



**PETRO**●**CELTIC**  
INTERNATIONAL PLC

2008 ANNUAL REPORT



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# Company Profile

*Petroceltic International plc. is an independent oil and gas exploration, development and production company. We are an international company with a multinational staff and currently employ approximately 50 full time industry professionals across multiple disciplines and geographies. The company is headquartered in Dublin with regional offices in London, Rome, Algiers and Tunis.*

*Our strategy is to discover or acquire assets with material hydrocarbon resource potential and to exploit these assets to deliver superior shareholder value. We focus on developing material asset positions in attractive fiscal regimes with strong partners that can add complementary skills as well as financial strength. Our market focus is Europe and we seek opportunity to supply the European energy markets from countries within Europe as well as those from North Africa that have the potential to do so. The Company is currently active in Algeria, Tunisia and Italy.*

*Petroceltic's shares are listed on the Alternative Investment Market (AIM) on the London Stock Exchange (PCI.L) and on the Irish Enterprise Exchange (IEX) on the Irish Stock Exchange (EG5.IR).*

# Corporate Information

## Directors:

A. Bostock, Non-Executive Chairman\*^†

B. O’Cathain, Chief Executive†

A. McGettigan, Finance Director

C. Casey, Non-Executive \*^†

C. Schaffalitzky, Non-Executive \*^

P. Fuentes-Cantillana ^

\* *Member of the Audit Committee*

^ *Member of the Remuneration Committee*

† *Member of the Nominations Committee*

## Registered Office:

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Email: [info@petroceltic.ie](mailto:info@petroceltic.ie)

Web: [www.petroceltic.com](http://www.petroceltic.com)

Company Number: 101176

## Secretary

C. Casey, FCCA

## Auditors

KPMG  
1 Stokes Place  
St Stephens Green  
Dublin 2

## Bankers

Bank of Scotland Ireland  
Bank of Scotland House  
124-127 St. Stephen’s Green  
Dublin 2

Bank of Ireland  
Global Markets  
Colvill House  
Talbot Street  
Dublin 1

## Solicitors

McCann Fitzgerald Solicitors  
Riverside One  
Sir John Rogerson’s Quay  
Dublin 2

## Stockbrokers

J & E Davy  
Davy House  
49 Dawson Street  
Dublin 2

Mirabaud  
21 St. James’s Square  
London SW1Y 4JP

## Register and Transfer Office

Computershare Investor Services (Ireland) Ltd.  
Heron House  
Corrig Road  
Sandyford Industrial Estate  
Dublin 18

# Company Directors



**Andrew Bostock**  
Executive Chairman (46)

Andy is an experienced upstream oil and gas director with 24 years of operational and commercial experience in the sector. After beginning his career with Shell International, he progressed through increasingly senior technical and commercial roles in a number of independent oil and gas companies, including Enterprise Oil, Talisman Energy and Venture Production, before serving as an executive director of Dana Petroleum plc between 2001 and 2006. He joined the Board of Petroceltic as the senior non-executive Director in June 2007 and was appointed as chairman of the Company in February 2009. He is currently also chairman of Purepower Group Limited, a privately owned renewable energy company.



**Brian O'Cathain**  
Chief Executive (49)

Brian is a geologist and petroleum engineer with 25 years' experience in senior technical and commercial roles in upstream oil and gas exploration and production companies, Brian previously held the positions of Managing Director of Tullow Oil's international business and chief executive of Afren plc. In senior management positions with Enterprise Oil and Shell International, he was principally involved with acquisitions, divestments and corporate strategy. He has experience in working in West Africa, The North Sea, The Gulf of Mexico, South Asia, and Offshore Ireland. He was formerly chief executive of AIM listed Afren plc.



**Alan McGettigan**  
Group Finance Director (47)

Alan has over 20 years of experience in oil and gas exploration and production. Prior to joining Petroceltic, Alan worked for BG International where he held senior roles in Commercial and Group Business Development. His other experience includes roles at Shell International and BP as well as four years as a management consultant at McKinsey & Company. Alan holds B.Sc. and M. Sc. degrees in Engineering and a Master in Business Administration with distinction from the Harvard Business School.



**Pablo Fuentes-Cantillana**  
Non Executive Director (42)

Pablo is Director for Gas Projects Development of Iberdrola. He is responsible for Iberdrola's gas midstream business development including, amongst others, the Medgaz project, a subsea pipeline connecting Algeria with Spain. He was previously director of energy management of Iberdrola Mexico which today has a portfolio of over 5,000MW of electricity in operation. He was also general manager of Iberdrola Monterrey, a company responsible for the development and operation of a 1,000 MW CCGT in Monterrey (Mexico). He is a Mining Engineer from the Madrid School of Mines and has a Masters degree in Business Administration from IESE Business School.



**Con Casey**  
Company Secretary & Non Executive Director (48)

Con is a Chartered Certified Accountant, partner of LHM Casey McGrath and a member of the board of Petroceltic International Plc since October 2000. He has over 25 years' experience in advising companies in the natural resources sector as well as acting as adviser to a number of publicly quoted companies and semi-state organisations and specialises in the area of corporate finance.

As company secretary, Con is responsible for ensuring that the company complies with relevant legislation & regulation and keeps board members informed of their legal responsibilities. As non-executive director, he monitors the executive activity and contributes to the development of strategy. Con is chairman of the audit committee and a member of the nominations committee and the remuneration committee.



**Christian Schaffalitzky**  
Non Executive Director (55)

Christian is an experienced and successful minerals geologist with strong international profile and long experience in managing exploration companies. Christian is currently the managing director of the AIM-listed Eurasia Mining plc and serves as an independent director of Rospadskaya Coal Company and Chelyabinsk Zinc Plant, both public Russian companies. As a non-executive director, Christian monitors the executive activity and contributes to the development of strategy. Christian is a member of the remuneration committee and the audit committee.

# Chairman and Chief Executive's Statement

2008 was a year of consolidation and building for the future and the Group is now well positioned to benefit from the groundwork laid in 2008.

## Drilling Programme Imminent

An exploration and appraisal drilling programme featuring up to seven wells is on schedule to commence in May 2009 on four highly prospective areas within the Isarene permit in Algeria. Extensive new 3D seismic acquired in 2008 has highlighted several potentially exciting reservoirs and helped optimise our drilling and well testing locations.

A key objective of the Algerian drilling programme will be to appraise the commercialisation of existing discoveries. A potential gas resource in the range of one to six trillion cubic feet of gas equivalent is being targeted, in addition to a number of new plays, some of which may contain both oil and gas. Substantial oil and gas discoveries in adjoining blocks have considerably enhanced the potential for both commodities on the permit.

Petroceltic's Mediterranean basin activities will be further expanded in 2010/2011 with a drilling programme expected on its Italian prospects. A portfolio of exploration assets with strong hydrocarbon leads in proven fairways is currently being high-graded for drilling. The portfolio includes permits in the Po Valley, Central Adriatic and the Sicily channel.

A detailed assessment of the Italian prospects is well advanced and drilling locations will be selected in the second half of this year. The first of these wells should be ready for drilling in 2010, subject to permitting and rig availability. Italy is one of Europe's leading oil producers and offers the opportunity for Petroceltic to develop hydrocarbon assets within the European Union.

## Robust Financial Position

Petroceltic is making excellent progress in further strengthening its financial position. The board believes that this differentiates the Company within the small market capitalisation Exploration & Production sector and greatly expands its operational capability. The US\$55 million placing completed in 2008 considerably strengthened the balance sheet and provides funds for the Algerian programme. Cash and cash equivalents were US\$43.4 million at year end and the company had no debt. Additionally, US\$5.6 million of the 2009 drilling costs were pre-paid in 2008 and the Company received an advance option consideration payment of US\$7.3 million in February 2009 from Iberdrola, in respect of the financing option announced on 30th June 2008. In a separate announcement, the Company announced today that it has successfully raised £27.5m (US\$40m) through a conditional placing with existing and new shareholders.

Current revenue comes from royalty income from the Kinsale gas fields in Ireland. Revenue increased to \$962k in 2008 (2007: \$549k). The increase is mainly due to higher gas prices during the period. The company's operating loss for 2008 increased to US\$3.7 million (2007: US\$2.5 million). This increase is a reflection of higher administrative expenses as the team expands prior to the forthcoming drilling programme and US/Euro currency movements on administrative expenses.

## Strategic Alliance

Petroceltic's business model is focused on the acquisition of good quality acreage in areas of proven oil and gas, the development of drillable prospects through the application of our exploration skills and the addition of step-change value through the drill bit in exploration and appraisal. We seek to mitigate risk by taking partners from the industry or through strategic alliances where appropriate.

We are pleased to have found a partner of the strength and quality of Iberdrola to help us to develop our portfolio. As a significant player in the Algerian downstream gas and power



Re-dressing a drill bit for the Algerian drilling campaign.



Drilling Operations in the Sahara.

industries, Iberdrola has a sophisticated understanding of the economic potential of delivering North African energy supplies into European markets. Iberdrola's good standing and the depth of its prior relationships in Algeria also compliment those of Petroceltic.

### Strengthened Board and Management Team

Petroceltic's board was strengthened in 2008 with the appointment of Alan McGettigan as Finance Director and Pablo Fuentes-Cantillana, a representative of Iberdrola, as a Non-executive Director. In addition, following the departure of John Craven, who stepped down as Chief Executive in early 2009, Brian O'Cathain, formerly Executive Chairman, was appointed as Chief Executive and Andrew Bostock, formerly the Senior Non-executive Director, was appointed as Non-executive Chairman.

Regional leadership and operating capability was also enhanced in 2008 with the appointment of David Slaven, as General Manager in Algeria, and Pasquale Quattrone, as General Manager of Petroceltic Italy. Both appointees have extensive experience in their respective areas.

### Exciting Outlook

In 2008 we focused on maturing our existing prospects in Algeria, Italy and Tunisia towards the drilling phase and extending the existing portfolio with additional quality assets in Italy.

We are now poised for the most exciting phase in the Company's history, with the imminent start of exploration and appraisal drilling operations in Algeria due to be followed by seismic acquisition and subsequent drilling activity on the most attractive prospects in the much expanded Italian portfolio.

It has always been the Company's intention to complement our organic growth programme by pursuing both corporate and asset acquisition opportunities. The recent fall in commodity prices, combined with the increased cost and lack of availability of capital, has led to a reversal of last year's situation, where asset prices were too high to allow accretive acquisitions. We are now in a market where assets can potentially be acquired on attractive terms. Petroceltic will remain vigilant for and ready to exploit any such market opportunities which our experienced team and strong balance sheet may allow us to take advantage of.

We would like to thank Petroceltic's shareholders for the patience they have shown while we put the necessary technical, operational and financial foundations in place to ensure the Company can maximise its chance of future success. We are optimistic that this patience will be rewarded as we start to unlock the value which we believe exists in our asset portfolio.

We would also like to thank Petroceltic's staff and contractors, our partners and other stakeholders, for all their hard work and loyal support in bringing the Company to this very exciting point in its development.

On behalf of the Board of Directors,

**Andrew Bostock**  
*Chairman*

**Brian O'Cathain**  
*Chief Executive*

30th April 2009

# Operational Locations



# Operational Review [Algeria]

## ALGERIA

**Illizi Basin, Isarene PSC (Blocks 228/229A)  
Petroceltic 75% Interest, Sonatrach 25%  
Interest.**

### Highlights:

- Major Wide Azimuth 3D seismic survey of 892 square kilometres successfully acquired over the Ain Tsila Ridge area, on budget - only the second Wide Azimuth 3D survey ever acquired in Algeria
- Over 800,000 operational man hours in the Sahara desert without any serious health, safety or environmental incidents
- Additional 2D Seismic survey of 180 kilometres acquired in the El Biod area in the South West part of the Licence
- Over 5000 kilometres of 2D Seismic reprocessed
- Contracts awarded for drilling rig and related services for up to 7 wells
- Petroceltic successfully pre-qualified as an Operator by Alnaft, the Algerian National Agency for Promotion of Hydrocarbon Resources, to submit tenders, during the next 3 years, as operator/investor for the exploration and exploitation of hydrocarbons in future onshore bidding rounds in Algeria.

