



Circle Oil Plc



Annual Report 2007



Circle Oil Plc

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS

CIRCLE OIL Plc

FOR THE YEAR ENDED

DECEMBER 31 2007

Chairman's Statement

In line with the new exploration strategy announced in last year's annual report, we have continued to assemble a balanced portfolio of exploration assets, including those the Board considers to be advanced lower risk projects in Morocco, Tunisia and Egypt. Circle is now at the start of an exciting phase in its development, with drilling programmes underway in each of these countries and negotiations ongoing with a number of companies wishing to joint venture our licences in Oman and Namibia.

In Morocco, we have completed the 3D seismic study on our Sebou licence in the Rharb Basin. Analysis of these results has been very encouraging and has outlined many anomalies each of which has the potential for a gas discovery. These anomalies will be drilled over the coming years, and a rig has been contracted to start this drilling programme in July. Circle is about to sign the agreement with ONHYM, exercising its right to participate in the ONZ4 well, which discovered gas in the Sebou area in August 2006. This well is planned to go into production immediately and will provide our first cash flow. We are confident that further gas discoveries will be made during the current drilling programme and that these fields will be brought into production as quickly as possible to build up our cash flow.

Drilling of the Zita 1 well in the Ras Marmour licence in Tunisia commenced in the last quarter of 2007. Hydrocarbons were encountered in the well, but due to technical reasons and high water saturation levels it was decided to drill a sidetrack well from Zita 1. The sidetrack well also encountered hydrocarbons, but had technical problems similar to the original well, although the water saturation levels were considerably lower. Under the terms of the licence agreement we are obliged to drill a well on the Grombalia licence in northern Tunisia, and to meet licence renewal commitments, this well must start immediately. Accordingly, the rig has moved from the Ras Marmour licence to the Grombalia licence to commence the commitment well. The Zita 1 well, therefore, has been suspended, pending completion of additional technical studies, followed by further drilling on the site at a later date.

Also in Tunisia, Circle has signed a farm-in agreement with Tethys Oil & Mining Inc. to acquire a 70% interest in the offshore Mahdia licence. Historically, this Block was part of a larger licence, and multiple oilfields such as Birsa, Oudna and Tazerka, were discovered in adjacent licences by the previous owners. Multiple structures with the same geology have been identified and mapped in the Mahdia Permit, and a short seismic programme is planned to refine the best drill locations prior to drilling in 2009 onwards. The structures vary in size, but preliminary estimates show that they could host oil fields in the range 10-70 MMBO recoverable.

In Egypt, the Company signed a farm-in agreement with Vegas Oil & Gas to earn a 40% interest in the NW Gemsa block. In adjacent fields the producing reservoirs are the Miocene and Pre-Miocene sandstones, including the Nubia Formation, which is the target of our first well in the block and is predicted to occur at a prognosed depth of about 13,500 feet. The Nubia Sandstone is a known prolific producer in this part of Egypt, and it can be over 1,200 feet thick at this level. The drilling started in mid March and should reach the target depth in July.

In Oman, Circle is planning a 3D seismic study on the southern portion of Block 49. This is scheduled to commence later this year. Negotiations are ongoing with a number of companies regarding a farm-in to this block. Initial evaluation of the 2D seismic results from Block 52 were completed in Houston in March, and these results are being further assessed by our technical staff in Finchampstead, UK.

Circle has significantly strengthened its technical team in Finchampstead by the addition of two senior staff members to run the geology and geophysics departments and manage the increased workload resulting from our drilling and seismic programmes.

During the year Circle raised US\$30 million from a convertible loan note with Kuwait based KGL Petroleum Company. We have established a strong working relationship with KGL Petroleum, and together we have been studying a number of prospects in several countries with a view to securing them jointly. Group cash reserves amounted to US\$29.7 million at year end.

The financial statements for the Group have for the first time been prepared in accordance with International Financial Reporting Standards (IFRSs), as is now required by both European Union law and AIM stock exchange rules. Full details of the basis of preparation and all other relevant matters are set out in the notes to the financial statements.

The Group changed its functional and presentational currency with effect from 1 January 2007 from the Euro (€) to the US Dollar (US\$), as it considers that the US\$ is now the currency of the primary economic environment in which it operates. It also believes that by adopting the US\$ as its functional and presentational currency, the financial statements will provide a clearer picture of the performance of the Group's business and will minimise the impact of exchange rate fluctuations on reported results.

The Board considers Circle to be positioned now to reap the rewards of its low risk strategy, with the well drilling programmes in Morocco, Tunisia and Egypt. If these drilling programmes result in new discoveries, then we will expedite the development of these fields to take advantage of the current high oil and gas prices. With production from the ONZ4 gas discovery in Morocco pending, we are entering a new phase in our development, and I am looking forward with enthusiasm and confidence to increasing our cash flow from this and other potential discoveries on our acreage over the coming period.

Thank you, our shareholders, for your support and our staff for their commitment during the past year.

Thomas Anderson
Chairman

27 June 2008

Operations Review

2007 has been a year of further changes and advances operationally, as Circle progresses and enters an extremely important and active phase in its growth over the next few years. Work has advanced on all the existing permits, and operationally we have moved from planning to intensive field operations.

Summary

We have added a farm-in permit in both Egypt and Tunisia and, in what is a short period of time, commenced drilling the first exploration well in the Egyptian permit under the new farm-in agreement.

In Oman, we have built on the technical groundwork already established through additional modelling and reprocessing of Block 49, which has further cemented and matured our thoughts on the Block. Similarly, in Block 52, having processed the new marine seismic data in early 2008, we are now finalising the interpretation of this data to take the exploration in the permit to the next stage.

In Morocco, the last year has seen the successful acquisition and processing of a high quality 3D seismic survey over our Sebou Permit. The interpretation is ongoing, and the first well proposals have been passed on to our drilling superintendent for the start of the drilling programme this July. We have also concluded negotiations and are about to sign an agreement with ONHYM, the Moroccan national oil company, to bring the ONZ4 well into production.

The two Tunisian licences have seen the acquisition of some 2D seismic to assist in confirming future prospects in the Grombalia Permit and the drilling of the first exploration well and subsequent sidetrack in the Ras Mamour permit.

The technical office in the UK is now fully functional, and the addition of staff has further strengthened the team. Together with the local offices in Tunisia, Oman and Morocco we are well established in our areas of operation. We also were pleased to welcome Ali Chine to the team as country manager in Tunisia and have already enjoyed working with him to build our presence in North Africa and the Middle East. We are continually evaluating and looking for new opportunities, within existing and new areas, especially in North Africa and the Middle East, and the recent addition of the Mahdia Permit off the coast of Tunisia enhances our presence in the region. This particular offshore permit is well known to our senior staff from their historical employment.

A number of other opportunities are at present under evaluation in both North Africa and the Middle East. These include the possibility of entry into existing production licences and fields, and we look forward to issuing updates on these areas in due course.

Sultanate of Oman

Circle has two concessions in the Sultanate of Oman. The first, Block 52, extends some 600 kilometres along the south-western coast, and the second, Block 49, is located in the western quadrant of the country adjacent to the border with Saudi Arabia.

Block 52

In September 2005, Circle Oil Oman Offshore Limited signed a nine year Exploration and Production Sharing Agreement (EPSA), covering Block 52 in the Arabian Sea, offshore Oman. The Block covers an area of approximately 91,000 sq kms and is relatively unexplored. Water depths range from less than 50 metres to over 3,000 metres. The agreement calls for seismic data acquisition and analysis in the first three years. Two optional extensions of three years each will involve further seismic data acquisition, as well as a drilling campaign. All of the legacy seismic data has been integrated into a provisional interpretation, and Circle has identified three different prospective areas in rocks ranging in age from Tertiary to Infracambrian.

Processing of the newly acquired 2007 data has been completed, and the detailed interpretation of the data is currently nearing completion. The interim results of the first period were presented to the Omani Ministry of Oil and Gas in April 2008, following which, the first extension to the licence was requested and granted. The first extension period will see the acquisition of an additional 5,000 kilometres of marine 2D data concentrating on prospective elements of the Block. This period also sees the relinquishment of 30% of the licence, and this area has already been highlighted for formal approval by the Ministry later in 2008. A farm out document for the Block is in the course of preparation and will be actively marketed.

Block 49

In June 2005, Circle Oil Oman Limited signed a six year Exploration and Production Sharing Agreement (EPSA), covering Block 49 in the southwestern part of Oman adjacent to the border with Saudi Arabia. The agreement calls for 2D seismic acquisition in the first three years, followed by two optional extensions of eighteen months each, which would involve further data acquisition, as well as a drilling campaign. The Block covers approximately 15,438 sq km and is undrilled in what we believe is the most prospective area of the Block.

