

We have audited the accompanying financial statements of Petrogas E&P LLC and its subsidiaries ('the group'), which comprise the balance sheet as at 31 December 2006 and the income statement, cash flow statement and 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 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 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 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' judgement, 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 financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006 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 2006

	Notes	<b>2006</b> <b>US \$</b>	2005 US \$
Sales		<b>195,644,828</b>	177,556,576
Government entitlement		<b>(120,190,679)</b>	(118,074,644)
<b>NET SALES</b>		<b>75,454,149</b>	59,481,932
Other income	3	<b>440,656</b>	327,260
External charges		<b>(12,366,890)</b>	(4,145,879)
Depreciation	6	<b>(10,217,469)</b>	(8,213,668)
Consumables		<b>(3,402,583)</b>	(2,351,038)
Thru put charges		<b>(2,761,355)</b>	(2,339,090)
Staff costs		<b>(2,723,258)</b>	(2,371,126)
Administration expenses		<b>(2,617,858)</b>	(2,008,145)
Overheads		<b>(1,836,965)</b>	(1,524,955)
Department common facilities		<b>(1,132,345)</b>	(685,883)
Provision for inventory	7	<b>(255,829)</b>	(282,164)
		<b>(36,873,896)</b>	(23,594,688)
<b>PROFIT FROM OPERATIONS</b>		<b>38,580,253</b>	35,887,244
Finance cost	4	<b>(1,145,928)</b>	(1,330,354)
Abandonment provision	12	<b>(616,227)</b>	(698,254)
Lease charges		<b>(138,553)</b>	(128,433)
Other operating expenses		<b>(25,756)</b>	(32,897)
Directors' remuneration		<b>(5,194)</b>	(2,597)
Miscellaneous charges		<b>(1,665)</b>	(515)
Negative goodwill on acquisition of subsidiaries		-	7,212,023
<b>PROFIT FOR THE YEAR</b>	5	<b>36,646,930</b>	40,906,217

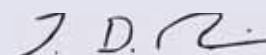
Petrogas E&P LLC and its subsidiaries  
**BALANCE SHEET**  
 At 31 December 2006

	Notes	2006 US \$	2005 US \$
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	6	<b>114,965,295</b>	96,553,128
Due from related parties	17	<b>2,037,733</b>	1,429,110
		<b>117,003,028</b>	97,982,238
<b>Current assets</b>			
Inventories	7	<b>5,191,339</b>	3,369,759
Accounts receivable and prepayments	8	<b>22,566,693</b>	1,477,812
Bank balances and cash		<b>6,726,647</b>	32,775,157
		<b>34,484,679</b>	37,622,728
<b>TOTAL ASSETS</b>		<b>151,487,707</b>	135,604,966
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	9	<b>12,987,000</b>	12,987,000
Statutory reserve	10	<b>2,610,910</b>	983,965
Retained earnings		<b>56,110,237</b>	39,922,252
<b>Total equity</b>		<b>71,708,147</b>	53,893,217
<b>Non-current liabilities</b>			
Due to related parties	17	<b>2,102,378</b>	8,155,752
Employees' end of service benefits	11	<b>167,010</b>	116,010
Provisions	12	<b>4,554,343</b>	3,938,116
Term loans	13	<b>11,366,666</b>	13,233,333
		<b>18,190,397</b>	25,443,211
<b>Current liabilities</b>			
Accounts payable and accruals	14	<b>59,722,496</b>	54,501,871
Term loan	13	<b>1,866,667</b>	1,766,667
		<b>61,589,163</b>	56,268,538
<b>Total liabilities</b>		<b>79,779,560</b>	81,711,749
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>151,487,707</b>	135,604,966

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



Chairman



CEO

The attached notes 1 to 21 form part of these financial statements.

