Petrel Resources Plc

Annual Report and Accounts

Year ended 31 December 2012

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Chairman's Statement

It is a pleasure in these tough times for explorers to be able to report good news. Petrel is in the vanguard of positive developments in the Irish offshore exploration sector. I am very hopeful that positive developments will come in our two Irish frontier exploration licence options.

The great recession is coming to a slow and painful end. Green shoots of economic growth are appearing in some countries, notably the United States. The wall of new money created by quantitative easing policies is, as it must, finally having an impact. Asset prices, notably share prices and probably house prices, are beginning to rise. These trends are not of themselves enough to lead to strong economic growth but they are harbingers. Growth needs an increase in demand. Deleveraging continues in households, banks and countries thus depressing demand. But cheap money and growing asset prices will sooner or later result in improved demand.

What has that got to do with a hydrocarbon exploration company you might well ask. Quite a lot. Explorers take risks. Risk taking requires speculative money. In times of recession this money dries up. In times of deep economic recession there is no money for, and no interest in, exploration shares.

Petrel Resources is an old explorer. First formed in the early 1980's to explore offshore Ireland, it failed. It was too early for the technology of the time to succeed in the Atlantic. A reinvention in the 1990's, as an Iraqi explorer, resulted in Petrel doing well for some time but it stalled in the post Saddam era. Whilst remaining in Iraq the directors of Petrel used their African experience to take a stake in the emerging West African oil industry. For three years we have waited on ratification of Tano 2A onshore/offshore block in Ghana.

Petrel's time has come again. The Irish offshore is fast becoming a focus for international oil companies. Petrel is well placed, as it should be, with interest in two blocks in the Porcupine Basin. For 30 years Petrel leased a warehouse storing extensive seismic and well log data on the Irish offshore. Our Managing Director and two long term consultants maintained an interest in developments relating to Ireland. It is said that due to better technology and more information that exploration begins anew every twenty years. This is certainly true of the Irish offshore. Developments and discoveries in the Atlantic, both North and South, renewed and improved our understanding of offshore Ireland. Enhanced computing exploration and production technology make working in the North Atlantic less daunting. Finally, high oil prices have improved the economics.

Petrel was very pleased to obtain frontier licence options in two prized quadrants – 35 and 45. In the past two years we have invested significant money in acquiring new information. We believe that there are five good prospects in both blocks. Let me be clear, these are early stage prospects. The Irish Atlantic offshore is unexplored with one gas discovery and few wells. But interest is building. The Dunquin well is a wildcat. Expected drilling on the Spanish Point block would use a 1991 well as well control.

Petrel is in discussions with a number of international oil companies on a joint venture agreement to enter into a full Frontier Exploration Licence on both Licence Options. I am hopeful of a successful conclusion.

Ghana, our second sphere of operations, is fast becoming a major world class oil producer. When we first went there in 2008, with our partner Clontarf Energy, there was hope but no oil. Now production is in excess of 100,000 barrels a day and is expected to multiply in coming years. We signed a Petroleum agreement in 2008, and a revised agreement in 2010, with the Ghana National Petroleum Corporation (GNPC) over block Tano 2A covering 1,532 sq km in the onshore mangrove swamps and shallow offshore waters of the Tano

Chairman's Statement *(continued)*

area. We chose this area because our geologists believe that oil generated in a kitchen deep offshore where the giant Jubilee oil field has been discovered, flows northward through the Tano area.

For generations oil seepages are known on the Tano block. Indeed there was small production in the early 20th century. Ghana offers good fiscal terms, a stable political environment and excellent potential. As an early entrant our contract with GNPC was favourable. It required both cabinet and parliamentary approval. While awaiting approval the consortium, Petrel 30%, Clontarf Energy 60% and local interests 10%, has acquired all available historical data, reprocessed it and identified a number of good leads. A series of significant oil discoveries in Ghana and increased exploration interest from oil majors has caused severe backlogs in licence approvals. New licence applicants face different terms than those offered in 2010. We have worked with GNPC to assist them in preparing our submission to cabinet. A significant concession by our consortium was the provision of confirmation of insurance cover for half the three year work programme of $25 m. We remain hopeful that ratification of our application together with many others held up will proceed in the near future.

When we first went to Iraq in 1999 we were the only western oil company in the country. In 2002 we agreed a deal with the Oil Ministry to explore a 10,000 sq km block in the western desert between Baghdad and Jordan. Sanctions meant we could not obtain essential equipment. We also conducted detailed and expensive evaluation of two fields Merjan and Dhufriya. In 2005 we were awarded a €200m Engineering, Procurement and Construction contract on the Subba and Luhais oil fields. This worked well until 2007 when contract and payment difficulties arose mainly between the authorities and our local partner. We exited the contract with a payment of $7m in 2009.

Despite a strong local presence in Iraq for 14 years and proven expertise we failed to be awarded any development contracts in four licencing rounds. This may have been a blessing in disguise as there is, as yet, no hydrocarbon law and the operating terms agreed by successful applicants would not have been profitable for Petrel. But the failure raised questions. In mid 2012 we appointed a new team to re-establish our presence. Their first task was to establish our standing which had clearly been damaged by the Subba and Luhais debacle. As operators of record, though our local partner was operator we suffered reputational damage. Our team clarified our position and began discussions on potential investments. Of particular interest is the Merjan field in Karbala province. This was not applied for in the last licencing round. A major strategic decision needs to be made. The lack of a hydrocarbon law continues to bedevil the Iraqi oil industry. Other groups have signed agreements with provincial authorities, especially with the KRG in Iraqi Kurdistan. Discussions are on-going.

Future:

The future for Petrel is bright. This is a rare positive statement in a sector enveloped in gloom. We have exciting prospects in the Irish offshore, we are well-placed in Ghana and there will be development in Iraq. We also have funds for our current activities.

John Teeling

Chairman

20 June 2013

Review of Operations

A time of change and opportunity in the oil industry

Background

Petrel Resources plc has explored for oil & gas since the 1990's and has been listed on the AIM market, of the London Stock Exchange, since 2000.

Petrel is active in the Irish offshore Atlantic Margin, Ghana's Tano Basin and Iraq.

Petrel holds 1,400km of prospective acreage in the Porcupine Basin of the Irish offshore.

Petrel has a 30% interest in a signed Petroleum Agreement in the Ghanaian Tano 2A Block, close to where there has been circa 2 billion barrels of recent oil discoveries.

Petrel is in initial discussions that may lead to local authority licences in Iraq.

Ireland – The Offshore Frontier

The Porcupine Basin in the Irish Atlantic Margin is again exciting international oil company interest. The Irish Atlantic Margin has hydrocarbons but is lightly explored. It includes one of the largest continental shelves with source rock and reservoir that remain unexplored worldwide.

Much of the logic for this renewed interest is based on what has been learnt from similar plays elsewhere, particularly offshore West Africa.

Kosmos, a Texan company, is one of the most successful in the West African offshore Cretaceous age plays. Following its success in Ghana, Kosmos sought similar geology elsewhere, and has recently farmed into three packages of Licence Options in the Porcupine Basin. These three Licence Options total an area of 3,410 km^2, in 500 to 2,000 metres of water depth, close to Petrel's acreage. Kosmos believes that this region is an "underexplored and proven petroleum system" whose "primary source rock" is "Jurassic in age", with "nearby existing oil and gas discoveries", whose "Cretaceous-age reservoirs" are "largely overlooked" (Source: Kosmos' Investor Presentation, May 2013). We agree.

Only 30 wells have ever been drilled in the Porcupine Basin, of which 22 were drilled between 1977 and 1982. Historically, exploration in the Porcupine Basin was in pursuit of tilted Jurassic fault block targets, similar to those in the northern North Sea. Failure to locate Jurassic reservoirs to match those of the North Sea province, combined with a prolonged period of low oil prices, meant that, despite evidence of proven working petroleum systems, exploration activity declined. Consequently only three wells have been drilled since 1989, of which two were appraisal. Most of the historic wells targeted large Jurassic structures easily visible on the seismic. As a result they largely missed the more interesting Cretaceous-age reservoirs which tend to infill the hollows between the Jurassic highs. Oil explorers often speak of "closeology", but a shallow well that does not penetrate a deeper reservoir cannot tell us much about the latter's prospectivity. Likewise it is rarely possible to investigate subtle Cretaceous stratigraphy by drilling "North Sea" type Jurassic targets.

Review of Operations *(continued)*

The industry's attention has been caught recently by the Exxon-Mobil operated wildcat well on the Dunquin structure in Quadrant 44, which neighbours and is about 30km from Petrel's Quadrant 45 acreage. In fact this well is a true "wildcat" in that there is no 3D seismic or well control close by. It appears to be a Cretaceous reef developed along a large ridge, the Porcupine Median Volcanic Ridge, composed of volcanic rocks intruded along a zone where the continental crust is very thin. There are very few such targets anywhere, although Newgrange in the southern part of the Porcupine is perceived as a similar play. Therefore the Dunquin "wildcat" has limited significance for the area – a point emphasised by a stockbroker's guidance note which stated that the well was not expected to be tested regardless of whether oil was encountered. If it is a success, it will only prove that there are hydrocarbons in the Porcupine – which we already know. If it is not commercial, it has no real implications for the Cretaceous and Tertiary plays we are working up. Nonetheless, the fact that the world's largest non-state oil company is operating a $150 million well in 1,600 metres of water in the Irish Atlantic Margin is highly significant. It means that Ireland's time in the exploration spotlight has finally come.

The rest of the Irish Atlantic Margin is even more neglected than the Porcupine Basin; only 21 wells have been drilled outside of the Porcupine Basin, in an area greater than 250,000 km^2. Past exploration elsewhere in Irish Atlantic Margin was also generally based on assumed "North Sea type" geology. The Atlantic has the potential for subtle structures and giant stratigraphic traps. Ghanaian success shows how a by-passed region can be transformed by new thinking and modern technology.