Circle has been successful in obtaining all of the legacy data for Block 49 in one form or another, and recent attempts to secure original field tapes for reprocessing have met with further success. The Company has proceeded with a provisional interpretation. Also, an aerogravity/magnetic program was flown for the Company last summer over a portion of the Block, and this new data confirms the presence of the Ghudun Basin in the south and west and provides better definition for the northern edge of the so-called Ghudun High.

The gravity modelling reported in last year's annual report has been further refined which gives additional positive evidence of a Ghudun salt basin and reinforces our belief that the Ghudun High may not be so extensively developed as previously proposed. This opens up the possibility of a complementary basin or that a connection exists to the prolific South Oman salt basin. In addition, over 600 kilometres of legacy data has been reprocessed in 2007 to assist in upgrading the technical knowledge base of the permit.

Carbonate stringers within the Late Precambrian to Early Cambrian Ara Formation are considered the primary objectives in Block 49. Production from the South Oman Salt Basin, some fifty to seventy-five kilometres to the south-east, provides the analogy where over 300 MMBO have been booked from the Ara. More discoveries were announced during 2007, with the latest published as recently as February 2008.

The developing evidence for the Ghudun Salt basin and possible presence of the Ara Salt formation or its equivalent in Block 49 has resulted in Circle presenting its findings to the Ministry of Oil and Gas in April 2008 and seeking and obtaining approvals to enter the second phase of the Production Sharing Agreement (PSA). During this phase, Circle will conduct an extensive 3D survey (instead of two 2D surveys) as a precursor to drilling the first well during the first extension period.

Namibia

Circle is in the fourth year of its first phase on the Exploration Licence on its Owambo Basin Block. All available data has been analysed and integrated into a very encouraging, if incomplete, picture of the subsurface in the western part of the basin. The Block was initially approximately 140,000 sq km in area, and, as previously reported, the eastern half was relinquished after it was determined that the proprietary aerogravity and magnetic data acquired in 2004 did not support an interpretation indicative of the presence of hydrocarbons.

The first play identified involves several large, gentle structures. One well, on a poorly defined structure near to the Etosha National Park, was tested at the objective interval and a minimal amount of oil was recovered.

A second, very robust, play type structure defines a number of potentially large algal mounds or carbonate banks within the prospective interval. These are often associated with structural elements in the basement and are seen as analogous to reefal type build-ups which outcrop in the nearby Nama Basin.

Re-interpretation of a large portion of the historical seismic data and incorporating the results of the new aerogravity/aeromagnetic survey has resulted in a substantial upgrading of the old farm-out documentation. Discussions are now at an advanced stage to negotiate a farm-out on the acreage, and these will be reported in due course.

Morocco

The background to the Rharb area and the Sebou permit has been previously described, and hopefully Circle has now well and truly entered a long period of successful exploration and production operations.

The Sebou permit 3D seismic survey was completed very successfully by PGS Onshore, whom we thank for a job well done. Seismic acquisition commenced towards the end of August 2007 and in total some 170 sq km of 3D data was acquired, together with an additional 55 kilometres of 2D.

The 3D data was processed during the winter 2007 and early spring 2008, with interpretation starting immediately. 3D inversion and AVO studies have also been conducted to assist in ranking and de-risking the most prospective prospects.

Circle's plans for a back-to-back drilling campaign in the permit throughout summer and autumn of 2008 are well advanced. The drilling contract is in place, and the rig, at the time of writing, is enroute to Morocco. Drilling is scheduled to commence in late July, and this will continue until the end of the year to complete a minimum six well programme.

Negotiations regarding Circle's acquisition of a share of the gas discovery well drilled in August 2006 by ONHYM have been concluded, contracts prepared for signature and hook-up preparation is taking place. The start up of production will mark a significant milestone for Circle. This production, albeit small by industry standards, is nevertheless exciting and a foretaste of the future, as it will also mark the commencement of revenues to the Group. The well named ONZ4 shows a near textbook example of log responses. The production rates will only be known accurately when production commences, but initial net annual revenue on similar wells is in the order of US\$2–US\$3million, based on the current contract gas sale price.

The drilling this year could lead to a number of new discoveries which could quickly be turned into producers. Circle already has completion strings in stock in its drilling yard in Morocco to enable timely completion and hook-up, should the drilling campaign prove successful. Success in its annual drilling programmes in the permit over the next two-three years should result in the build up of a substantial and sustainable cash flow. All the gas is sold locally, and there is a high level of demand for additional supplies in the area.

Tunisia

With Exxoil Tunisie as our partner, significant work has been completed in both our permits in Tunisia. Circle has also very recently signed up a new and separate farm-in agreement with Tethys Oil and Mining Inc in the Mahdia Permit, offshore Tunisia.

The first permit, the Grombalia permit, is located in the north of Tunisia and covers much of the Cap Bon peninsula. Circle will be partnering in a comprehensive programme within this permit. The infill 2D seismic data acquired in 2007 was processed and interpreted and this has resulted in the reversal of the originally proposed drilling sequence. The first of the two land prospects to be drilled by Exxoil and Circle, out of a total programme of three wells, will now be:

1) Mellah (now renamed Bayoub) - a faulted block located close to existing producers: the Belli, Beni Khalled and El Manzah fields. The petroleum system in this area has been proven with the Bou Dabbous and / or Bahloul limestones and Fadhene shales as source rock and the fractured Bou Dabbous and Abboid limestones as reservoirs.

2) Serdouk – adjacent to and geologically the same as Bayoub, also close to existing producers: the Belli, Beni Khalled and El Manzah fields. The petroleum and reservoir systems in this area are also proven and are the same as those in Bayoub.

3) Sidi Rais – which is a shallow water (15 metres) prospect located just offshore in the Gulf of Tunis. It is planned to drill this prospect following the completion of the two land wells, if a suitable rig becomes available. The structure is a large anticline elongated north-east south-west, and is fault bounded parallel to the coast. The main reservoir objective is the Eocene fractured limestones of the Bou Dabbous formation. This prospect is also located in an ideal position to receive any hydrocarbon generated in the Grombalia graben to the south and west, which is considered the main “kitchen” in the area.

A number of other good prospects have been identified for future drilling onshore within the permit, with each having structures associated with the Abboid and Bou Dabbous formations. Historically, these have proven to be good producers within structurally controlled faulted closures. The prospects are all capable of being put into early production and, if successful, will contribute to an increasing revenue base within the short to medium term. Additional 2D seismic is planned for acquisition during late summer 2008 as a precursor to future land drilling in the permit.

The second permit, Ras Mamour, is located in the south-east of Tunisia, covering part of Djerba Island and south of the Gulf of Gabès. The main reservoir types include fractured dolomites of the Cenomanian Zebbag formation, which form the main reservoir of the Ezzaouia field, and fractured limestones of the Bireno formation of Middle to Lower Turonian age, which form the main reservoir of the El Biban field. The Upper Jurassic sands levels of the M'rabtine formation are productive in the Ezzaouia field. The source rocks in the area are platy black shales of the Lower Cretaceous (Cenomanian-Albian), which has proved the source rock of the Upper and Middle Cretaceous reservoirs of El Biban and Ezzaouia fields, respectively, and Lower Cretaceous age Sidi Kralif shales formation, which form the source of both Robbana and Mazran fields. In addition, the Marls and the black clayey limestones of the Middle Jurassic (Dogger), which source the Upper Jurassic sandstone reservoirs (M'rabtine formation), are productive in the Ezzaouia and El Biban fields.

The first well to be drilled by Exxoil and Circle commenced late last summer. It has taken a very long time to drill and bring to the present level of geological understanding. The original well had very good oil shows from the Zebbag Formation, with oil returning to the surface. Following logging and testing, it was found that water saturations were high, and problems associated with the drilling and testing of fractured dolomites resulted in a non commercial test. It is obvious that hydrocarbons are in the system, but formation properties, water saturations, and the consequences of multiple drilling problems are preventing flow at commercial levels. The oil recovered was tested and shown to be API 40, and pore water has the same characteristics as the neighbouring Ezzouia field.

Following extensive discussions, the partners decided to drill a sidetrack from the Zita 1 well to further test the Zebbag updip, hopefully to have lower water saturations and increased hydrocarbon levels. The sidetrack would also be closer to the top of the structure, instead of downdip on a flank. The sidetrack was drilled with MWD and gyro at up to 42 degrees and resulted in entering the Zebbag and Orbata Formations updip as predicted. Good shows were again encountered, and the water saturations were, as hoped, lower than in the first well. The well was suspended in June 2008, and the data from the two wells is now being analysed. The drilling rig has now had to move quickly to the Grombalia Permit to drill a commitment well within the required time sequence laid down by the licence agreement. The Zita prospect, and other prospects in the permit that have been identified along similar formational and structural trends, will have some additional 2D seismic acquired over them, and this will be used to prioritise the future drilling programme and establish the final positions of future wells and the Zita re-entry.