Petroceltic is focused on four prospective areas on the Isarene permit, namely the Ain Tsila Ridge, the ISAS-GTT-INW area, the Hassi Tab Tab area and the El Biod area in the south west part of the Isarene permit. These four areas will be the focus of drilling and other work necessary to progress towards commercialisation of the identified potential hydrocarbon resources. Three of these project areas already have existing oil or gas discoveries made by Petroceltic and previous operators and hence are considered appraisal areas. The other prospect, El Biod, is an exploration target.

### The Ain Tsila Ridge

This is the largest prospect in the Isarene permit area. The recently acquired and processed Wide Azimuth 3D seismic survey over this area has revealed the structure as a wide anticlinal four-way dip closed trap at the key Ordovician objective level.

In the Illizi Basin, Ordovician sandstones are the most important reservoirs in terms of hydrocarbon volumes. The key to commercial appraisal success is to identify areas of high quality reservoir in conjunction with open fractures. The Isarene 3D has revealed some interesting geological detail at the Ordovician level, highlighting ancient glacial channels and areas of potential open fracture patterns. We expect to focus the majority of our appraisal wells on this high potential feature.



# Operational Review [Algeria]

Previous operators have drilled five wells on or just outside the structural closure on this prospect. In these wells, drilled 20 to 40 years ago, the target Ordovician sandstone reservoir was gas saturated but only flowed gas at moderate rates, due in part to the location of the wells being mainly outside the optimal structural closure but also the quality of the Ordovician reservoir.

We are optimistic that the much clearer image of the subsurface provided by our new 3D seismic survey will help to target the new wells in areas of better flow potential. A similar approach has been successfully employed by BP in the appraisal and development of the adjacent Tiguentourine Field in the Illizi Basin (to the east of the Isarene Permit). More recently, BP and Sonatrach have had further success with a major new Ordovician discovery in the Bourhabet Sud permit, immediately to the east of Isarene. Here, the Tin Zaouatene-1 discovery well, which flowed at 9.5 mmscf/d was highlighted as one of five major exploration successes for BP in 2008 at their recent Annual Results presentation.

Petroceltic estimates prospective hydrocarbon resources for the Ain Tsila ridge to be in the range of 1 to 6 trillion cubic feet of gas (unrisked).

## ISAS-GTT-INW area

Petroceltic plans to drill its first 2009 appraisal well on this gas field. Sonatrach have approved two further wells on the ISAS and INW structures in 2009.

Five wells have tested gas and oil from this Devonian accumulation in this area to date. Three wells flowed gas from the Devonian and one downdip well, GTT-1, drilled by Sonatrach in the early 1980s, flowed 500 bopd from an oil rim on this gas accumulation. In the Medex operated Block 226 to the immediate north of this area, two wells have successfully tested gas from what is probably the same accumulation.

## HTT area

The Hassi Tab Tab 2 (HTT-2) well drilled by Petroceltic in 2006 tested at a combined rate of 15.8 mmscf/d from a number of zones in the Devonian and Carboniferous. This rate is one of the highest ever tested in the Illizi basin from a Devonian reservoir. Following the successful drilling of the HTT 2 discovery well, the HTT structure has been remapped using

newly reprocessed seismic data. We do not expect any further appraisal drilling in this area before entering the next phase of the licence.

## El Biod, (SW Isarene) area

In 2008 Petroceltic acquired 180 km of new 2D seismic over this exploration prospect. The area contains two potential exploration prospects, El Biod and SW Isarene. Both prospects are considered oil targets with main reservoir objectives in the Devonian and Ordovician. Petroceltic and Sonatrach are still evaluating possible drilling plans in this area.

## Operational Preparations

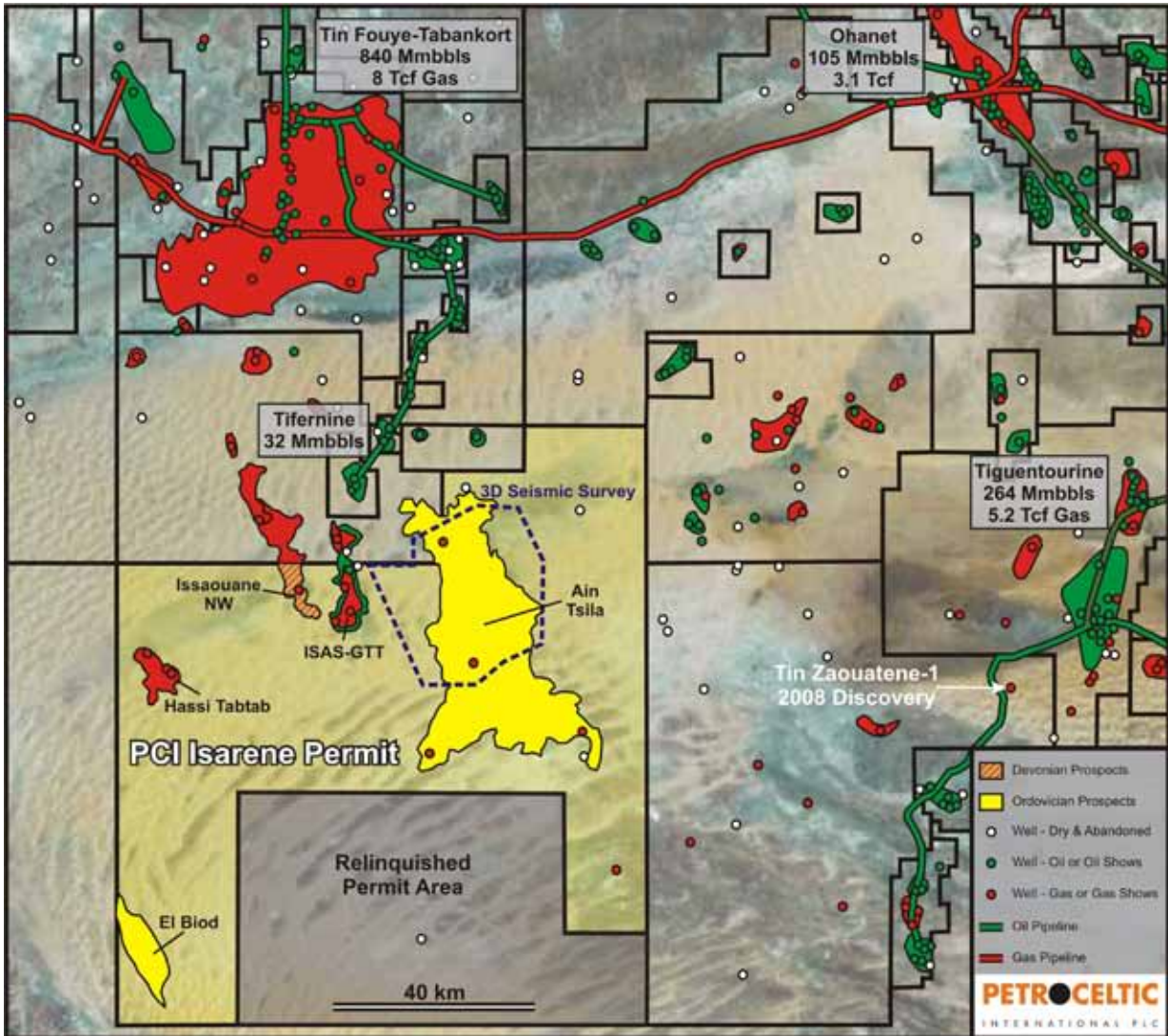
The company has signed a fully termed contract with KCA Deutag for the use of their Nomad class drilling rig, T-212. The T-212 rig is a new drilling unit which will be utilised for the Company's drilling and testing programme on the Isarene permit in Algeria and is currently en route having been mobilised from Germany. In total, this drilling programme is expected to take approximately 9-10 months to complete.

The Company has also signed a contract with Sahara Well Construction Services ("Sahara") for the provision of all wellsite services, including wireline evaluation, testing and cementing services and civil works. Sahara is a joint venture between Schlumberger, the leading oilfield services provider, and L' Enterprise Nationale de Forage ("Enafor"), the Algerian National Enterprise for Drilling. Enafor is a subsidiary of Sonatrach, the Algerian state Oil and Gas Company.

## Other Algerian Plans

Petroceltic is pleased to announce that it has been pre-qualified by Alnaft, the Algerian National Agency for Promotion of Hydrocarbon Resources, to submit tenders as operator/investor for the exploration and exploitation of hydrocarbons in future onshore bidding rounds in Algeria. The pre-pre-qualification remains in force for a 3 year period until July 2011 and allows Petroceltic to tender offers in all bidding rounds during this time.

Algiers



# Operational Review [Italy]

## ITALY

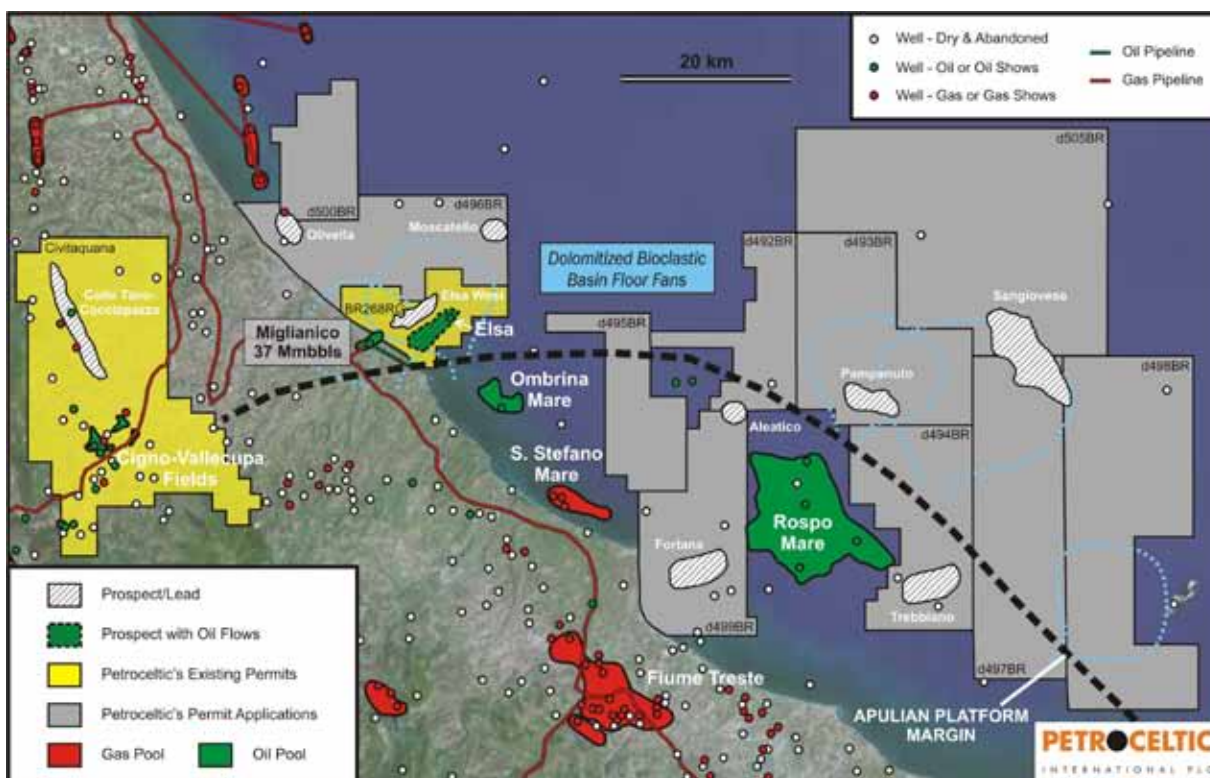
Petroceltic has built up a substantial portfolio of exploration assets in Italy, through a combination of opportunistic acquisition and permit applications. These assets are held through its wholly owned Italian subsidiary, Petroceltic Elsa Srl. The current portfolio consists of 7 permits (4 operated) in the Po Valley, 11 offshore exclusive applications (10 operated) in the Central Adriatic and Sicily Channel, and 1 onshore exclusive application (operated) in the Po Valley. Petroceltic maintains a substantial equity interest (between 37.5-100%) in all these assets, giving additional flexibility with respect to forward funding of the planned work programmes.