Petrel Resources was formed in 1982 to explore offshore Ireland. The then stringent fiscal terms, challenging waters and unfamiliar geology were barriers to exploration success. At that time major oil companies were seeking large, simple, clear structures similar to the bonanza Jurassic plays in the North Sea. It was then impossible to convince oil company management to drill the type of stratigraphic trap plays which are now being targeted.

Since then the context has changed utterly:
The international oil price has stabilized at around US$100. Reasons include steady demand growth, especially in non-OECD countries, which are now over half of global demand. Improved technology and oil field practices have developed new reserves, extended field life and boosted recovery – but at much higher costs. OPEC supply growth has been sluggish, with higher domestic demand absorbing an increasing share of production in Persian Gulf producers. Sanctions on Iran have sliced over one million barrels from the market while the "Arab Spring", with resulting instability in Libya, Syria, Yemen and elsewhere has taken another one million barrels out of the market. Anticipated Iraqi oil output increases have been slow to arrive, while Venezuelan production is down by a third since 1999.

The result is that there is virtually no surplus capacity available worldwide, as of 2013. There has never been a better time to be in the oil business. Yet much of the world, from Russia to Argentina, is effectively out of bounds for many companies. There are environmental anxieties in deep water, the Arctic and unconventional fuel sources. Resource nationalism worldwide has also highlighted the value of doing business in jurisdictions with solid title.

Review of Operations *(continued)*

Hence, the renewed interest in previously bypassed hydrocarbon provinces, including the Atlantic Margin. This reassessment happened first in Ghana, where there are numerous onshore seepages on our Tano 2A Block. Now the interest has spread along the eastern and even western Atlantic margin.

Attractive Irish fiscal terms

A key factor in the renaissance of Irish offshore exploration was the steady improvement in Irish fiscal terms. Ireland began with quite harsh terms in the 1970's, including a 12.5% royalty. Now tax rates are competitive – both for resources and business generally. For natural resources, the standard rate is 25%, or twice the non-resource corporate tax rate.

There are no royalties, sign-on bonuses or state carries.

The likelihood is that discoveries will be covered by a standard 25% tax rate with free depreciation and standard write-offs. Additional 'bonus taxes' will only apply if there is a bonanza:

- A total tax rate of 30% if profit is between 1.5 and 3 times total costs
- A total tax rate of 35% if profit is between 3 and 4.5 times total costs
- A total tax rate of 40% if profit is over 4.5 times total costs.

These fiscal terms are among the most competitive of any hydrocarbon province worldwide and compensate for the greater geological uncertainty of frontier plays.

As a result of these changing factors Petrel Resources applied for acreage under the 2011 Atlantic Margin Licence Option Round.

Petrel Resources Plc was granted (October 2011) two Licencing Options (1,400 km^2) for a period of two years in the promising and under-explored Porcupine Basin, offshore west Ireland (Fig. 2). One Option covers Blocks 35/23, 35/24 and the western half of 35/25 (Option 11/4), and the second covers Blocks 45/6, 45/11 and 45/16 (Option 11/6). The company used its large legacy database, expanded by purchase of further seismic lines and well data, in making the application.

Technical progress

Technical work over the past two years by Petrel has identified significant prospects at three levels within the Lower Cretaceous and Lower Tertiary of the Petrel Quad 45 option blocks (Option 11/6). The prospect at the lowermost Cretaceous level has the potential to hold several hundred million barrels of in-place oil, with the possibility of stacked targets at Aptian-Albian and Lower Tertiary levels above.

On the Quad 35 blocks (Option 11/4) high potential prospects have also been mapped in mounded Lower Cretaceous fan sandstones, with internal closures up to 15 km^2, and in the Eocene shelf clinoform sheet sands. The Eocene sands are anticipated to have excellent reservoir properties and are seen as having the potential to host large volumes of hydrocarbons.

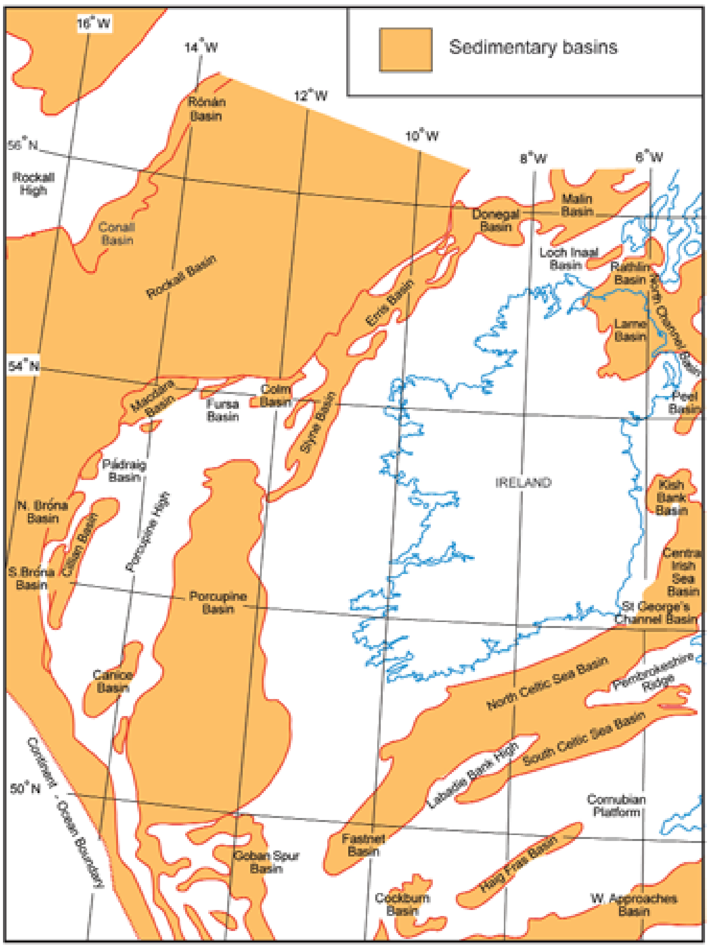

Fig. 1. The Irish Atlantic Margins (after Naylor & Shannon, 2011)

Overview

The Porcupine Basin is a large north-south oriented structure lying off southwest Ireland that contains up to 10 km of Upper Palaeozoic to Cenozoic sediments with no drilling in the basin during the last decade. Significant pulses of potential reservoir sand input into the basin occurred during both Early Cretaceous and Early Tertiary times yielding thick potential reservoir rocks. However, such leads have remained largely undrilled because of the subtle stratigraphic nature of most of the potential traps.

The first well in the basin was drilled in 1977 and 26 of the 29 exploration wells were drilled in the period to 1988, almost all with hydrocarbon shows. The flows of hydrocarbons from earlier wells in the Porcupine Basin indicate the presence of a number of working petroleum systems. Four of the early wells in the Porcupine Basin flowed significant quantities of good quality (32-41° API) oil from Jurassic and Lower Cretaceous reservoirs.

The Phillips 35/8-1 well, drilled in 1978, flowed oil at a rate of 730 barrels daily (bopd) from thin Lower Cretaceous turbiditic sandstone reservoirs. BP drilled oil discovery wells 28/28-1 and 26/28-2 in 1979 and 1980. These flowed 5,589 bopd and 1,550 bopd, respectively, from Upper Jurassic fluvial sandstones within

Review of Operations *(continued)*

a structurally complex tilted fault block structure. In 1981, the Phillips 35/8-2 exploration well 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. Although the discoveries were deemed uneconomic at the time, changed commodity prices and improved technology have prompted a re-examination of the whole basin. Some play-types remain virtually undrilled. The Petrel blocks target promising areas of Cretaceous and Palaeogene (Lower Tertiary) reservoir sand development identified by the first phase of seismic interpretation.

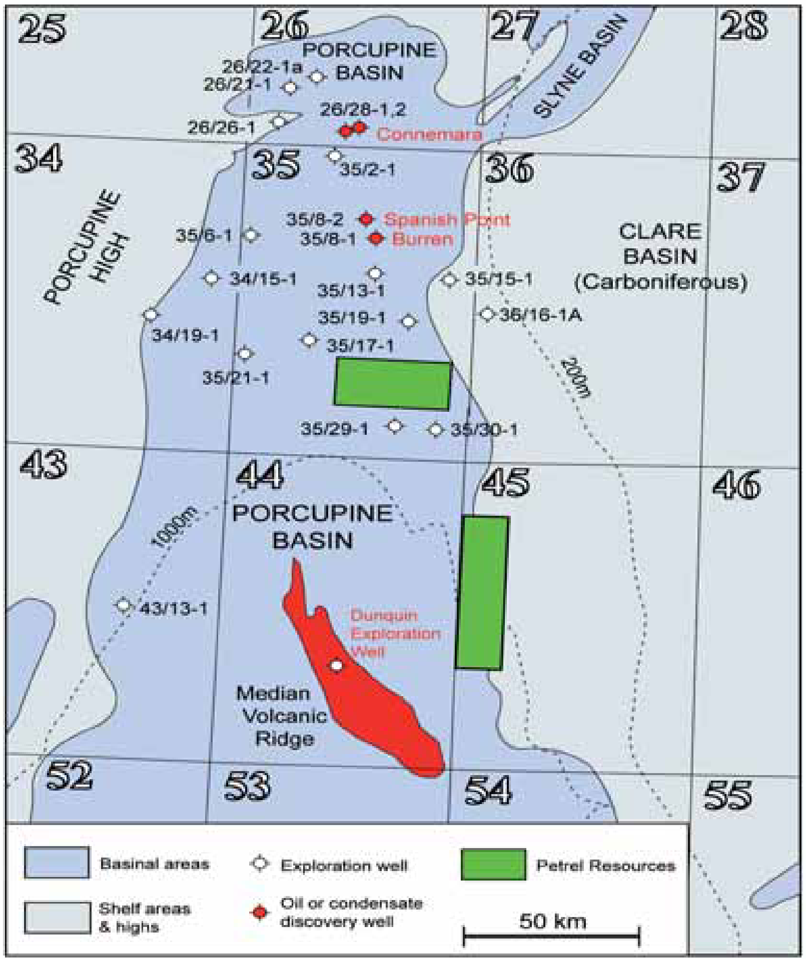

Fig. 2. Position of the Petrel Blocks and location of the nearby Dunquin exploration well

Since award of the Options, the company has purchased additional 2D and 3D seismic data and well records to supplement its database and has carried out further regional seismic mapping integrated with well analysis. We have now completed interpretation of the 2D and 3D seismic data and are currently preparing the final maps and reports.