Circle has also very recently signed a farm in agreement to the Mahdia Permit, offshore Tunisia, as part of its process of developing other opportunities within Tunisia. The Mahdia Permit lies offshore Tunisia and is bounded in part by the territorial boundary with Lampedusa (Italy). Historically, the permit boundaries were different from today, and this offshore area was largely operated by Shell and Total. The geology of the permit is well known to two of the senior management of Circle, as they have worked the area in the past. The present permit and its neighbouring permit to the north are part of the old permits that included the Tazerka, Birsa, Isis, Halk El Menzel and Oudna oil discoveries and oilfields, and so are part of the same geological framework and systems.

The potential of this area was never fully exploited, as the prospects tended to be in the order of 10-50 MMBO recoverable, and at the time deemed marginal in terms of portfolio prioritisation and potential return on investment. The farm-in has resulted in Circle acquiring a 70% working interest in the permit. Once the 500 kilometres of 2D seismic required by the concession agreement is completed and before the commencement of any drilling, Circle will become the operator of the licence. The licence agreement calls for a well to be drilled within three years from summer 2009, and it is hoped to do this sooner rather than later. A number of prospects (up to nine) have already been worked up, and these range in size from a preliminary estimated 10-60 MMBO recoverable. Water depths range from 85-200 metres. The 2D seismic programme will assist in final prioritisation of prospects. This is a very interesting permit with very good potential upside and a welcome addition to the portfolio.

Egypt

In January 2008, Circle farmed into the NW Gemsa Permit in Egypt. The farm in resulted in Circle acquiring a 40% interest in the licence, the other partners are, Premier Oil with 10% and Vegas Oil and Gas, as operator, with 50%. The NW Gemsa concession covers an area of over 400 sq km and lies approximately 300 kilometres south-east of Cairo in a partially unexplored part of the Gulf of Suez Basin.

The Basin has an area of approximately 19,000 sq km and is considered one of the most prolific oil province rift basins in Africa and the Middle East. The Gulf runs in a north-west to south-east direction and forms an elongated graben, measuring 320 kilometres in length. It is bounded by two major sets of marginal faults. Reservoirs range from Quarternary to Pre-Cambrian age. Of particular interest in the NW Gemsa Permit is the Palaeozoic-Cretaceous Nubia Sandstone.

The NW Gemsa Block includes the Al Amir-1 well that discovered oil in April 2005. This well flowed 787 BOPD on test. The first well to be drilled with Circle involvement is the Al Amir SE-1 exploration well, which is targeting the Nubia Sandstone at a depth of about 13,500 feet. The Nubia Sandstone is a well known producer within the Gulf of Suez Basin.

Drilling commenced in mid March 2008 and at the time of writing is progressing on schedule. The structure is a partial dip and fault closure and has an operator-estimated potential of 100MMBO in situ together with substantial reserves of gas and condensate, based on the present outlined closure area. Further structures have been identified within the permit, and these will be the subject of future study and work programmes.

Panama

Circle Oil Company, (Panama) S.A. was granted a Geological, Geochemical and Geophysical Exploration Permit on August 25, 2005. The Permit expired one year later, with all necessary commitments completed. Discussions with the authorities have not resulted in a renewal, and Circle does not intend to pursue further this mainly very deep water Permit.

BOARD OF DIRECTORS

Thomas Anderson MBA, Non-Executive Chairman

Mr. Anderson has over twenty five years direct executive experience involved in running a private group in the leisure, entertainment, advertising, forestry and property development business in Ireland. He has focused on risk management, corporate finance and portfolio diversification. After graduating in commerce and economics he subsequently completed a Master of Business Administration degree at University College Dublin. He joined Circle as non-executive chairman in April 2004.

David Joseph Hough, Chief Executive Officer

Mr. Hough, a co-founder of the Company in 2003, is an explorationist with over thirty years experience. He was Chief Executive of Ivernia West Inc. from 1988 to 2003. In 1990, his team discovered the Lisheen zinc lead mine, the sixth largest in the world, which was developed with partner Anglo American at a cost of US\$350 million, achieving its first production in 1999. David is practiced in management and financing in the natural resource sectors of the London, Toronto and Dublin Stock Exchanges.

Professor Chris Green, Technical Director

Professor Green has over thirty years experience in the oil and gas industry. After completion of his Masters Degree, Ph.D. and Post-Doctoral Research Fellowship he joined Shell International Petroleum working on projects worldwide for over 24 years. After leaving in 1998 as a Principal Geophysicist and a Global Shell Group Advisor he was appointed Director of Strategic Development and Geosciences at Racal Electronics Plc, 1998-2001. From 2001 to 2004 he was the Chief Technical Officer of Thales Geosolutions Group Ltd. He was Professor of Geophysics at the University of St. Andrews, Scotland from 1996-2004.

John Philip McKeon, Business Development Director

Mr. McKeon has spent over fifteen years in stock broking, corporate finance, property and project finance. He has been a lead manager of private equity and institutional dealing teams successfully raising funds for several Official List, AIM and Irish Stock Exchange and internationally listed companies. He has experience in international mergers & acquisitions, debt re-structuring and corporate advisory services and he acted as a principal in the European MBO of circa US\$600 million European infrastructure assets, formerly part of Metro Media Fibre Networks Inc and the subsequent reverse take over by a listed Singaporean group.

Rafat A. Rizvi, Non-Executive Director

Mr. Rizvi is co-founder and Managing Director of First Capital Management Limited, a Mauritius-based asset manager, (where he is primarily responsible for the management of the 'First Global Funds' family of funds which has over US\$1.6 billion of assets under management). Before establishing First Capital Management, Mr. Rizvi spent several years in London and Singapore with Kidder Peabody/PaineWebber where he was Managing Director and head of the Firm's non-Japan Asia businesses. Mr. Rizvi has a B.Sc.(Hons) Chemistry from the University of Essex.

Mohammad Sultan, Non-Executive Director

Mr. Sultan is the Managing Director of KGL Petroleum, a Kuwait based company. As Managing Director of KGL Petroleum, Mr. Sultan oversees the business project developments, the external and internal relations, and its strategy development and implementation. Prior to joining KGL Petroleum, he spent 27 years at Kuwait Oil Company, a major producer of oil and gas in the world, where he gained valuable insight and expertise in oil & gas operations as well as valuable experience in project management. In 1979, Mr. Sultan earned his B.Sc. degree in Electrical and Computer Engineering from Oregon State University, USA.

DIRECTORS AND OTHER INFORMATION

Directors

T. Anderson (Chairman)*#
D. Hough
J.P. McKeon (UK)
C.D. Green (UK)
R.A. Rizvi (UK)#
M. Sultan (Kuwait)*

* Member of the Audit Committee
Member of the Remuneration Committee

Chief Financial Officer & Secretary

Brendan McMorrow

Registered Office

6 Lower Mallow Street
Limerick
Ireland

Auditors

Deloitte & Touche
Chartered Accountants and Registered
Auditors
Deloitte & Touche House
Charlotte Quay
Limerick
Ireland

Solicitors

O'Flynn Exhams & Partners
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Cork
Ireland

Market

Alternative Investment Market (AIM)
of the London Stock Exchange (LSE)

Financial PR Advisor

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London Wall
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United Kingdom

Bankers

Allied Irish Banks plc
Anglo Irish Bank Corporation plc

Nominated Advisor & Stockbroker

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Registrars

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Ireland

Website

www.circleoil.net

REPORT OF THE DIRECTORS

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2007.

Review of business and future development

The principal activities of the Group are oil and gas exploration and development.

A full review of the Group's activities during the year, recent events and future developments is contained in the Chairman's Statement on pages 2 and 3 and the Operations Review on pages 4 to 8.

Going Concern

The Directors have reviewed budgets, projected cash flows and other general financial options, and on the basis of this review, are confident that 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.

Principle risks and uncertainties

The Group's business and operations may be affected by a number of risks and uncertainties in its day to day activities. The main such risks and uncertainties include financial, operational and external factors.

A number of the main financial risks include capital management risk, credit risk, liquidity risk and market risk and these are set out in more detail in Note 23 to the Financial Statements.

Operational risk events occur as a result of the fact that the Group operates in a number of different territories and in different countries involving such work as seismic and drilling operations.

External risks arise due to operations in differing political areas, potential fiscal change by governments and the possible adverse effect on the Group's results.

The Board's objective is to have appropriate systems in place in order to identify and manage in so far as possible the foregoing risks and uncertainties.

