Circle Oil Plc

Annual Report **2009**

Circle Oil Plc

HIGHLIGHTS

- Oil production commences in Egypt and increases during the year
- Gas production continuing in Morocco
- Four appraisal wells and three exploration wells drilled: six with commercial hydrocarbons and one yet to be tested
- 3D seismic survey underway in Oman Block 49
- 2D seismic acquisition programmes completed on Mahdia and Ras Marmour licences in Tunisia
- New onshore licences acquired in Morocco in early 2010
- First revenues from oil and gas production in Egypt and Morocco
- Raised £16.5 million (US$27 million) in private placing in August 2009

Circle Oil Plc

CONTENTS

Chairman's Statement

The Company has again enjoyed significant success in the year ended 31 December 2009 and has continued its development from being an explorer into being both an explorer and producer of oil and gas. The balanced portfolio focusing on low risk producing assets in Morocco and Egypt with the additional upside potential in all the remaining assets will provide a growing revenue stream for Circle in the coming years and a solid base for further development. The choice of acreage and continuing success with the drill bit over the last twelve months speaks for itself and I am confident that this success can continue in 2010.

The Company announced in the autumn of 2008 an extensive drilling campaign in Morocco and Egypt. The drilling campaign was completed in Morocco in mid 2009 and in the NW Gemsa Concession in Egypt, the ongoing exploration and appraisal drilling programme continues. To date a total of 16 wells have been completed and commercial hydrocarbons have been discovered and tested in 12 of these wells with one well in Morocco, which intersected gas, yet to be tested.

This represents a success rate of over 75%, a testament to the skill and efforts of our technical team who continue to deliver excellent results.

Operations

Morocco

In Morocco, the six well campaign was finished in mid 2009 with the drilling resulting in five tested commercial discoveries and a sixth well, DRJ-6, with a four metre gas sand that will be flow tested during the 2010 drilling campaign.

On the production front, ONZ-4 continued in production throughout 2009 and was joined by well ONZ-6 which is also now in production. Produced gas is currently being sold to the CMCP paper mill in Kenitra. Negotiations are close to finalisation with a second large gas user in the area and we expect to be selling gas to other users as soon as the new trunkline is commissioned at year end or early 2011. This should see gas supply increasing from today's levels of 1.5-2 MMscf/d to 7-8 MMscf/d in 2011 and then upwards to the anticipated 16-17 MMscf/d.

Despite inclement weather, we managed to continue production with only a few days lost and also completed the hook up of wells KSR-8 and KSR-9. With four wells connected and wells CDG-9 and CGD-10 remaining to be connected, plus well DRJ-6, subject to successful testing later in the year, we are in a position to further increase our Moroccan gas production.

A recent independent third party report estimated ultimate recoverable resources of 16.24 bcf, an estimate which excludes the resources from the ONZ production and untested well DRJ-6. The inclusion of the ONZ-4 and ONZ-6 wells raises our Moroccan ultimate recoverable resources to 17.5bcf.

So far we have only drilled six out of a large number of identified targets and believe we have the potential for recovering over 200 billion cubic feet of gas in Morocco.

Tunisia

In Tunisia, following on from the Serdouk well in the Grombalia permit we have, in 2009, completed a 2D land seismic programme in the Ras Marmour permit as well as completing the required commitment 2D seismic programme in our offshore Mahdia permit. In all three permits the year was spent processing, reprocessing and interpreting data sets with a view to increasing our understanding prior to any future drilling. The Mahdia data has been successfully processed and prospects are being firmed up and are in line with our expectations. The Ras Marmour 2D has allowed us to more fully understand a number of prospects and these are also being firmed up as a precursor to planned onshore drilling in Tunisia during 2011.

Egypt

In Egypt, we have continued to enjoy tremendous success on the NW Gemsa Concession since we first farmed-in in January 2008 and made our first discovery in October 2008 of the Al Amir SE-1 ST well. Since then we have drilled a total of eight wells in Egypt, seven of which have proved to be commercial.

The concession is currently producing close to 10,000 barrels of oil per day in Egypt and has operator calculated potential total recoverable gross oil of 43 million barrels.

Oman

In Oman, following the tender, we awarded our 3D seismic campaign over the southern portion of our Block 49 in Oman to Sinopec and this survey is ongoing at the time of writing. The rest of the year will be spent processing and interpreting this large 900 sq km survey. It is currently anticipated that tenders for drilling in Block 49 will be issued later in the year.

In Block 52, we have tendered the forthcoming 2D marine seismic survey which is intended to acquire some 5,000 additional kms of 2D. The tender is presently being evaluated and we expect to shoot this in the early autumn although the ultimate timing will be linked and subject to a seismic vessel being available or passing through this concession area.

Chairman's Statement

Namibia

In Namibia, we continued to await the completion of the agreed farm-in by Petroholland. As previously indicated in a news release the finalisation of this agreement has been the subject of a protracted delay and whilst we continue to receive assurances that the agreement will be completed in the near future we note the time elapsed without the agreement being finalised.

Financials

2009 was another year of excellent progress on the financial front. The Group recorded first revenues from its oil and gas operations in Egypt and Morocco respectively amounting to US$15.1 million and achieved an average oil price of US$65.90 per BO and gas price of US$7.20 per Mscf. As a result the Group recorded its first gross profit of US$7.37 million. The net loss for the year resulted mainly from a non-cash charge relating to accounting for the fair value of the convertible loan in accordance with International Financial Reporting Standards.

During the year under review the Company raised £16.5 million (US$26.94 million) through a share placement which further strengthened the Group's financial position and enabled its exploration and development programme continue apace.

At year-end total current assets were US$36.2 million (2008: US$33.6 million) while total assets of the Group were in excess of US$132 million (2008: US$99.7 million).

Outlook

In 2010 Circle intends to continue with its exploration and production programmes with continued drilling in Egypt through additional appraisal wells and the commencement of injector support drilling. In Morocco, we will commence another six well programme (five plus DRJ-6 testing) and lay a new trunk line to Kenitra to permit increased production. The Company continues to seek out new projects to increase its production base by acquiring development, redevelopment projects or producing assets. We continue to look for projects which we believe to be acceptable on the basis of technical, reserve base, commercial and acceptable pay back criteria. This is a difficult task but we are determined to maintain our strict requirements and to this end our team has during 2009 and early 2010 reviewed data rooms and completed studies on over 60 potential projects in the greater MENA area.

As our oil production increases we are currently considering how best to capture future revenue reflecting the current high oil prices by way of a combination of future hedges and oil futures. I said in last year's annual report that I was looking to the future with confidence and enthusiasm and I am even more convinced today that Circle can deliver on its promise of accelerated growth.

Our technical and operations team under the leadership of Prof. Chris Green continues to deliver and Circle has changed into a fully operational oil and gas producer with the potential to grow substantially over the coming years.

I am delighted again to thank you, our shareholders, for your support and to sincerely thank all of our staff and the staff of our project partners for their continuing good work and commitment during the past year.

Finally this year's Chairman's Statement would not be complete without including our expression of sadness and condolences at the loss of our CEO David Hough who died suddenly at the end of March 2010. To his wife Frances and his three daughters as well as his immediate family and close friends we send our thoughts and best wishes as they recover from their sad loss.

All in Circle have worked hard over the last years to help the Company to succeed and grow. I believe that the team has renewed commitment to the continued growth and success of the Company as a lasting testament to David's memory.

Thomas Anderson

Chairman

18 June 2010

Operations Review

This year has been another very active and successful year for the Company's operations, with the successful drilling of four exploration wells in Morocco and gas production from the two wells ONZ-4 and ONZ-6. Negotiations for the signing of a new block in the Rharb Basin progressed well and the official award of the 2,211 sq km Lalla Mimouna Permit was made in late January 2010. In Egypt, we have made the discovery, appraisal and production start-up of the Geyad oil field, as well as the appraisal and commencement of oil production from the existing Al Amir SE field. Further upside in the Al Amir heavy oil area was confirmed with the successful drilling of the Al Amir-1 ST2 well. In Tunisia, we acquired 503 line km of 2D seismic on our offshore Mahdia Permit as well as 99 line km of 2D seismic data in the onshore Ras Marmour Permit. Ongoing interpretation will lead to the definition of future drilling targets in our Tunisian Permits. In Oman, we completed the planning and awarded the survey contract for a 900 sq km 3D seismic programme for Block 49 and have tendered an offshore 5,000 line km 2D seismic programme for Block 52, with both surveys for acquisition in 2010. The onshore Block 49 3D programme subsequently commenced mobilisation to start operations in March 2010.

Morocco

In our Sebou/Oulad N'Zala Permit we have continued production from ONZ-4 and our first discovery of ONZ-6 was put on production in April 2009. The combined gas rate has been between 1.4 and 2.6 MMscf/d throughout 2009, though production was temporarily interrupted for a few days by severe flooding in early 2010. Local transport problems affected our drilling and testing programme on one well and we were unable to test DRJ-6 in March 2009. This well had a 4m gas-bearing zone in the Lower Guebbas and this well is now planned to be tested during our 2010 drilling campaign.