A substantial inventory of both oil and gas prospects are present on these permits. We are now in the process of rationalising the portfolio, with a view to high grading those assets which can offer a step change in value to shareholders. A pipeline of drillable prospects is being technically matured and the first of these, subject to permitting and rig availability, should be ready for drilling from early 2010.

### Central Adriatic Area Permit Applications Petroceltic 100%

The 10 operated exploration permits in the Central Adriatic, offshore Italy, were awarded on an exclusive basis to the Company. Included in these assets are permits d492 and d493,





which were subject to a competitive external bid. These interests together with the other eight permits d494 to d500 plus d505, and Petroceltic's existing interest in the BR 268RG offshore permit, gives the Company access to a near contiguous proven hydrocarbon play fairway of over 2,660 square kilometres along the Apulian Carbonate Platform margin. The permits lie in water depths of between 30 and 150 metres and are located adjacent to existing oil and gas fields, which have demonstrated three working hydrocarbon plays in this region; the Cretaceous Miglianico/Elsa basin floor fan; the Cretaceous to Miocene Rospo Mare/Ombrina Mare platform carbonate oil plays, the latter recently successfully tested by the OM-2 well; and the Santo Stefano Mare Pliocene biogenic gas play.

### BR 268 RG (Elsa) Petroceltic 40% Interest

This block contains the Elsa-1 oil discovery. All available seismic data over the discovery has been obtained from ENI, the previous operator, during 2008. This data has been reprocessed and is currently being mapped.

The company plans to drill a well in this block in the first half of 2010. Potential recoverable reserves for Elsa have been independently estimated to be 182 million barrels. A number of other prospects in the 50-180 million barrel range have already been identified in the play fairway, on the adjacent Petroceltic (100%) blocks, and these potential resources have been attracting farm-in interest from a number of major oil and gas companies.

### Po Valley Permits

In December 2007, Petroceltic acquired a portfolio of acreage comprising 4 exploration permits from BG Italia. The interests in these permits vary from 50 per cent to 95 per cent. In addition, the deal included interests in two exclusive permit applications, one in the Po Valley (now a fully decreed permit) and one offshore in the Sicily Channel in Southern Italy. In 2008, Petroceltic's acreage position in the western Po Valley was complimented with the award of the Ronsecco Exclusive Permit application (Petroceltic 100%), which contains a substantial undrilled Triassic structure, previously mapped by ENI.

The Carisio, Torrente Nure, Casalnoceto and Vercelli permits contain an inventory of Miocene prospects with estimated unrisks recoverable resources in excess of 1 TCFe (trillion cubic feet gas equivalent). Some of these prospects have been mapped on 3D seismic, are technically mature, and are ready to drill. In addition, a number of Triassic oil leads have recently been identified on trend to the nearby ENI operated Villafortuna-Trecate oil fields.

# Operational Review [Italy]

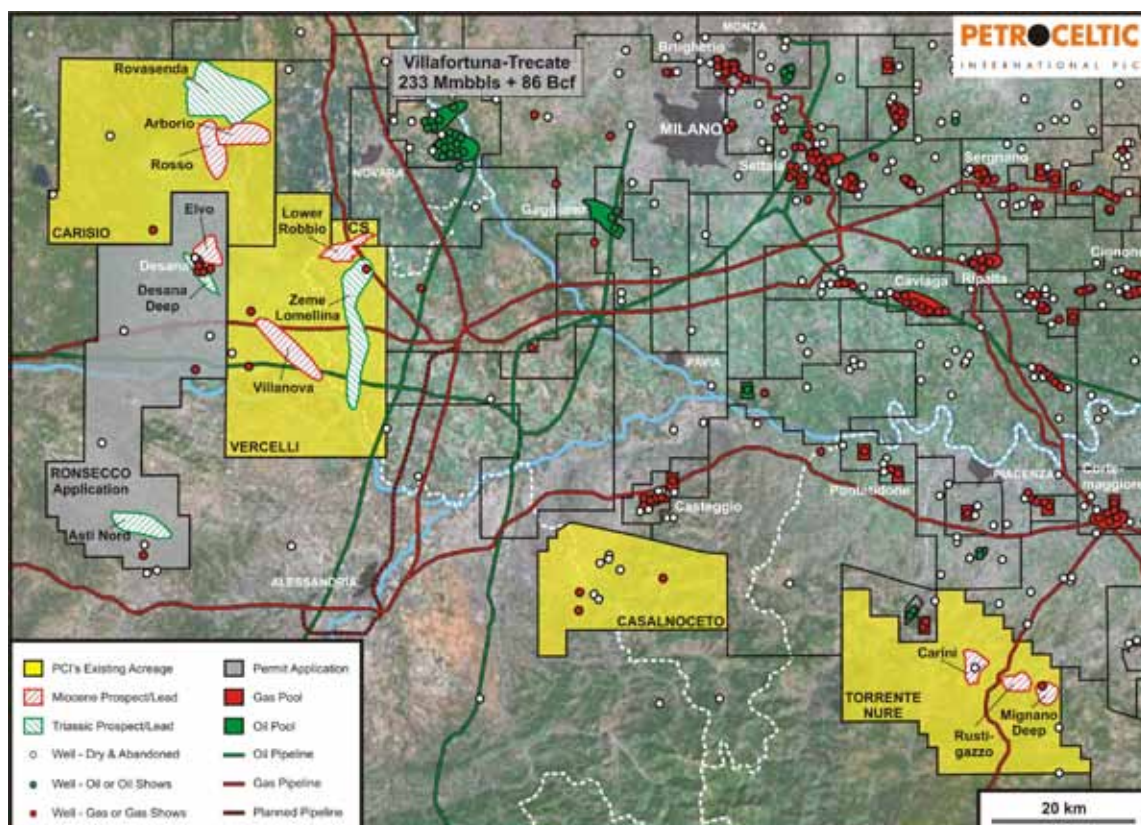
Petroceltic's activity in the Po Valley will focus on the Carisio Licence. (Petroceltic Operated, 47.5% interest). A significant Triassic oil prospect called Rovasenda has been identified on this licence. The prospect will require further 2D seismic reprocessing and interpretation before drilling. A 47.5% interest in the Carisio licence was recently farmed-out to ENI.

## Future Plans

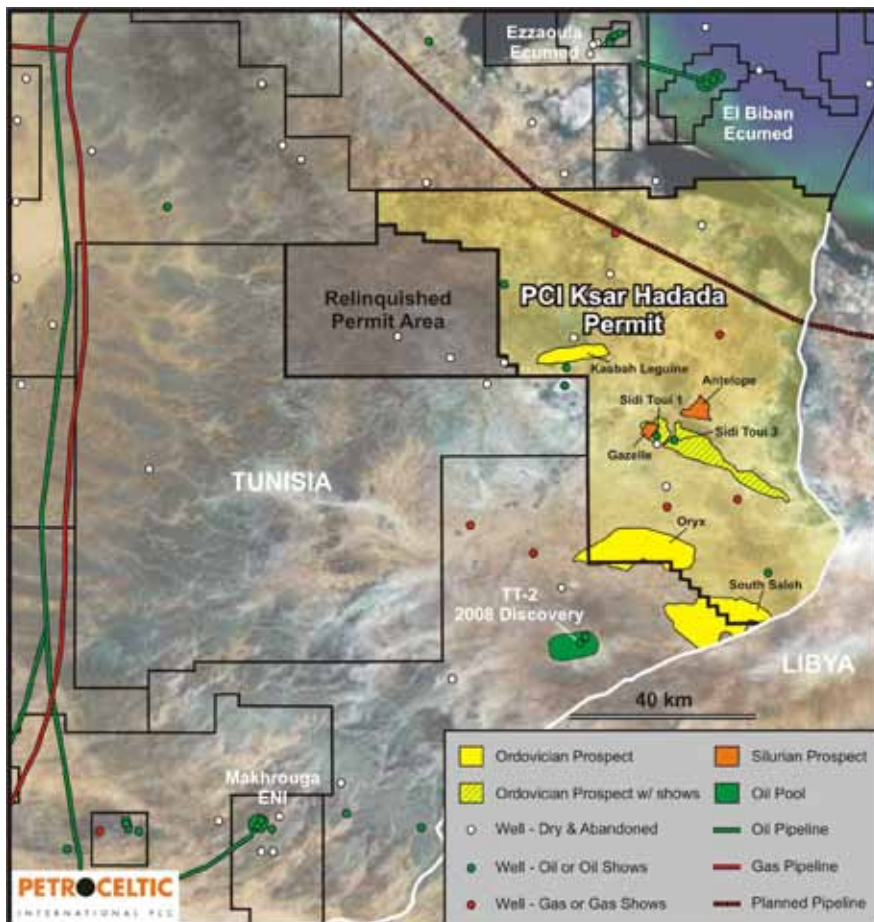
The Company plans to mature existing oil and gas prospects in the Po Valley for planned drilling in 2010/2011. In addition, it intends to farm-out the 100% Adriatic blocks for a carried seismic and drilling programme commencing in 2010.

## Sicily Channel area

The Licata Exclusive Permit Application (ENI operated; Petroceltic 37.5%) in the Sicily Channel was acquired as part of the asset package purchased from BG Italia in late 2007. The application area contains the Licata prospect (100-300 Bcf) which is a Pliocene gas prospect mapped on 3D seismic. The potential value of this prospect has increased substantially in 2008 as a result of the successful drilling by ENI of the Argo and Cassepio Pliocene gas discoveries in the Sicily Channel. These discoveries, in conjunction with the Panda Gas Field, are reported as being planned for development by ENI during 2010.



# Operational Review [Tunisia]



## TUNISIA

Petroceltic has been informed by the Tunisian government that the application to enter the first renewal period of the Ksar Hadada permit has been approved. The first renewal period of the permit began on 20th April 2008 and lasts for three years. In line with the Production Sharing Contract, Petroceltic and its' co-venturer, Independent Resources, have retained 80% of the original Ksar Hadada permit (5,600 sq. km) into the first renewal period.

New interpretation of seismic and well data on the permit has yielded positive results with the validation of a number of Ordovician and Silurian prospects in the southern part of the block. Drilling on this licence has been deferred to allow the incorporation of recent positive exploration drilling results on adjacent permits. The participants of the Remada Sud licence

immediately to the south of Ksar Hadada recently announced a successful oil discovery which has been independently assessed to contain 170 MMbbls of Stock Tank Oil Initially In Place in the Ordovician TT2 discovery. This adjacent discovery de-risks the Ordovician prospects on Ksar Hadada, and confirms the presence of a mature source rock and a working migration system in this area.

Petroceltic has a 57% interest in and is operator of the Ksar Hadada permit. The other partners are Independent Resources (Ksar Hadada) Ltd (40%), GA.I.A. srl. (1.5%), and Derwent Resources (Ksar Hadada) Ltd (1.5%).

# Report of the Directors

The Directors submit their annual report together with the audited financial statements of Petroceltic International plc ("the Company") and its subsidiaries (collectively "the Group"), for the year ended 31 December 2008.

## DIRECTORS

The following were the Directors of Petroceltic International plc – all of whom were in office for the full year except as stated:

**Andrew Bostock**, Non-Executive Director who was subsequently appointed as Chairman on 24th February 2009.

**Brian O’Cathain**, Executive Chairman who was subsequently appointed as Chief Executive on 24th February 2009.

**John Craven**, Chief Executive who subsequently resigned on 31 March 2009.

**Alan McGettigan**, Finance Director who was appointed on 15 August 2008.

**Con Casey**, Non-Executive Director and Company Secretary.

**Christian Schaffalitzky**, Non-Executive Director.

**Pablo Fuentes-Cantillana**, Non-Executive Director who was appointed on 30 June 2008.

See pages 6 to 7 for biographical details of Directors.

## DIRECTORS’ RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable Irish law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by AIM and IEX rules and as permitted by company law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (EU IFRS) and have elected to prepare the Company financial statements in accordance with EU IFRS, as applied in accordance with the provisions of the Irish Companies Acts, 1963 to 2006 ('the Companies Acts').

