

Petrogas E&P LLC and its subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PETROGAS E&P LLC AND ITS SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Petrogas E&P LLC and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility


Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Date
Muscat

Petrogas E&P LLC and its subsidiaries
CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2007

	Notes	2007 US \$	2006 US \$
Sales		215,010,616	195,644,828
Government entitlement		(117,722,192)	(120,190,679)
NET SALES		97,288,424	75,454,149
Income	3	271,135	440,656
External charges		(12,270,647)	(12,366,890)
Depreciation	6	(14,128,511)	(10,217,469)
Consumables		(4,071,161)	(3,402,583)
Thru put charges		(2,815,208)	(2,761,355)
Staff costs		(4,255,218)	(2,723,258)
Administration expenses		(2,786,860)	(2,617,858)
Overheads		(2,296,525)	(1,836,965)
Department common facilities		(688,855)	(1,132,345)
Provision for inventory	7	(158,877)	(255,829)
PROFIT FROM OPERATIONS		54,087,697	38,580,253
Finance cost	4	(906,849)	(1,145,928)
Abandonment provision	13	(821,521)	(616,227)
Lease charges		(127,409)	(138,553)
Other operating expenses		(188,769)	(25,756)
Directors' remuneration		(9,112)	(5,194)
Miscellaneous charges		(3,853)	(1,665)
PROFIT FOR THE YEAR	5	52,030,184	36,646,930

The attached notes 1 to 23 form part of these financial statements.

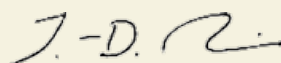
Petrogas E&P LLC and its subsidiaries
CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	2007 US \$	2006 US \$
ASSETS			
Non-current assets			
Property, plant and equipment	6	158,154,836	114,965,295
Due from related parties	19	1,200,835	2,037,733
Advance towards Joint Venture	8	9,000,000	-
		168,355,671	117,003,028
Current assets			
Inventories	7	6,006,180	5,191,339
Accounts receivable and prepayments	9	26,722,416	22,566,693
Bank balances and cash		5,985,087	6,726,647
		38,713,683	34,484,679
TOTAL ASSETS		207,069,354	151,487,707
EQUITY AND LIABILITIES			
Equity			
Share capital	10	12,987,000	12,987,000
Statutory reserve	11	2,610,910	2,610,910
Retained earnings		108,140,421	56,110,237
Total equity		123,738,331	71,708,147
Non-current liabilities			
Employees' end of service benefits	12	239,247	167,010
Provisions	13	5,375,864	4,554,343
Term loans	14	9,383,333	11,366,666
Due to related parties	19	23,062,677	2,102,378
		38,061,121	18,190,397
Current liabilities			
Accounts payable and accruals	15	43,286,569	59,722,496
Term loan	14	1,983,333	1,866,667
		45,269,902	61,589,163
Total liabilities		83,331,023	79,779,560
TOTAL EQUITY AND LIABILITIES		207,069,354	151,487,707

The financial statements were authorised for issue in accordance with a resolution of the directors on _____



Chairman



Chief Executive Officer

The attached notes 1 to 23 form part of these financial statements.

Petrogas E&P LLC and its subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOW
Year ended 31 December 2007