Plans to add our 2008 & 2009 discoveries into production have advanced and KSR-8 was tied-in in January 2010 after being tested in mid February 2009 from two zones in the Hoot. The Upper Hoot had 2.5m of net pay and flowed at a sustained rate of 6.76 MMscf/d on a 24/64" choke. The Lower Hoot had 11.5m of net pay and flowed at a sustained rate of 12.48 MMscf/d on a 28/64" choke. Well CGD-10 was drilled in April 2009 and tested two zones in the Main Guebbas that total 3m of net pay and flowed at a sustained rate of 3.9 MMscf/d on a 24/64" choke. An additional Guebbas gas sand in CGD-10 had 2m of net pay and testing of this interval will be carried out at a later date. The KSR-9 well was drilled in June 2009 and encountered 2.7m of net pay in the Middle Gaddari, which tested at a sustained rate of 8.05 MMscf/d on a 30/64" choke. There was also a 1.7m net pay zone in the Basal Gaddari/Upper Guebbas of KSR-9, which tested at a sustained rate of 4.66 MMscf/d on a 24/64" choke. A 0.5m net pay zone in the Lower Guebbas of this well will be tested at a later date. With the testing of KSR-9, that completed our initial six well programme on the Sebou/Oulad N'Zala Permit with a splendid discovery rate of 100%.

Operations Review

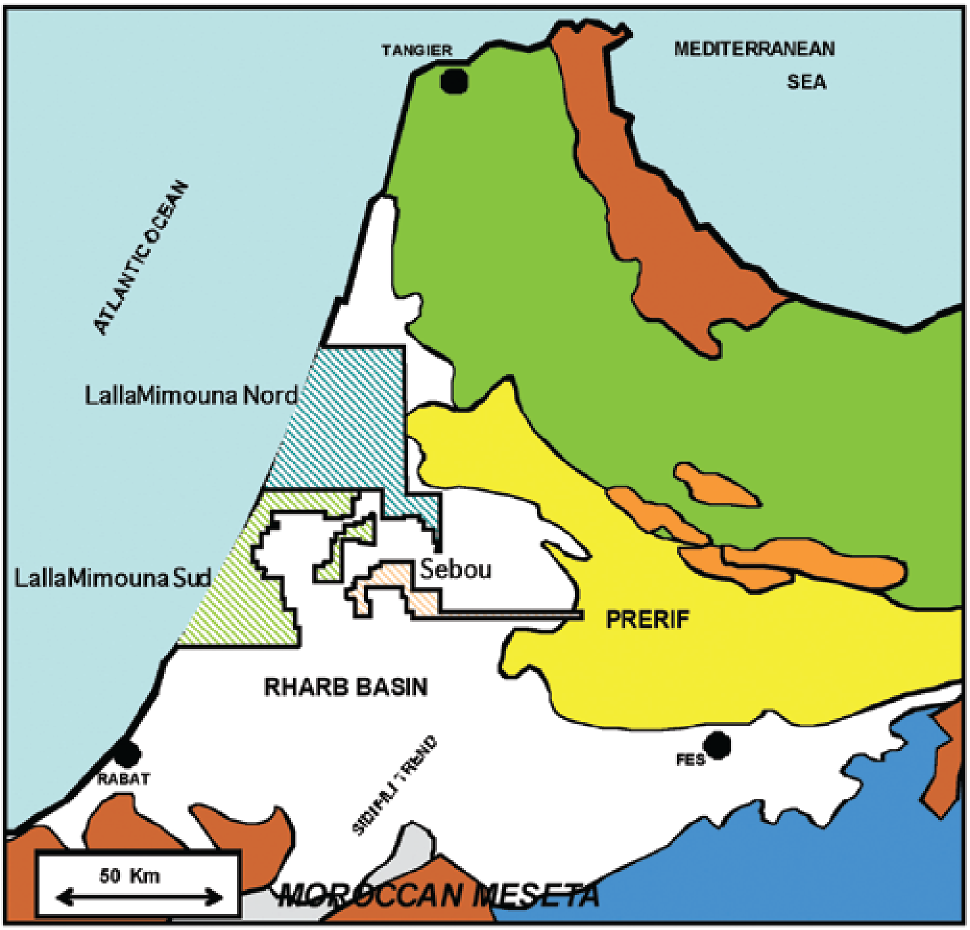
Circle has commenced planning and engineering processes to construct a larger capacity trunk line to the coastal town of Kenitra, north of Rabat, to deliver gas from our existing Sebou/Oulad N'Zala Permit discoveries and from any future discoveries. Construction of the line is likely to start in the second half of 2010, accompanied by tie-in of our remaining discoveries. Negotiations are well advanced with a number of local gas users to take all of the increased gas production. Applications for commerciality were made for the CGD-9, CGD-10, KSR-8 and KSR-9 discoveries.

During the autumn and winter of 2009, negotiations for additional Rharb Basin acreage were progressed with the Moroccan authorities and the official award of the Lalla Mimouna Nord and Sud Permits was made in late January 2010. Together the blocks total 2,211 sq km to the north and west of our current Sebou activity. The prospectivity for Miocene gas in the Lalla Mimouna blocks is seen as the similar primary target as in the Sebou/Oulad N'Zala Permit. The Lalla Mimouna PSA is for an eight year exploration period with terms of three, three and two years. The initial term obligations are for Circle to acquire 80 sq km of 3D seismic and drill two wells. In addition, Circle is progressing with the new inversion on the existing 3D dataset and plans to drill up to five exploration wells on the Sebou Permit. Commencement of drilling is not likely to be before the end of the second half of 2010, due to the severe flooding of the Rharb area.

Total most likely estimated ultimate recoverable resources found to date on the block is estimated at 16.24 bcf* of gas from the Sebou/Oulad N'Zala wells drilled to date. This estimate excludes the resources from the ONZ production and untested well DRJ-6.

The inclusion of the ONZ-4 and ONZ-6 raises the value of our Moroccan recoverable resources to 17.52 bcf. More anomalies have already been identified for drilling and Circle is keen to commence with the 2010 operations activity.

* Independent third party report 2010 (excluding ONZ-6, ONZ-4 and DRJ-6 yet to be tested)



Operations Review

Egypt

Our involvement on the NW Gemsa block, onshore Gulf of Suez, bore more fruit throughout 2009, with both appraisal and exploration successes. The Al Amir SE-2X appraisal well was drilled updip to the East of the Al Amir SE-1X discovery well and found both the Kareem Shagar and Rahmi sands to be oil-bearing. The well was tested in January 2009 with 42ft of Rahmi sands flowing at a sustained rate of 5,785 bopd of 41°API oil and 7.8MMscf/d of gas on a 64/64" choke. The Shagar sands, with 22 ft of net pay in this well, will be tested at a later date as part of the ongoing development programme. Following the results of this well, a 36 sq km development and production lease was applied for and granted to include the Al Amir and Al Amir SE discoveries. An early production system was set up very quickly and first oil was delivered by the end of February 2009.

The Al Amir SE-3X appraisal well was drilled in mid 2009 to determine the extent of the field to the North of the Al Amir SE-2X well and following sidetracking to the south encountered oil-bearing Shagar sands with 35ft of net pay which tested at a sustained rate of 2,395 bopd and 2.2 MMscf/d of gas on a 32/64" choke and the well was put on production. The Rahmi sands in this well were found to be thin and were not tested. The Al Amir SE-4X appraisal well was drilled in September 2009, downdip to the North West of Al Amir SE-1X, finding the Shagar and Rahmi sands oil-bearing with 23ft and 46ft of net pay respectively. The Rahmi sands were tested at a sustained rate of 5,500 bopd and 7.2 MMscf/d of gas on a 64/64" choke and the well was put on production. The Shagar sands in this well will be tested at a later date as part of the ongoing development programme.

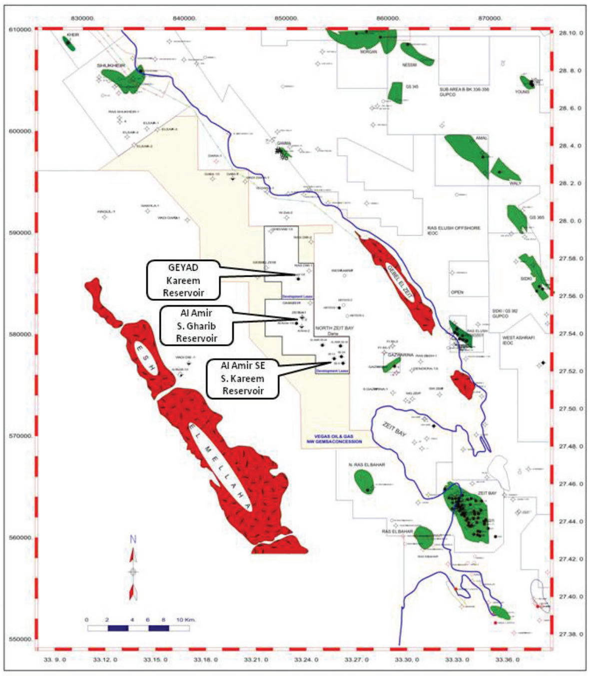
The Al Amir SE-5X appraisal well was drilled in early 2010 to the South of the Al Amir SE-2X well finding 19 ft of net pay in the Shagar sands and 17.5ft of net pay in the Rahmi sands. The Shagar sands tested at a sustained rate of 6,150 bopd and 6.9 MMscf/d of gas on a 64/64" choke and the well was put on production. The Al Amir SE-6X appraisal well, located downdip to the south of the Al Amir SE-4X well, is being drilled at the time of writing this report,

Cumulative production for the Al-Amir SE and Geyad areas is now already in excess of 1.6 million barrels. Additional wells are planned to be drilled during 2010, including water injection support and upgrading of the production facilities.