Our recent work has firmed up several prospects, in both option areas. These are at both Lower Cretaceous and Lower Tertiary levels.

PROSPECTS: OPTION AREA 11/06 (QUAD 45)

The three blocks in the Option area are aligned along the faulted eastern boundary of the basin. The fault zone is a wide composite feature comprised of parallel and anastomosing faults, rather than a single structure. The faults progressively penetrate younger strata eastwards within the zone.

A mounded, slumped sand-prone Lower Cretaceous (Aptian-Albian) prograding basin-edge fan with updip shale drape has been mapped in Blocks 45/11 and 45/16, with a closed area of approximately 27 km^2.

Review of Operations *(continued)*

Work is continuing on the mapping of this feature. Drill depths to this horizon are up to 3,000 metres of rock in approximately 1,000 metres water depth. The Aptian-Albian sediments, undrilled in this part of the basin, are derived from the east (i.e. Celtic Platform) and from a promising sand-prone provenance in basement rocks. They are likely sourced from underlying Upper Jurassic oil-prone shales. At shallower levels this feature is overlain by Lower Tertiary sand-prone sediments that provide a promising stacked second target. These wedge out eastwards towards the main basin-bounding fault zone (Fig. 4).

Further south in Block 45/16 a second potential prospect has been mapped in Lower Cretaceous sands that pinch out in a lobe up-dip eastwards within the block. The up-dip wedge within the block covers approximately 50 km². Lower Tertiary and Apto-Albian fan sands again provide a promising shallower target.

There has been no drilling in this sector of the basin and hence there is no control on the nature of the potential reservoir sections. Nevertheless, given the thicknesses of the target sections (Fig. 5) seen on the seismic sections and the mapped areas under closure, the Option 11/6 prospects are capable of holding several hundred million barrels of in-place oil. These features lie approximately 35 km northeast and up-dip from the ExxonMobil group well currently being drilled on the Dunquin prospect in the centre of the basin.

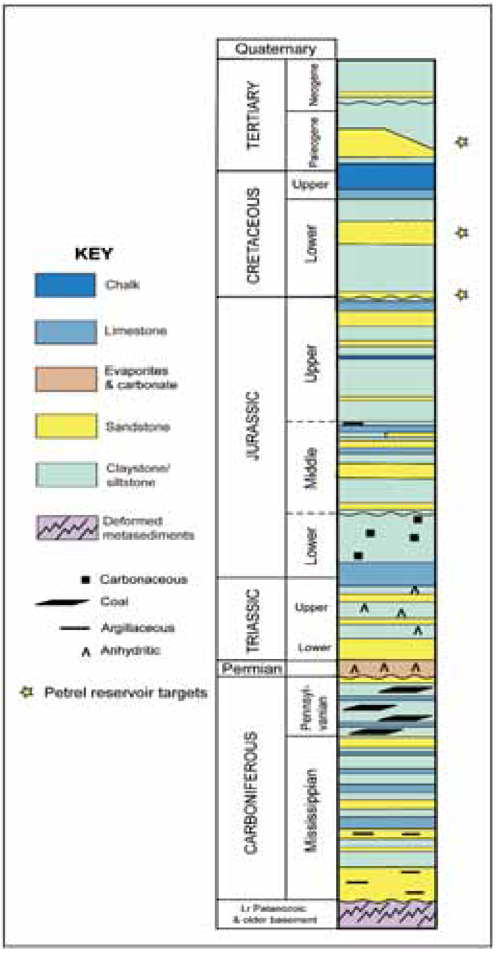

Fig. 3. Outline stratigraphy of the Porcupine Basin, showing Petrel Reservoir Targets

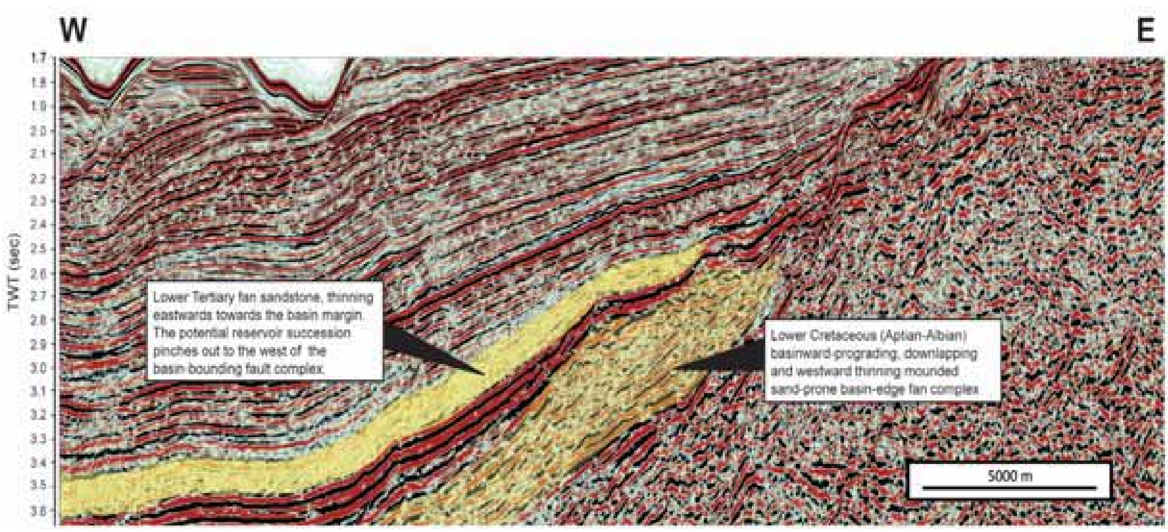

Fig. 4. Quad 45: Aptian-Albian basin-edge mound, overlain by Lower Tertiary fan sandstones

Review of Operations *(continued)*

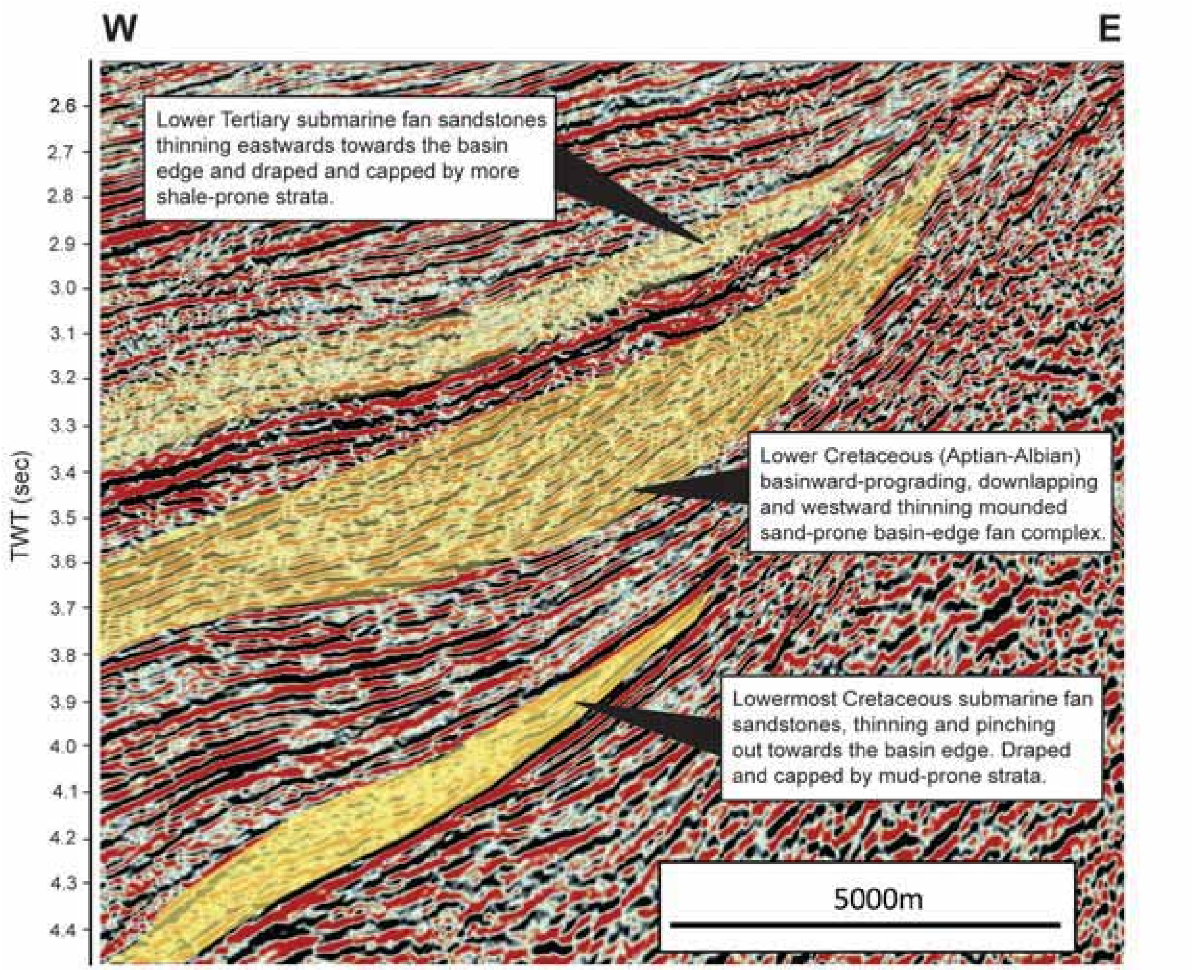

Fig. 5. Quad. 45: Lowermost Cretaceous submarine fan wedge, with shallower Aptian-Albian and Tertiary sandstones

PROSPECTS: OPTION AREA 11/04 (QUAD 35)

Thick Lower Cretaceous (Aptian-Albian) and Lower Tertiary (Paleocene-Eocene) deltaic sequences are well developed in the northern and eastern parts of the Porcupine Basin, coeval with the submarine fans further south. Both sets of deltaic deposits may have up-dip fault seal with top-seal provided by overlying delta-top and muddy marine strata. In addition, elongate, channelised sandy deposits occur on the large Early Cenozoic clinoforms in the Porcupine Basin, potentially sealed by muddy slope facies.