	Notes	2007 US \$	2006 US \$
OPERATING ACTIVITIES			
Profit for the year		52,030,184	36,646,930
Adjustments for:			
Depreciation	6	14,128,511	10,217,469
Abandonment provision	13	821,521	616,227
Provision for employees' end of service benefits	12	123,235	80,760
Interest income	3	(122,999)	(440,656)
Interest expense	4	906,849	1,145,928
		67,887,301	48,266,658
Working capital changes:			
Inventories		(814,841)	(1,821,580)
Accounts receivable and prepayments		(4,155,723)	(21,088,881)
Accounts payable and accruals		(16,435,927)	5,220,625
Cash from operations		46,480,810	30,576,822
Employee's end of service benefit paid	12	(50,998)	(29,760)
Interest paid	4	(906,849)	(1,145,928)
Net cash from operating activities		45,522,963	29,401,134
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(57,318,052)	(29,403,861)
Proceeds from disposal of property, plant and equipment		-	4,803
Adjustments to property, plant and equipment		-	769,422
Interest income	3	122,999	440,656
Net funding to related parties (long term)		21,797,197	(6,661,997)
Advance towards Joint Venture		(9,000,000)	-
Net cash used in investing activities		(44,397,856)	(34,850,977)
FINANCING ACTIVITIES			
Dividends paid		-	(18,832,000)
Repayment of term loans		(1,866,667)	(1,766,667)
Net cash used in financing activities		(1,866,667)	(20,598,667)
DECREASE IN CASH		(741,560)	(26,048,510)
Cash at 1 January		6,726,647	32,775,157
CASH AT 31 DECEMBER		5,985,087	6,726,647

The attached notes 1 to 23 form part of these financial statements.

Petrogas E&P LLC and its subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2007

	Share capital	Statutory Reserve	Retained earnings	Total
	US \$	US \$	US \$	US \$
Balance at 31 December 2006	12,987,000	983,965	39,922,252	53,893,217
Profit for the year	-	-	36,646,930	36,646,930
Dividend paid	-	-	(18,832,000)	(18,832,000)
Transfer to statutory reserve (note 11)	-	1,626,945	(1,626,945)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	12,987,000	2,610,910	56,110,237	71,708,147
Profit for the year	-	-	52,030,184	52,030,184
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2007	12,987,000	2,610,910	108,140,421	123,738,331
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The attached notes 1 to 23 form part of these financial statements.

1 ACTIVITIES

Petrogas E&P LLC and its subsidiaries (the group) are primarily engaged in oil and gas exploration and production activities. The Group's registered address is PO Box 353, Postal code 112, Ruwi, Sultanate of Oman. The group's ultimate parent is MB Holdings Co LLC, a limited liability company registered in the Sultanate of Oman.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the Commercial Companies Law of the Sultanate of Oman.

The consolidated financial statements have been presented in US Dollars.

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrogas E&P LLC (the parent company) and its subsidiaries as at 31 December 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Group obtains control, and continue to be consolidated until the date that such control ceases.

International Accounting Standards Board (IASB) Standards and Interpretations issued but not adopted

The IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been adopted by the group, are not expected to have a material impact on the group's financial statements.

Changes in accounting policies

The accounting policies are consistent with those used in the previous financial year except as follows:

The group has adopted the following new and amended IFRS during the year. Adoption of these revised standards did not have any effect on the financial performance or position of the group. They did however give rise to additional disclosures.

- IFRS 7 Financial instruments: Disclosures
- IAS 1 Amendment – Presentations of Financial Statements

The principal effects of these changes are as follows:

IFRS 7 Financial instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the groups' financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the group to make new disclosures to enable users of the financial statements to evaluate the group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 21.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales represents the gross invoiced value of crude oil sold during the year.

Interest revenue is recognised as the interest accrues.

Government entitlement

Government entitlement represents reimbursement to Governments of their entitlement under petroleum agreements, of oil production sold by the group.

Taxation

Taxation is provided in accordance with Omani fiscal regulations.

Property, plant and equipment

Oil and gas exploration and producing tion and development activities under production sharing agreements which entitle it to a contractual portion of the oil and gas production to reimburse its operating, exploration and development costs (cost oil). In addition the group is entitled to share a portion of the net oil and gas production subject to the terms of the agreement (profit oil). Exploration and development costs incurred under these agreements are accounted for by applying the successful efforts method of accounting as described below:

- Exploration costs

Geological and geophysical costs are expensed in the year incurred. Drilling in progress and completed wells where reserves are discovered in commercial quantities are capitalised. Costs of exploratory drilling that have not resulted in discoveries of reserves in commercial quantities are expensed.