The Group and Company financial statements are required by law and EU IFRS to present fairly the financial position and performance of the Group; the Companies Acts provide, in relation to such financial statements, that references in the relevant part of the Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Group and Company will continue in business.

Under applicable law and the requirements of the IEX Rules issued by the Irish Stock Exchange, the Directors are also responsible for preparing a Directors’ Report and reports relating to Directors’ remuneration and corporate governance that comply with that law and those rules.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### GOING CONCERN

The Directors have reviewed budgets, projected cash flows and other relevant information, and on the basis of this review, are confident that the Company and the Group will have adequate financial resources to continue in operational existence for the foreseeable future. Consequently, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

### GROUP ACTIVITIES AND RESULTS

The Group is involved in oil and gas exploration. In addition, through a subsidiary undertaking, the Group receives income from the production of gas from the Group's interest in certain Kinsale gas fields.

A loss of US\$3,695,000 was recorded for the year (2007: loss of US\$2,461,000). This loss is after a share award cost of US\$1,371,000 as outlined in note 16. Net assets of the Group at 31 December 2008 amounted to US\$122,045,000 (2007 US\$70,813,000). No dividends are proposed.

Details of the state of the Group's affairs; the development of its various activities and key performance indicators during the year; and details of the Group's plans for 2009 are given on pages 8 to 17.

The Group's policy in relation to managing financial and related risks is set out in note 20 of the financial statements.

### FUTURE DEVELOPMENTS

A review of future developments of the business is included within the Chairman and Chief Executive's statement on pages 8 and 9.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Group's activities are carried out principally in North Africa and Italy. The principal risks and uncertainties are considered to be the following:

#### Exploration Risk

Exploration and development activities may be delayed or adversely affected by factors outside the Group's control, in particular; climatic conditions; performance of joint venture partners or suppliers; availability, delays or failures in installing and commissioning plant and equipment; unknown geological conditions resulting in dry or uneconomic wells; remoteness of location; actions of host governments or other regulatory authorities (relating to, inter alia, the grant, maintenance or renewal of any required authorisations, environmental regulations or changes in law).

# Report of the Directors [continued]

## Commodity Prices

The demand for, and price of, oil and gas is dependent on global and local supply and demand, weather conditions, availability of alternative fuels, actions of governments or cartels and general global economical and political developments.

## Currency Risk

Although the reporting currency is the US dollar (US\$), which is the currency most commonly used in the pricing of petroleum commodities and for significant exploration and production costs, other expenditure (in particular central administrative costs) and equity funding may be denominated in other currencies, principally the euro (€), thus creating currency exposure.

## Political Risks

As a consequence of activities in different parts of the world, the Group may be subject to political, economic and other uncertainties, including but not limited to terrorism, military repression, war or other unrest, nationalism or expropriation of property, changes in national laws and energy policies and exposure to less developed legal systems.

## SHARE PRICE

The share price movement in the year ranged from a low of Stg£0.03 to a high of Stg£0.10 (2007: Stg£0.07 to Stg£0.16). The share price at year end was Stg£0.03 (2007: Stg£0.08).

## DIRECTORS' INTERESTS

The interests of the Directors and Secretary and their families who held office at the date of approval of the Annual Report and at 31 December 2008 in the share capital of the Company are as follows:

	29 Apr 2009	31 Dec 2008	31 Dec 2007 (or date of appointment if later)
A. Bostock**	3,000,000	3,000,000	-
C. Casey*	2,288,166	2,288,166	392,178
J. Craven****	17,343,940	14,343,940	14,343,940
B. O'Cathain*	2,196,820	2,196,820	1,170,000
C. Schaffalitzky*	7,900,460	7,900,460	5,150,089
P. Fuentes-Catillana	-	-	-
A. McGettigan*,***	3,061,352	1,360,820	334,000

\* On 30 September 2008, Con Casey and Christian Schaffalitzky exercised share options to purchase 2,500,000 and 4,200,000 shares respectively and sold 604,012 and 1,449,629 shares respectively. On the same date Brian O'Cathain purchased 1,026,821 shares and Alan McGettigan purchased 1,026,820 shares.

\*\* On 28 November 2008, Andrew Bostock purchased 3,000,000 shares.

\*\*\* On 10 February 2009, Alan McGettigan purchased 1,690,076 shares.

\*\*\*\* On 16 January 2009, John Craven exercised share options to purchase 6,000,000 shares and sold 3,000,000 shares on the same day.

## Share options

Information on directors' share options to subscribe for ordinary shares of the Company is set out as follows:

Director name	Options held at 31 Dec 2007	Granted during the year	Exercised during the year	Options held at 31 December 2008	Exercise price €	Date from which exercisable (if vested)	Expiry date
<i>Original Scheme</i>							
C. Casey	2,500,000	-	(2,500,000)	-	1.25c	23-Jul-04	22-Jul-10
J. Craven	6,000,000	-	-	<b>6,000,000</b>	1.25c	23-Jul-04	22-Jul-10
C. Schaffalitzky	6,000,000	-	(4,200,000)	<b>1,800,000</b>	1.25c	23-Jul-04	22-Jul-10
<i>2004 Incentive Scheme (Std= Standard; Spr = Super)</i>							
C. Casey (Std)	3,750,000	-	-	<b>3,750,000</b>	1.25c	20-Oct-08	20-Apr-11
C. Casey (Spr)	3,750,000	-	-	<b>3,750,000</b>	1.25c	20-Oct-08	20-Apr-11
J. Craven (Std)	12,000,000	-	-	<b>12,000,000</b>	1.25c	20-Oct-08	20-Apr-11
J. Craven (Spr)	12,000,000	-	-	<b>12,000,000</b>	1.25c	20-Oct-08	20-Apr-11
C. Schaffalitzky (Std)	1,000,000	-	-	<b>1,000,000</b>	1.25c	20-Oct-08	20-Apr-11
C. Schaffalitzky (Spr)	1,000,000	-	-	<b>1,000,000</b>	1.25c	20-Oct-08	20-Apr-11
B. O'Cathain (Std)	5,281,690	-	-	<b>5,281,690</b>	20.55c		25-Mar-14
B. O'Cathain (Spr)	5,281,690	-	-	<b>5,281,690</b>	20.55c		25-Mar-14
B. O'Cathain (Std)*	-	5,000,000	-	<b>5,000,000</b>	8.5c		25-Aug-15
B. O'Cathain (Spr)*	-	5,000,000	-	<b>5,000,000</b>	8.5c		25-Aug-15
A. McGettigan (Std)*	-	4,000,000	-	<b>4,000,000</b>	8.5c		25-Aug-15
A. McGettigan (Spr)*	-	4,000,000	-	<b>4,000,000</b>	8.5c		25-Aug-15

\* Granted on 26 August 2008

On 16 January 2009, John Craven exercised 6,000,000 share options.

The Directors have not been granted any options between the year end and 29 April 2009.

(i) Grants have a seven year life from date of grant – they become exercisable if certain performance conditions are met.

All the above shareholdings are beneficially held. No Director, Secretary or any member of their immediate families had an interest in any subsidiary.

See Note 16 for details of the option scheme. In addition, the rules of both of the Company's share option schemes are available for inspection at the registered office of the Company on request.

There have been no contracts or arrangements of significance during the year in which Directors of the Company were interested other than as set out in Note 18 to the financial statements.

# Report of the Directors [continued]

There are service contracts in place with the Executive Directors of the Company. The related contracts are available for inspection at the registered office of the Company on request.

## SIGNIFICANT SHAREHOLDINGS

The Company has been informed that, in addition to the interests of the Directors, as at 22 April 2009, the following shareholders own 3% or more of the issued share capital of the Company:

Iberdrola, S.A.	22.34%
RAB Energy Fund Limited	4.05%
RAB Octane (Master) Fund Limited	3.48%

The Directors are not aware of any other holding of 3% or more of the issued share capital of the Company.

## POLITICAL DONATIONS

No political donations were made during the year (2007: Nil).

## SUBSIDIARY UNDERTAKINGS

Details of principal subsidiary undertakings are given in Note 21 to the financial statements.

## CORPORATE GOVERNANCE STATEMENT

The Directors are committed to maintaining the highest standards of corporate governance commensurate with the size, stage of development and financial status of the Group.

The Board is currently comprised of six Directors, two Executive Directors and four Non-Executive Directors. At 31 December 2008 the Company had seven Directors, comprising three Executive Directors and four Non-Executive Directors. The Board met formally on 14 occasions during 2008.

An agenda and supporting documentation was circulated in advance of each meeting. All the Directors bring independent judgement to bear on issues affecting the Group and all have full and timely access to information necessary to enable them to discharge their duties. The Directors have a wide and varying array of experiences in the oil and gas industry. Appropriate training is provided on the first occasion that a new Director is appointed, if that person is without previous plc experience. Non-Executive Directors are not appointed for specific terms. Each Director comes up for re-election automatically at least once every three years and each new Director is subject to election at the first Annual General Meeting after appointment.

The roles of Chairman and Chief Executive are not combined and there is a clear division of responsibilities between them.

The following committees deal with specific aspects of the Group affairs:

The Audit Committee, chaired by Con Casey, Chartered Certified Accountant, is currently comprised of three Non-Executive Directors. The duties of the committee include the review of the accounting principles, policies and practices adopted in preparing the financial statements, external compliance matters and the review of the Group's financial results. The external auditors have the opportunity to meet with the members of the Audit Committee without executive management present at least once a year.

The Remuneration Committee, chaired by Andrew Bostock, is currently comprised of four Non-Executive Directors. The committee determines the contract terms, remuneration and other benefits of the Executive Directors. Further details of the Group's policies on remuneration, service contracts and compensation payments are given in the Remuneration Committee Report below.

The Nominations Committee, chaired by Andrew Bostock, is comprised of the Chairman, Chief Executive and the Company Secretary and is responsible for identifying and recruiting new Directors.

Communications: The Group maintains regular contact with shareholders through publications such as the annual report and interim report, via press releases, the Group's website ([www.petroceltic.com](http://www.petroceltic.com)) and through communications from our PR agencies in Ireland and the UK.

Meetings are also held with institutions from time to time and with brokers representing individual shareholders. The Directors are responsive to shareholder telephone enquiries throughout the year. The Board regards the annual general meeting as a particularly important opportunity for shareholders, Directors and management to meet and exchange views.

## INTERNAL CONTROL

The Board is responsible for maintaining the Group's system of internal control to safeguard shareholder investments and Group assets.

The Board has had in place for some years an established system for reviewing the internal financial controls of the Group. The Board has established a process of internal controls to include not just financial risk management, but also operational and compliance risk management.

During 2008, the Directors continued their ongoing review of the key commercial and financial risks facing the Group, and of the effectiveness of the Group's system of internal control.

Among the processes applied as part of the system of internal control are the following:

- Budgets are prepared for approval by the Board.
- Expenditure and income are compared to previously approved budgets.
- The Board has established treasury risk policies.
- All commitments for expenditure and payments are compared to previously approved budgets and are subject to approval by personnel designated by the Board of Directors.
- Cash flow forecasting is performed on an ongoing basis to ensure efficient use of cash resources.
- The Directors, through the Audit Committee, review the effectiveness of the Group's system of internal financial control.

The Board has considered the requirement for an internal audit function. Based on the scale of the Group's operations and close involvement of the Board, the Directors have concluded that an internal audit function is not currently required. The group is planning to put an internal audit function in place in the coming year.

## REMUNERATION COMMITTEE REPORT

The Group's policy on senior executive remuneration is designed to attract and retain individuals of the highest calibre who can bring their experience and independent views to the policy, strategic decisions and governance of the Group.

# Report of the Directors [continued]

In setting remuneration levels, the Remuneration Committee takes into consideration the remuneration practices of other companies of similar size and scope. A key philosophy is that staff must be properly rewarded and motivated to perform in the best interests of the shareholders.