Operations Review

The Shehab-1X exploration well was drilled in February 2009 to test a mapped structure in the Central North East of the NW Gemsa block. Although the target Kareem sands were found to be of good quality, they were water-bearing probably below the oil-water contact. Nevertheless, the well encountered significant oil shows in the overlying Belayim. The well was plugged and abandoned, but the updip closure of the Belayim and Kareem to the South East remains as a potential target to look forward to as a later well.

The Geyad-1X exploration well was drilled and then sidetracked downdip to encounter 10 ft of net pay in the Shagar and 19 ft of net pay in the Rahmi sands. Both zones were tested in May 2009 at a combined sustained rate of 2,809 bopd and 3.04MMscf/d of gas on a 64/64" choke and the well was put on production. The Geyad-2X appraisal well was drilled downdip to the North West of the discovery well and found good quality Shagar and Rahmi sands that had high water saturation that proved to be close to the oil-water contact. The well was sidetracked updip to the East and found 14ft of net pay in the Shagar sands and 16ft of net pay in the Rahmi sands. The Shagar sands were tested at a sustained rate of 3,850 bopd and 4.62 MMscf/d of gas on a 48/64" choke and the well was put on production. The Rahmi sands in this well will be tested at a later date.



Following the results of the Geyad wells, a 27 sq km development and production lease was applied for and granted to include the Geyad and Shehab areas. Additional wells are planned to be drilled, including water injection support, as well as upgrading the production facilities.

The exploration drilling and appraisal wells in the Al Amir SE field have so far resulted in operator calculated most likely potential oil reserves of 21 MMBO and 25 bcf of gas from primary recovery. Secondary recovery increases these estimates to 37.5 MMBO. In addition, the Geyad field constitutes additional most likely potential oil reserves of 2 MMBO and 1.2 bcf of gas from primary recovery. Secondary recovery increases these estimates to 3.65 MMBO. These reserve figures are supplemented with the Al Amir area where independent third party estimated recoverable resources level are presently calculated at 1.35 MMBO primary and 3.28 MMBO secondary recovery.

In total, combining the recoverable resources, results in a gross total recoverable volume of 24 MMBO and 26 bcf primary and 43 MMBO secondary.

These operator and Circle Oil calculated estimates are indications of present reserves and are likely to change through additional drilling, reservoir modelling and production monitoring studies. They can also be compared with the independent third party report, which indicates comparable results of ultimate recoverable resources under natural depletion (no injection support) of 20.22 MMBO for the three areas. Taking the independent third party resource values for the 45% P10 level (typical value for the Kareem sands in the Gulf of Suez fields) for Al Amir SE and Geyad and 25% for Al Amir, which, in both the operator and Circle estimates, equate to the secondary recoverable resources total (with injection support), this increases the resources to a total of 34.56 MMBO and 37.18 bcf for the three areas.

Throughout the year, with continuing appraisal success and tie-in, the production levels have steadily risen and in the first quarter of 2010 reached a level whereby Circle's share is now in the order of 3,500-3,600 bopd.

Circle is delighted with the ongoing positive results to date on the NW Gemsa block and intends to continue with the partners to fully appraise the development leases and to maximise reserves and effectively manage development and production.

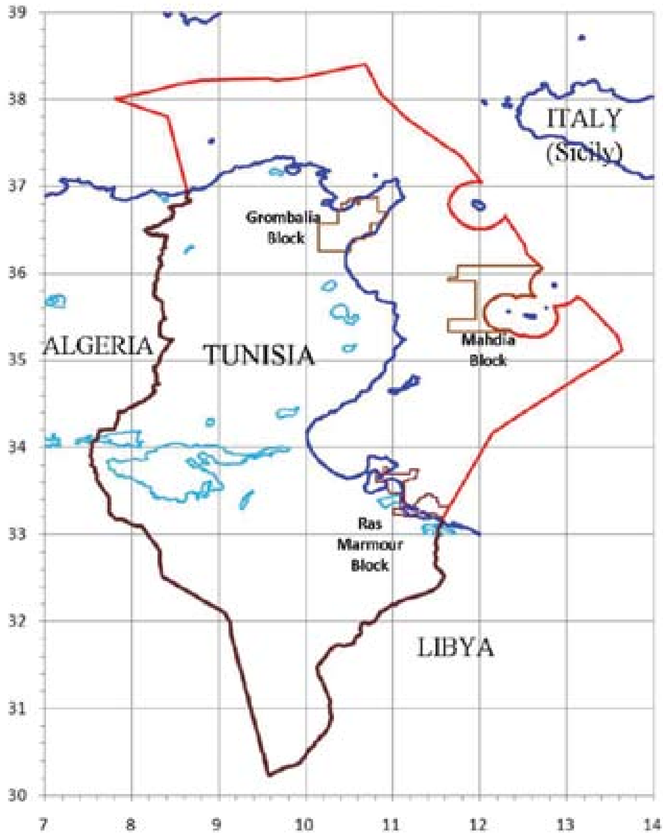
Operations Review

Tunisia

Circle has an interest in three exploration licences in Tunisia, the Mahdia, Ras Marmour and Grombalia Permits, where activity this year has been confined to seismic acquisition, processing and interpretation.

503 line km of 2D seismic was acquired over the offshore Mahdia Permit, where Circle holds a 70% interest. The programme of acquisition was completed in February 2009 and following processing, the survey has been interpreted and integrated with the legacy 2D seismic to which we have access. Prospects are now being defined and it is our intention to further refine the interpretations in order to propose a well location to be drilled later within the licence period. There are several producing fields and some undeveloped discoveries in the adjacent blocks in the Gulf of Hammamet and Circle is hopeful that we will be able to make significant discoveries within the Mahdia Block.

In the Exxoil Tunisie operated Ras Marmour Block in the South of Tunisia, we acquired 99 line km of 2D seismic onshore on the Isle of Djerba and on the mainland north of the Ezzouia field. This was acquired in order to refine the interpretations of the area and in particular define a drilling location for the Sedouikech prospect. Such an exploration well is likely to be proposed for drilling in 2011. The Grombalia Block on the Cap Bon peninsula in the North of Tunisia is also operated by Exxoil. The block has seen little operational activity this year, as office based re-interpretations of the area continued.



Tunisia Concession Map

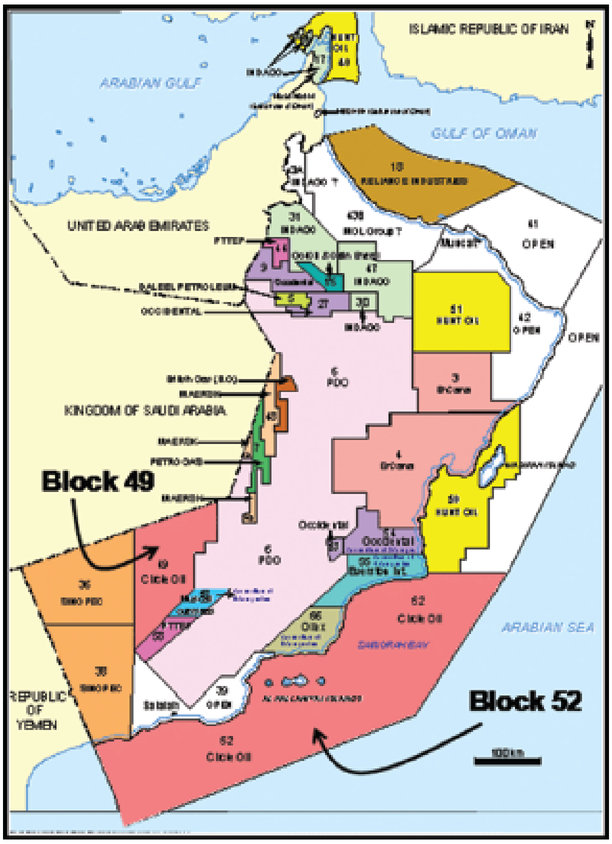
Operations Review

Oman

Circle operates two concessions in Oman, the onshore Block 49 and the offshore Block 52.

We completed the tendering process for 900 sq km of 3D seismic in 2009 for the southern part of Block 49. Following a review of the tenders, the contract was awarded to Sinopec and field operations commenced with the start of crew mobilisation in March 2010. Once shooting commences the entire survey is anticipated to take four to five months to complete from the acquisition start date. The 3D seismic data acquired will be field processed before a full 3D processing in the UK. This will be followed immediately by interpretation and well planning. The principal target on this southern area of the block is for Intra Ara Salt carbonate stringers, which have proven very productive for oil in the nearby Harweel and Birba complexes in Block 6 operated by PDO.