- Fields under development and in production

Development costs that relate to the acquisition and installation of production facilities, development drilling costs and applicable exploration costs are capitalised.

Other property, plant and equipment

Other property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Oil and gas producing assets are depreciated using the unit-of-production method by field.

Depreciation is calculated on a straight line basis over the estimated useful lives of other property, plant and equipment as follows:

Plant and equipment	3 years
Computer equipment	3 years
Furniture and fixtures	5 years
Vehicles	3 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition calculated on a weighted average basis.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

Term loans

Term loans are carried on the balance sheet at their principal amount. Instalments due within one year are shown as a current liability. Interest is charged as an expense as it accrues, with unpaid amounts included in "accounts payable and accruals".

Accounts receivable

Accounts receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possible for recovery.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and bank balances.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

The group accrues for estimated abandonment and site restoration costs of oil exploration and producing properties on a unit of production basis.

Leases

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

Employees' end of service benefits

Payment is made to the Omani Government Public Authority for Social Insurance scheme under Royal Decree 72/91 for Omani employees.

Accrual is made for amounts payable under the Oman labour law applicable to non Omani employees' accumulated periods of service as of the balance sheet date.

Interest in a joint venture

The group's interest in its joint venture is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the financial statements on a line-by-line basis.

Foreign currencies

Transactions in foreign currencies are recorded in US Dollars at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Fair values

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

Petrogas E&P LLC and its subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 AT 31 December 2007

3 OTHER INCOME

	2007	2006
	US \$	US\$
Interest income	122,999	440,656
Other income	148,136	-
	271,135	440,656

4 FINANCE COSTS

	2007	2006
	US \$	US\$
Term loans interest	872,000	1,064,256
Other finance costs	34,849	81,672
Finance costs	906,849	1,145,928

5 PROFIT FOR THE YEAR

	2007	2006
	US \$	US\$
Staff costs	6,169,268	4,710,078

The profit for the year is stated after charging:

6 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment US \$	Vehicles US \$	Computer equipment US \$	Furniture and fixtures US \$	Exploration and production US \$	Drilling costs in progress US \$	Total US \$
Cost							
At 1 January 2007	1,534,366	549,801	1,011,447	159,524	136,805,095	5,627,270	145,687,503
Additions	402,640	133,318	197,237	59,971	31,443,505	25,081,381	57,318,052
Transfers	-	-	-	-	2,281,917	(2,281,917)	-
Balance at 31 December 2007	1,937,006	683,119	1,208,684	219,495	170,530,517	28,426,734	203,005,555
Depreciation							
At 1 January 2007	(749,294)	(316,721)	(875,843)	(87,020)	(28,693,330)	-	(30,722,208)
Depreciation charge for the year	(406,131)	(90,407)	(102,617)	(32,321)	(13,497,035)	-	(14,128,511)
At 31 December 2007	(1,155,425)	(407,128)	(978,460)	(119,341)	(42,190,365)	-	44,850,719
Net carrying amount							
At 31 December 2007	781,581	275,991	230,224	100,154	128,340,152	28,426,734	158,154,836

6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant and equipment US \$	Vehicles US \$	Computer equipment US \$	Furniture and fixtures US \$	Exploration and production US \$	Drilling costs in progress US \$	Total US \$
Cost							
At 1 January 2006	847,419	289,845	942,930	136,009	111,886,565	2,959,585	117,067,353
Additions	686,947	259,956	68,517	32,804	23,406,527	4,949,110	29,403,861
Disposals	-	-	-	(9,289)	-	-	(9,289)
Transfers	-	-	-	-	2,281,425	(2,281,425)	-
Adjustments (note 16)	-	-	-	-	(769,422)	-	(769,422)
Balance at 31 December 2006	1,534,366	549,801	1,011,447	159,524	136,805,095	5,627,270	145,687,503
Depreciation							
At 1 January 2006	(408,940)	(223,094)	(743,395)	(66,789)	(19,067,007)	-	(20,509,225)
Depreciation charge for the year Relating to disposals	(340,354)	(93,627)	(132,448)	(24,717)	(9,626,323)	-	(10,217,469)
	-	-	-	4,486	-	-	4,486
At 31 December 2006	(749,294)	(316,721)	(875,843)	(87,070)	(28,693,330)	-	(30,722,208)
Net carrying amount							
At 31 December 2006	785,072	233,080	135,604	72,504	108,111,765	5,627,270	114,965,295