Remuneration, excluding share based payments, during the year ended 31 December 2008 was as follows:

	<b>Basic Salary US\$</b>	<b>Fees US\$</b>	<b>Pension US\$</b>	<b>2008 total US\$</b>	<b>2007 total US\$</b>
B. O'Cathain	573,573	-	57,357	630,930	433,442
J. Craven	573,573	-	57,357	630,930	638,096
A. Bostock	-	36,938	-	36,938	20,180
C. Casey	-	-	-	-	-
C. Schaffalitzky	-	46,327	-	46,327	50,005
P. Fuentes-Cantillana*	-	-	-	-	-
A. McGettigan**	153,104	-	15,442	168,546	-
B. Cusack***	-	-	-	-	63,933
	<b>1,300,250</b>	<b>83,265</b>	<b>130,157</b>	<b>1,513,672</b>	<b>1,205,656</b>

In accordance with IFRS 2, Share based payment, a further expense of \$754,000 (2007: \$1,269,000) has been recognised in the Income Statement in respect of share options granted to directors.

\* Appointed to the Board on 30 June 2008.

\*\* Appointed to the Board on 15 August 2008.

\*\*\* Resigned from the Board on 30 July 2007.

## BOOKS AND ACCOUNTING RECORDS

The Directors are responsible for ensuring proper books and accounting records, as outlined in Section 202 of the Companies Act 1990, are kept by the Company. The Directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to secure compliance with these requirements. These books and accounting records are maintained at Styne House, Upper Hatch Street, Dublin 2.

## AUDITOR

KPMG will continue in office in accordance with Section 160(2) of the Companies Act, 1963.

On behalf of the Board



**Alan McGettigan**  
Director



**Brian O'Cathain**  
Director

29 April 2009

# Independent Auditor's Report

## to the Members of Petroceltic International plc

We have audited the Group and Company financial statements (the "financial statements") of Petroceltic International plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Company statements of recognised income and expense, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 AUDITOR

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, are set out in the Directors' responsibility statement on page 18.

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

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

We also report to you if, in our opinion, any information specified by law or the listing rules of AIM regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman and Chief Executive's Statement, Operational Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### BASIS OF AUDIT OPINION

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

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

# Independent Auditor's Report

## to the Members of Petroceltic International plc

### OPINION

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Acts, 1963 to 2006, of the state of the Company's affairs as at 31 December 2008; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

### Other Matters

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 Company. The 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 Company, as stated in the 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 2008 a financial situation, which under Section 40 (1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

### INTANGIBLE ASSETS

In forming our opinion, we have considered the adequacy of the disclosures made in Note 8 to the financial statements in relation to the Directors' assessment of the carrying value of the Group's intangible assets, which amount to US\$78 million. Our opinion is not qualified in this respect.

### KPMG

*Chartered Accountants*  
*Registered Auditor*

29 April 2009

Dublin

# Statement of Accounting Policies

Petroceltic International plc (“the Company”) is a company incorporated in Ireland. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRIC 11- IFRS 2, *Group and Treasury Share Transactions* which has been adopted in these financial statements for the first time. For details of the effects that this adoption has had on these financial statements refer to note 1.

The Group and Company financial statements were authorised for issue by the Directors on 29 April 2009.

## A. STATEMENT OF COMPLIANCE

As permitted by the European Union and in accordance with AIM and IEX rules, the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations issued by the International Accounting Standards Board (IASB) as adopted by the EU (IFRS). The individual financial statements of the Company (“Company financial statements”) have been prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts, 1963 to 2006 which permits a company, that publishes its company and group financial statements together, to take advantage of the exemption in Section 148(8) of the Companies Act 1963, from presenting to its members its company Income Statement and related notes that form part of the approved company financial statements.

The IFRSs adopted by the EU as applied by the Company and Group in the preparation of these financial statements are those that were effective at 31 December 2008.

The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs and interpretations adopted by the EU which are not yet effective and have not been adopted in these financial statements:

- IFRS 8 Operating Segments, effective for accounting periods beginning on or after 1 January 2009, sets out the requirements for disclosure of financial and descriptive information about an entity’s operating segments, its products and services, the geographical areas in which it operates, and its major customers. IFRS 8 will replace IAS 14 Segment Reporting and will require additional disclosures.
- Amendment to IFRS 2 *Share based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will have no impact on the Group financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes and will have no impact on the Group financial statements unless it acquires a business:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
    - ◆ Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
    - ◆ Transaction costs, other than share and debt issue costs, will be expensed as incurred.
    - ◆ Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
    - ◆ Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

# Statement of Accounting Policies [continued]

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As the Group has no borrowings, this will have no impact on the Group's financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The amendment is not expected to have an impact on the Group financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the Income Statement and all non-owner changes in equity in a single statement), or in an Income Statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, and its impact on the Group financial statements will be presentational only and will not impact on the reported earnings of the Group.

## B. BASIS OF PREPARATION

The Group and Company financial statements are prepared on the historical cost basis, except for available-for-sale assets, which are carried at fair value. The accounting policies have been applied consistently by Group entities. The financial statements are presented in US dollars, rounded to the nearest thousand. See accounting policy 'G' for details of functional currencies.

## C. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with EU IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

In particular, significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in the following areas:

- Measurement of the impairment of intangible assets
- Utilisation of tax losses
- Measurement of share based payments

## D. CONSOLIDATION

The consolidated financial statements comprise the financial statements of Petroceltic International plc and its subsidiaries for the year ended 31 December 2008.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the Group financial statements, except to the extent they provide evidence of impairment.

## E. REVENUE

Revenue represents royalty income and is recognised as the royalty falls due.

## F. INTANGIBLE ASSETS

Intangible assets comprise a royalty over a gas field in Kinsale Head and exploration and evaluation assets.

### Royalty

The royalty asset is carried at cost, net of accumulated amortisation. Amortisation is charged in the proportion that the current year's production bears to the total anticipated production from the start of the financial year to the end of the field's life. Changes in estimated production are accounted for prospectively.

### Exploration and Evaluation Assets

Expenditure incurred prior to obtaining the legal rights to explore an area is written off to the Income Statement. Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Exploration and evaluation expenditure incurred in the process of determining exploration targets on each licence is also capitalised. This expenditure is held undepleted within the exploration licence asset until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

Exploration and evaluation drilling costs are capitalised on a well by well basis within each licence until the success or otherwise of the well has been established. Unless further evaluation expenditure in the area of the well have been planned and agreed or unless the drilling results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial, drilling costs are written off on completion of a well.

### Impairment

Royalty and exploration and evaluation assets are reviewed annually for indicators of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. Any such impairment arising is recognised in the Income Statement for the period.

# Statement of Accounting Policies [continued]

## G. FOREIGN CURRENCY

On transition to IFRS, the Directors determined that, in accordance with IAS 21, the functional currency of the Company and its subsidiaries is the US dollar (US\$); accordingly no foreign currency translation reserve has arisen since the transition to IFRS.

### Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions, for practical reasons this is taken as the monthly average exchange rate. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity.

## H. TAXATION

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## I. RETIREMENT BENEFIT OBLIGATIONS

The Group contributes to a defined contribution pension scheme for certain executives. Pension scheme costs are accounted for on an accruals basis.

## J. SHARE BASED COMPENSATION AND SHARE WARRANTS

The Group issues share options as an incentive to certain key management and staff (including Directors). The grant date fair value of share options granted to Directors and employees under the Company's option schemes is recognised as an increase in investment in subsidiaries with a corresponding credit to the share based payments reserve. In the subsidiary company the share options granted to Directors and employees is recognised as an expense with a corresponding credit to the capital conversion reserve. The fair value is measured at grant date and this is expensed in the Income Statement with the charge being spread over the period during which the awards vest. The fair value is measured using a binomial lattice model, taking into account the terms

and conditions upon which the options were granted. A discount for market conditions has been applied to the fair values determined by the binomial model based on a Monte Carlo simulator analysis.

The options issued are subject to both market-based and non-market based vesting conditions. Market conditions are included in the calculation of fair value at the date of the grant. Non-market vesting conditions are not taken into account when estimating the fair value of awards as at grant date; such conditions are taken into account through adjusting the number of equity instruments that are expected to vest.

The Group has issued warrants to its Italian licence interest partners in return for interests in the exploration licence BR.268.RG offshore Italy. The fair value of these warrants was determined in accordance with IFRS 2 based upon a valuation model. The deemed cost of these warrants has been capitalised as 'Intangible assets – exploration and evaluation assets' in the Group Balance Sheet. The deemed cost of these warrants has been reflected as 'Investment in Subsidiaries' in the Company's Balance Sheet, as representing capital contributions to the Group's Italian subsidiary. The corresponding credit has been recorded in the share based payment reserve in both the Group and Company Balance Sheets.

The proceeds received net of any directly attributable transactions costs will be credited to share capital (nominal value) and share premium when options or share warrants are converted into ordinary shares.

The cost of share based payments is borne by a subsidiary company as all employees are employed in the subsidiary.

## K. EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees and warrants.

## L. OPERATING LEASES

Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term.

## M. FINANCIAL INSTRUMENTS

### Available-for-sale Assets

Investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in equity, via the statement of recognised income and expense. Impaired at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

### Cash and Cash Equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cashflows.

# Statement of Accounting Policies [continued]

## Trade and Other Receivables/Payables

Trade and other receivables and payables are stated at cost less impairment, which approximates fair value given the short-dated nature of these assets and liabilities.

## N. FINANCE INCOME

Finance income comprises interest income on funds invested, gains on disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognised as it accrues, using the effective interest rate method.

## O. SHARE CAPITAL

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a reduction in equity.

## P. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. Property, plant and equipment is depreciated over its expected useful economic life on a straight-line basis at the following rates:

Fixtures, plant and equipment 25% straight-line

The residual value and useful lives of property, plant and equipment are reviewed annually and adjusted if appropriate at each balance sheet date.

On disposal of property, plant and equipment the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is taken to the Income Statement.

# Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 US\$'000	2007 US\$'000
<b>Continuing Operations</b>			
<b>Revenue</b>	2	<b>962</b>	549
Administrative expenses		<b>(3,476)</b>	(2,817)
Amortisation and depreciation		<b>(228)</b>	(53)
Exploration costs written off	8	<b>(699)</b>	(210)
Cost of share based payments	16	<b>(1,371)</b>	(1,757)
<b>Results from operating activities</b>		<b>(4,812)</b>	(4,288)
Finance income	3	<b>1,117</b>	1,827
<b>Loss before tax</b>	4	<b>(3,695)</b>	(2,461)
Income tax expense	5	-	-
<b>Loss for the year – all attributable to equity holders in the Company</b>	17	<b>(3,695)</b>	(2,461)
Basic loss per share (cent)	7	<b>(0.44)</b>	(0.33)
Diluted loss per share in (cent)	7	<b>(0.44)</b>	(0.33)

The accompanying notes on pages 39 to 56 form an integral part of these financial statements.

On behalf of the Board



**Alan McGettigan**

Director



**Brian O'Cathain**

Director

# Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	<i>Notes</i>	<b>2008</b> <b>US\$'000</b>	2007 US\$'000
Loss for the year		<b>(3,695)</b>	(2,461)
Income recognised directly in equity			
- net change in fair value of available-for-sale assets	11	<b>(458)</b>	50
- related deferred tax		<b>92</b>	(10)
Total recognised income and expense for the year all attributable to equity holders of the company		<b>(4,061)</b>	(2,421)

The accompanying notes on pages 39 to 56 form an integral part of these financial statements.

On behalf of the Board



**Alan McGettigan**  
*Director*



**Brian O'Cathain**  
*Director*

# Company Statement of Recognised Income and Expense

For the year ended 31 December 2008

	<i>Notes</i>	<b>2008</b> <b>US\$'000</b>	2007 US\$'000
Income recognised directly in equity			(as restated)
- net change in fair value of available-for-sale assets	11	<b>(458)</b>	50
- related deferred tax		<b>92</b>	(10)
Total recognised income and expense for the year all attributable to equity holders of the company		<b>(366)</b>	40

# Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 US\$'000	2007 US\$'000
<b>Assets</b>			
Intangible assets	8	78,326	47,490
Property, plant and equipment	9	42	-
Other investments	11	300	758
<b>Total non-current assets</b>		<b>78,668</b>	48,248
Trade and other receivables	12	1,139	632
Cash and cash equivalents		43,429	23,463
<b>Total current assets</b>		<b>44,568</b>	24,095
<b>Total assets</b>		<b>123,236</b>	72,343
<b>Equity</b>			
Share capital	15,17	30,562	26,191
Capital conversion reserve fund	17	51	51
Share premium	17	162,631	113,079
Share based payment reserve	17	10,157	9,220
Fair value reserve	17	195	562
Retained deficit	17	(81,551)	(78,290)
<b>Total equity</b>	17	<b>122,045</b>	70,813
<b>Liabilities – current</b>			
Trade and other payables	13	1,143	1,390
<b>Liabilities – non current</b>			
Deferred Tax	14	48	140
<b>Total liabilities</b>		<b>1,191</b>	1,530
<b>Total equity and liabilities</b>		<b>123,236</b>	72,343

The accompanying notes on pages 39 to 56 form an integral part of these financial statements.