Eocene (Lower Tertiary)

Seismic mapping in the Option blocks has identified southward prograding Eocene clinoforms. The clinoforms represent progressive southward progression of the slope along the basin axis at the front of the Eocene delta. The Eocene deltaic sand bodies lie in an ideal position for the entrapment of northward migrating hydrocarbons, generated from mature Middle/Upper Jurassic source rocks.

Recent seismic inversion lines show the clinoforms in the west to be generally mud-prone, but with separated sand elements and channels, whereas the deltaic topset beds are seen to be sand-prone. Sand was obviously ponded or retained on the shelf during progradation, and passed down the clinoforms in a number of sand-filled channels that represent potential stratigraphic targets.

Further east in the Option Area the deltaic development is slightly different, with interpretation of 3D data revealing more sandy sheet-like clinoforms with a greater potential for up-dip seal (Fig. 6). Further inversion work will be undertaken in this area to constrain the stratigraphic trapping potential. Drill depths to the top of the Eocene sand sequence are about 2,500 m subsea, in water depths of 700 metres to 800 metres. Wells in the north Porcupine have drilled reservoir sections in Eocene deltaic and associated environments, with deltaic units in excess of 200 m of net sandstones and porosities up to 39%.

Lower Cretaceous

A mounded feature within the Lower Cretaceous of Option Area 11/04 displays internal stratigraphy and evidence of erosion prior to burial. The structure lies directly on a Jurassic succession that contains mature source sequences. Recent detailed mapping has shown the feature to be a complex lobate fan sourced from the northeast in a series of pulsed depositional events and infilling, draping and mounding residual Late Jurassic topography (Fig. 7). Seismic inversion has shown alternations of sand-prone and mud-prone layers within the feature. Internal areas of 4-way closure up to 15 km^2 in extent have been mapped as potential targets within the fan complex. The Cretaceous fan is here at a depth of about 4,000 metres subsea, with water depths of 800 metres.

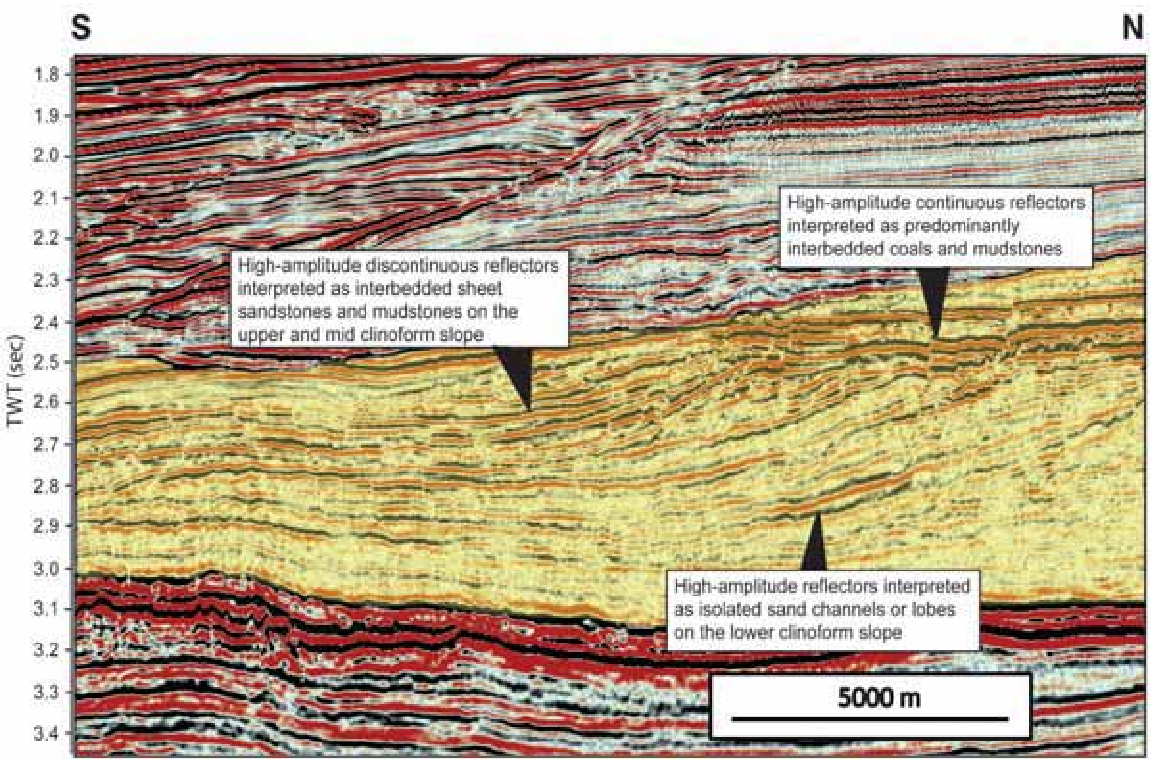

Fig. 6. Quad 35: Sandstone sheets and channels on Eocene prograding clinoforms

Review of Operations *(continued)*

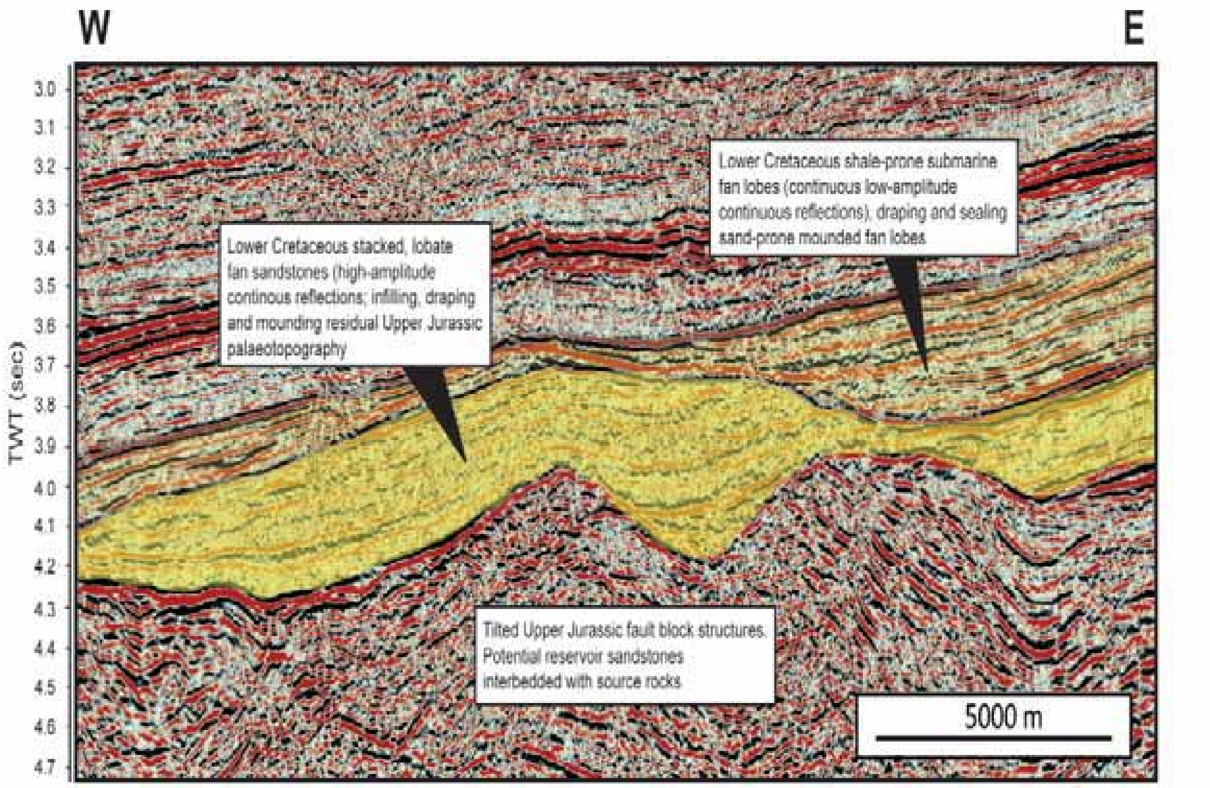

Fig. 7. Quad 35: Lower Cretaceous fan sandstones overlying residual Late Jurassic topography

Ghana – Tano 2A Block

Petrel Resources plc holds 30% of the Tano 2A onshore / shallow offshore licence (with Clontarf Energy plc 60%, and local Ghanaian interests 10%) via a Ghanaian private company, Pan Andean Resources Ltd., as required under law. The Tano 2A Block is 1,532 km^2 and we have already identified a significant number of leads and prospects from data analysis. A revised Petroleum Agreement was signed in March 2010, and is now working its way through the official ratification process.