Results

The consolidated loss after taxation for 2007 was US\$2,735,000 (2006: Loss US\$3,682,000).

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2007 (2006: US\$Nil).

Directors

The present Directors of the Company are listed on page 9. Mr. David Hough and Mr. John McKeon retire from the Board by rotation in accordance with the Articles of Association of the company and being eligible offer themselves for re-election.

Continued on the next page

REPORT OF THE DIRECTORS

Continued from the previous page

Directors' and secretary's interests

The Directors and Secretary, who held office at 31 December 2007, have the following interests in the share capital of the Company:

	31 December 2007		1 January 2007	
	Ordinary Shares	Share Options	Ordinary Shares	Share Options
Directors				
T. Anderson	20,000,000	1,250,000	20,000,000	1,250,000
D. Hough	12,550,000	3,000,000	12,550,000	3,000,000
J. P. McKeon	15,450,000	3,000,000	14,250,000	3,000,000
C.D. Green	-	4,000,000	-	4,000,000
R.A. Rizvi*	250,000	-	250,000	-
M. Sultan**	-	-	-	-
Secretary				
B. McMorrow	-	800,000	-	800,000

* Appointed a Director on 26 January 2007

** Appointed a Director on 26 June 2007

Details on the movement on outstanding options and those exercised during the year are as follows:

Directors	At 31 December 2006	Granted during year	At 31 December 2007	Price £Stg	Expiry date
T. Anderson	750,000	-	750,000	0.20	October 2010
	500,000	-	500,000	0.30	October 2010
D. Hough	1,500,000	-	1,500,000	0.20	October 2010
	1,500,000	-	1,500,000	0.30	October 2010
J.P. McKeon	1,500,000	-	1,500,000	0.20	October 2010
	1,500,000	-	1,500,000	0.30	October 2010
C.D. Green	2,000,000	-	2,000,000	0.30	October 2010
	2,000,000	-	2,000,000	0.25	August 2012
Secretary					
B. McMorrow	600,000	-	600,000	0.30	October 2010
	200,000	-	200,000	0.25	August 2012

Subsidiary undertakings

Details of the Company's subsidiary undertakings are set out in note 28 to the financial statements.

Books of account

The measures taken by the Directors to secure compliance with the Company's obligations to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of accounts are kept at the Company's offices at 6 Lower Mallow Street, Limerick, Ireland.

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REPORT OF THE DIRECTORS

Continued from the previous page

Share price information

The market price of the Company's shares at the end of the financial year was Stg£0.23 (2006: Stg£0.15).

Auditors

The auditors Deloitte & Touche, continue in office in accordance with the provisions of Section 160(2) of the Companies Act 1963.

Signed on behalf of the Board

T. Anderson
Chairman

D. Hough
Chief Executive Officer

Date: 27 June 2008

CORPORATE GOVERNANCE

Introduction

The Board of Directors is accountable to the Company's shareholders for good corporate governance and the Directors are committed, where practicable for a company of this size and nature, to applying the requirements of the Combined Code on Corporate Governance. This statement sets out how the Directors applied the principles of the Code during the year ended 31 December 2007.

Principles of the Combined Code

Board of Directors

Regular Board meetings are scheduled to take place throughout the year. During the year 12 meetings were held. All major policies are approved by the Board including acquisitions, disposals and major capital expenditure. In addition, approval of the annual budget is performed by the Board.

The Company does not combine the role of Chairman and Chief Executive Officer.

If required, the Directors are entitled to take independent legal advice and, if the Board is informed in advance, the cost of the advice will be reimbursed by the Company.

The Company Secretary's services are available to all members of the Board. The appointment and removal of the Company Secretary is a decision for the Board as a whole.

The Company considers the Non-Executive Directors to be independent of management because they have never had an executive position in the Company and were selected with the approval of all other Directors.

All Directors are subject to re-election. The Chairman is the senior independent Non-Executive Director.

The Board is provided with detailed Board papers in advance of each Board meeting and in addition receive regular management financial reports to enable it to discharge its duties.

A statement of the Directors' responsibilities in relation to the annual financial statements is set out on page 16.

The Remuneration Committee

The Remuneration Committee comprises of Thomas Anderson (Chairman) and Rafat A Rizvi. It is responsible for determining and agreeing with the Board the terms and conditions and remuneration of the Executive Directors and senior management. It also makes recommendations to the Board concerning employee incentives, the grant of share options and pension contributions. The Remuneration Committee may consult external agencies when ascertaining market salaries and employee incentives.

Continued on the next page

CORPORATE GOVERNANCE

Continued from the previous page

The Audit Committee

The Audit Committee comprises of Thomas Anderson (Chairman) and Mohammad Sultan. It meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. It reviews the adequacy of the Group's financial controls and provides an opportunity for the external auditors to communicate directly with the independent Non-Executive Directors.

Relationships with shareholders

The Company gives high priority to its communication with shareholders by means of an active investor relations programme. This is achieved through publications such as the annual and interim report, press releases and the Group's website, www.circleoil.net. All newsworthy items are issued to the market on a timely basis through press releases and, in addition, corporate information is regularly updated on the Company's website. The Board regards the annual general meeting of the Company as an important opportunity for shareholders, Directors and management to meet, exchange views and discuss the progress of the Group. Shareholders are encouraged to attend for these purposes.

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control, including suitable monitoring procedures. The procedures which include financial, operational and compliance matters are reviewed on an ongoing basis. The Group operates a budgeting and financial reporting system including the preparation of budgets and management accounts on a regular basis for presentation at Board meetings. Performance against budgets is monitored and reported upon. Cash flow forecasting is also carried out on a regular basis to provide the Board and management with the necessary data to determine future financing needs.

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

- select suitable accounting policies for the Group and the Parent Company Financial Statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIRCLE OIL Plc

We have audited the financial statements of Circle Oil Plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Company Balance Sheet the Consolidated Cash Flow Statement, the Company Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the financial statements, including the preparation of the Group financial statements and the Parent Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

We report to you our opinion as to whether the Group financial statements and the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006, and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company's balance sheet is in agreement with the books of account.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistency with the financial statements. The other information comprises only the Directors Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. Our responsibilities do not extend to 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 judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's and the Group's circumstances consistently applied and adequately disclosed.

Continued on the next page

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CIRCLE OIL Plc**

Continued from the previous page

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group as at 31 December 2007 and of the loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006.
- the Parent Company balance sheet gives a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Company as at 31 December 2007 and of the loss for the year then ended;
- the Parent Company balance sheet has been properly prepared in accordance with the Companies Acts, 1963 to 2006.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Notes 10 and 13 to the financial statements concerning the valuation of intangible assets of US\$26,475,000 included in the consolidated balance sheet and of the amounts due from Group companies of US\$20,259,000 included in trade and other receivables in the Company balance sheet. The realisation of the intangible assets by the Group and the amounts due from Group companies by the Company is dependent on successful development of economic reserves and the availability of sufficient finance to bring reserves to economic maturity and profitability. The ultimate outcome of these uncertainties cannot presently be determined.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2007 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.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Limerick
Date: 27 June 2008

CIRCLE OIL PLC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 US\$000	2006 US\$000
Turnover		-	-
Administrative expenses	3	(3,185)	(3,154)
Share option expense	2	(226)	(775)
Exploration costs written off	10	(530)	(496)
Reorganisation costs		-	(154)
Foreign exchange gain		187	183
Operating loss – continuing activities		(3,754)	(4,396)
Finance revenue	4	2,945	714
Finance costs	5	(1,913)	-
Loss before taxation	6	(2,722)	(3,682)
Taxation	7	(13)	-
Loss for the year		(2,735)	(3,682)
Basic and diluted loss per share	8	1.68c	2.27c

Approved by the Board on 27 June 2008

Thomas Anderson
Chairman

David Hough
Chief Executive Officer

CIRCLE OIL PLC
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

	Notes	2007 US\$000	2006 US\$000
Assets			
Non-current assets			
Intangible assets	10	26,475	9,296
Property, plant and equipment	11	298	233
		<u>26,773</u>	<u>9,529</u>
Current assets			
Trade and other receivables	13	237	325
Cash and cash equivalents	22	29,715	14,216
		<u>29,952</u>	<u>14,541</u>
Total assets		<u><u>56,725</u></u>	<u><u>24,070</u></u>
Equity and liabilities			
Capital and reserves			
Called up share capital	16	2,147	2,147
Share premium	17	25,708	25,708
Other reserves	18	2,049	1,560
Retained losses	19	(10,268)	(7,533)
Total equity		<u>19,636</u>	<u>21,882</u>
Non-current liabilities			
Convertible loan – debt portion	15	17,376	-
Derivative financial instruments	15	11,560	-
Total non-current liabilities		<u>28,936</u>	<u>-</u>
Current liabilities			
Trade and other payables	14	8,153	2,188
Total current liabilities		<u>8,153</u>	<u>2,188</u>
Total liabilities		<u>37,089</u>	<u>2,188</u>
Total equity and liabilities		<u><u>56,725</u></u>	<u><u>24,070</u></u>