Tender documents have been issued for the acquisition of 5,000 line km of commitment 2D marine seismic in Block 52. The areas to be surveyed have been delineated mainly for infill and are aimed at providing the necessary data to firm up multiple leads which have been already identified and mapped from the first phase of 2D seismic. Actual acquisition timing will be dependent on the outcome of the tender which will confirm the availability of marine acquisition boats for the survey.



Operations Review

Summary

Circle has had another year of successes in 2009 and we look forward to this continuing in 2010 as we progress into our second drilling phase in Morocco and further our appraisal and development of the Al Amir, Geyad and Al Amir SE fields in Egypt. The gas projects in Morocco will take on increased production with the construction of a new pipeline, tie-in of existing discoveries and the signing of new contracts with local industry clients. Our new acreage in the Lalla Mimouna Blocks will receive a lot of attention also, with a new planned 3D seismic survey. Other projects in Morocco are being sought as we establish Circle as a proven, successful exploration and production company within the country.

In our NW Gemsa Block in the Gulf of Suez, further drilling and improvement of production facilities should consolidate and provide a boost to our oil output through 2010. Circle is enthusiastic about these developments which now provide significant revenue to our cash flow.

In Tunisia and Oman, we are still at the relatively early stages of exploration. We have and will be following our seismic acquisition programmes in both countries with the required interpretation to firm up new drilling locations to try to continue our success rate in exploration. Our involvement in our core area of North Africa and the Middle East is not confined to our existing acreage portfolio and we have and are continuing to actively cast the net for additional opportunities, particularly for P1/P2 development projects. Our small team has, during 2009, through visits to data rooms and assessing data in our own offices, studied and evaluated over 60 possible projects. We critically review projects for the correct combination of technical, legal, political and commercial upside and will apply these requirements prior to negotiating any final agreement. We presently have three or four potential projects under detailed review.

We thank all our staff both in Europe and in the countries we operate in for their continuing professionalism and total commitment to Circle. We operate also with partners with whom we can be well pleased to have as partners and this includes both our partner oil companies and our State Country Oil and Gas partners. It truly has been an exciting and successful year and we now move on to turn our next stage of aspirations into fact.

Namibia

In Namibia, through 2009 prior to the commencement of any field operations we awaited the completion of the farm-in agreement by Petroholland Ltd.

BOARD OF DIRECTORS

Thomas Anderson, Non-Executive Chairman

Thomas 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.

Professor Chris Green, Interim Chief Executive Officer

Chris 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.

Mohammad Sultan, Non-Executive Director

Mohammad is the Managing Director of KGL Petroleum and Petrolink Holding, Kuwaiti based companies where he oversees the business project development and implementation and maximizes corporate performance. 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. He holds a B.Sc. degree in Electrical and Computer Engineering from Oregon State University, USA.

Ezzedin Hamyouni, Non-Executive Director

Ezzedin is a Geologist with over thirty-five years of operational, technical and managerial experience in upstream oil and gas and is currently the Chairman of Libya Oil Holdings Limited. Prior to his chairmanship of Libya Oil Holdings Limited he was in charge of both upstream and downstream investments in Libya Investment Authority. He has also held senior positions in a number of oil exploration and development companies over the years. He holds a B.Sc in Geology from the University of Libya and an M.Sc in Geology from South Dakota School of Mines and Technology,

SENIOR MANAGEMENT

Brendan McMorrow, Chief Financial Officer

Brendan, a chartered certified accountant, has over twenty years corporate financial and management experience with publicly quoted companies in Ireland, UK and North America. Previously Chief Financial Officer of Ivernia Inc, a Toronto-based mining company.

Stuart Harker, Vice President Geology

Stuart, a petroleum geologist, has over thirty years experience in exploration, development and well site operations with major oil companies. He has previously worked in senior positions with Texaco, Aramco, Occidental, Elf/Total and PGS. Stuart has a record as an oil finder in many different geological environments.

Adrian Burrows, Vice President Geophysics

Adrian, a geophysicist, has more than thirty years experience, mostly with major operators on exploration and production projects. He has successfully managed acquisition, processing, and interpretation teams and led data management and software development projects. His CV includes senior positions with Amoco, Occidental, Elf, RPS and PGS.

COUNTRY MANAGERS

Shamil Daoud - Morocco,

Shamil holds a BSc from the University of Baghdad and a Doctorate in Pharmacy and International Marketing from Idaho State University. He has worked in Iraq on the UN Oil for Food programme and also with the US Exim Bank. Prior to his appointment as country manager in Morocco he was business development manager for Circle.

Ali Chine - Tunisia

Ali is a petroleum geologist and ex-president of the Tunisian State Oil Company (ETAP) and previously energy advisor to the Tunisian Minister of Industry and Energy. Throughout his career he was a board or general member of a number of professional organizations, particularly in the petroleum sector.

Hassan Al-Lawati - Oman

Hassan holds qualifications in law and business and has been country manager in Oman for Circle since 2006. He has held a number of senior positions prior to this time covering areas such as banking, oil and gas services and financial management.

CORPORATE INFORMATION

Directors

T. Anderson (Chairman)*#
C.D. Green (UK)
M. Sultan (Kuwait)*
E. Hamyouni (Libya)

* Member of the Audit Committee
# Member of the Remuneration Committee

Company Secretary

Brendan McMorrow

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Registrars

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Market

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

REPORT OF THE DIRECTORS

The Directors present their report together with the audited consolidated financial statements of Circle Oil Plc (the "Company") and its subsidiaries ("Circle" or the "Group") for the year ended 31 December 2009.

Review of business and future development

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

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 4 and 5 and the Operations Review on pages 6 to 12. Details of important events that have occurred since year-end together with likely future developments in the business of the Group are also contained in the Chairman's Statement and Operations Review.

Going concern

The Directors have reviewed budgets, projected cash flows and other general financing options, and on the basis of this review, are confident that the Group will be able to secure 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.

Principal 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 credit risk, liquidity risk and market risk and these are set out in more detail in Note 27 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. Inherent in oil and gas production are risks associated with the estimation of resources of production and development assets and the production profile of assets. Development costs may also vary significantly from expectation due to unexpected technical or engineering problems or other escalation of costs. Risks associated with exploration and evaluation assets are due to over estimating the carrying value of such assets as a result of non-development of economic reserves leading to impairments in the future.

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 2009 was US$13.51 million (2008: Loss US$10.71 million).

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009 (2008: US$Nil).

Directors

The present Directors of the Company are listed on page 13. Mr Rafat A. Rizvi resigned as a Director on 1 July 2009. Mr Ramadan Aburawi resigned as a Director on 4 June 2010. Mr. Ezzedin Hamyouni was appointed as a Director on 4 June 2010. Mr. Ezzedin Hamyouni retires from the Board in accordance with the Articles of Association of the Company and being eligible offers himself for re-election. Mr. Mohammad Sultan retires from the Board by rotation in accordance with the Articles of Association of the Company and being eligible offers himself for re-election.

REPORT OF THE DIRECTORS

Share capital
The interests of the Directors and Secretary and their families in the share capital of the Company are as follows:

	Ordinary Shares 18 June 2010	**%**	**Ordinary Shares 31 December 2009**	**%**	Ordinary Shares 31 December 2008	%
T. Anderson	**20,000,000**	**4.8**	**20,000,000**	**4.8**	20,000,000	5.7
D. Hough*	-	-	**12,550,000**	**3.0**	12,550,000	3.6
C.D. Green	-	-	-	-	-	-
M. Sultan	-	-	-	-	-	-
E. Hamyouni**	-	-	-	-	-	-
Secretary						
B. McMorrow	-	-	-	-	-	-

*Following the death of Mr. D. Hough on 31 March 2010 no holding is shown at 18 June 2010, as these shares are now held by his estate.

**Mr. E. Hamyouni was appointed a Director on 4 June 2010.

Share Options
Details of the movement on outstanding options and those granted during the year are as follows:

Directors	At 31 December 2008	Granted during year	**At 31 December 2009**	Price £Stg	Expiry date
T. Anderson	750,000	-	**750,000**	0.20	18 Oct 2010
	500,000	-	**500,000**	0.30	18 Oct 2010
	750,000	-	**750,000**	0.225	30 Sep 2014
		500,000	**500,000**	0.30	22 Dec 2015
D, Hough*	1,500,000		**1,500,000**	0.20	18 Oct 2010
	1,500,000		**1,500,000**	0.30	18 Oct 2010
	2,500,000		**2,500,000**	0.225	30 Sep 2014
		1,500,000	**1,500,000**	0.30	22 Dec 2015
C.D. Green	2,000,000	-	**2,000,000**	0.30	18 Oct 2010
	2,000,000	-	**2,000,000**	0.25	3 Aug 2012
	10,000,000	-	**10,000,000**	0.225	30 Sep 2014
		3,000,000	**3,000,000**	0.30	22 Dec 2015
Secretary					
B. McMorrow	600,000	-	**600,000**	0.30	18 Oct 2010
	200,000	-	**200,000**	0.25	3 Aug 2012
	700,000	-	**700,000**	0.225	30 Sep 2014
		500,000	**500,000**	0.30	22 Dec 2015

*Following the death of Mr. D. Hough on 31 March 2010, his share options are now held by his estate.