Ghana's status as an oil industry hotspot has been reinforced by further discoveries over the past twelve months:

In early 2012 Tullow Oil reported a further find at Ntomme in the Tano Basin; in September 2012 ENI recorded a new discovery at their Offshore Three Points Block, while in December 2012 Hess announced a further discovery at their own Deepwater Tano / Cape Three Points Block.

Tullow Oil expects to grow its oil and gas production by up to 16% this year, underpinned by output from its 50% stake in the Jubilee oil field in the Tano Basin near our acreage. It expects to produce between 86,000 and 92,000 barrels daily (boe/d) of oil equivalent in 2013, compared to 79,200 boe/d in 2012. The increased potential of the Tano Basin resulted in the sale last year of Sabre Oil and Gas, which had a reported 4.05% interest in an offshore block in the Jubilee Field, to Petro S.A. for a reported cash consideration of $500 million.

Recent discoveries have been concentrated in Cretaceous reservoirs of the Tano Basin in western Ghana. The oil is generated in a deep-sea kitchen and migrates up-dip into the existing discoveries and further through reservoirs under shallow water and onshore, as shown by extensive onshore seepages – which have been documented for a century. In 2011 our technical team completed all of the initial phase of work possible on the Ghanaian Tano 2A Block using historic seismic, well data and regional geological material available. There is limited seismic coverage of varying quality from four programmes which required considerable work to reprocess, clarify and tie-in.

Following discussions with larger companies and contractors we believe that we now have a detailed grasp of the potential and issues of Tano 2A. We believe that the plays are sourced from the deeper offshore kitchen, with up-dip pinch-out traps.

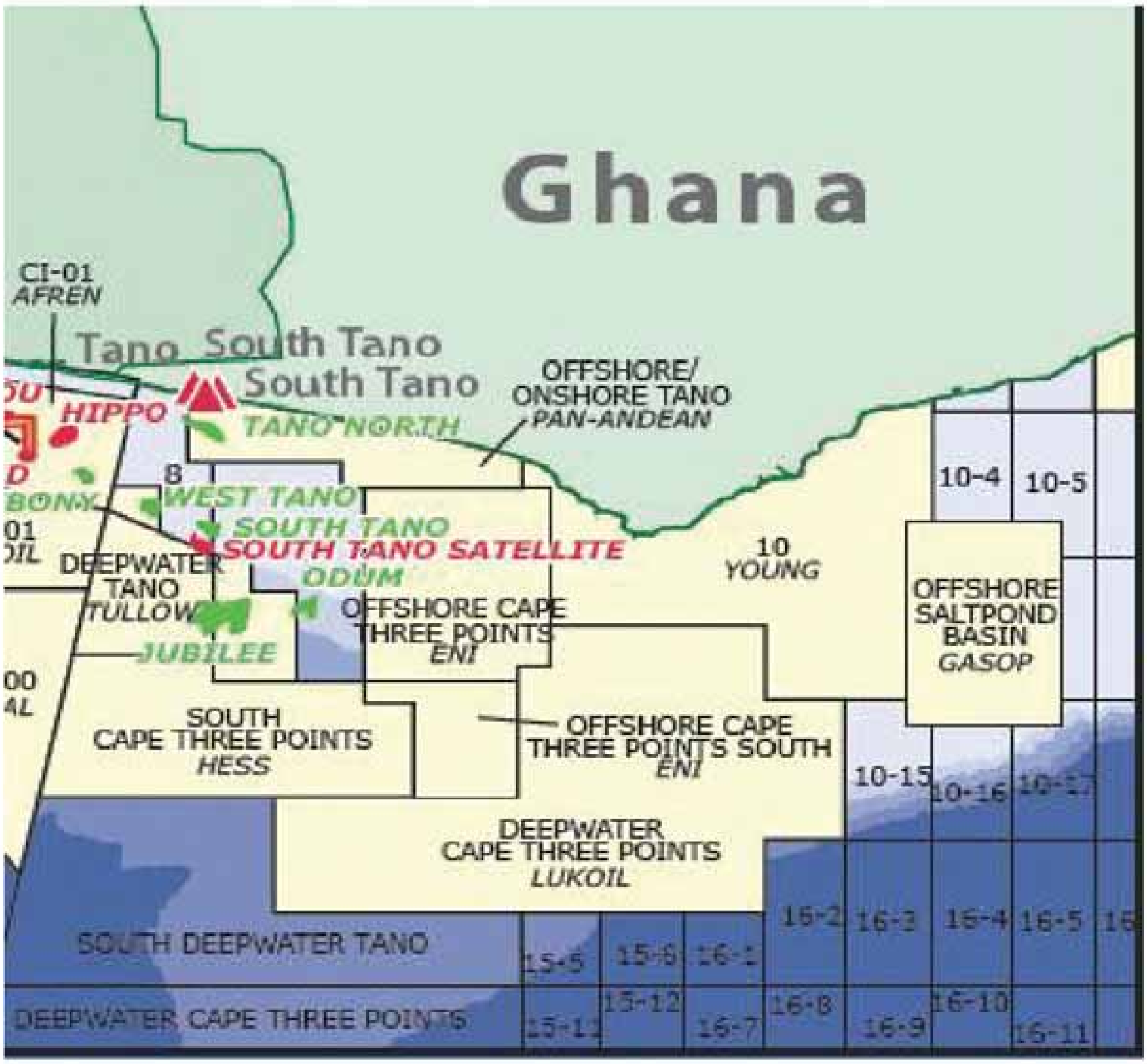

Fig. 8: Map Of Ghanaian Exploration Blocks: Pan Andean Resources Limited's Tano 2A Onshore / Offshore Block

Review of Operations *(continued)*

Despite or maybe because of recent discoveries, the Ghanaian ratification process remains slow. Following a revised Petroleum Agreement in March 2010, we shared the general industry's expectation that several Petroleum Agreements would be soon ratified by Parliament.

However, over the last three years only one exploration licence has been ratified by the Ghanaian Parliament. Slow ratification is unfortunately common in democracies requiring specific parliamentary approval for each licence, especially following a series of major discoveries in a new producing province, as decision-makers grapple with the implications of enhanced upside and reduced geological risk.

Aware of the problem, the Ghanaian authorities have put in place systems aimed to facilitate a smoother future ratification process. A necessary feature of liberal democracy is elections, which can cause short-term uncertainty and delay business decisions. Ghana had elections in December 2012, which passed peacefully under law; the incumbent party remained in power and a new minister for energy is in place. The rapid growth of Ghana's oil industry has caused the authorities to strengthen governance by appointing additional Vice-Ministers.

With its partners Petrel Resources plc takes care to act as a responsible citizen conscious of its responsibilities to shareholders. We are working with GNPC pragmatically and have committed to a vigorous work programme and tight time-frame.

Our Petroleum Agreement includes no requirement for any bond or formal guarantee of this agreed work programme. As the ratification process developed the GNPC sought additional comfort outside of that contemplated in the signed Petroleum Agreement. We have now offered the Ghanaian National Petroleum Company ("GNPC") additional comfort which satisfies reasonable requirements: In 2012 we put in place a syndicate of local and international reinsurers to offer a Guarantee / Bond Cover Note for the requested 50% of the work programme. This respects Ghanaian Insurance Law and reinforces our commitment to 'Local Content'. This structure supports our work while drawing Ghanaian financial players into the oil and gas industry. This solution is the first of its kind and shows the potential for innovation in supporting local industry. This echoes Ghanaian Government policy that the new Local Content Regulation is "to be the platform for achieving the goals of the oil and gas sector with active participation by Ghanaian citizens in all roles, at all levels and in all activities relating to the oil and gas value chain." The participation of our local partner as well as our team's track-record in energy insurance will facilitate ratification.

Our technical team acquired all data available from GNPC and has integrated the geological and seismic data with our own regional database system to expedite the exploration work. In this way we have gained time and are confident of meeting the demanding time-frame contemplated in the Petroleum Agreement.

Terms

Fiscal terms in Ghana are competitive and compare favourably to best international practices. There is a royalty 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. There is no 'bonanza tax' for rates 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 modest land rentals plus Training Allowance plus an additional 'Technology Support' one-time payment.

The primary terms of the renegotiated Tano 2A 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 half years ("Second Extension Period")
- During the Initial Exploration Period, the Contractor must;
  (1) Reprocess all existing 2D seismic data covering the licence area (already done);
  (2) Acquire, process and interpret at least 1,000 km^2 of new 2D 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.
- Standard training allowances yearly and a one-off technology payment.

Operations

Our 30% owned local company Pan Andean Resources tracked down and purchased the extensive available data on 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. We 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 2011.

Data quality was variable, so much work was required to maximize the value and reliability 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 minimize the 'mis-tie' problems between the different surveys that bedevil such exploration.

Petrel Resources plc and its partners have almost completed the first phase of work, in advance of ratification, of what is expected in the three year exploration licence. Further seismic will be shot in the areas where leads and prospects have been generated.

Technical Outline

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 Oil 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

Review of Operations *(continued)*

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 X-1 (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 of large volumes of oil in high quality Upper Cretaceous reservoirs under deeper water has changed the outlook for the entire Tano 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. As soon as our licence is ratified, we will improve the existing seismic database and as soon as practical thereafter 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.

Despite the frustrations of an involved ratification process, the under-lying prospectivity and appeal of the Tano 2A has continued to improve during the past year. It is now a valuable asset, and we must generate the maximum value from this opportunity.