Approved by the Board on 27 June 2008

Thomas Anderson
Chairman

David Hough
Chief Executive Officer

CIRCLE OIL PLC
COMPANY BALANCE SHEET AT 31 DECEMBER 2007

	Notes	2007 US\$000	2006 US\$000
Assets			
Non-current assets			
Intangible assets	10	133	91
Property, plant and equipment	11	224	209
Financial assets	12	10	10
		367	310
Current assets			
Trade and other receivables	13	45,382	12,006
Cash and cash equivalents		4,628	14,096
		50,010	26,102
Total assets		50,377	26,412
Equity and liabilities			
Capital and reserves			
Called up share capital	16	2,147	2,147
Share premium	17	25,708	25,708
Other reserves	18	2,052	1,563
Retained losses	19	(10,230)	(5,154)
Total equity		19,677	24,264
Non-current liabilities			
Convertible loan – debt portion	15	17,376	-
Derivative financial instruments	15	11,560	-
Total non-current liabilities		28,936	-
Current liabilities			
Trade and other payables	14	1,764	2,148
Total current liabilities		1,764	2,148
Total liabilities		30,700	2,148
Total equity and liabilities		50,377	26,412

Approved by the Board on 27 June 2008

Thomas Anderson
Chairman

David Hough
Chief Executive Officer

CIRCLE OIL PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 US\$000	2006 US\$000
Net cash used by operations	21	(3,987)	(1,300)
Taxes paid		(3)	-
Net cash outflow from operating activities		<u>(3,990)</u>	<u>(1,300)</u>
Cash flows from investing activities			
Payments to acquire oil & gas interests		(10,573)	(4,819)
Payments to acquire property, plant and equipment		(184)	(399)
Interest received		1,144	801
Net cash used in investing activities		<u>(9,613)</u>	<u>(4,417)</u>
Cash flows from financing activities			
Issue of ordinary share capital		-	674
Issue of convertible loan		30,000	-
Financing costs		(349)	-
Interest paid		(549)	-
Net cash from financing activities		<u>29,102</u>	<u>674</u>
Increase/(decrease) in cash and cash equivalents		<u>15,499</u>	<u>(5,043)</u>
Cash and cash equivalents at beginning of year		14,216	19,259
Cash and cash equivalents at end of year	22	<u>29,715</u>	<u>14,216</u>

CIRCLE OIL PLC
COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 US\$000	2006 US\$000
Net cash used by operations	21	(3,431)	(469)
Taxes paid		(3)	-
Net cash outflow from operating activities		<u>(3,434)</u>	<u>(469)</u>
Cash flows from investing activities			
Advances to group undertakings		(35,431)	(5,843)
Payments to acquire oil & gas interests		(86)	(81)
Payments to acquire property, plant and equipment		(120)	(237)
Interest received		500	800
Net cash used in investing activities		<u>(35,137)</u>	<u>(5,361)</u>
Cash flows from financing activities			
Issue of ordinary share capital		-	674
Issue of convertible loan		30,000	-
Financing costs		(349)	-
Interest paid		(549)	-
Net cash from financing activities		<u>29,102</u>	<u>674</u>
Decrease in cash and cash equivalents		<u>(9,469)</u>	<u>(5,156)</u>
Cash and cash equivalents at beginning of year		14,097	19,252
Cash and cash equivalents at end of year		<u>4,628</u>	<u>14,096</u>

CIRCLE OIL PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

Consolidated

	Share capital US\$000	Share premium US\$000	Share based payment reserve US\$000	Translation reserve US\$000	Retained losses US\$000
At 1 January 2006	2,124	25,057	235	-	(3,851)
Issue of share capital	23	651	-	-	-
Share based payments	-	-	1,328	-	-
Exchange translation movement	-	-	-	(3)	-
Net loss for the year	-	-	-	-	(3,682)
At 1 January 2007	<u>2,147</u>	<u>25,708</u>	<u>1,563</u>	<u>(3)</u>	<u>(7,533)</u>
Share based payment	-	-	489	-	-
Net loss for the year	-	-	-	-	(2,735)
At December 31 2007	<u><u>2,147</u></u>	<u><u>25,708</u></u>	<u><u>2,052</u></u>	<u><u>(3)</u></u>	<u><u>(10,268)</u></u>

Company

	Share capital US\$000	Share premium US\$000	Share based payment reserve US\$000	Retained losses US\$000
At 1 January 2006	2,124	25,057	235	(2,850)
Issue of share capital	23	651	-	-
Share based payments	-	-	1,328	-
Net loss for the year	-	-	-	(2,304)
At 1 January 2007	<u>2,147</u>	<u>25,708</u>	<u>1,563</u>	<u>(5,154)</u>
Share based payment	-	-	489	-
Net loss for the year	-	-	-	(5,076)
At December 31 2007	<u><u>2,147</u></u>	<u><u>25,708</u></u>	<u><u>2,052</u></u>	<u><u>(10,230)</u></u>

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. Accounting policies

Principal accounting policies

The financial statements are based on the following accounting policies which have been consistently applied:

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations for the first time. They have also been prepared in accordance with the Companies Acts, 1963 to 2006 and comply with Article 4 of the IAS Regulations.

The financial statements have been prepared on the historical cost basis.

The financial statements in respect of the year ended 31 December 2006 were prepared under Irish GAAP. The comparative figures for the immediately preceding financial year have been restated on a basis consistent with IFRSs.

The impact of the restatement is shown below:-

Reconciliation of equity under previous GAAP at 31 December 2005 to equity under IFRSs	Group US\$000	Company US\$000
Equity under Irish GAAP	23,565	24,566
Equity under IFRSs	23,565	24,566
 Reconciliation of loss under previous GAAP for year ended 31 December 2005 to loss under IFRSs	 US\$000	 US\$000
Loss under Irish GAAP	(2,121)	(1,530)
Loss under IFRSs	(2,121)	(1,530)
 Reconciliation of equity under previous GAAP at 31 December 2006 to equity under IFRSs	 Group US\$000	 Company US\$000
Equity under Irish GAAP	21,882	24,264
Equity under IFRSs	21,882	24,264
 Reconciliation of loss under previous GAAP for year ended 31 December 2006 to loss under IFRSs	 US\$000	 US\$000
Loss under Irish GAAP	(3,682)	(2,304)
Loss under IFRSs	(3,682)	(2,304)

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

The Company has availed of the exemption in IFRS 1 “First Time Adoption of International Financial Reporting Standards”, to deem cumulative translation differences for all operations to be zero at the date of transition to IFRS. The impact of the re-statement is shown below:

Reconciliation of retained losses under previous GAAP for year ended 31 December 2005 to retained losses under IFRSs	Group US\$000	Company US\$000
Retained losses under Irish GAAP	(3,755)	(2,850)
Retained losses under IFRSs	(3,851)	(2,850)
Reconciliation of translation reserve under previous GAAP at 31 December 2005 to translation reserve under IFRSs	US\$000	US\$000
Translation reserve under Irish GAAP	(96)	-
Translation reserve under IFRSs	-	-

Functional & presentational currency

The Group has changed its functional currency from the Euro to the US dollar with effect from 1 January 2007. As all of the Group’s project expenditures are denominated in US dollars and the latest funding facility was also denominated in US dollars, the Group considers the US dollar to be the currency of the primary economic environment in which it operates. When sales revenue occur, these too will be in US dollars.

Additionally, the Group has elected to change its presentational currency to US dollars.

Adoption of new and revised Standards

The Group, as a first time IFRS reporter, has adopted early, with effect from 1 January 2006, the following standards and interpretations as at 31 December 2007, the reporting date of the Group’s first IFRS financial statements:

IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009)

The revisions to IAS 23 have had no impact on the Group’s accounting policies. The principal change to the standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, has had no impact on these financial statements because it has been the Group’s accounting policy to capitalise borrowing costs incurred on qualifying assets.