On behalf of the Board



**Alan McGettigan**

Director



**Brian O'Cathain**

Director

# Company Balance Sheet

As at 31 December 2008

		2008	(as restated) 2007
	Notes	US\$'000	US\$'000
<b>Assets</b>			
Investments in subsidiaries	10	14,512	13,141
Other investments	11	300	758
<b>Total non-current assets</b>		<b>14,812</b>	13,899
<hr/>			
Trade and other receivables	12	109,734	55,367
<b>Total current assets</b>		<b>109,734</b>	55,367
<b>Total assets</b>		<b>124,546</b>	69,266
<hr/>			
<b>Equity</b>			
Share capital	15,17	30,562	26,191
Capital conversion reserve fund	17	51	51
Share premium	17	162,631	113,079
Fair value reserve	17	195	562
Share based payment reserve	17	10,157	9,220
Retained deficit	17	(79,542)	(79,977)
<b>Total equity</b>	17	<b>124,054</b>	69,126
<hr/>			
<b>Liabilities – current</b>			
Trade and other payables	13	444	-
<hr/>			
<b>Liabilities – non current</b>			
Deferred tax	14	48	140
<b>Total liabilities</b>		<b>492</b>	140
<b>Total equity and liabilities</b>		<b>124,546</b>	69,266

The accompanying notes on pages 39 to 56 form an integral part of these financial statements.

On behalf of the Board



**Alan McGettigan**  
Director



**Brian O'Cathain**  
Director

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 US\$'000	2007 US\$'000
<b>Cash flows from operating activities</b>		
Loss before tax	(3,695)	(2,461)
Adjustments for:		
Finance income	(1,117)	(1,827)
Amortisation & depreciation	228	53
Exploration costs written off	699	210
Cost of share based payments	1,371	1,757
<b>Cash from operations before changes in working capital</b>	<b>(2,514)</b>	<b>(2,268)</b>
Decrease/(increase) in trade and other receivables	(507)	353
(Decrease)/increase in trade and other payables	(247)	(626)
<b>Net cash from operating activities</b>	<b>(3,268)</b>	<b>(2,541)</b>
<b>Cash flows from investing activities</b>		
Expenditure on intangible assets	(31,749)	(9,233)
Expenditure on tangible assets	(56)	-
Interest received	983	1,515
<b>Net cash used in investing activities</b>	<b>(30,822)</b>	<b>(7,718)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of new shares	55,000	-
Payment of transaction costs	(1,078)	-
<b>Net cash used in financing activities</b>	<b>53,922</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>19,832</b>	<b>(10,259)</b>
Effect of foreign exchange fluctuation on cash and cash equivalents	134	312
Cash and cash equivalents at start of year	23,463	33,410
<b>Cash and cash equivalents at end of year</b>	<b>43,429</b>	<b>23,463</b>

The accompanying notes on pages 39 to 56 form an integral part of these financial statements.

# Company Cash Flow Statement

For the year ended 31 December 2008

	2008	(as restated) 2007
	US\$'000	US\$'000
<b>Cash flows from operating activities</b>		
Loss before tax	-	-
<b>Net cash from operating activities</b>	-	-
<b>Cash flows from investing activities</b>		
Advances to subsidiary companies	(53,922)	-
<b>Net cash used in investing activities</b>	(53,922)	-
<b>Cash flows from financing activities</b>		
Proceeds from the issue of new shares	55,000	-
Payment of transaction costs	(1,078)	-
<b>Net cash from financing activities</b>	53,922	-
<b>Net (decrease)/increase in cash and cash equivalents</b>	-	-
Cash and cash equivalents at start of period	-	-
<b>Cash and cash equivalents at end of period</b>	-	-

# Notes to the Financial Statements

For the year ended 31 December 2008

## 1. CHANGE IN ACCOUNTING POLICY – SHARE BASED PAYMENTS

The Company has adopted the requirements of IFRIC 11 - *IFRS 2, Group and Treasury Share Transactions*, for the first time in the current financial year. In accordance with IFRIC 11, the standard sets out the accounting treatment where the employees of a subsidiary are granted rights to equity instruments of the parent entity.

The subsidiary company is required to account for the share based payment charge as an expense within its profit and loss account with a corresponding increase in equity in the form of a capital contribution from its parent company.

The share based payment charge in the parent entity is to be recognised as an investment in subsidiaries with a corresponding increase in equity (Share based payment reserve). The adoption of the standard gives rise to a prior year adjustment as disclosed below:

The impact on the 2007 results for the Company as originally reported is set out below:

	<b>As originally reported US\$'000</b>	<b>Prior year adjustment US\$'000</b>	<b>As restated US\$'000</b>
Loss for the year	(1,757)	1,757	-

*Being the reversal of the prior year charge from the Company's Income Statement.*

The impact on the Company balance sheet as at 31 December 2007 is as follows:

	<b>As originally reported US\$'000</b>	<b>Prior year adjustment US\$'000</b>	<b>As restated US\$'000</b>
Investments in subsidiaries	3,921	9,220	13,141
Retained deficit	(89,197)	9,220	(79,977)
Share based payment reserve	9,220	-	9,220

*Being the accumulative share based payment charge being recognised as an investment in subsidiaries.*

## 2. REVENUE AND SEGMENTAL INFORMATION

Group revenue is generated in the Republic of Ireland and comprises royalty income from the production of gas from the Group's interest in certain Kinsale gas fields. All of the Group's activities relate to a single segment, oil and gas exploration. A geographical analysis of the Group's exploration and evaluation assets is set out in Note 8.

## 3. FINANCE INCOME

	<b>2008 US\$'000</b>	2007 US\$'000
Interest income	<b>983</b>	1,515
Foreign currency gains	<b>134</b>	312
	<b>1,117</b>	1,827

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 4. STATUTORY INFORMATION

	2008 US\$'000	2007 US\$'000
The loss for the financial year is stated after charging:		
(i) Auditor's remuneration		
- audit services	60	50
- other services	55	51
(ii) Directors' remuneration		
Fees	83	98
Executive services incl. pension contributions	1,430	1,108
Cost of share awards relating to Directors	754	1,269
<b>Total Directors' remuneration</b>	<b>2,267</b>	<b>2,475</b>

(iii) Operating lease rentals- premises	252	64
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Company		(as restated)
Auditor's remuneration	30	30
The (loss) for the financial year in the Company amounted to	-	-

As permitted by Section 148(8) of the Companies Act 1963, the Income Statement of the Company has not been separately presented in these financial statements.

## 5. TAX ON LOSS ON ORDINARY ACTIVITIES

	2008 US\$'000	2007 US\$'000
<b>Current tax</b>		
Charge for the year	-	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	-
<b>Total tax charge</b>	<b>-</b>	<b>-</b>

### Tax charge recognised directly in equity

Deferred tax on increase in fair value of available-for-sale assets	(92)	10
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## 5. TAX ON LOSS ON ORDINARY ACTIVITIES [continued]

The difference between the total current tax shown above and the amount calculated by applying the standard rate of Irish corporation tax to the loss before tax is as follows:

	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
(Loss) on ordinary activities before tax	<b>(3,695)</b>	(2,461)
Tax credit on Group loss on ordinary activities at standard Irish corporation tax rate of 25% (2007: 25%)	<b>(924)</b>	(615)
Effects of:		
Expenses not deductible for tax purposes	<b>464</b>	489
Timing differences	<b>(71)</b>	(48)
Losses carried forward	<b>531</b>	174
Tax charge for the year	<b>-</b>	-

## 6. EMPLOYEE DATA

	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
<b>Group</b>		
<b>Employee Costs (including Executive Directors)</b>		
Salaries	<b>1,819</b>	1,252
Social insurance costs	<b>161</b>	122
Pensions	<b>169</b>	162
Cost of share awards*	<b>842</b>	1,041
	<b>2,991</b>	2,577

During the year \$893,000 (2007: \$510,000) was capitalised in relation to wages and salaries.

\* Cost of share awards excludes the charge for the year in relation to consultants and Non-Executive Directors of \$529,000 (2007: \$716,000).

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 6. EMPLOYEE DATA [continued]

Average number of employees (including Executive Directors)

	<b>2008</b>	2007
	<b>Number</b>	Number
Operations and exploration	<b>8</b>	4
Finance	<b>3</b>	2
Administration	<b>4</b>	5
	<b>15</b>	11

The group contributes to a defined contribution pension scheme for certain executives. The scheme is administered by Trustees and is independent of the Group's finances. Total contributions by the Group to pension schemes for the year amounted to \$169,244 (2007: \$161,855). Of this amount, none was outstanding at year end (2007: Nil).

### Company

All Group employees are employed in subsidiary companies.

## 7. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year was based on the loss attributable to equity holders of US\$3,695,000 (2007: US\$2,461,000) and a weighted average number of ordinary shares outstanding of 837,869,857 (2006: 737,327,818), calculated as follows:

	<b>2008</b>	2007
Basic and diluted (loss) per ordinary share:		
(Loss) on ordinary activities after taxation (US\$'000)	<b>(3,695)</b>	(2,461)
Number of ordinary shares in issue - start of year	<b>737,327,818</b>	737,327,818
Effect of shares issued during the year	<b>100,542,039</b>	-
Weighted average number of ordinary shares in issue - basic & diluted	<b>837,869,857</b>	737,327,818
Basic (loss) per ordinary share (in cent)	<b>(0.44)</b>	(0.33)
Diluted (loss) per ordinary share (in cent)	<b>(0.44)</b>	(0.33)

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and warrants was based on quoted market prices for the period in which the options and warrants were outstanding.

Share options and warrants which could potentially dilute basic earnings per share in the future have not been included in the calculation of diluted earnings per share as they are antidilutive for the periods presented. The dilutive effect as a result of share options and warrants in issue as at 31 December 2008 would be to increase the weighted average number of shares by 53,126,044 (2007: 96,141,151).

## 8. INTANGIBLE ASSETS – EXPLORATION AND EVALUATION ASSETS

	Royalty		Exploration and evaluation assets		Total	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
<b>Cost</b>						
At start of year	<b>3,753</b>	3,753	<b>65,684</b>	59,698	<b>69,437</b>	63,451
Additions	-	-	<b>31,749</b>	5,986	<b>31,749</b>	5,986
At end of year	<b>3,753</b>	3,753	<b>97,433</b>	65,684	<b>101,186</b>	69,437

### Amortisation and impairment

At start of year	<b>2,749</b>	2,696	<b>19,198</b>	18,988	<b>21,947</b>	21,684
Amortisation	<b>214</b>	53	-	-	<b>214</b>	53
Exploration costs written off	-	-	<b>699</b>	210	<b>699</b>	210
At end of year	<b>2,963</b>	2,749	<b>19,897</b>	19,198	<b>22,860</b>	21,947

### Net book value

At start of year	<b>1,004</b>	1,057	<b>46,486</b>	40,710	<b>47,490</b>	41,767
At end of year	<b>790</b>	1,004	<b>77,536</b>	46,486	<b>78,326</b>	47,490

Oil and gas interests as at 31 December 2008 comprise the Group's interest in the following:

Country	Permit/PSC	Group Interest (%)
Algeria	Isarene PSC	75%
Tunisia	Ksar Hadada PSC	57%
Ireland	Kinsale Royalty	25% of Royalty
Eastern Italy	BR 268 RG permit	40%
Eastern Italy	Civitaquana permit	35%
Italy – Po Valley	Carisio permit	95%
Italy – Po Valley	Casalnoceto permit	75%
Italy – Po Valley	Trino permit	50%
Italy – Po Valley	Torrente Nure permit	55%
Italy – Po Valley	Vercelli permit	50%

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 8. INTANGIBLE ASSETS – EXPLORATION AND EVALUATION ASSETS [continued]

The carrying values of oil and gas interests by geographical area is as follows:

	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
Ireland	<b>790</b>	1,004
North Africa	<b>71,839</b>	42,158
Italy	<b>5,697</b>	4,328
	<b>78,326</b>	47,490

The Directors have considered the licence, exploration and appraisal costs capitalised in respect of its exploration and evaluation assets, which are carried at historical cost. These assets have been assessed for impairment and in particular with regard to remaining licence terms, likelihood of licence renewal, likelihood of further expenditures and ongoing appraisal for each area, as more described in the Chairman and Chief Executive's statement. The Directors are satisfied that there are no indicators of impairment but recognise that future realisation of these oil and gas interests is dependant on further successful exploration and appraisal activities.