No options were exercised by the Directors and the Company Secretary during the year.

REPORT OF THE DIRECTORS

Subsidiary undertakings

Details of the Company's subsidiary undertakings are set out in Note 32 to the financial statements.

Special business

Your attention is drawn to the Notice of Annual General Meeting on pages 59 and 60.

Resolution 4 requests shareholders to increase the authorised share capital of the Company.

Resolution 5 requests shareholders to grant authority to the Directors to allot new shares up to 20% of the unissued share capital of the Company until the earlier of 16 December 2011 and the next annual general meeting of the Company.

Resolution 6 requests shareholders to grant authority to the Directors to dis-apply shareholder pre-emption rights for the same period as set out in Resolution 5.

The Directors are of the opinion that these resolutions are in the best interest of the Company and recommend that shareholders vote in favour of the resolutions. The Directors intend to vote in favour of the resolutions in respect of their own beneficial holdings

Substantial shareholdings

At the date of this report, as far as the Board is aware, in addition to the interests of the Directors, the following have an interest of 3% or more in its issued share capital:

	Number of shares	% issued share capital
Libya Oil Holdings Ltd	100,000,000	24.05
Kaupthing Bank	52,631,579	12.66

Political donations

No political donations were made during the year. (2008: US$Nil)

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 account are kept at the Company's registered office at 2 New Wellington Terrace, O'Connell Avenue, Limerick.

Subsequent events

Subsequent events are set out in Note 30 to the financial statements. Operational subsequent events are set out in the Chairman's Statement on pages 4 and 5 and Operations Review on pages 6 to 12.

Share price information

The market price of the Company's shares at the end of the financial year was £0.30 (2008: £0.13).

Auditors

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

On behalf of the Board

T. Anderson
Chairman

C. D. Green
Director

CORPORATE GOVERNANCE

Introduction

The Board of Directors is accountable to the Company's shareholders for good corporate governance.

Board of Directors

Regular Board meetings are scheduled to take place throughout the year. During the year 15 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.

All Directors are subject to re-election.

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 19.

The Remuneration Committee

The Remuneration Committee 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.

The Audit Committee

The Audit Committee 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 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. 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 reports 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 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 2009. 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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position 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 32. 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 auditor, 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 2009. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the statement of financial position 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 explanation necessary for the purposes of our audit and whether the Company's statement of financial position 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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIRCLE OIL PLC

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 2009 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the parent company affairs as at 31 December 2009; and
- the Parent Company financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

Emphasis of Matter

Without qualifying our opinion we draw your attention to Notes 12, 13 and 16 to the financial statements concerning the valuation of exploration and evaluation assets of US$20,965,000 and production and development assets of US$74,767,000 included in the consolidated statement of financial position and of the amounts due from group companies of US$109,710,000 included in intercompany and other receivables in the company statement of financial position. The realisation of the exploration and evaluation assets and the production and development assets by the Group and the amounts due from group companies by the Company is dependent on the company being successful in the development of economic reserves and the operation of the oil and gas interests together with the availability of sufficient finance to bring reserves to economic maturity and profitability. The financial statements do not include any adjustments relating to these uncertainties and the ultimate outcome cannot at present 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 statement of financial position is in agreement with the books of account.

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

The net assets of the Company, as stated in the company statement of financial position 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 2009 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

18 June 2010

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 US$000	2008 US$000
Revenue	4	**15,093**	-
Cost of sales		**(7,721)**	-
Gross profit		**7,372**	-
Administrative expenses	3	**(2,315)**	(3,006)
Share option expense	2	**(1,496)**	(956)
Pre-licence costs		**-**	(3,479)
Exploration costs written-off	12	**(4,932)**	-
Foreign exchange gain/(loss)	5	**1,027**	(8,944)
Operating loss – continuing activities		**(344)**	(16,385)
Finance revenue	6	**134**	8,497
Finance costs	7	**(13,265)**	(2,795)
Loss before taxation	8	**(13,475)**	(10,683)
Taxation	9	**(34)**	(29)
Loss for the year		**(13,509)**	(10,712)
Basic and diluted loss per share	10	**3.66c**	4.60c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 US$000	2008 US$000
Loss for the year	**(13,509)**	(10,712)
Total income and expense recognised in other comprehensive income	**-**	-
Total comprehensive income for the year – entirely attributable to equity holders	**(13,509)**	(10,712)

On behalf of the Board

Thomas Anderson
Chairman
18 June 2010

Prof. Chris Green
Director

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009

	Notes	2009 US$000	2008 US$000
Assets			
Non-current assets			
Exploration and evaluation assets	12	**20,965**	65,827
Production and development assets	13	**74,767**	-
Property, plant and equipment	14	**210**	310
		95,942	66,137
Current assets			
Inventories	17	**91**	-
Trade and other receivables	16(a)	**13,789**	921
Cash and cash equivalents	26	**22,334**	32,670
		36,214	33,591
Total assets		**132,156**	99,728
Equity and liabilities			
Capital and reserves			
Share capital	20	**5,730**	4,799
Share premium	20	**103,336**	78,393
Other reserves	21	**5,999**	3,183
Retained deficit	23	**(34,118)**	(20,621)
Total equity		**80,947**	65,754
Non-current liabilities			
Convertible loan – debt portion	19	**21,562**	19,261
Derivative financial instruments	19	**14,403**	4,078
Decommissioning provision	22	**446**	-
Total non-current liabilities		**36,411**	23,339
Current liabilities			
Trade and other payables	18	**14,798**	10,635
Total current liabilities		**14,798**	10,635
Total liabilities		**51,209**	33,974
Total equity and liabilities		**132,156**	99,728

On behalf of the Board

Thomas Anderson
Chairman
18 June 2010

Prof. Chris Green
Director

COMPANY STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009

	Notes	2009 US$000	2008 US$000
Assets			
Non-current assets			
Exploration and evaluation assets	12	-	109
Property, plant and equipment	14	161	235
Investment in subsidiaries	15	-	10
		161	354
Current assets			
Intercompany and other receivables	16(b)	109,889	59,059
Cash and cash equivalents		5,062	31,862
		114,951	90,921
Total assets		115,112	91,275
Equity and liabilities			
Capital and reserves			
Share capital	20	5,730	4,799
Share premium	20	103,336	78,393
Other reserves	21	6,002	3,186
Retained deficit	23	(39,835)	(21,529)
Total equity		75,233	64,849
Non-current liabilities			
Convertible loan – debt portion	19	21,562	19,261
Derivative financial instruments	19	14,403	4,078
Total non-current liabilities		35,965	23,339
Current liabilities			
Trade and other payables	18	3,914	3,087
Total current liabilities		3,914	3,087
Total liabilities		39,879	26,426
Total equity and liabilities		115,112	91,275

On behalf of the Board

Thomas Anderson
Chairman
18 June 2010

Prof. Chris Green
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 US$000	2008 US$000
Operating activities			
Net cash used by operations	25	**(737)**	(3,665)
Taxes paid		**(21)**	(13)
Net cash outflow from operating activities		**(758)**	(3,678)
Cash flows from investing activities			
Payments to acquire exploration and evaluation assets		**(12,372)**	(34,906)
Payments to acquire production and development assets		**(23,088)**	-
Payments to acquire property, plant and equipment		**(51)**	(187)
Interest received		**480**	690
Net cash used in investing activities		**(35,031)**	(34,403)
Cash flows from financing activities			
Issue of ordinary share capital		**28,177**	58,077
Financing costs		**(1,958)**	(6,261)
Interest paid		**(1,800)**	(1,805)
Net cash from financing activities		**24,419**	50,011
(Decrease)/increase in cash and cash equivalents		**(11,370)**	11,930
Cash and cash equivalents at beginning of year		**32,670**	29,715
Effect of foreign exchange rate changes		**1,034**	(8,975)
Cash and cash equivalents at end of year	26	**22,334**	32,670

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 US$000	2008 US$000
Operating activities			
Net cash inflow from operations	25	**786**	1,186
Taxes paid		**(21)**	(13)
Net cash inflow from operating activities		**765**	1,173
Cash flows from investing activities			
Advances to group undertakings		**(54,124)**	(18,851)
Payments from group undertakings		**907**	3,728
Payments to acquire exploration and evaluation assets		**(204)**	-
Payments to acquire property, plant and equipment		**(47)**	(160)
Interest received		**441**	348
Net cash used in investing activities		**(53,027)**	(14,935)
Cash flows from financing activities			
Issue of ordinary share capital		**28,177**	58,077
Financing costs		**(1,958)**	(6,261)
Interest paid		**(1,800)**	(1,805)
Net cash from financing activities		**24,419**	50,011
(Decrease)/increase in cash and cash equivalents		**(27,843)**	36,249
Cash and cash equivalents at beginning of year		**31,862**	4,628
Effect of foreign exchange rate changes		**1,043**	(9,015)
Cash and cash equivalents at end of year		**5,062**	31,862