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

Four interpretations issued by IFRIC are effective for the current year. These are:

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

IFRIC 8 *Scope of IFRS 2 Share based Payment*

IFRIC 9 *Reassessment of Embedded Derivatives*

IFRIC 10 *Interim Reporting and Impairments*

The adoption of these interpretations has not led to any changes in the Group's accounting policies.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, other than the standards and interpretations adopted by the Group in advance of their effective dates, the following standards and interpretations were in issue but not yet effective:

IFRS 2 (Revised 2008) *Share-based Payment* (effective for accounting periods beginning on or after 1 January 2009)

IFRS 3 (Revised 2008) *Business Combinations* (effective for acquisitions made in accounting periods beginning on or after 1 July 2009)

IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009)

IAS 1 (Revised 2007) *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009)

IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 July 2009)

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007)

IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008)

IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008)

IFRIC 14 *The Limit on a Defined Benefit Asset – Minimum Funding Requirements and Their Interaction* (effective for accounting periods beginning on or after 1 January 2008)

The Directors anticipate that all of the above standards and interpretations will be adopted in the Group's financial statements in future periods and that those standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to the end of the financial year. Subsidiaries are consolidated in the Group financial statements from the date on which control over financial and operating policies and decisions is obtained. All intercompany transactions, balances, income and expenses have been eliminated in full on consolidation.

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

Taxation

The tax expense represents the sum of the current tax charge and the movement in deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit or loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither the tax profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures, and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets and liabilities when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. All other assets and liabilities are translated at applicable historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect at the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement. For the purposes of consolidation, the closing rate method is used under which the balance sheets and income statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date and the average rate for the year respectively. Any translation gains or losses arising are recorded as exchange translation adjustments and included in equity.

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

Share based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2006.

Equity settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of equity settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity settled share based payment reserve.

For cash settled share-based payments, a liability equal to the portion of goods or services received is recognised at the current fair value determined at each balance sheet date.

Where an individual's costs, or a portion thereof, are charged to an oil & gas project and where that individual has been granted options for which a fair value is recognised, then a similar portion of the share option expense is charged to that project or projects.

Pension costs

The Group provides for pensions for certain employees through defined contribution pension schemes. The amount charged to the income statement in respect of the scheme is the contribution payable in that year. Any difference between amounts charged to the income statement and contributions paid to the pension scheme is included in receivables or payables in the balance sheet.

Finance costs

Finance costs of debt are amortised over the term of the related debt at a constant rate on the carrying amount. Transaction costs are deducted from debt proceeds on initial recognition of the liability and are amortised and charged to the income statement as finance costs over the term of the debt.

Trade receivables

Trade receivables are measured at initial recognition at their fair value and subsequently stated at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is not recoverable.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank held by the Group and short-term bank deposits with a maturity of 3 months or less.

Trade payables

Trade payables are measured at initial recognition at their fair value and subsequently stated at amortised cost.

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(a) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments raised by the Group are recorded at the proceeds received net of direct issue costs.

(b) Convertible loan - hybrid financial instrument

Where a convertible loan meets the definition of a compound financial instrument the component parts are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements. However, where, at inception, the conversion option is denominated in foreign currency terms such that the option will not be settled by the company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan does not meet the definition of a compound financial instrument. In such cases, the convertible loan (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. Attached options (options entered into in consideration for entering into the host contract) on similar currency terms are also embedded derivatives.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date, the embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

The fair value of the embedded derivatives has been calculated using a Binomial Lattice model and the Black Scholes option pricing model.

Interest expense is calculated using the effective interest rate method.

2. Share option expense

The fair value of equity settled share based payments is recognised as an expense in the income statement on a straight line basis over the vesting period and a corresponding increase is recorded in the share-based payment reserve. For the year ended 31 December 2007 this resulted in a charge of US\$226,000 (2006: US\$775,000) in the income statement.

Where an individual's costs, or a portion thereof, is capitalised in oil & gas interests in accordance with Group accounting policies and where that individual has been granted options for which a fair value has been recognised, then, a similar portion of the share option expense is capitalised to that project or projects. For the year ended 31 December 2007 share option expense amounting to US\$263,000 (2006: US\$553,000) has been capitalised in oil and gas interests. See Note 18 (a).

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3. Administrative expenses

	2007	2006
	US\$000	US\$000
Salaries & consultancy	1,917	1,810
Professional fees	550	470
Office overheads	1,577	1,335
Capitalised to oil and gas interests	(859)	(461)
	<u>3,185</u>	<u>3,154</u>

4. Finance revenue

	2007	2006
	US\$000	US\$000
Interest receivable	1,133	714
Gain on fair value of derivative financial instruments	1,812	-
	<u>2,945</u>	<u>714</u>

5. Finance costs

	2007	2006
	US\$000	US\$000
Interest payable:		
Convertible loan	1,872	-
Other	71	-
Interest expense capitalised to oil and gas interests	(30)	-
	<u>1,913</u>	<u>-</u>

Interest payable relating to the convertible loan includes stated and effective interest expense plus amortisation of debt issuance costs.

6. Loss before taxation

	2007	2006
	US\$000	US\$000
Loss before taxation is stated after charging:		
Directors' emoluments		
- Fees	171	115
- Other emoluments	963	879
	<u>1,134</u>	<u>994</u>
- Share based payments	142	751
Depreciation	120	90
Auditors remuneration	70	46
	<u>1,466</u>	<u>1,660</u>

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7. Taxation

(a) Analysis of taxation charge for the year

	2007 US\$000	2006 US\$000
Irish corporation tax:		
Adjustments in respect of prior year	<u>2</u>	-
	<u>2</u>	-
Foreign tax:		
Based on the adjusted profit for the year	<u>11</u>	-
	<u>11</u>	-
Total current tax	<u><u>13</u></u>	<u><u>-</u></u>

(b) Factors affecting taxation charge for the year

The tax due for the year is different to the standard rate of Irish corporation tax. This is due to the following:

	2007 US\$000	2006 US\$000
Loss on ordinary activities before tax	<u>(2,722)</u>	<u>(3,682)</u>
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 25% (2006: 25%)	(681)	(921)
Effects of:		
Adjustment in respect of prior year	2	-
Losses carried forward	681	921
Higher rate of tax on foreign income	<u>11</u>	-
Tax charge for year	<u><u>13</u></u>	<u><u>-</u></u>

No deferred tax asset has been recognised on accumulated tax losses as it cannot be considered probable that future taxable profit will be available against which the unused tax losses can be utilised. The amount not recognised amounts to US\$2,881,000 (2006: US\$2,081,000).

	2007 US\$000	2006 US\$000
Deferred tax arising from:		
Losses forward*	2,367	1,690
Share based payment	<u>514</u>	<u>391</u>
	<u><u>2,881</u></u>	<u><u>2,081</u></u>

*The deferred tax asset not recognised in respect of temporary differences associated with subsidiaries is US\$61,000 (2006: US\$596,000)

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8. Basic and diluted loss per share

The calculation of the basic loss per share attributable to the ordinary equity holders of the parent is based on the following data:

	2007 US\$000	2006 US\$000
Earnings		
Loss for the year attributable to equity holders of the parent	<u>(2,735)</u>	<u>(3,682)</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>162,697</u>	<u>162,697</u>

Diluted loss per share is calculated using the weighted average number of ordinary shares assuming the conversion of its potential dilutive equity derivatives outstanding. All of the Group's potential ordinary shares were anti-dilutive for the years ended 31 December 2007 and 2006 respectively. The Group had total potential ordinary shares outstanding of 49,180,951 at 31 December 2007 (2006: 16,543,811).

9. Employees and remuneration

	2007 US\$000	2006 US\$000
Employee costs during the year:		
Wages and salaries	1,490	1,579
Share based payments	360	1,283
Social welfare costs	92	144
Pension costs	9	-
	<u>1,951</u>	<u>3,006</u>
Average number of persons employed:		
Management and administration	4	4
Other technical	3	6
	<u>7</u>	<u>10</u>

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10. Intangible assets

The movement on exploration and evaluation assets relating to oil & gas interests during the year was:

Group	2007	2006
	US\$000	US\$000
Balance 1 January	9,296	4,433
Additions during year	17,709	5,359
Amounts written – off	(530)	(496)
At 31 December	<u>26,475</u>	<u>9,296</u>
Company	2007	2006
	US\$000	US\$000
Balance 1 January	91	11
Additions during year	86	91
Amounts written – off	(44)	(11)
At 31 December	<u>133</u>	<u>91</u>

The net book value of oil & gas interests by geographical area are as follows:

Group	2007	2006
	US\$000	US\$000
Morocco	9,587	3,990
Oman	6,901	3,689
Tunisia	5,310	1,366
Namibia	4,544	155
Other	133	96
	<u>26,475</u>	<u>9,296</u>

Company

The net book value of oil and gas interests by geographical area for the Company was: Other:US\$133,000 (2006: Other:US\$91,000).