Petrogas E&P LLC and its subsidiaries  
**STATEMENT OF CASH FLOW**  
Year ended 31 December 2006

	Notes	2006 US \$	2005 US \$
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>36,646,930</b>	40,906,217
Adjustments for:			
Depreciation		<b>10,217,469</b>	8,213,668
Abandonment provision		<b>616,227</b>	698,254
Provision for employees' end of service benefits		<b>80,760</b>	48,523
Negative goodwill arising on acquisition of subsidiaries		-	(7,212,023)
Interest income		<b>(440,656)</b>	(324,852)
Finance cost		<b>1,145,928</b>	1,330,354
		<b>48,266,658</b>	43,660,141
Working capital changes:			
Inventories		<b>(1,821,580)</b>	(843,569)
Receivables		<b>(21,088,881)</b>	11,384,488
Payables		<b>5,220,625</b>	35,014,884
Cash from operations		<b>30,576,822</b>	89,215,944
Employee>s end of service benefit paid		<b>(29,760)</b>	(3,564)
Interest paid		<b>(1,145,928)</b>	(1,330,354)
Net cash from operating activities		<b>29,401,134</b>	87,882,026
<b>INVESTING ACTIVITIES</b>			
Acquisition of subsidiaries, net of cash acquired		-	(13,837,972)
Purchase of property, plant and equipment		<b>(29,403,861)</b>	(24,671,161)
Proceeds from disposal of property, plant and equipment		<b>4,803</b>	-
Adjustments to property, plant and equipment		<b>769,422</b>	-
Interest income	16	<b>440,656</b>	324,852
Net funding to related parties (long term)		<b>(6,661,997)</b>	(17,013,694)
Issue of share capital		-	12,987,000
Net cash used in investing activities		<b>(34,850,977)</b>	(42,210,975)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		<b>(18,832,000)</b>	(18,395,894)
Repayment of term loans		<b>(1,766,667)</b>	(7,000,000)
Repayment of short term loans		-	(2,500,000)
New term loan received		-	15,000,000
Net cash used in financing activities		<b>(20,598,667)</b>	(12,895,894)
<b>(DECREASE) INCREASE IN CASH</b>		<b>(26,048,510)</b>	32,775,157
Cash at 1 January		<b>32,775,157</b>	-
<b>CASH AT 31 DECEMBER</b>		<b>6,726,647</b>	32,775,157

The attached notes 1 to 21 form part of these financial statements.

Petrogas E&P LLC and its subsidiaries  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
 Year ended 31 December 2006

	Notes	Share capital US \$	Statutory Reserve US \$	Retained earnings US \$	Total US \$
Share capital issued		12,987,000	-	-	12,987,000
Net profit for the year		-	-	40,906,217	40,906,217
Transfer to statutory reserve (note 10)		-	983,965	(983,965)	-
Balance at 31 December 2005		12,987,000	983,965	39,922,252	53,893,217
Net profit for the year		-	-	36,646,930	36,646,930
Dividend paid		-	-	(18,832,000)	(18,832,000)
Transfer to statutory reserve (note 10)		-	1,626,945	(1,626,945)	-
<b>Balance at 31 December 2006</b>		<b>12,987,000</b>	<b>2,610,910</b>	<b>56,110,237</b>	<b>71,708,147</b>

The attached notes 1 to 21 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 2006. 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. Subsidiaries are the companies in which the company owns, directly or indirectly more than one half of the voting power.

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 Company, are not expected to have a material impact on the Company's financial statements.

### **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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxation**

Taxation is provided in accordance with Omani fiscal regulations.

**Property, plant and equipment**

*Oil and gas exploration and producing properties*

The group conducts oil and gas exploration 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.

#### **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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 2006

**3 OTHER INCOME**

	<b>2006</b> <b>US \$</b>	2005 US\$
Interest income	<b>440,656</b>	324,852
Other income	-	2,408
	<hr/> <b>440,656</b> <hr/>	<hr/> 327,260 <hr/>

**4 FINANCE COSTS**

	<b>2006</b> <b>US \$</b>	2005 US\$
Term loans interest	<b>1,064,256</b>	871,868
Short term loans interest	-	54,973
Other finance costs	<b>81,672</b>	403,513
Finance costs	<hr/> <b>1,145,928</b> <hr/>	<hr/> 1,330,354 <hr/>

**5 PROFIT FOR THE YEAR**

The profit for the year is stated after charging:

	<b>2006</b> <b>US \$</b>	2005 US\$
Staff costs	<hr/> <b>4,710,078</b> <hr/>	<hr/> 3,703,661 <hr/>