7 INVENTORIES

	2007	2006
	US \$	US \$
Consumables	8,447,474	7,473,756
Provision for impaired inventory	(2,441,294)	(2,282,417)
	<hr/>	<hr/>
Inventory, net of provision for impaired inventory	6,006,180	5,191,339
	<hr/> <hr/>	<hr/> <hr/>
	2007	2006
	US \$	US \$
Reconciliation of provision for impaired inventory		
Balance at 1 January	2,282,417	2,026,588
Additions during the year	158,877	255,829
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Balance at 31 December	2,441,294	2,282,417
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8 ADVANCE TOWARDS JOINT VENTURE

Subsequent to the year end, on 09 January 2008, Petrogas E&P LLC the company has acquired a 30% participating interest in a production and exploration service agreement covering a concession area in the Eastern Desert of the Arab Republic of Egypt. Area-A is operated by the company's Joint Venture partner, Oil Search (Eastern Desert) SAE. Under the terms of the sale and purchase agreement, an advance of RO 3,461,538 (USD 9 Million) was paid in December 2007 with a further payment of RO 4,319,995 (USD 11,231,988) in January 2008 (note 14).

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2007	2006
	US \$	US \$
Trade accounts receivable	25,435,380	16,404,509
Amounts due from related parties (note 19)	662,367	4,986,291
Other receivables	151,095	768,144
Prepaid Expenses	239,000	355,514
Advance paid to supplier	225,789	43,402
Staff receivables	8,785	8,833
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	26,722,416	22,566,693
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As at 31 December 2007 none of the trade receivables were impaired or past due (2006 : same).

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

10 SHARE CAPITAL

	Authorised, issued and fully paid	
	2007	2006
	US \$	US \$
Shares of US\$ 1 each	12,987,000	12,987,000
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11 STATUTORY RESERVE

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of the parent company's profits for the year has to be transferred to a statutory reserve. No transfer has been made in the current year as the parent company has incurred a loss. The parent company may resolve to discontinue such annual transfers when the reserve totals one third of issued share capital. The reserve is not available for distribution.

12 EMPLOYEES' END OF SERVICE BENEFITS

	2007 US \$	2006 US\$
Movements in the liability recognised in the balance sheet are as follows:		
Provision as at 1 January	167,010	116,010
Provided during the year	123,235	80,760
End of service benefits paid	(50,998)	(29,760)
	<hr/>	<hr/>
Provision as at 31 December	239,247	167,010
	<hr/>	<hr/>

13 PROVISIONS

Abandonment cost provision:

	2007 US \$	2006 US\$
Balance as at 1 January	4,554,343	3,938,116
Provided during the year	476,280	616,227
Unwinding of discount	345,241	-
	<hr/>	<hr/>
Balance as at 31 December	5,375,864	4,554,343
	<hr/>	<hr/>

In accordance with IAS 37, a provision of US \$ 5,375,864 has been recognised for abandonment costs. Of these costs, US\$ 2,985,739 and US\$ 2,390,125 are expected to be incurred in 2015 and 2028 respectively. The provision has been estimated using existing technologies, at current prices and discounted using a real discount rate of 7.5%.