## 9. PROPERTY, PLANT AND EQUIPMENT

	<b>Furniture and equipment</b>	Furniture and equipment
	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
<b>Cost</b>		
At start of year	-	-
Additions	<b>56</b>	-
At end of year	<b>56</b>	-
<b>Depreciation</b>		
At start of year	-	-
Depreciation	<b>14</b>	-
At end of year	<b>14</b>	-
<b>Net book value</b>		
At start of year	-	-
At end of year	<b>42</b>	-

## 10. INVESTMENT IN SUBSIDIARIES

	2008	(as restated) 2007
	US\$'000	US\$'000
<b>Company</b>		
Investment in subsidiary undertakings at cost		
Balance at beginning of year	13,141	11,384
Additions	1,371	1,757
Balance at end of year	14,512	13,141

Details of subsidiaries are set out in Note 21.

During the year the company made capital contributions of \$1,371,000 (2007: \$1,757,000) to Petroceltic Investments Limited.

## 11. INVESTMENTS – AVAILABLE FOR SALE ASSETS – GROUP AND COMPANY

	2008	2007
	US\$'000	US\$'000
<b>Quoted investments:</b>		
Balance at beginning of year:	758	708
Change in fair value	(458)	50
Balance at end of year	300	758

The Group owns shares in the following:

Name	Quoted on	Market value at year end 2008	Market value at year end 2007
		US\$'000	US\$'000
Dana Petroleum plc	London Stock Exchange	281	540
ZincOx Resources plc	AIM	19	218
		300	758

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 12. TRADE AND OTHER RECEIVABLES – GROUP

	2008 US\$'000	2007 US\$'000
<b>Amounts falling due within one year</b>		
Royalty income receivable	319	168
Prepayments	267	122
Corporation tax recoverable	210	182
VAT	343	160
	<b>1,139</b>	632

### Trade and other receivables – Company

	2008 US\$'000	2007 US\$'000
<b>Amounts falling due within one year</b>		
Amounts due from subsidiaries	109,734	55,367

All receivables are current and there have been no impairment losses during the year (2007:Nil). The Group's exposure to credit and currency risks related to trade and other receivables is set out in Note 20.

## 13. TRADE AND OTHER PAYABLES – GROUP

	2008 US\$'000	2007 US\$'000
<b>Amounts falling due within one year</b>		
Trade creditors	906	572
PAYE/PRSI	-	4
Accruals	237	814
	<b>1,143</b>	1,390

### Trade and other payables – Company

	2008 US\$'000	2007 US\$'000
<b>Amounts falling due within one year</b>		
Amounts due to subsidiaries	444	-

The Group's exposure to currency and liquidity risks related to trade and other payables is set out in Note 20.

## 14. DEFERRED TAX

	At 1 Jan 2007 US\$'000	Recognised in equity US\$'000	31 Dec 2007 US\$'000	Recognised in equity US\$'000	31 Dec 2008 US\$'000
<b>Group and Company Liabilities</b>					
Available-for-sale financial assets	130	10	140	(92)	<b>48</b>

Unrecognised deferred tax assets at 31 December 2008, all of which related to unrecognised tax losses, amounted to US\$1.6m (2007: US\$1.1m).

The Company has no unrecognised deferred tax liabilities (2007: Nil).

## 15. CALLED UP SHARE CAPITAL

	2008 €	(as restated) 2007 €
<b>Authorised</b>		
1,800,000,000 Ordinary shares of €0.0125	<b>22,500,000</b>	22,500,000
200,000,000 Deferred shares of €0.11427	<b>22,855,285</b>	22,855,285
	<b>45,355,285</b>	45,355,285

<b>Issued, called up and fully paid:</b>	<b>Number of shares</b>	<b>Ordinary share capital \$'000</b>
Balance at 1 January 2008	737,327,818 ordinary shares of €1.25c each	26,191
Shares issued on 30 June 2008*	147,465,564 ordinary shares of €1.25c each	2,912
Shares issued on 22 August 2008*	68,303,667 ordinary shares of €1.25c each	1,350
Share Options exercised on 30 Sep 2008**	6,700,000 ordinary shares of €1.25c each	109
	959,797,049	30,562

\* On 30 June 2008, Iberdrola, S.A subscribed for 147,465,564 shares in exchange for US\$37.6m and on 22 August 2008 Iberdrola subscribed for an additional 68,303,667 shares in exchange for US\$17.4m.

\*\* See note 16 for details.

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 15. CALLED UP SHARE CAPITAL [continued]

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future developments of the business. There were no changes in the Group's approach to capital management during the year. The Group deems its shareholders' funds to be its capital.

It is Group policy to incentivise Directors through the award of share options. At present, Directors hold 3.24% of ordinary shares, or 9.46% assuming that all outstanding share options vest and are exercised. The upper limit on the number of share options that can be granted, excluding options granted under the Original scheme (see note 16), is 10% of issued share capital.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 16. SHARE BASED PAYMENTS

The Group grants share options under two share option plans, the 'Original Scheme' and the '2004 Incentive Scheme'. Both 'Standard' and 'Super' options can be granted under the 2004 Incentive Scheme. The options under the latter scheme may only be exercised if predetermined growth rates in the Company's share price are achieved. All options under the original scheme have now vested.

In 2006, the Group issued 6,000,000 warrants to its Italian licence interest partners in return for interests in the exploration licence BR.268.RG offshore Italy.

The Group's employee share options are equity-settled share based payments as defined in IFRS 2, Share based payment. This standard requires that a recognised valuation methodology be employed to determine the fair value of share options granted. The expense reported in the Group Income Statement of US\$1,371,000 (2007: US\$1,757,000) has been arrived at through applying a binomial lattice model, with a discount for market conditions applied to the fair value determined by this model based on a Monte Carlo simulator analysis.

The movement on outstanding share options and warrants during the year was as follows:

	2008	2008	2007	2007
	Number of	Weighted	Number of	Weighted
	options/warrants	average exercise price c per share	options/ warrants	average exercise price c per share
Outstanding at start of year	98,263,380	6.17	89,629,000	5.04
Granted during the year- options (a)	19,900,000	8.50	11,763,380	20.19
Lapsed during the year- options (b)	(4,000,000)	18.00		
Lapsed during the year- warrants	-	-	(3,129,000)	26.64
Exercised during the year -options (c)	(6,700,000)	1.25		
Outstanding at end of year	107,463,380	6.47	98,263,380	6.17

Of which:

Exercisable at year end	63,300,000	1.25	69,575,000	1.50
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## 16. SHARE BASED PAYMENTS [continued]

- (a) Effective 26 August 2008, 19,900,000 options with an exercise price of €0.085 and an exercise period up to 25 August 2015 were granted to four executives of the Group including Alan McGettigan (Finance Director) and Brian O’Cathain (Executive Chairman).
- (b) On 31 July 2008, 4,000,000 options which had been awarded to a previous Director of the group lapsed without being exercised.
- (c) On 30 September 2008, Con Casey (Non-Executive Director) and Christian Schaffalitzky (non-executive Director) exercised 2,500,000 and 4,200,000 options respectively. The average share price at the date of exercise of these options was €0.07.

The assumptions used to determine the fair value of options granted were as follows:

	2008	2007
Weighted average fair value of options granted during the year (€)	<b>8.5c</b>	20.19c
Weighted average share price of all options at date of grant (€)	<b>10.17c</b>	11.96c
Average exercise price (€)	<b>6.45c</b>	6.17c
Expected volatility (%)	<b>67.41%</b>	77.28%
Average expected term to exercise (years)	<b>4.45</b>	4.44
Risk free rate (%)	<b>3.68%</b>	3.51%
Expected dividend yield	<b>0%</b>	0%

The market-based vesting conditions requires the share price of the Company to increase from the exercise price, by 10% (standard options) or 20% (super options) per annum, compounded year on year from the effective date of grant to the exercise date.

Expected share price volatility was determined by taking account the historic daily share price movements.

The average expected term to exercise used in the models has been adjusted based on the Directors’ best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk free rate has been determined from market yields for government bonds with outstanding terms equal to the average expected term to exercise for each relevant grant.

At 31 December 2008, the following options and warrants over ordinary shares were outstanding:

Number	Type	Exercise price (euro cent)	Exercise period
<b>Original scheme</b>			
13,800,000	Options	1.25	Up to 22 July 2010
<b>2004 Incentive scheme</b>			
49,500,000	Options	1.25	Up to 20 April 2011
6,500,000	Options	18.43	Up to 5 November 2013
10,563,380	Options	20.55	Up to 25 Mar 2014
1,200,000	Options	17	Up to 30 July 2014
19,900,000	Options	8.5	Up to 25 August 2015
<b>Warrants</b>			
6,000,000	Warrants	14.6	Up to 28 June 2009

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 17. STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

	Share capital \$'000	Capital conversion reserve fund \$'000	Share premium \$'000	Share based payment reserve \$'000	Fair value reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Group</b>							
Balance at 1 January 2007:	26,191	51	113,079	7,463	522	(75,829)	71,477
Share based payment charge	-	-	-	1,757	-	-	1,757
Gain on investments net of deferred tax	-	-	-	-	40	-	40
Loss for the financial year	-	-	-	-	-	(2,461)	(2,461)
Balance at 31 December 2007	26,191	51	113,079	9,220	562	(78,290)	70,813
Shares issued	<b>4,262</b>	-	<b>49,552</b>	-	-	-	<b>53,814</b>
Share based payment charge	-	-	-	<b>1,371</b>	-	-	<b>1,371</b>
Effect of Share Options exercised or Lapsed	<b>109</b>	-	-	<b>(434)</b>	-	<b>434</b>	<b>109</b>
Gain/(loss) on investments net of deferred tax	-	-	-	-	<b>(367)</b>	-	<b>(367)</b>
Loss for the financial year	-	-	-	-	-	<b>(3,695)</b>	<b>(3,695)</b>
<b>Balance at 31 December 2008</b>	<b>30,562</b>	<b>51</b>	<b>162,631</b>	<b>10,157</b>	<b>195</b>	<b>(81,551)</b>	<b>122,045</b>

## Company

Balance at 1 January 2007:	26,191	51	113,079	7,463	522	(79,977)	67,329
Share based payment charge	-	-	-	1,757	-	-	1,757
Gain on investments net of deferred tax	-	-	-	-	40	-	40
Balance at 31 December 2007	26,191	51	113,079	9,220	562	(79,977)	69,126
Shares issued	<b>4,262</b>	-	<b>49,552</b>	-	-	-	<b>53,814</b>
Share based payment charge	-	-	-	<b>1,371</b>	-	-	<b>1,371</b>
Effect of Share Options exercised or Lapsed	<b>109</b>	-	-	<b>(434)</b>	-	<b>434</b>	<b>109</b>
Gain on investments net of deferred tax	-	-	-	-	<b>(367)</b>	-	<b>(367)</b>
<b>Balance at 31 December 2008</b>	<b>30,562</b>	<b>51</b>	<b>162,631</b>	<b>10,157</b>	<b>195</b>	<b>(79,542)</b>	<b>124,054</b>

## 18. RELATED PARTY TRANSACTIONS – GROUP AND COMPANY

The Group uses the taxation, payroll and consultancy services of LHM Casey McGrath on an arms length basis. Mr C. Casey is a partner of this accountancy practice. The total fees invoiced to the Group during the year were US\$151,189 (2007: US\$163,971). Amounts owing to LHM Casey McGrath at year end amounted to Nil (2007: US\$19,539).