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

Consolidated	Share capital US$000	Share premium US$000	Share-based payment reserve US$000	Translation reserve US$000	Retained deficit US$000
At 1 January 2008	2,147	25,708	2,052	(3)	(10,268)
Issue of share capital	2,652	52,685	-	-	-
Share-based payment	-	-	1,493	-	-
Reserve transfer	-	-	(359)	-	359
Net loss for the year	-	-	-	-	(10,712)
At 31 December 2008	4,799	78,393	3,186	(3)	(20,621)
Issue of share capital	**931**	**24,943**	**-**	**-**	**-**
Share-based payment	**-**	**-**	**2,828**	**-**	**-**
Reserve transfer	**-**	**-**	**(12)**	**-**	**12**
Net loss for the year	**-**	**-**	**-**	**-**	**(13,509)**
At 31 December 2009	**5,730**	**103,336**	**6,002**	**(3)**	**(34,118)**

Company	Share capital US$000	Share premium US$000	Share-based payment reserve US$000	Retained deficit US$000
At 1 January 2008	2,147	25,708	2,052	(10,230)
Issue of share capital	2,652	52,685	-	-
Share-based payment	-	-	1,493	-
Reserve transfer	-	-	(359)	359
Net loss for the year	-	-	-	(11,658)
At 31 December 2008	4,799	78,393	3,186	(21,529)
Issue of share capital	**931**	**24,943**	**-**	**-**
Share-based payment	**-**	**-**	**2,828**	**-**
Reserve transfer	**-**	**-**	**(12)**	**12**
Net loss for the year	**-**	**-**	**-**	**(18,318)**
At 31 December 2009	**5,730**	**103,336**	**6,002**	**(39,835)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. Accounting policies

General information

Circle Oil Plc is a company incorporated in Ireland under the Companies Act 1963 to 2009. The address of the registered office is given on page 14.

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 adopted for use by the European Union. They have also been prepared in accordance with the Companies Acts, 1963 to 2009.

The financial statements have been prepared on the historical cost basis, as modified by the recording of certain financial instruments at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS as adopted by the European Union, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

Judgements used in applying accounting policies and key sources of estimation uncertainty are set out in Note 31 to the financial statements.

The financial statements are presented in US dollars rounded to the nearest thousand (US$000) except where otherwise indicated.

Adoption of new and revised Standards & Interpretations

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards affecting measurement

IFRS 2 (amended) *Share-based Payment – Vesting Conditions and Cancellations* (effective for accounting periods beginning on or after 1 January 2009)
IAS 23 (Revised 2007) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009).

Standards affecting presentation and disclosure

IFRS 7 *Improving Disclosures about Financial Instruments* (*Amendments to* IFRS 7) (effective for accounting periods beginning on or after 1 January 2009). The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.
IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). Requires analysis of the Group's reportable segments based on management reporting to the chief operating decision maker (see Note 4). This has not resulted in any change to the reporting of the Group's operating segments.
IAS 1 (Revised 2008) *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009). IAS 1 has introduced a number of changes in the format and content of the financial statements.

Standards and Interpretations not affecting the reported results nor the financial position

IFRS 1 (amended)/IAS27 (amended) *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective for accounting periods beginning on or after 1 January 2009)
IAS 20 (amended) *Accounting for Government Grants and Disclosure of Government Assistance* (effective for accounting periods beginning on or after 1 January 2009)
IAS 32 (amended)/IAS 1 (amended) *Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for accounting periods beginning on or after 1 January 2009)
IAS 38 (amended) *Intangible Assets* (effective for accounting periods beginning on or after 1 January 2009)
IAS 39 (amended) *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for accounting periods beginning on or after 1 January 2009)
IAS 40 (amended) *Investment Property* (effective for accounting periods beginning on or after 1 January 2009)
IFRIC 9 (amended) *Reassessment of Embedded Derivatives Estate* (effective for accounting periods beginning on or after 1 January 2009)
IFRIC 15 *Agreements for the Construction of Real Estate* (effective for accounting periods beginning on or after 1 January 2009)

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

Standards and Interpretations in issue not yet effective

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 3 (Revised 2008) *Business Combinations* (effective for acquisitions made in accounting periods beginning on or after 1 July 2009)
IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 July 2009)
IAS 39 *Financial Instruments: Recognition & Measurement* (effective for accounting periods beginning on or after 1 July 2009)
IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2009)
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after 1 October 2009)
IFRIC 17 *Distributions of Non-Cash Assets to Owners* (effective for accounting periods beginning on or after 1 July 2009)
IFRIC 18 *Transfers of Assets from Customers* (effective for accounting periods beginning on or after 1 July 2009)

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 these Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

In addition, the Directors are currently considering the impact

- IFRS 3 (Revised 2009) *Business Combinations* (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 9 *Financial Instruments* (effective for accounting periods beginning on or after 1 January 2013)
- IAS 24 (Revised 2009) *Related Party Disclosure* (effective for accounting periods beginning on or after 1 January 2011)
- IAS 27 (Revised 2009) *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 July 2009)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for accounting periods beginning on or after 1 July 2010)
- Improvements to IFRS (2009)

will have on the Group's financial statements.

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.

Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any cost directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Exploration and evaluation assets

Expenditure relating to the acquisition, exploration and evaluation of oil and gas interests including an appropriate share of overheads and financing costs is capitalised based on geographic area. Overheads capitalised to exploration and evaluation assets comprise salary and consultancy costs and other overheads relating to the acquisition, exploration and evaluation of oil and gas interests apportioned in accordance with the time spent by each individual in respect of such assets.

Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets acquired. To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalised as part of the cost of the intangible asset. If extractable oil or gas is found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially, the costs continue to be carried as exploration and evaluation assets while progress is made in assessing the commerciality of the interest. All such costs are subject to a technical, commercial and management review as well as a review for impairment at least once a year to confirm the continued intent to develop the discovery.

Exploration and evaluation assets are no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource from a geographic area are demonstrable.

Production and development assets

Following the establishment of the technical feasibility and commercial viability of reserves, exploration and evaluation assets are reclassified as production and development assets.

Subsequent expenditure is only capitalised to production and development assets when it either enhances the economic benefit of the asset or replaces part of the existing asset. Expenses associated with the replacement of assets are expensed to the income statement.

Production and development assets are stated at cost less accumulated depreciation and impairment. Where commercial production has commenced the total capitalised cost plus any estimated future costs required to develop the commercial reserves are subject to depreciation and amortisation on a unit of production basis based on proved and probable reserves. Depreciation of costs only occurs once commercial reserves can be determined and commercial production has commenced.

Depreciation

The Group depreciates expenditure on production and development assets on a unit of production basis, based on proved and probable reserves, which is the ratio of oil and gas produced in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period on a geographic area basis.

Costs included in this calculation comprise carrying amount of capitalised costs plus the estimated future development costs. Changes in the estimates of commercial reserves or future development costs are dealt with prospectively.

Impairment

Exploration and evaluation assets are assessed for impairment based on geographic area, on a full cost basis, when facts and circumstances suggest that the carrying value of an exploration and evaluation asset in the geographic area may exceed its recoverable amount. When facts and circumstances suggest that the carrying value exceeds the recoverable amount, an impairment loss is recognised in profit or loss. The facts and circumstances considered in assessing whether an asset is impaired are:

(i) the period for which the Group has the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed;

(ii) substantive expenditure on further exploration and evaluation in the specific area is neither budgeted nor planned;

(iii) exploration and evaluation of resources in the specific area has not lead to the discovery of commercially viable resources in the specific area and the Group has decided to discontinue activities in the specific area;

and

(iv) sufficient data exists to indicate that although a development in the specific area is likely to proceed the carrying value of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Production and development assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Production and development assets are assessed for impairment on a geographic area basis.

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Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related production and development assets. The amount recognised is the estimated cost of decommissioning, discounted to its present value and is reassessed at each statement of financial position date in accordance with local conditions and requirements.

Changes in the estimated cost or timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to production and development assets.

The unwinding of the discount on the decommissioning provision is included as a finance cost in the income statement over the expected useful life of the geographic area.

Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of oil and gas in the ordinary course of the Group's activities. Revenue is stated at invoice value after deducting sales taxes, excise duties and similar levies.

Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have been transferred to a third party purchaser. Transfer of ownership occurs once the oil and gas has been lifted or delivered.

Interest revenue is accrued on a time basis by reference to the principal outstanding at the effective interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided on a straight line basis to write off the cost of the assets over their estimated useful lives.

The annual rates of depreciation are as follows:

Office furniture and equipment:	3-5 Years
Computer equipment & software:	3-5 Years

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 statement of financial position 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 statement of financial position 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 statement of financial position 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 realised. 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

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in United States Dollars (US$), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement as an exchange gain or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in US$ using exchange rates prevailing at the statement of financial position date. Income and expense items are translated at the average exchange rates for the period when it approximates to the actual rate, otherwise, the actual rate is used. Exchange differences arising, if any, are classified as equity and recognised in the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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 fair value determined at each statement of financial position date.