## 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 \$
<b>Cost</b>							
At 1 January 2006	847,419	289,845	942,930	136,009	111,886,565	2,959,585	117,062,353
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)
<b>Balance at 31 December 2006</b>	<b>1,534,366</b>	<b>549,801</b>	<b>1,011,447</b>	<b>159,524</b>	<b>136,805,095</b>	<b>5,627,270</b>	<b>145,687,503</b>
<b>Depreciation</b>							
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
<b>At 31 December 2006</b>	<b>(749,294)</b>	<b>(316,721)</b>	<b>(875,843)</b>	<b>(87,020)</b>	<b>(28,693,330)</b>	<b>-</b>	<b>(30,722,208)</b>
<b>Net carrying amount</b>							
At 31 December 2006	785,072	233,080	135,604	72,504	108,111,765	5,627,270	114,965,295
<b>At 31 December 2005</b>	<b>438,479</b>	<b>66,751</b>	<b>199,535</b>	<b>69,220</b>	<b>92,819,558</b>	<b>2,959,585</b>	<b>96,553,128</b>

Petrogas E&P LLC and its subsidiaries  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 At 31 December 2006

## 7 INVENTORIES

	<b>2006</b>	2005
	<b>US \$</b>	US \$
Consumables	<b>7,473,756</b>	5,396,347
Provision for impaired inventory	<b>(2,282,417)</b>	(2,026,588)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Inventory, net of provision for impaired inventory	<b>5,191,339</b>	3,369,759
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
	<b>2006</b>	2005
	<b>US \$</b>	US \$
Reconciliation of provision for impaired inventory		
Balance at 1 January	<b>2,026,588</b>	1,807,281
Additions during the year	<b>255,829</b>	219,307
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Balance at 31 December	<b>2,282,417</b>	2,026,588
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## 8 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<b>2006</b>	2005
	<b>US \$</b>	US \$
Trade accounts receivable	<b>16,404,509</b>	578,321
Amounts due from related parties (note 18)	<b>4,986,291</b>	455,883
Other receivables	<b>768,144</b>	183,592
Prepaid Expenses	<b>355,514</b>	163,253
Advance paid to supplier	<b>43,402</b>	72,510
Staff receivables	<b>8,833</b>	24,253
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	<b>22,566,693</b>	1,477,812
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## 9 SHARE CAPITAL

	Authorised, issued and fully paid	
	<b>2006</b>	2005
	<b>US \$</b>	US \$
Shares of US\$ 1 each	<b>12,987,000</b>	12,987,000
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## 10 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 been transferred to a statutory reserve. 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.

## 11 EMPLOYEES' END OF SERVICE BENEFIT

	2006 US \$	2005 US\$
Movements in the liability recognised in the balance sheet are as follows:		
Provision as at 1 January	116,010	71,051
Provided during the year	80,760	48,523
End of service benefits paid	(29,760)	(3,564)
	<u>167,010</u>	<u>116,010</u>
Provision as at 31 December	<u>167,010</u>	<u>116,010</u>

## 12 PROVISIONS

### Abandonment cost provision

	2006 US \$	2005 US\$
Balance as at 1 January	3,938,116	3,239,862
Provided during the year	616,227	698,254
	<u>4,554,343</u>	<u>3,938,116</u>
Balance as at 31 December	<u>4,554,343</u>	<u>3,938,116</u>

In accordance with IAS 37, a provision of US \$ 4,554,343 has been recognised for abandonment costs. Of these costs, US\$ 2,519,248 and US\$ 2,035,095 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%.

## 13 TERM LOANS

	2006 US \$	2004 US\$
Term loan	13,233,333	15,000,000
Less: Current portion classified under current liabilities	(1,866,667)	(1,766,667)
	<u>11,366,666</u>	<u>13,233,333</u>
	<u>11,366,666</u>	<u>13,233,333</u>

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 2005. The final instalment is due on October 2012. Interest accrues and is paid on a monthly basis.