The Group uses the IT services of CMG Interactive on an arms length basis. Mr C. Casey is a Director of this Company. Total fees invoiced to the Group during the year were US\$59,539 (2007: US\$39,439). Amounts owing to CMG Interactive at year end amounted to US\$2,156 (2007: US\$15,454).

On 25 February 2009, the Group received an advance consideration of US\$7,330,000 from Iberdrola, S.A. (a 22% shareholder of the Group) in respect of a financing option agreement detailed in note 23.

IAS 24 requires the disclosure of compensation paid to the Group's key management personnel. In the case of the Group, key management is deemed to comprise the Board of Directors. Details of the remuneration of the Directors are set out in note 4 while their interests in shares and share options are set out in the Directors' Report.

## 19. CAPITAL COMMITMENTS AND LEASE COMMITMENTS

On 25 November 2008, the group signed a Letter of intent (LOI) with KCA Deutag for their Nomad class drilling rig T-212 to be utilised for the Group's drilling and testing programme on the Isarene permit in Algeria. At year end the Group has estimated a future capital commitment to KCA Deutag of US\$15,096,559 for the planned drilling of seven wells. As part of this LOI, the group put in place a standby letter of credit for US\$5.2m in favour of KCA Deutag. Further to this LOI, on 21 January 2009, the Group signed a formal contract with KCA Deutag.

Total commitments payable under non-cancellable operating leases are as follows:

Group	Property 2008 US\$'000
<b>Operating leases which expire:</b>	
Within one year	252
Between one and five years	505
More than five years	-
	<b>757</b>

The Group entered into an operating lease in respect of its head office premises in 2007. The lease agreement expires in 2011.

During the year ended 31 December 2008, US\$252,466 (2007:\$64,000) was recognised as an expense in the Income Statement in respect of operating leases.

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Group

#### (a) Overview of risk exposures and risk management strategy

The Group's operations expose it to various financial risks in the ordinary course of business that include credit risk, liquidity risk, currency risk and interest rate risk. The Group's financial exposures are predominantly related to changes in foreign exchange rates and interest rates as well as the creditworthiness of counterparties. The Group has a risk management programme in place which seeks to limit the impact of these risks on the financial performance of the Group and it is Group policy to manage these risks in a non-speculative manner.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing the risk, and the Group's management of liquid resources. Further quantitative disclosures are included throughout this note.

The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has reviewed the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks will be managed effectively. The Board has embedded these structures and procedures throughout the Group and considers there to be a robust and efficient mechanism for creating a culture of risk awareness at every level of management.

The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance from fluctuations in financial markets.

#### (b) Financial assets and liabilities – fair values

The Group's financial assets and liabilities are as follows:

	Cash and receivables US\$'000	Available- for-sale US\$'000	Other amortised cost US\$'000	Total carrying amount US\$'000
Cash and cash equivalents	43,429	-	-	43,429
Investments	-	300	-	300
Trade and other receivables	1,139	-	-	1,139
Trade and other payables	-	-	(1,143)	(1,143)
	44,568	300	(1,143)	43,725

In each case, there is no difference between the carrying value of these assets and liabilities and their fair values.

Set out below are the methods and assumptions used in estimating the fair values of financial assets and liabilities:

#### Investments – available-for-sale financial assets

These assets comprise shares held in companies which are quoted on a recognised stock exchange. The fair value represents the closing bid price of the shares on the Balance Sheet date.

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT [continued]

### Cash and cash equivalents

For cash and cash equivalents, all of which have a remaining maturity of less than three months, the nominal amount is deemed to reflect fair value.

### Trade and other receivables/payables

All receivables and payables have a remaining life of less than six months or are demand balances, and therefore the carrying value is deemed to reflect fair value.

### (c) Credit Risk

Credit risk arises from the Group's holding of cash and cash equivalents. Given the nature of the Group's receivables, it has no significant exposure to credit risk arising from trade and other receivables. The Group's maximum exposure to credit risk is the carrying value of cash and cash equivalents and trade and other receivables.

### Cash and cash equivalents

The Group enters into transactions with financial institutions for the purposes of placing deposits. From a credit risk management perspective, it is the Group's policy to enter into such transactions only with highly rated financial institutions and, accordingly, the Group does not expect any counterparty to fail to meet its obligations.

Details of these deposits, which are all for terms of three months or less, are as follows:

	<b>Balance invested US\$'000</b>	<b>Weighted average interest rate %</b>
<b>At 31 December 2008:</b>		
US Dollar	42,095	1.6%
Euro	1,148	2.4%
Sterling	186	2.8%
	43,429	1.7%

	<b>Balance invested US\$'000</b>	<b>Weighted average interest rate %</b>
<b>At 31 December 2007:</b>		
US Dollar	22,321	4.9%
Euro	717	1.3%
Sterling	425	6.1%
	23,463	4.8%

At 31 December 2008 and 2007, the Group did not have any interest bearing liabilities.

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT [continued]

### (d) Liquidity risk

The Group has significant cash balances on hand, and accordingly, limited liquidity risk exists at present.

All cash and cash equivalent amounts are on demand, and all trade and other receivables and trade and other payables are due within three months of the Balance Sheet date.

The Board monitors the availability of and requirements for funds in the Group. Surplus cash within the Group is put on deposit in accordance with limits and counterparties agreed by the Board, the objective being to maximise return on funds whilst ensuring that the short-term cashflow requirements of the Group are met.

### (e) Interest rate risk

Cash and cash equivalents are invested primarily in U.S. dollars and euro. Exposure to interest rate risk on cash and cash equivalents is actively monitored and managed. If interest rates rose by 0.5%, the Group's loss for the year would decrease and equity at year end would increase by approximately US\$200,000. If interest rates fell by 0.5% it is assumed to have an equal but opposite effect.

### (f) Currency risk

The US dollar and euro are the primary currencies in which the Group conducts business. The US dollar is used for planning and budgetary purposes and as the presentation currency for financial reporting. The Group also has some costs, assets and liabilities, principally relating to head office operations, denominated in euro and sterling.

The Group manages the exposure by matching receipts and payments in the same currency and monitoring the residual net position.

The Group may, from time to time, with the approval of the Board, use derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. No such instruments were in use at year end or prior year end. The Group does not undertake any trading activity in financial instruments.

At year end the Group's foreign currency balances were as follows:

	<b>Denominated in euro US\$'000</b>	<b>Denominated in sterling US\$'000</b>
Trade and other receivables	1,139	-
Trade and other payables	(471)	(120)
Cash and cash equivalents	1,148	186
	1,816	66

If the US dollar increased by 5% in value against the above foreign currencies, the Group's loss for the year would decrease and equity at year end would increase by US\$65,000 approximately. A 5% weakening is assumed to have an equal but opposite effect.

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT [continued]

The exchange rates used in the preparation of the financial statements were as follows:

	2008 US\$ per foreign currency Average	2008 US\$ per foreign currency Year end	2007 US\$ per foreign currency Average	2007 US\$ per foreign currency Year end
Euro	1.47	1.39	1.37	1.47
Sterling	1.85	1.46	2.00	2.00

### Company

The Company's only assets are:

- available-for-sale financial assets
- amounts due from subsidiaries

See the disclosure above in relation to the fair value of available-for-sale assets.

The amounts due from subsidiaries are denominated in US dollars, are non interest bearing and are due on demand.

## 21. SUBSIDIARY UNDERTAKINGS

The Company's principal subsidiary undertakings at 31 December 2008, all of which are wholly owned, are as follows:

Name	Registered Office	Activity
Petroceltic Investments Limited	Styne House, Upper Hatch Street, Dublin 2, Ireland	2
Petroceltic Erris Limited	Styne House, Upper Hatch Street, Dublin 2, Ireland	2
Petroceltic Ksar Hadada Limited	Styne House, Upper Hatch Street, Dublin 2, Ireland	2
Petroceltic Isarene Limited	Styne House, Upper Hatch Street, Dublin 2, Ireland	2
Petroceltic African Holdings Limited	Styne House, Upper Hatch Street, Dublin 2, Ireland	1
Petroceltic Elsa S.R.L.	Via Paola N.24 Int 7. 00186 Rome, Italy	2

### Key to activity:

1 Investment holding company

2 Oil and gas exploration and development company.

Each company's registered office is located in the country in which it operates, except for Petroceltic Ksar Hadada Limited which operates in Tunisia and Petroceltic Isarene Limited which operates in Algeria.

A full list of subsidiary companies will be filed with the Registrar of Companies.

# Notes to the Financial Statements [continued]

For the year ended 31 December 2008

## 22. CONTINGENCIES

The Company provided certain warranties as part of the Subscription and Shareholders' Agreement between the Company and Iberdrola, S.A. As there are currently no claims outstanding, the Directors do not believe that these warranties will have a material effect on the Group's financial position.

## 23. POST BALANCE SHEET EVENTS

Under a two year option agreement, Iberdrola, S.A can invest US\$55m to acquire a 49 per cent financing interest in any single asset in Petroceltic's existing portfolio, subject to the usual regulatory and partner requirements. On 25 February 2009, the Group received advance consideration of US\$7,330,000 from Iberdrola, S.A. in respect of this financing option.

## 24. APPROVAL OF FINANCIAL STATEMENTS

The Directors approved these financial statements on 29 April 2009.

# Share Information

## Shares in Issue

The number of shares in issue at 31 December 2008 was 959,797,049. The total number of share options and warrants outstanding at 31 December 2008 was 107,463,380. The Petroceltic share price can be monitored at [www.petroceltic.com](http://www.petroceltic.com).

## Shareholder Profile

Petroceltic currently has 9,280 shareholders with the majority of shares held by institutional UK based shareholders.

The shareholding distribution at 22 April 2009 is as follows:

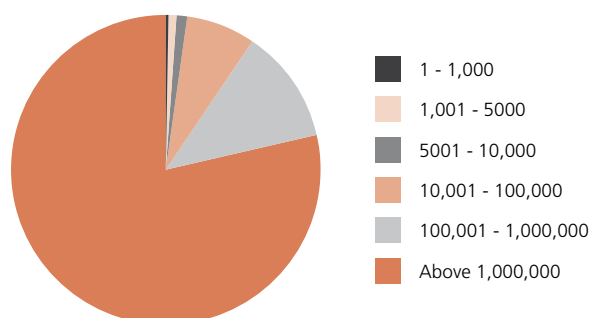
Holdings	Number of accounts	Number of shares held
1 - 1,000	2,095	1,409,701
1,001 - 5000	3,314	8,755,146
5001 - 10,000	1,275	10,023,441
10,001 - 100,000	2,115	70,017,472
100,001 - 1,000,000	387	113,691,804
Above 1,000,000	94	761,899,485
	9,280	965,797,049

The geographical distribution at 22 April 2009 is as follows:

Distribution	Number of accounts	Number of shares held
Republic of Ireland	5,070	189,345,897
UK	4,138	544,472,146
Other	72	231,979,006
	9,280	965,797,049

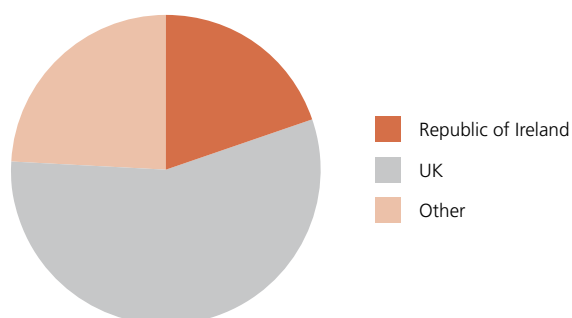
### Shareholding distribution

(based on number of shares held)



### Geographical distribution

(based on number of shares held)



# Notes



**PETRO****CELTIC**

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