14 TERM LOANS

	2007 US \$	2006 US\$
Term loan	11,366,666	13,233,333
Less: Current portion classified under current liabilities	(1,983,333)	(1,866,667)
	<hr/>	<hr/>
	9,383,333	11,366,666
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The term loan is in US Dollars, secured over the Group's revenue and carries an effective annual interest rate of 3 months LIBOR + 1.9% p.a. The loan is repayable in twenty-eight quarterly instalments commencing from January 2006. The final instalment is due on October 2012. Interest accrues and is paid on a monthly basis.

15 ACCOUNTS PAYABLE AND ACCRUALS

	2007 US \$	2006 US\$
Other payables	15,812,218	43,357,881
Amounts due to related parties (note 19)	6,226,460	1,111,659
Accrued expenses	6,975,252	6,675,962
Trade accounts payable	14,272,639	8,494,072
Payable to Joint Venture partner	-	82,922
	43,286,569	59,722,496

16 NET PROVED OIL RESERVE QUANTITIES

	2007 Thousand barrels	2006 Thousand barrels
Net proved reserves acquired at 1 January:		
Proved developed reserves	14,324	12,745
Proved undeveloped reserves	24,593	29,647
	38,917	42,392
Changes during the year:		
Revisions of previous estimates – developed reserves	1,194	-
Revisions of previous estimates – undeveloped reserves	(399)	(463)
Transfer to developed reserves	(935)	4,591
Transfer from undeveloped reserves	(740)	(4,591)
Production	(3,158)	(3,012)
	34,879	38,917
Net proved reserves at 31 December:		
Proved developed reserves	11,425	14,324
Proved undeveloped reserves	23,454	24,593
	34,879	38,917

17 JOINT VENTURE

The Group has a 50% interest in Daleel Petroleum Company LLC, which is engaged in the operation and management of oil and gas exploration and production activities of Block 5 in Sultanate of Oman.

The Group's share of the assets, liabilities, revenue and expenses of the joint venture, which are included in the consolidated financial statements, are as follows at 31 December and for the years then ended:

	2007	2006
	US \$	US \$
Current assets	7,422,925	4,483,594
Current liabilities	6,891,209	4,016,776
Net profit	67,265	51,181

Daleel Petroleum LLC (Daleel), a joint venture operator with one of the group companies, had in prior years performed drilling and production activities on a neighbouring concession area operated by Occidental of Oman Inc. (Occidental) – during the period from 2004 to 2006.

As a result, a settlement agreement (the agreement) was signed between Occidental, Daleel and the Ministry of Oil and Gas representing the Government of the Sultanate of Oman, on 6 January 2007. In accordance with the terms of the agreement, Occidental is entitled to compensation relating to its share of production from three affected wells, net of a share of related operating cost and capital expenditure incurred by Daleel.

The ownership of one well was transferred to Occidental on 31 December 2006. A settlement was reached in July 2007 for the second well whereby Daleel was absolved of all liabilities pertaining to this well. The remaining well continues to be operated by Daleel under a production sharing agreement with Occidental and all applicable revenues and costs in relation to this well pertaining to 2007 production have been recorded as attributable to Occidental.

The company has accounted for the amounts involved in the financial statements for the year ended 31 December 2006, prospectively in accordance with IAS 8. Accordingly, revenue and operating cost for the year ended 31 December 2006, and property, plant and equipment at 31 December 2006 have been reduced by RO 3,665,734 RO 336,030 and RO 295,843 (US \$ 9,521,388, US \$ 872,806 and US \$ 769,422) respectively.

18 CONTINGENCIES

At 31 December 2007 the group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to RO 692,308 (US \$ 1,800,000) and for 2006 RO 519,230 (US \$ 1,350,000).