Where either the remuneration of an employee or fees paid to a consultant, 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 statement of financial position.

Finance costs

Finance costs of debt are amortised over the term of the related debt using the effective interest rate method. 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 and short-term bank deposits with a maturity of three months or less.

Trade payables

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

Financial assets

Investments in subsidiaries in the Company statement of financial position are stated at cost less accumulated impairment.

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 statement of financial position.

The fair value of the option to convert the loan into shares has been calculated using a Binomial Lattice model. The fair value of the additional option to subscribe for shares has been calculated using the Black Scholes pricing model.

Interest expense is calculated using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2009 this resulted in a charge of US$1,496,000 (2008: US$956,000) 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 2009 share option expense amounting to US$410,000 (2008: US$537,000) has been capitalised in exploration and evaluation assets and US$576,000 (2008: Nil) has been capitalised in production and development assets. See Note 21 (a).

3. Administrative expenses

	2009 US$000	2008 US$000
Salaries & consultancy	**1,963**	2,502
Professional fees	**623**	698
Office overheads	**1,059**	1,546
Capitalised to exploration and evaluation assets	**(480)**	(1,740)
Capitalised to production and development assets	**(850)**	-
	2,315	3,006

4. Segmental reporting

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance.

In the opinion of the Directors the Group has only one class of business, oil and gas exploration, development and production and the sale of hydrocarbons. The Group operates within two geographical markets, Africa and the Middle East.

The following tables represent the activity in each of the Group's business segments for the years ended 31 December 2009 and 2008.

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4. Segmental reporting (continued)

2009	**Africa US$000**	**Middle-East US$000**	**Corporate US$000**	**Total US$000**
Sales revenue	**15,093**	**-**	**-**	**15,093**
Cost of sales	**(4,199)**	**-**	**-**	**(4,199)**
Segment result	**10,894**	**-**	**-**	**10,894**
Administration expenses	**(1,604)**	**(457)**	**(254)**	**(2,315)**
Operating gain/(loss)	**9,290**	**(457)**	**(254)**	**8,579**
Share option expense	**-**	**-**	**(1,496)**	**(1,496)**
Exploration costs written-off	**(4,932)**	**-**	**-**	**(4,932)**
Depreciation	**(3,522)**	**-**	**-**	**(3,522)**
Finance costs	**-**	**-**	**(13,265)**	**(13,265)**
Finance revenue	**-**	**-**	**134**	**134**
Other gains	**4**	**-**	**1,023**	**1,027**
Profit/(loss) before tax	**840**	**(457)**	**(13,858)**	**(13,475)**
Taxation	**-**	**-**	**(34)**	**(34)**
Profit/(loss) after tax	**840**	**(457)**	**(13,892)**	**(13,509)**
Total assets	**100,036**	**9,789**	**22,331**	**132,156**
Total liabilities	**(13,763)**	**(722)**	**(36,724)**	**(51,209)**

Sales revenue from Africa of US$15.09 million (2008: US$Nil) consists of US$12.93 million in oil sales to EGPC in Egypt and US$2.16 million in gas sales to CMCP in Morocco. Corporate comprises mainly corporate expenses, cash and other assets and liabilities not directly attributable to an operating segment.

2008	Africa US$000	Middle-East US$000	Corporate US$000	Total US$000
Sales revenue	-	-	-	-
Segment result	-	-	-	-
Administration expenses	(2,094)	(578)	(334)	(3,006)
Operating loss	(2,094)	(578)	(334)	(3,006)
Share option expense	-	-	(956)	(956)
Pre-licence costs	(3,479)	-	-	(3,479)
Finance costs	-	-	(2,795)	(2,795)
Finance revenue	-	-	8,497	8,497
Other gains and (losses)	40	-	(8,984)	(8,944)
Loss before tax	(5,533)	(578)	(4,572)	(10,683)
Taxation	-	-	(29)	(29)
Loss before and after tax	(5,533)	(578)	(4,601)	(10,712)
Total assets	58,406	8,255	33,067	99,728
Total liabilities	(9,063)	(745)	(24,166)	(33,974)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Foreign exchange loss

A foreign exchange gain of US$1.03 million (2008: US$8.94 million loss) was incurred in 2009 as a result of the strengthening of sterling versus the US dollar. Included in this amount is a loss of US$35,000 which was unrealised at 31 December 2009 (2008: US$6.52 million unrealised loss).

6. Finance revenue

	2009 US$000	2008 US$000
Interest receivable	**134**	1,015
Gain on fair value of conversion option (Note 19)	**-**	6,536
Gain on fair value of additional option to subscribe for shares (Note 19)	**-**	946
	134	8,497

7. Finance costs

	2009 US$000	2008 US$000
Interest payable:		
Convertible loan	**4,100**	3,690
Capitalised to exploration and evaluation assets	**(144)**	(895)
Capitalised to production and development assets	**(1,016)**	-
Loss on fair value of conversion option (Note 19)	**10,225**	-
Loss on fair value of additional option to subscribe for shares (Note 19)	**100**	-
	13,265	2,795

Interest payable relating to the convertible loan includes interest paid of US$1.8 million (2008: US$1.8 million) and an effective interest expense of US$2.24 million (2008: US$1.83 million) plus amortisation of transaction costs of US$56,000 (2008: US$56,000).

The non-cash loss recorded on both the conversion option and additional option (relating to the convertible loan) arose mainly as a result of an increase in the Company share price during 2009 to £0.30 at 31 December 2009 (2008: £0.13).

8. Loss before taxation

	2009 US$000	2008 US$000
Loss before taxation is stated after charging:		
Depreciation of property, plant and equipment	**151**	175
Depreciation of production and development assets	**3,522**	-
Auditors remuneration	**80**	78
Directors' emoluments		
- Fees	**171**	175
- Other emoluments (including pension contributions)	**703**	1,211
- Share-based payment	**2,171**	977
Total Directors remuneration	**3,045**	2,363

At 31 December 2009 Directors fees amounting to US$27,000 (2008: US$43,000) were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. Taxation

Analysis of taxation charge for the year

	2009 US$000	2008 US$000
Irish corporation tax:		
Adjustments in respect of prior year	-	-
	-	-
Foreign tax:		
Based on the loss for the year	34	29
	34	29
Total current tax	34	29

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:

	2009 US$000	2008 US$000
Loss on ordinary activities before tax	(13,475)	(10,683)
Loss on ordinary activities multiplied by the applicable rate of Irish corporation tax of 25% (2008: 25%)	(3,369)	(2,671)
Effects of:		
Adjustment in respect of prior year	-	-
Losses carried forward	3,369	2,671
Higher rate of tax on foreign income	34	29
Tax charge for year	34	29

No deferred tax asset has been recognised on accumulated temporary differences as it cannot be considered probable that future taxable profit will be available against which the unused temporary differences can be utilised. The amount not recognised amounts to US$9.43 million (2008: US$5.55 million).

	2009 US$000	2008 US$000
Deferred tax arising from:		
Losses forward*	9,434	5,553
	9,434	5,553

*The deferred tax asset not recognised in respect of temporary differences associated with subsidiaries is US$1.47 million (2008: US$1.47 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. Basic and diluted loss per share

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

	2009 US$000	2008 US$000
Loss for the year attributable to equity holders of the parent	**(13,509)**	(10,712)
The basic weighted average number of ordinary shares in issue is calculated as follows:		
Number of ordinary shares in issue at start of year	**348,184,043**	162,697,200
Adjustment for shares issued during the year	**20,640,692**	70,075,000
Weighted average number of ordinary shares	**368,824,735**	232,772,200
Basic and diluted loss per share	**3.66c**	4.60c

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 2009 and 2008 respectively. The Group had total potential ordinary shares outstanding of 122,770,279 at 31 December 2009 (2008: 100,121,099).

11. Employees and remuneration

	2009 US$000	2008 US$000
Employee costs during the year:		
Wages and salaries	**1,813**	1,765
Share-based payments	**2,467**	1,059
Social welfare costs	**140**	130
Pension costs	**50**	45
	4,470	2,999
Average number of persons employed:		
Management and administration	**7**	7
Technical & other	**9**	5
	16	12

The amount noted for share-based payments of US$2.47 million (2008: US$1.06 million) refers to the cost of share options awarded to employees during 2008 & 2009. (See Note 21(a)).

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12. Exploration and evaluation assets

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

Group 2009	Opening Balance US$000	Additions US$000	Provision for impairment US$000	Credits/ Transfers US$000	Transfer to production & development assets US$000	Closing Balance US$000
Africa	**57,537**	**2,031**	**(4,620)**	**-**	**(43,724)**	**11,224**
Middle-East	**8,181**	**1,560**	**-**	**-**	**-**	**9,741**
Other	**109**	**203**	**(312)**	**-**	**-**	**-**
Total	**65,827**	**3,794**	**(4,932)**	**-**	**(43,724)**	**20,965**
2008						
Africa	19,441	38,377	-	(281)	-	57,537
Middle-East	6,901	1,280	-	-	-	8,181
Other	133	-	-	(24)	-	109
Total	26,475	39,657	-	(305)	-	65,827

Additions include capitalised interest under IAS23 of US$144,000 (2008: US$895,000). This was calculated by determining the effective interest rate on convertible loan (6%) (See Note 19) and multiplying this by the payments relevant to each geographical area by the portion of the year from when payment was made to 31 December 2009.

