISK MANAGEMENT *(continued)*

Capital Management *(continued)*

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 2011 and 31 December 2010.

20. SHARE CAPITAL

	Group and Company	
	2011	2010
	€	€
Authorised:		
200,000,000 ordinary shares of €0.0125	**2,500,000**	2,500,000
Allotted, Called-Up and Fully Paid:		
76,664,624 (2010: 76,664,624) ordinary shares of €0.0125 each	**958,308**	958,308

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. 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 31/12/2011 Options	**Year ended 31/12/2011 Weighted average exercise price in cent**	Year ended 31/12/2010 Options	Year ended 31/12/2010 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**	**178**	200,000	178

At 31 December 2011, there were 4,670,000 options in existence which are not accounted for under IFRS2 as the grant date was prior to 1 January 2006.

The options outstanding at 31 December 2011 had a weighted average exercise price of 178c, and a weighted average remaining contractual life of 4.75 years (2010: 5.75 years).

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 €459,821 (2010: €448,872).

23. NON-CASH TRANSACTIONS

There were no significant non-cash transactions during 2011.

24. CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date.

25. POST BALANCE SHEET EVENTS

There were no material post balance sheet events.

26. CONTINGENT LIABILITIES

There are no contingent liabilities (2010: €Nil).

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Petrel Resources plc will be held on Thursday, 26th July 2012 in The Ballsbridge Hotel, Pembroke Road, Ballsbridge, Dublin 4 at 11.00am for the following purposes:

1. To receive and consider the Directors Report, Audited Accounts and Auditors Report for the year ended December 31, 2011.

2. To re-appoint 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 2012

Note: A member of the company 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.

To be effective, the Form of Proxy duly signed, together with the power of attorney (if any) under which it is signed, must be deposited at the Company's Registrars, Computershare Investor Services (Ireland) Ltd., Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, not less than forty- eight hours before the time appointed for the Meeting or any adjournment thereof at which the person named in the Form of Proxy is to vote.

Directors and Other Information

DIRECTORS	J. Teeling (Chairman) D. Horgan (Managing Director) G. Delbes
SECRETARY	J. Finn
REGISTERED OFFICE	162 Clontarf Road Dublin 3 Ireland Telephone +353-1-833 2833 Fax +353-1-833 3505 Website: www.petrelresources.com
AUDITORS	Deloitte & Touche Chartered Accountants and Registered Auditors Deloitte & Touche House Earlsfort Terrace Dublin 2
BANKERS	Allied Irish Bank plc Annesley Bridge North Strand Road Dublin 3 Commerzbank AG Gallusanlage 60329 Frankfurt
SOLICITORS	Brown Rudnick Alexandra House The Sweepstakes Ballsbridge Dublin 4
NOMINATED ADVISOR & BROKER	Northland Capital Partners Limited 60 Gresham Street London EC2V 7BB
REGISTRATION NUMBER	92622
AUTHORISED CAPITAL	200,000,000 €0.0125 Shares
CURRENT ISSUED CAPITAL	76,664,624 Shares
MARKET	Alternative Investment Market
NUMBER OF SHAREHOLDERS	1,600

PETREL

RESOURCES

Corporate Office:
162 Clontarf Road, Dublin 3, Ireland.
Tel: +353 (0)1 833 2833
Fax: + 353 (0)1 833 3505
Company Registration Number: 92622

www.petrelresources.com