Oil and gas interests at 31 December 2007 represent exploration and related expenditure on the Group's licences & permits in the geographical areas noted above, full details of which are set out in the Operations Review. The realisation of these intangible assets by the Group and Company is dependent on the development of economic reserves and the ability of the Group to raise sufficient funds to develop these interests. Should the development of economic reserves prove unsuccessful, the carrying value in the balance sheet will be written off.

Having reviewed the carrying value of oil and gas interests at 31 December 2007, the Directors are satisfied that the recoverable amount is not less than the carrying value.

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11. Property, plant and equipment

Group	2007	2006
	US\$000	US\$000
Cost:		
At 1 January	284	99
Additions	185	399
Disposals	-	(214)
At 31 December	<u>469</u>	<u>284</u>
Accumulated depreciation:		
At 1 January	51	20
Charge for year	120	90
Disposals	-	(59)
At 31 December	<u>171</u>	<u>51</u>
Net book value at 31 December	<u>298</u>	<u>233</u>
Company	2007	2006
	US\$000	US\$000
Cost:		
At 1 January	256	19
Additions	120	237
At 31 December	<u>376</u>	<u>256</u>
Accumulated depreciation:		
At 1 January	47	7
Charge for year	105	40
At 31 December	<u>152</u>	<u>47</u>
Net book value at 31 December	<u>224</u>	<u>209</u>

Property, plant and equipment refer mainly to office and computer equipment and computer software.

12. Financial assets

		2007	2006
		US\$	US\$
Shares in subsidiary companies (unlisted shares) at cost:	% Owned		
Circle Oil Company, (Panama), S.A.	100%	10,000	10,000
First African Oil Corporation	100%	20	20
Circle Oil Jersey Limited	100%	4	4
Total		<u>10,024</u>	<u>10,024</u>

See Note 28 for details of the registered office of each of the above subsidiary companies.

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13. Trade and other receivables

Group	2007	2006
	US\$000	US\$000
VAT	24	54
Prepayments & accrued income	<u>213</u>	<u>271</u>
	<u>237</u>	<u>325</u>
Company	2007	2006
	US\$000	US\$000
VAT	24	54
Prepayments	117	136
Amounts due from group companies	<u>45,241</u>	<u>11,816</u>
	<u>45,382</u>	<u>12,006</u>

Included in amounts due from Group companies is US\$24,982,000 (2006: Nil) representing cash balances held in a subsidiary company and US\$20,259,000 (2006:US\$11,816,000) representing amounts advanced to other subsidiary companies in relation to expenditure incurred on oil and gas interests.

The realisation of amounts due from other subsidiary companies is dependent on the development of the economic reserves of the Groups oil and gas interests including the ability of the Group to raise sufficient funds to develop these interests.

14. Trade and other payables

Group	2007	2006
	US\$000	US\$000
Trade creditors and accruals	8,112	2,143
Other creditors – taxes	<u>41</u>	<u>45</u>
	<u>8,153</u>	<u>2,188</u>
Company	2007	2006
	US\$000	US\$000
Trade creditors and accruals	1,269	2,059
Other creditors – taxes	41	45
Amounts due to group companies	<u>454</u>	<u>44</u>
	<u>1,764</u>	<u>2,148</u>

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15. Convertible loan

On 11 June 2007, the Company announced the closing of an unsecured convertible loan with Kuwait based KGL Petroleum Company (KGL) in the amount of US\$30 million due 2012 (the Loan). The Loan bears interest at the rate of six per cent per annum, payable quarterly and is convertible into ordinary shares of the Company at a conversion price of Stg£0.25 per ordinary share. The Loan also has an additional option whereby KGL can subscribe for an additional 15 million shares in the Company at a price of Stg£0.50 per ordinary share exercisable during the first three years of the loan agreement.

As the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan does not meet the definition of a compound financial instrument. Instead, the convertible loan (the host contract) is a hybrid financial instrument and the option to convert is an embedded derivative. Additional options (options entered into in consideration for entering into the host contract) on similar currency terms are also embedded derivatives. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivatives and is subsequently carried at each reporting date at amortised cost.

The embedded derivatives are separated from the host contract as their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. At each reporting date, the embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss as they arise. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

The above principles have been reflected as follows:

Group and Company	2007 US\$000	2006 US\$000
Proceeds from issue of convertible loan	30,000	-
Loan transaction costs	(279)	-
	<hr/>	<hr/>
Net proceeds from convertible loan	29,721	-
	<hr/>	<hr/>
Convertible loan debt portion – amortised cost	17,376	-
Derivative financial instruments – fair value	11,560	-
	<hr/>	<hr/>
	28,936	-
	<hr/>	<hr/>
Convertible loan debt portion at inception	16,349	-
Interest charged	1,844	-
Interest paid	(845)	-
Amortisation of transaction costs	28	-
	<hr/>	<hr/>
Closing convertible loan debt portion – amortised cost	17,376	-
	<hr/>	<hr/>
Derivative financial instruments – conversion option at inception	11,451	-
Fair value movement - gain	(972)	-
	<hr/>	<hr/>
Closing derivative financial instruments – conversion option	10,479	-
	<hr/>	<hr/>
Derivative financial instruments – additional option at inception	1,921	-
Fair value movement - gain	(840)	-
	<hr/>	<hr/>
Closing derivative financial instruments – additional option	1,081	-
	<hr/> <hr/>	<hr/> <hr/>

CIRCLE OIL PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The fair value of each derivative financial instrument at 31 December 2007 was calculated using (a) a Binomial Lattice Model for the conversion option and (b) the Black Scholes Model for the additional option.

The inputs used in each model were as follows:

	Binomial Lattice Model	Black Scholes Model
Option Term – years	4.6	2.4
Share price – pence sterling	23.25	23.25
Risk-free rate (%)	3.41	3.07
Expected volatility (%)	63.1	60.4
Dividend yield	-	-

The fair value of each of the derivative financial instruments disclosed in the financial statements was determined using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument.

16. Called up share capital

	2007 US\$000	2006 US\$000
Authorised:		
500,000,000 ordinary shares of €0.01 each	<u>5,000</u>	<u>5,000</u>
	US\$000	US\$000
Issued:		
Opening balance	2,147	2,124
Issue of new shares	-	23
Closing balance	<u>2,147</u>	<u>2,147</u>

The total number of ordinary shares (nominal value €0.01 each) in issue at 31 December 2007 was 162,697,200 (2006: 162,697,200).

17. Share premium

Group and Company	2007 US\$000	2006 US\$000
Opening balance	25,708	25,057
Arising on issue of new shares	-	651
Closing balance	<u>25,708</u>	<u>25,708</u>

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18. Other reserves

a) Share based payment reserve

The Company operates a share option scheme for all employees and consultants who devote a substantial amount of their time to the business of the Group.

The Group's policy is to award options on appointment or at an appropriate time thereafter. Options granted generally have a vesting period of up to one year, expire six years after the date of grant and lapse within six months of the option holder leaving the Group.

Details of the share options outstanding during the year are as follows (monetary amounts are denominated in sterling (£), this being the currency in which the shares are quoted):

	2007	Weighted	2006	Weighted
	No. of share	average	No. of share	average
	options	exercise price	options	exercise price
	000's	£	000's	£
1 January	18,050	0.26	16,750	0.26
Granted during year	400	0.25	4,050	0.27
Exercised during year	-	-	(1,750)	0.20
Lapsed during year	(3,150)	0.25	(1,000)	0.30
31 December	15,300	0.26	18,050	0.26
Exercisable at 31 December	14,900	0.26	14,000	0.26

The fair values of the options were calculated using a Black-Scholes option pricing model and this produced an average fair value of the options of Stg13.6p each. The inputs used in the model were as follows:

	2007	2006
Weighted average share price (£)	0.27	0.31
Weighted average exercise price (£)	0.26	0.28
Expected volatility (%)	70	70
Average expected life (years)	2.35	2.5
Weighted average risk free rate (%)	5.0	4.4
Expected dividends	-	-

This calculation results in a credit to other reserves of US\$489,000 (2006: US\$1,328,000).

b) Translation reserve

There was no movement on the exchange translation reserve for 2007 (2006: US\$3,000 loss).