19 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the income statement are as follows:

	2007		2006	
	Purchases/ expenses US\$	Income US\$	Purchases/ expenses US\$	Income US\$
Other related parties	26,926,866	_____	14,977,277	_____

19 RELATED PARTY TRANSACTIONS (continued)

Balances with related parties included in the balance sheet are as follows:

	2007		2006		Non current receivables US\$	Non current payables US\$	Trade receivables US\$	Trade payables US\$	Non current receivables US\$	Non current payables US\$
	Trade receivables US\$	Trade payables US\$	Trade receivables US\$	Trade payables US\$						
Associated companies	10,590	-	-	-	-	-	-	364,571	-	-
Major shareholders	-	-	-	23,062,677	4,866,785	23,062,677	33,882	184,794	-	-
Directors and key management personnel	-	-	-	-	-	-	15,500	-	-	-
Other related parties	651,777	6,226,460	1,200,835	-	119,506	-	1,062,277	1,488,368	2,102,378	2,102,378
	662,367	6,226,460	1,200,835	23,062,677	4,986,291	23,062,677	1,111,659	2,037,733	2,102,378	2,102,378

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 US \$	2006 US\$
Short-term benefits	326,661	259,896
Employees' end of service benefits	26,119	55,335
	352,780	315,231

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2007, the group has not recorded any impairment of amounts owed by related parties (2006: nil).

20 COMMITMENTS

Investment commitment

As of 31 December 2007, Petrogas E&P LLC has an investment commitment to Oil Search (Eastern Desert) SAE amounting to RO 6,454,611 (USD 16,781,988) [2006 - USD Nil] as final payment towards acquisition of a 30% joint venture participating interest in a production and exploration concession in Area A in the Eastern Desert of Arab Republic of Egypt (note 8).

21 RISK MANAGEMENT

Interest rate risk

The Group manages its interest rate risk through using fixed rate debts and deposits. The Group does not have any interest bearing assets and liabilities with floating interest rates. The management has estimated the effect on profit for the year due to increases or decreases in interest rates to be insignificant

Credit risk

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

Credit risk is limited to the carrying values of financial assets in the balance sheet.

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sales require amounts to be paid within 30 days of the date of sale.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2007, based on contractual payment dates and current market interest rates.

<i>Year ended 31 December 2007</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
<i>Accounts payables and accruals</i>	29,757,846	7,284,510	17,753	-	37,060,109
<i>Term loan</i>	-	1,983,333	9,383,333	-	11,366,666
Total	29,757,846	9,267,843	9,401,086	-	48,426,775
<i>Year ended 31 December 2006</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>> 5 years</i>	<i>Total</i>
<i>Accounts payables and accruals</i>	42,814,730	15,709,043	4,142	-	58,527,915
<i>Term loan</i>	-	1,866,667	11,366,666	-	13,233,333
Total	42,814,730	17,575,710	11,370,808	-	71,761,248

Currency risk

Trade accounts and notes payable include amounts of US \$ 5,590,777 and for (2006 US \$ 3,603,822) due in foreign currencies, mainly in US Dollars. As the US Dollar is pegged to the Rial Omani, the group's management considers this to be a low risk.

Capital management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

22 KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, gross trade accounts receivable were US \$ 25,435,380 (2006- 16,404,509). No provision for doubtful debts was made at the balance sheet date.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the balance sheet date, gross inventory was US \$ 8,447,474 (2006 – US \$ 7,473,756) and the provision for old and obsolete inventory was US \$ 2,441,294 (2006 – US \$ 2,282,417).

Abandonment provision

Estimated abandonment and restoration costs for oil production activities are based on current requirements, technology and price levels and discounted using real discount rates. The estimated discounted ultimate liability for the asset retirement obligation is recognised in the period in which it is incurred.

At the balance sheet date the undiscounted abandonment provision amounted to US \$ 16,462,500 (2006 – US \$ 15,060,000) which after discounting amounted to US \$ 5,375,864 (2006 – US\$ 4,554,343). The amount recognised in the income statement as of 31 December 2007 was US \$ 821,521 (2006 – US \$ 616,227).

23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of due from related parties, cash and bank balances and receivables. Financial liabilities consist of term loans, payables and short term loans.

The fair values of financial instruments are not materially different from their carrying values.