Iraq

Petrel is in initial discussions that may lead to the negotiation of local authority licences in Iraq. We have always been careful to conduct discussions in accordance with applicable laws and will continue to do so.

There remains considerable legal uncertainty in Iraq but there has been some movement in recent months: we believe that some smaller and medium-sized prospects and fields may now become available outside the Ministry of Oil's preferred Technical Service Agreements system.

If so, Petrel should be well placed to negotiate such agreements: we will undertake work commitments after confirmation that adequate institutional funding is available. Recent fundings and valuations suggest that there is international institutional interest in such projects.

Iraqi production increases have been slow to come through: for much of the past year, production remained at about 3 million barrels daily of which about 2.4 million barrels were exported. This falls well short of long-standing plans, which were to export at least 6 million barrels daily by now with longer-term plans to rival Saudi Arabia with over 12 million barrels daily.

In is increasingly clear that while limited progress is being made, a great leap forward in Iraqi oil development requires restructuring of the fiscal terms available. The experience of slow oil field development in Iraq and neighbouring Iran over recent decades is that investors require a reasonable, risk-adjusted rate of return in order to invest the required capital, effort and technology to make major projects work.

Petrel retains its interest in the Western Desert Block 6 exploration & development contract, as well as the Technical Cooperation Agreement on the Merjan oil-field. Petrel has shown that it can operate under prevailing circumstances.

In accordance with Iraqi regulations, a new office was rented in Baghdad, equipped and furnished.

As our original team has now retired, we appointed a Country Manager, two specialised engineers as well as office and security staff. Our new team confirmed that Petrel is in good standing.

The political and security situation in Iraq has again been challenging over the past year, with events in neighbouring countries further complicating Iraqi business.

Internal Iraqi political differences have so far impeded consensus on Hydrocarbon Laws and Revenue-Sharing Agreements.

Our staff has been in discussions with local councils in the areas of interest, including the governorate council and the energy committee in Karbala. There remains considerable uncertainty about the legal status and future development of exploration and oil developments. Petrel is monitoring developments and remains open-minded about how best to move forward.

The political and security situation has been difficult in the few past months but our team remains in Baghdad and continues to work normally.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

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 Review of Operations.

RESULTS FOR THE YEAR

The consolidated loss after taxation for the year, transferred to reserves, amounted to €469,767 (2011: loss of €459,821). The total exchange difference transferred to reserves is €107,378 (2011: Profit of €160,587)

The directors do not recommend that a dividend be declared for the year ended 31 December 2012 (2011: €Nil).

PERFORMANCE REVIEW

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

RISKS AND UNCERTAINTIES

The Group is subject to a number of potential risks and uncertainties, which could have a material impact on the long-term performance of the Group and could cause actual results to differ materially from expectation. The management of risk is the collective responsibility of the Board of Directors and the Group has developed a range of internal controls and procedures in order to manage risk. The following risk factors, which are not exhaustive, are the principal risks relevant to the Group's activities:

Risk	Nature of risk and mitigation
Licence obligations	Operations must be carried out in accordance with the terms of each licence agreed with the relevant ministry for natural resources in the host country. Typically, the law provides that operations may be suspended, amended or terminated if a contractor fails to comply with its obligations under such licences or fails to make timely payments of relevant levies and taxes. The Group has regular communication and meetings with relevant government bodies to discuss future work plans and receive feedback from those bodies. Country Managers in each jurisdiction monitor compliance with licence obligations and changes to legislation applicable to the company and reports as necessary to the Board.

Directors' Report *(continued)*

Requirement for further funding	The Group may require additional funding to implement its exploration and development plans as well as finance its operational and administrative expenses. There is no guarantee that future market conditions will permit the raising of the necessary funds by way of issue of new equity, debt financing or farming out of interests. If unsuccessful, this may significantly affect the Group's ability to execute its long-term growth strategy. The Board regularly reviews Group cash flow projections and considers different sources of funds. The Group regularly meets with shareholders and the investor community and communicates through their website and regulatory reporting.
Geological and development risks	Exploration activities are speculative and capital intensive and there is no guarantee of identifying commercially recoverable reserves. The Group activities in Ghana, Iraq and Ireland are in proven resource basins. The Group uses a range of techniques to minimise risk prior to drilling and utilises independent experts to assess the results of exploration activity.
Title to assets	Title to oil and gas assets in Ghana and Iraq can be complex. The Directors monitor any threats to the Group's interest in its licences and employ the services of experienced and competent lawyers in relevant jurisdictions to defend those interests, where appropriate.
Exchange rate risk	The Group's expenses, which are primarily to contractors on exploration and development, are incurred primarily in US Dollars but also in Sterling and Euros. The Group's policy is to conduct and manage its operations in US Dollars and therefore it is exposed to fluctuations in the relative values of the Euro and Sterling. The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates and maintaining a level of cash in foreign denominated currencies sufficient to meet planned expenditure in that currency.
Political risk	The Group holds assets in Ghana, Iraq and Ireland and therefore the Group is exposed to country specific risks such as the political, social and economic stability in some of these countries. The countries in which the Group operates are encouraging foreign investment. The Group's projects are longstanding and we have established strong relationships with local and national government which enable the Group to monitor the political and regulatory environment.
Financial risk management	Details of the Group's financial risk management policies are set out in Note 18.

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.

Directors' Report *(continued)*

KEY PERFORMANCE INDICATORS

The Group reviews expenditure incurred on exploration projects and successes thereon, and ongoing operating costs.

DIRECTORS

The current directors are listed on the inside back cover. Guy Delbes resigned as director on 3 January 2013. Stefano Borgi resigned as director on 21 May 2012.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary holding office at 31 December 2012 held the following beneficial interests in the shares of the company:

	31/12/2012 Ordinary Shares of €0.0125 Number	31/12/2012 Options - Ordinary Shares of €0.0125 Number	1/1/2012 Ordinary Shares of €0.0125 Number	1/1/2012 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
J. Finn (Secretary)	1,015,384	870,000	1,015,384	870,000
G. Delbes	190,000	-	190,000	-

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 2012 and 31 May 2013:

	31 December 2012 Number of Ordinary Shares	%	31 May 2013 Number of Ordinary Shares	%
Citibank Nominees (Ireland) Limited (CLRLUX)	10,135,344	13.22	9,691,032	12.64
L. R. Nominees Limited	5,506,893	7.18	5,286,463	6.90
TD Direct Investing Nominee (Europe) Limited	5,288,924	6.90	6,064,216	7.91
Barclayshare Nominees Limited	3,780,671	4.93	3,565,920	4.65
HSBC Global Custody Nominee	2,940,000	3.83	2,940,000	3.83
HSDL Nominees Limited	2,894,052	3.77	2,889,414	3.77

FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management policies are set out in Note 18 to the financial statements.

GOING CONCERN

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

Directors' Report *(continued)*

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

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.

The Group aims to maximise use of natural resources, such as energy and water, and is committed to full investment as part of its environmental obligations where applicable.

The Group works toward positive and constructive relationships with government, neighbours and the public, ensuring fair treatment of those affected by the Group's operations. In particular, the Group aims to provide employees with a healthy and safe working environment whilst receiving payment, that enables them to maintain a reasonable lifestyle for themselves and their families.

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 24.

AUDITORS

Deloitte & Touche, Chartered Accountants and Statutory Audit Firm, have indicated their willingness to 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

20 June 2013

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 2012. 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 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 2012 which comprise the Group Financial Statements: the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated 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 25. The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and in the case of the parent company as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

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

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Consolidated Financial Statements for the year ended 31 December 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the group's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2012 and of its loss for the year then ended;
- the parent company balance sheet gives 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 2012, of the state of the parent company's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2012.

Emphasis of matter – Realisation of intangible assets

Without modifying our opinion we draw your attention to Note 12 to the financial statements concerning the realisation of intangible assets which is subject to a number of risks outlined in Note 1 (xii) to the financial statements. The realisation of intangible assets of €3,424,049 included in the consolidated balance sheet and intangible assets of €3,412,812 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.

Independent Auditor's Report to the Members of Petrel Resources Plc *(continued)*

Matters on which we are required to report by the Companies Acts, 1963 to 2012

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the parent company.
- The parent company 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 parent company, as stated in the parent company balance sheet are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 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 parent company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts, 1963 to 2012 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Ciarán O'Brien
For and on behalf of Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Dublin

20 June 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Notes	2012 €	2011 €
CONTINUING OPERATIONS			
Administrative expenses	5	**(481,427)**	(466,961)
OPERATING LOSS		**(481,427)**	(466,961)
Investment revenue	4	**11,660**	7,140
LOSS BEFORE TAXATION	5	**(469,767)**	(459,821)
Income tax expense	10	**-**	-
LOSS FOR THE YEAR: all attributable to equity holders of the parent		**(469,767)**	(459,821)
Exchange differences		**(107,378)**	160,587
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(577,145)**	(299,234)
Loss per share – basic and diluted	11	**(0.61c)**	(0.60c)

The financial statements were approved by the Board of Directors on 20 June 2013 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Consolidated Balance Sheet

as at 31 December 2012

	Notes	2012 €	2011 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	**3,424,049**	2,700,960
CURRENT ASSETS			
Trade and other receivables	14	**43,466**	32,474
Cash and cash equivalents	15	**3,015,858**	4,150,649
		3,059,324	4,183,123
TOTAL ASSETS		**6,483,373**	6,884,083
CURRENT LIABILITIES			
Trade and other payables	16	**(407,195)**	(230,760)
NET CURRENT ASSETS		**2,652,129**	3,952,363
NET ASSETS		**6,076,178**	6,653,323
EQUITY			
Called-up share capital	19	**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
Translation reserve		**66,302**	173,680
Retained deficit		**(12,740,394)**	(12,476,598)
TOTAL EQUITY		**6,076,178**	6,653,323