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c) Reconciliation of other reserves

Group

	2007 US\$000	2006 US\$000
Opening reserves	1,560	235
Share based payments	489	1,328
Exchange translation movements	-	(3)
Closing reserves	<u>2,049</u>	<u>1,560</u>

Company

	2007 US\$000	2006 US\$000
Opening reserves	1,563	235
Share based payments	489	1,328
Closing reserves	<u>2,052</u>	<u>1,563</u>

19. Loss for the financial year

Group

	2007 US\$000	2006 US\$000
Opening balance	(7,533)	(3,851)
Loss for the year	(2,735)	(3,682)
Closing balance	<u>(10,268)</u>	<u>(7,533)</u>

Company

	2007 US\$000	2006 US\$000
Opening balance	(5,154)	(2,850)
Loss for the year	(5,076)	(2,304)
Closing balance	<u>(10,230)</u>	<u>(5,154)</u>

In accordance with S148(8) of the Companies Act, 1963 and S7(1A) of the Companies (Amendment) Act, 1986 the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's loss for the financial year determined in accordance with IFRS is US\$5,076,000 (2006: US\$2,304,000)

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20. Reconciliation of movement in shareholders' funds

Group	2007	2006
	US\$000	US\$000
Loss for the year	(2,735)	(3,682)
Increase in share capital and share premium	-	675
Share based payments	489	1,328
Exchange translation adjustment	-	(3)
Decrease in shareholders' funds	<u>(2,246)</u>	<u>(1,682)</u>
Opening shareholders' funds	21,882	23,564
Closing shareholders' funds	<u>19,636</u>	<u>21,882</u>
Company	2007	2006
	US\$000	US\$000
Loss for the year	(5,076)	(2,304)
Increase in share capital and share premium	-	675
Share based payments	489	1,328
Decrease in shareholders' funds	<u>(4,587)</u>	<u>(301)</u>
Opening shareholders' funds	24,264	24,565
Closing shareholders' funds	<u>19,677</u>	<u>24,264</u>

21. Reconciliation of operating loss to net cash used by operations

Group	2007	2006
	US\$000	US\$000
Operating loss	(3,754)	(4,396)
Increase in creditors	(1,186)	1,625
Decrease/(increase) in debtors	77	(41)
Exploration costs written off	530	496
Reorganisation costs	-	154
Exchange translation adjustments	-	(3)
Depreciation	120	90
Share option expense	226	775
Net cash used by operations	<u>(3,987)</u>	<u>(1,300)</u>
Company	2007	2006
	US\$000	US\$000
Operating loss	(5,435)	(3,017)
Increase in creditors	(696)	1,748
Decrease/(increase) in debtors	9	(15)
Intercompany write-off	2,316	-
Exploration costs written off	44	-
Depreciation	105	40
Share option expense	226	775
Net cash used by operations	<u>(3,431)</u>	<u>(469)</u>

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22. Cash at bank

The Group's cash balances at 31 December 2007 amounted to US\$29,715,000 (2006: US\$14,216,000) including restricted cash amounts of \$2,434,000 (2006: \$2,529,000) relating to bank guarantees issued in respect of the completion of certain project work programs.

23. Financial instruments

Fair value of financial instruments

The fair value of financial assets or liabilities at fair value through profit or loss for which there is not an active market or an available quoted market price is estimated using valuation techniques. The Company bases assumptions on market conditions at balance sheet date and the time of performing the valuation and use a variety of techniques, including option pricing models or any other valuation technique commonly used by market participants to price the instrument that provides reliable estimates of prices obtained in actual market transactions. Techniques used incorporate observable market data about the market conditions and other factors that are likely to affect these instruments' fair value.

Risk management

The Group is exposed to a variety of financial risks as a result of its activities. These risks include capital risk management, credit risk, liquidity risk and market risk (including interest rate risk, currency risk and price risk). The risk management of the Group is the responsibility of the Directors.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The Group's overall strategy remains unchanged from 2006.

The capital structure of the Group consists of debt, disclosed in note 15, cash and cash equivalents and equity comprising issued capital and retained earnings as disclosed in notes 16 and 19 respectively.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing only with creditworthy counterparties. There are no significant concentrations of credit risk within the Group.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they fall due. The Group's policy throughout the year has been to ensure that it has adequate liquidity by careful management of its working capital. The liquidity exposure of the Group's cash deposits was as follows:

Amounts held at bank and on deposit at 31 December 2007 were US\$29.7 million (2006: US\$14.2 million)

Market risk

Market risk is the potential adverse change in value caused by unfavourable movements in interest rates, foreign exchange or market prices of financial instruments. There has been no change to the manner in which the Group manages and measures the risk.

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Interest rate risk

The Group borrows funds at fixed interest rates. The Group finances its operations through the use of cash deposits at variable rates of interest for a variety of short-term periods, depending on cash requirements. The rates are reviewed regularly and the best rate obtained in the context of the Group's need.

Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the functional currency of the Group which comprises primarily of Euro and Sterling. The Group seeks to minimise its exposure to currency risk by closely monitoring exchange rates and restricting the buying and selling of currencies to predetermined exchange rates within specified bands.

The Group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and be may used where appropriate in the future.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial liability will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. The Group's overall market positions are monitored on a monthly basis by the Directors.

The Directors consider that the expected volatility assumption is the most important driver of the fair value of the conversion option and additional option. The following table provides an analysis of the fair value of these options based on an expected volatility figure five percentage points lower and five percentage points higher respectively than the assumptions set out in Note 15:

Expected volatility	Conversion option US\$000	Additional option US\$000	Total options US\$000	Gain/ (Loss) US\$000
Per Note 15	10,479	1,081	11,560	-
5% points lower	9,814	889	10,703	857
5% points higher	11,120	1,281	12,401	(841)

There are no comparative figures for 2006 as these options were not in place during that year.

24. Related party transactions

- (i) During the year the Company paid fees (net of VAT) to Grosvenor International Finance Limited amounting to US\$240,000 (2006: US\$232,000). Grosvenor International Finance Limited is controlled by Mr. John P McKeon a Director of the Company. The fees relate to a consultancy agreement with the Company for the provision of the services of John P McKeon.
- (ii) Mohammad Sultan, a Director of the Company, is also a Director of Kuwait based KGL Petroleum Company (KGL). KGL provided the Company with the US\$30 million unsecured convertible loan. (See note 15).

25. Capital commitments

The Group has estimated capital commitments at 31 December 2007 amounting to US\$17.3 million which will be payable over the next two years.

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26. Post balance sheet events

- (i) In January 2008, the Company announced the signing of a farm-in agreement covering the exploration and exploitation of hydrocarbons with Vegas Oil & Gas S.A. for the NW Gemsa Block in Egypt.
- (ii) In June 2008, the Company announced the signing of a farm-in agreement with Tethys Oil & Mining Incorporated for the Mahdia Permit, offshore Tunisia.

27. Judgements in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are:

- (i) Capitalisation of exploration and evaluation costs

The assessment of whether administration costs and salary costs are capitalised or expensed involves judgement. Management considers the nature of each cost incurred and whether it is appropriate to capitalise it within exploration and evaluation costs.

- (ii) Deferred tax assets

The assessment of the availability of future taxable profits involves judgement. A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

- (iii) Going concern

The preparation of the financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on the availability of adequate financial resources to allow the Group to continue in operational existence for the foreseeable future. The Directors have reviewed budgets, projected cash flows and other general financial options, and based on this review are confident that 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 the going concern basis. Should the going concern basis not be appropriate, adjustments would have to be made to the assets and liabilities in the balance sheet of the Group

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- (i) Review of exploration and evaluation assets carrying values

The assessment of exploration and evaluation assets for any indications of impairment involves judgement. When facts and circumstances suggested that an impairment exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that carrying amount exceeds recoverable amount. Recoverable amount is determined to be the higher of fair value less costs to sell and value in use.

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(ii) Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted, and the time of exercise of those options. The model used by the Group is the Black-Scholes model.

(iii) Fair value of embedded derivatives

The estimation of the fair value of embedded derivatives requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted, and the time of exercise of those options. The models used by the Group are a Binomial Lattice model and the Black-Scholes model.

28. Subsidiary undertakings

The Company's principal subsidiary undertakings at 31 December 2007, all of which are wholly owned, are as follows:

Name of Subsidiary	Registered Office	Nature of Business
Circle Oil Jersey Limited	Colomberie Close, St. Helier, Jersey.	Holding Company
Circle Oil Namibia Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Oman Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Oman Offshore Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Maroc Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Tunisia Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Egypt Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Iraq Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Libya Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Panama Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Company, (Panama), S.A.	Avenida Cuba y Calle 38 Este P.O. Box 0816-05510, Panama.	Oil & Gas Exploration
First African Oil Corporation	615 South DuPont Highway Dover, Delaware, USA.	Dormant

Glossary of terms

API40	Kerosene
AVO	Amplitude versus offset
BOPD	Barrels of oil per day
EPSA	Exploration and Production Sharing Agreement
GAAP	Generally Accepted Accounting Practice
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
MMBO	Millions of barrels of oil
MM3	Million cubic metres
MWD	Measurement while drilling
ONHYM	Office National des Hydrocarbures et des Mines
PSA	Production Sharing Agreement
Sq km	Square kilometres
2D	Two dimensional
3D	Three dimensional



Circle Oil Plc