Petrogas E&P LLC and its subsidiaries  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 At 31 December 2006

**14 ACCOUNTS PAYABLE AND ACCRUALS**

	2006 US \$	2005 US \$
Other payables	<b>43,357,881</b>	39,862,406
Amounts due to related parties (note 18)	<b>1,111,659</b>	7,483,388
Accrued expenses	<b>6,675,962</b>	5,205,938
Trade accounts payable	<b>8,494,072</b>	1,900,352
Payable to Joint Venture partner	<b>82,922</b>	49,787
	<b>59,722,496</b>	54,501,871

**15 NET PROVED OIL RESERVE QUANTITIES**

	2006 Thousand barrels	2005 Thousand barrels
Net proved reserves acquired at 1 January:		
Proved developed reserves	<b>12,745</b>	11,691
Proved undeveloped reserves	<b>29,647</b>	33,967
	<b>42,392</b>	45,658
Changes during the year:		
Revisions of previous estimates – developed reserves	-	15
Revisions of previous estimates – undeveloped reserves	<b>(463)</b>	(168)
Transfer to developed reserves	<b>4,591</b>	4,435
Transfer from undeveloped reserves	<b>(4,591)</b>	(4,152)
Production	<b>(3,012)</b>	(3,396)
	<b>38,917</b>	42,392
Net proved reserves at 31 December:		
Proved developed reserves	<b>14,324</b>	12,745
Proved undeveloped reserves	<b>24,593</b>	29,647
	<b>38,917</b>	42,392

## 16 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:

	<b>2006</b>	2005
	<b>US \$</b>	US \$
Current assets	<b>4,483,594</b>	3,065,551
Current liabilities	<b>4,016,776</b>	5,527,732
Net profit	<b>51,181</b>	42,781

During the current year, it was identified that the company's joint venture operator, Daleel Petroleum LLC (Daleel), had in prior years performed drilling and production activities on a neighbouring concession area operated by Occidental of Oman Inc. – during the period from 2004 to 2006.

As a result, a settlement agreement (the agreement) was signed between Occidental of Oman Inc., Daleel Petroleum LLC 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 of Oman Inc. 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 of Oman Inc. The remaining two wells continue to be operated by Daleel under a production sharing agreement with Occidental.

The company has accounted for the amounts involved in the current year 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.

## 17 CONTINGENCIES

At 31 December 2006 the Company 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 519,230 (US \$ 1,350,000).

## 18 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:

	2006		2005	
	Purchases US\$	Expenses US\$	Purchases US\$	Expenses US\$
Other related parties	<b>43,341,688</b>	<b>16,475,000</b>	31,687,994	10,489,500

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

	2006				2005			
	Trade receivables US\$	Trade payables US\$	Non current receivables US\$	Non current payables US\$	Trade receivables US\$	Trade payables US\$	Non current receivables US\$	Non current payables US\$
Associated companies	-	-	<b>364,571</b>	-	278,552	2,104,481	325,875	8,155,752
Major shareholders	<b>4,866,785</b>	<b>33,882</b>	<b>184,794</b>	-	-	4,403,241	-	-
Directors and key management personnel	-	<b>15,500</b>	-	-	-	10,500	-	-
Other related parties	<b>119,506</b>	<b>1,067,277</b>	<b>1,488,368</b>	<b>2,102,378</b>	177,331	965,166	1,103,235	-
	<b>4,986,291</b>	<b>1,116,659</b>	<b>2,037,733</b>	<b>2,102,378</b>	455,883	7,483,388	1,429,110	8,155,752

### Compensation of key management personnel

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

	2006 US \$	2005 US\$
Short-term benefits	<b>259,896</b>	219,242
Employees' end of service benefits	<b>55,335</b>	13,095
	<b>315,231</b>	232,337

## 19 RISK MANAGEMENT

### **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.

### **Interest rate risk**

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits and term loans).

### **Liquidity risk**

The Group limits its liquidity risk by ensuring that bank facilities are available. The group's terms of sales require amounts to be paid within 30 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

### **Currency risk**

Trade accounts and notes payable include amounts of US \$ 3,603,822 (2005 – US \$ 996,708) 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.

## 20 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 \$ 16,404,509 (2005 – US \$ 578,321). 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 \$ 7,473,756 (2005 – US \$ 5,396,347) and the provision for old and obsolete inventory was US \$ 2,282,417 (2005 – US \$ 2,026,588).

### 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 \$ 15,060,000 (2005 – US \$ 13,245,000) which after discounting amounted to US \$ 4,554,343 (2005 – US\$ 3,938,116). The amount recognised in the income statement as of 31 December 2006 was US \$ 616,227 (2005 – US \$ 698,254).

## 21 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.