The financial statements were approved by the Board of Directors on 20 June 2013 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

Company Balance Sheet

as at 31 December 2012

	Notes	2012 €	2011 €
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	3,412,812	2,689,723
Investment in subsidiaries	13	11,237	11,237
		3,424,049	2,700,960
CURRENT ASSETS			
Trade and other receivables	14	43,466	32,474
Cash and cash equivalents	15	3,015,858	4,150,649
		3,059,324	4,183,123
TOTAL ASSETS		6,483,373	6,884,083
CURRENT LIABILITIES			
Trade and other payables	16	(407,195)	(230,760)
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Share based payment reserve		-	205,971
Translation reserve		66,302	173,680
Retained deficit		(12,740,394)	(12,476,598)
TOTAL EQUITY		6,076,178	6,653,323

The financial statements were approved by the Board of Directors on 20 June 2013 and signed on its behalf by:

John Teeling
Director

David Horgan
Director

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

Group and company	Share Capital €	Share Premium €	Capital Conversion Reserve fund €	Share Based Payment Reserve €	Translation Reserve €	Retained Deficit €	Total €
At 1 January 2011	958,308	17,784,268	7,694	205,971	13,093	(12,016,777)	6,952,557
Total comprehensive income for the year	-	-	-	-	160,587	(459,821)	(299,234)
At 31 December 2011	958,308	17,784,268	7,694	205,971	173,680	(12,476,598)	6,653,323
Share options forfeited	-	-	-	(205,971)	-	205,971	-
Total comprehensive income for the year	-	-	-	-	(107,378)	(469,767)	(577,145)
At 31 December 2012	**958,308**	**17,784,268**	**7,694**	**-**	**66,302**	**(12,740,394)**	**6,076,178**

Share premium

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 represented share based payments granted which were not yet exercised and issued as shares. Details of the forfeit at note 20.

Translation Reserve

The translation reserve comprises of foreign exchange movement on translation from US Dollars (functional currency) to Euro (presentation currency).

Retained deficit

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

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 €	2011 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(469,767)	(459,821)
Impairment charge		20,066	-
Investment revenue recognised in loss		(11,660)	(7,140)
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		(461,361)	(466,961)
Movements in working capital:			
Increase in trade and other payables		176,435	145,547
(Increase)/decrease in trade and other receivables		(10,992)	1,949,465
CASH (USED IN)/GENERATED BY OPERATIONS		(295,918)	1,628,051
Investment revenue		11,660	7,140
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(284,258)	1,635,191
INVESTING ACTIVITIES			
Payments for exploration and evaluation assets		(793,475)	(481,014)
NET CASH USED IN INVESTING ACTIVITIES		(793,475)	(481,014)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,077,733)	1,154,177
Cash and cash equivalents at beginning of financial year		4,150,649	2,748,831
Effect of exchange rate changes on cash held in foreign currencies		(57,058)	247,641
Cash and cash equivalents at end of financial year	15	3,015,858	4,150,649

Company Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 €	2011 €
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(469,767)	(459,821)
Impairment charge		20,066	-
Investment revenue recognised in loss		(11,660)	(7,140)
OPERATING CASHFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		(461,361)	(466,961)
Movements in working capital:			
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Cash and cash equivalents at beginning of financial year		4,150,649	2,748,831
Effect of exchange rate changes on cash held in foreign currencies		(57,058)	247,641
Cash and cash equivalents at end of financial year	15	3,015,858	4,150,649

Notes To The Financial Statements

for the year ended 31 December 2012

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 have 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 2012.

(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 allowance 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.

Notes To The Financial Statements

for the year ended 31 December 2012

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 any of 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 financial statements of both the Company and the 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 Company and Group are expressed in Euro (the presentation currency). This is for the benefit of the Company and 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 Company and 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. All resulting exchange differences are recognised in other comprehensive income.

(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 the taxable result for the year. Taxable result differs from net loss 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 result, 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.

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.

Unrecognised deferral tax assets are reassessed at each balance sheet date and are recognized to the event that it has become probable that future taxable projects will allow the deferred tax asset to be recovered.

(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.

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.

Notes To The Financial Statements

for the year ended 31 December 2012

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 and other receivables
Trade and other 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 and other 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 reclassified, where necessary, on the same basis as the current year.

(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.

Notes To The Financial Statements

for the year ended 31 December 2012

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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

- Licence obligations;
- Funding requirements;
- Political and legal risks, including title to licence, profit sharing and taxation; and
- Geological and development risks:

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.

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.

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.

Notes To The Financial Statements

for the year ended 31 December 2012

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:

		Effective date
IFRS 1 (amendment)	First-time adoption of International Financial Reporting Standards	1 July 2011
IRFS 7 (amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 July 2011
IAS 12 (amendment)	Income taxes	1 January 2012
IAS 1 (amendment)	Presentation of Financial Statements	1 July 2012
IAS 32 (amendment)	Financial Instruments: Presentation	1 January 2013
IFRS 7 (amendment)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 1 (amendment)	Presentation of Financial Statements	1 January 2013
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 2014
IFRS 11 (amendment)	Joint Arrangements	1 January 2014
IFRS 10 (amendment)	Consolidated Financial Statements	1 January 2014
IAS 28 (amendment)	Investments in Associates and Joint Ventures	1 January 2014
IAS 27 (amendment)	Consolidated and Separate Financial Statements	1 January 2014
IFRS 7 (amendment)	Disclosures – Initial Application of IFRS 9	1 January 2015
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
IAS 16 (amendment)	Property, Plant and Equipment	1 January 2013
IAS 34 (amendment)	Interim Financial Reporting	1 January 2013
Annual improvements to IFRS 2009-2011 cycle		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 €469,767 (2011: loss of €459,821) and had a retained earnings deficit of €12,740,394 (2011: deficit of €12,476,598), 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 €3,015,858 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 funding 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.

Notes To The Financial Statements

for the year ended 31 December 2012

4. INVESTMENT REVENUE

	2012	2011
	€	€
Interest on bank deposits	11,660	7,140

5. LOSS BEFORE TAXATION

	2012	2011
	€	€
The loss before taxation is stated after charging the following items:		
Administrative expenses:		
Professional fees	204,519	137,132
Staff costs - salaries	177,930	254,839
- payroll taxes	12,792	19,885
Other administration expenses	66,120	55,105
Impairment of exploration and evaluation expenditure	20,066	-
	481,427	466,961

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

6. AUDITOR'S REMUNERATION

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

	2012	2011
	€	€
Group		
Audit of Group accounts	19,000	19,000
Other assurance services	1,000	1,500
Tax advisory services	1,000	1,600
Other non-audit services	-	-
Total	21,000	22,100
Company		
Audit of individual company accounts	9,500	9,750
Other assurance services	9,500	9,750
Tax advisory services	1,000	1,600
Other non-audit services	-	-
Total	20,000	21,100

Notes To The Financial Statements

for the year ended 31 December 2012

7. RELATED PARTY AND OTHER TRANSACTIONS

Group and Company

Directors' remuneration

The remuneration of the directors is as follows:

	2012 Fees – services as directors €	2012 Fees – other services €	2012 Total €	2011 Fees – services as directors €	2011 Fees – other services €	2011 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
Total	10,000	240,000	250,000	15,000	245,378	260,378

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' interests in the shares of the company are set out in the Directors' Report.

Directors' remuneration of €150,000 (2011: €110,378) 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 – resigned 3 January 2013) 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:

	2012 €	2011 €
Short-term employee benefits	350,000	360,378

Notes To The Financial Statements

for the year ended 31 December 2012

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:

	Botswana Diamonds plc €	Clontarf Energy plc €	Connemara Mining plc €	Cooley Distillery plc €	Hydro-carbon Exploration Limited €	Total €
Balance at 1 January 2011	(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
Office and overhead costs recharged	(33,770)	10,663	60,297	-	-	37,190
Exploration and evaluation expenditure recharged by Petrel	-	12,079	-	-	-	12,079
Exploration and evaluation expenditure recharged to Petrel	-	(82,988)	-	-	-	(82,988)
Repayments	28,761	54,643	(64,036)	-	4,012	23,380
Balance at 31 December 2012	**-**	**974**	**-**	**-**	**-**	**974**

Petrel Resources plc owns 30% of Pan Andean Resources Limited, an early stage exploration vehicle registered in Ghana. Clontarf Energy plc and Abbey Oil & Gas own the remaining 70%. During 2012 exploration and evaluation expenditure was paid by Petrel Resources plc in relation to the Ghanian operations. This expenditure was recharged to Clontarf Energy plc during the year. Exploration and evaluation expenditure was also paid by Clontarf Energy plc and recharged to Petrel Resources plc during the year.

Notes To The Financial Statements

for the year ended 31 December 2012

8. STAFF NUMBERS

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

	2012 Number	2011 Number
Management and administration	5	5

Staff costs for the above persons were:	€	€
Wages and salaries	437,930	385,378
Social welfare costs	12,792	19,885
Pension costs	-	-
	450,722	405,263

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.

	2012 €	2011 €
9A. Segment Results		
Continuing Operations		
Iraq	-	-
Ghana	-	-
Ireland	-	-
Total for continuing operations	-	-
Unallocated head office	(469,767)	(459,821)
	(469,767)	(459,821)

There was no revenue earned during the year (2011: €Nil).

Notes To The Financial Statements

for the year ended 31 December 2012

9. SEGMENTAL ANALYSIS *(continued)*

9B. Segment Assets and Liabilities

	Assets	Liabilities		
	2012	2011	**2012**	2011
	€	€	**€**	€
Iraq	**2,292,050**	2,068,931	**-**	-
Ghana	**607,134**	418,228	**-**	(4,738)
Ireland	**524,865**	213,801	**(41,729)**	-
Total for continuing operations	**3,424,049**	2,700,960	**(41,729)**	(4,738)
Unallocated Head Office	**3,059,324**	4,183,123	**(365,466)**	(226,02
	6,483,373	6,884,083	**(407,195)**	(230,760)

Additions to non-current assets (Group and Company)

	2012	2011
	€	€
Iraq	**266,736**	121,024
Ghana	**215,675**	146,189
Ireland	**311,064**	213,801
Total for continuing operations	**793,475**	481,014
Unallocated head office	**-**	-
	793,475	481,014

10. INCOME TAX EXPENSE

	2012	2011
	€	€
Factors affecting the tax expense:		
Loss on ordinary activities before tax	**(481,427)**	(466,961)
Income tax calculated @ 12.5%	**(60,178)**	(58,370)
Effects of:		
Expenses not allowable	**3,487**	20,759
Tax losses carried forward	**55,234**	36,681
Income taxed at higher rate	**1,457**	930
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 €4,662,472 (2011: €4,163,339) which equates to a deferred tax asset of €582,809 (2011: €520,417). No deferred tax asset has been recognised due to the unpredictability of the future profit streams. Losses may be carried forward indefinitely.

Notes To The Financial Statements

for the year ended 31 December 2012

11. LOSS PER SHARE

	2012	2011
	€	€
Loss per share - basic and diluted	(0.61c)	(0.60c)

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:

	2012	2011
	€	€
Loss for the year attributable to equity holders	(469,767)	(459,821)

	2012	2011
	Number	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	
	2012	2011	2012	2011
	€	€	€	€
Exploration and evaluation assets:				
Cost:				
Opening balance	2,700,960	2,149,670	2,689,723	2,138,433
Additions	793,475	481,014	793,475	481,014
Impairment charge	(20,066)	-	(20,066)	-
Exchange translation adjustment	(50,320)	70,276	(50,320)	70,276
Closing balance	3,424,049	2,700,960	3,412,812	2,689,723

Segmental Analysis

	Group	Group
	2012	2011
	€	€
Iraq	2,292,050	2,068,931
Ghana	607,134	418,228
Ireland	524,865	213,801
	3,424,049	2,700,960

Notes To The Financial Statements

for the year ended 31 December 2012

12. INTANGIBLE ASSETS *(continued)*

Exploration and evaluation assets at 31 December 2012 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.

In 2012, the directors decided to impair in full the Morocco and Guinea exploration and evaluation assets to nil, amounting to a total impairment charge of €20,066. The decision was taken as the projects were terminated during the year.

Relating to the remaining exploration and evaluation assets at the year end, 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 €150,000 (2011: €110,378) and salaries of €110,000 (2011: €50,000) were capitalised as exploration and evaluation expenditure during the year.

13. INVESTMENT IN SUBSIDIARIES

	2012 €	2011 €
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.

The Group consisted of the parent company and the following wholly owned subsidiaries as at 31 December 2012:

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

The company also holds a 30% interest in Pan Andean Resources Limited, an early stage exploration company incorporated in Ghana. Pan Andean Resources Limited has not traded since incorporation.

Notes To The Financial Statements

for the year ended 31 December 2012

14. TRADE AND OTHER RECEIVABLES

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
VAT refund due	24,634	14,150	24,634	14,150
Other receivables	18,832	18,324	18,832	18,324
	43,466	32,474	43,466	32,474

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

15. CASH AND CASH EQUIVALENTS

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Cash and cash equivalents	3,015,858	4,150,649	3,015,858	4,150,649

Cash at bank earns interest at floating rates on daily bank rates. The fair value for cash and cash equivalents is €3,015,858 (2011: €4,150,649) for Group and €3,015,858 (2011: €4,150,649) for Company. The Group and Company only deposits cash surpluses with major banks.

16. TRADE AND OTHER PAYABLES

	Group 2012 €	Group 2011 €	Company 2012 €	Company 2011 €
Accruals	269,959	175,000	269,959	175,000
Other payables	137,236	55,760	137,236	55,760
	407,195	230,760	407,195	230,760

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.

17. 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 euro and dollar denominated transactions and therefore takes market rates in respect of foreign exchange risk; however, it does review its currency exposures on an ad hoc 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.

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 2012 €	Assets 2011 €	**Liabilities 2012 €**	Liabilities 2011 €
Sterling	**3,325**	50,916	**50,297**	7,057
US Dollar	**3,012,289**	4,047,314	**32,159**	-

18. 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 utilizing and optimising the management of working capital. All financial liabilities are due within 1 year from the year end. The directors are confident that adequate cash resources exist to finance operations in the short term, including exploration and development.

Notes To The Financial Statements

for the year ended 31 December 2012

18. FINANCIAL RISK MANAGEMENT *(continued)*

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 maintaining a level of cash in foreign denominated currencies sufficient to meet planned expenditure in that currency. Foreign currency denominated assets and liabilities are set out in Note 17.

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 17.

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 2012 and 31 December 2011.

19. SHARE CAPITAL

	Group and Company	
	2012	2011
	€	€
Authorised:		
200,000,000 ordinary shares of €0.0125	**2,500,000**	2,500,000
Allotted, Called-Up and Fully Paid:		
76,664,624 (2011: 76,664,624) ordinary shares of €0.0125 each	**958,308**	958,308

20. 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 31/12/2012 Options	**Year ended 31/12/2012 Weighted average exercise price in cent**	Year ended 31/12/2011 Options	Year ended 31/12/2011 Weighted average exercise price in cent
Outstanding at beginning of year	**200,000**	**178**	200,000	178
Granted during the year	**-**	**-**	-	-
Forfeited during the year	**200,000**	**178**	-	-
Outstanding and exercisable at the end of year	**-**	**-**	200,000	178

Notes To The Financial Statements

for the year ended 31 December 2012

20. SHARE BASED PAYMENTS *(continued)*

The share options were forfeited during 2012 due to the resignation of the director that the share options were granted to.

At 31 December 2012, there were 4,420,000 (2011: 4,670,000) options in existence which are not accounted for under IFRS2 as the options were granted after 7 November 2002 and had vested by 1 January 2006 (date of transition to IFRS).

21. 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 total comprehensive loss for the year in the parent company was €577,146 (2011: €299,234) which includes exchange loss on translation of €107,378 (2011: profit of €160,587).

22. NON-CASH TRANSACTIONS

There were no significant non-cash transactions during 2012.

23. CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date.

24. POST BALANCE SHEET EVENTS

There were no material post balance sheet events.

25. CONTINGENT LIABILITIES

There are no contingent liabilities (2011: €Nil).

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Petrel Resources plc will be held on Friday, 26th July 2013 in the Westbury Hotel, Grafton Street, Dublin 2 at 11am for the following purposes:

Ordinary Business

1. To receive and consider the Directors Report, Audited Accounts and Auditors Report for the year ended December 31, 2012.

2. To re-appoint director: John Teeling retires in accordance with Article 95 and seeks re-election.

3. To re-appoint Deloitte & Touche as auditors and to authorise the directors to fix their remuneration.

4 To transact any other ordinary business of an annual general meeting.

Special Business

5. **To consider and if thought fit, pass the following ordinary resolution:**
That in substitution for all existing authorities of the Director's pursuant to section 20 of the Companies (Amendment) Act 1983, the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities within the meaning of Section 20 of the Companies (Amendment) Act 1983. The maximum amount of the relevant securities which may be allotted under the authority hereby conferred shall be an amount equal to the aggregate nominal value of the authorised but unissued ordinary shares in the capital of the Company. The authority hereby conferred shall expire on 26 July 2018 unless and to be extent that such authority is renewed, revoked or extended prior to such date. The company may, before such expiry, make an offer or arrangement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement, notwithstanding that the authority hereby conferred had expired.

6. **To consider and if thought fit, pass the following special resolution:**
That the Directors be and are hereby empowered pursuant to Section 23 and 24(1) of the Companies (Amendment) Act 1983 to allot equity securities within the meaning of said Section 23 for cash pursuant to the authority conferred by resolution 5 above, as if Section 23(1) of the said Act did not apply to such allotment, provided that this power shall expire on 26 July 2018 unless and to the extent that such authority is renewed, revoked or extended prior to such date, save that the Company may before such expiry make an offer or arrangement which would or might require securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this paragraph has not expired.

By order of the Board:

James Finn
Secretary

20 June 2013

Registered Office: 162 Clontarf Road, Dublin 3.

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

CURRENT DIRECTORS	J. Teeling (Chairman) D. Horgan (Managing Director)
SECRETARY	J. Finn
REGISTERED OFFICE	162 Clontarf Road Dublin 3 Telephone: 353-1-8332833 Fax: 353-1-8333505 E-Mail: info@petrelresources.com Website: www.petrelresources.com
AUDITORS	Deloitte & Touche Chartered Accountants and Statutory Audit Firm Deloitte & Touche House Earlsfort Terrace Dublin 2
BANKERS	Allied Irish Bank plc. 140 Lower Drumcondra Road Dublin 9 Commerzbank AG Gallusanlage 60329 Frankfurt
SOLICITORS	McEvoy Partners 27 Hatch Street Lower Dublin 2
NOMINATED BROKER & ADVISOR	Northland Capital Partners Limited 60 Gresham Street London EC2V 7BB
REGISTRATION NUMBER	92622
AUTHORISED CAPITAL	200,000,000 €0.0125 Ordinary Shares
CURRENT ISSUED CAPITAL	76,664,624 Ordinary Shares
MARKET	Alternative Investment Market
NUMBER OF SHAREHOLDERS	1,670

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