Oil and gas interests at 31 December 2009 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 statement of financial position will be written off.

In Africa, a provision for impairment of US$4.62 million in respect of the Owambo Basin Permit in Namibia was charged to the income statement as it was deemed by the Directors that this amount was unlikely to be recovered. Recovery of this amount is dependent on the closure of the farm-out agreement with Petroholland.

The Directors have considered whether facts or circumstances exist that indicate that exploration and evaluation assets are impaired and consider that no impairment loss is required to be recognised as at 31 December 2009. Exploration and evaluation assets have been assessed for impairment having regard to the likelihood of further expenditures and ongoing appraisal for each geographical area, as described in the Chairman's Statement and Operations Review.

During the year exploration and evaluation assets valued at US$43.72 million were transferred to production and development assets. This amount related to the Group's respective interests in Egypt and Morocco. Prior to transfer these assets were tested for impairment to ensure that the recoverable amount was greater than the carrying value. Recoverable amount in this case is value in use. The key assumptions used in this impairment test were an independent third party estimate of oil and gas resources, expected sales price of oil and gas over the test period of US$75 per barrel of oil and US$7.50 per 1,000 scf of gas. The estimated future costs were obtained from both internal and operator projected cashflow forecasts. Both revenue and costs were discounted to present value using discount rates of 10% for Egypt and 8% for Morocco. Overleaf is a table outlining the % movement in recoverable amount caused by a 1% increase and decrease in discount rate.

12. Exploration and evaluation assets (continued)

Increase/decrease in discount rate	Movement in recoverable amount Egypt	Morocco
1% point lower	**5% increase**	**68% increase**
1% point higher	**5% decrease**	**62% decrease**

Company

The carrying value of exploration and evaluation assets by geographical area for the Company was: Other: US$Nil (2008: Other: US$109,000). During the year unallocated exploration costs of US$109,000 were written-off to the income statement.

13. Production and development assets

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

Group	Opening Balance US$000	Transfer from exploration & evaluation assets US$000	Additions US$000	Accumulated Depreciation US$000	Provision for impairment US$000	Closing Balance US$000
2009						
Africa	-	43,724	34,565	(3,522)	-	74,767
Total	-	43,724	34,565	(3,522)	-	74,767
2008						
Africa	-	-	-	-	-	-
Total	-	-	-	-	-	-

Additions include capitalised interest under IAS23 of US$1.02 million (2008: US$Nil). This was calculated by determining the effective interest rate on convertible loan (6%) (See Note 19) and multiplying this by the payments relevant to each geographical area by the portion of the year from when payment was made to 31 December 2009.

Depreciation of production and development assets is calculated on a unit of production basis, using the ratio of oil and gas produced in the period to the estimated commercial reserves at the end of the period plus production for the period. This amount is charged to cost of sales in the income statement. Resource estimates used are based on reports carried out by independent reserve engineers. The reserves that will actually be recovered from each licence area will not be known until the end of the life of the licence area.

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13. Production and development assets (continued)

The realisation of production and development assets by the Group is dependent on the successful operation of the Group's oil and gas interests in Africa and the continuing availability of adequate funding for these interests. Should the operation of the Group's oil and gas interests prove unsuccessful the carrying value in the statement of financial position will be written-off.

The Directors have considered whether facts or circumstances exist that indicate that production and development assets are impaired and consider that no impairment loss is required to be recognised as at 31 December 2009. Production and development assets have been assessed for impairment having regard to the likelihood of further development expenditures and ongoing production for each geographical area under the rules of IAS 36 *Impairment of Assets*.

14. Property, plant and equipment

Group	**Office equipment 2009 US$000**	**Computer equipment 2009 US$000**	**Total 2009 US$000**	Office equipment 2008 US$000	Computer equipment 2008 US$000	Total 2008 US$000
Cost:						
At 1 January	**67**	**589**	**656**	64	405	469
Additions	**25**	**26**	**51**	3	184	187
At 31 December	**92**	**615**	**707**	67	589	656
Accumulated depreciation:						
At 1 January	**22**	**324**	**346**	13	158	171
Charge for year	**16**	**135**	**151**	10	165	175
At 31 December	**38**	**459**	**497**	23	323	346
Net book value at 31 December	**54**	**156**	**210**	44	266	310

Company	**Office equipment 2009 US$000**	**Computer equipment 2009 US$000**	**Total 2009 US$000**	Office equipment 2008 US$000	Computer equipment 2008 US$000	Total 2008 US$000
Cost:						
At 1 January	**4**	**530**	**534**	4	372	376
Additions	**24**	**23**	**47**	-	158	158
At 31 December	**28**	**553**	**581**	4	530	534
Accumulated depreciation:						
At 1 January	**2**	**297**	**299**	1	151	152
Charge for year	**3**	**118**	**121**	1	146	147
At 31 December	**5**	**415**	**420**	2	297	299
Net book value at 31 December	**23**	**138**	**161**	2	233	235

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

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15. Investment in subsidiaries

Company		2009 US$	2008 US$
Shares in subsidiary (unlisted shares) at cost:	**% Owned**		
Circle Oil Company, (Panama), S.A.	100%	-	10,000
First African Oil Corporation	100%	-	20
Circle Oil Jersey Limited	100%	**4**	4
Total		**4**	10,024

During the year both Circle Oil Company, (Panama), S.A. and First African Oil Corporation, having ceased trading were wound-up.

Details of the registered offices of principal subsidiary companies are set out in Note 32 to these financial statements.

16. (a) Trade and other receivables

Group	2009 US$000	2008 US$000
Debtors	**13,252**	-
VAT	**351**	47
Prepayments & accrued income	**186**	874
	13,789	921

(b) Intercompany and other receivables

Company	2009 US$000	2008 US$000
VAT	**33**	29
Prepayments	**146**	529
Amounts due from Group companies	**109,710**	58,501
	109,889	59,059

Included in amounts due from Group companies is US$92.73 million (2008: US$58.50 million) representing amounts advanced to other subsidiary companies in relation to expenditure incurred on oil and gas interests and US$16.98 million (2008: US$Nil) representing cash balances held in subsidiary companies.

Amounts due from Group companies in the Company statement of financial position are stated after a provision for doubtful debts of US$6.65 million (2008: US$6.77 million).

The realisation of amounts due from Group 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.

There was no material past due or impaired receivable at either statement of financial position date, nor any material doubtful debt provisions (other than as disclosed above in respect of amounts due from Group companies in the Company statement of financial position).

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17. Inventories

Inventories consist of the Group's portion of crude oil inventories in Egypt, US$91,000 (2008: Nil).

18. Trade and other payables

Group	**2009 US$000**	2008 US$000
Trade creditors and accruals	**14,692**	10,602
Other creditors – taxes	**106**	33
	14,798	10,635

Company	**2009 US$000**	2008 US$000
Trade creditors and accruals	**646**	806
Other creditors – taxes	**102**	22
Amounts due to group companies	**3,166**	2,259
	3,914	3,087

19. 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 in June 2012 (the Loan). The Loan bears interest at the rate of six per cent per annum, payable quarterly in arrears and is convertible into ordinary shares of the Company at a conversion price of £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 £0.50 per ordinary share exercisable during the first three years of the loan agreement. This option lapsed on 8 June 2010.

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 statement of financial position.

The above principles have been reflected as follows:

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19. Convertible loan (continued)

Group and Company	**2009 US$000**	2008 US$000
Balance 1 January	**29,721**	29,721
Proceeds from issue of convertible loan	**-**	-
Loan transaction costs	**-**	-
Net proceeds from convertible loan	**29,721**	29,721
Convertible loan debt portion – amortised cost	**21,562**	19,261
Derivative financial instruments – fair value	**14,403**	4,078
	35,965	23,339
Convertible loan debt portion at 1 January	**19,261**	17,376
Interest charged	**4,045**	3,634
Interest paid	**(1,800)**	(1,805)
Amortisation of transaction costs	**56**	56
Closing convertible loan debt portion – amortised cost	**21,562**	19,261
Opening derivative financial instruments – conversion option	**3,943**	10,479
Fair value movement – loss/(gain) (Notes 6 & 7)	**10,225**	(6,536)
Closing derivative financial instruments – conversion option	**14,168**	3,943
Opening derivative financial instruments – additional option	**135**	1,081
Fair value movement – loss/(gain) (Notes 6 & 7)	**100**	(946)
Closing derivative financial instruments – additional option	**235**	135

The fair value of each derivative financial instrument at 31 December 2009 was calculated using (a) a Binomial Lattice Model for the conversion option and (b) the Black-Scholes Model for the additional option.

The key inputs used in each model were as follows:

Group and Company	**2009**	2008
Binomial Lattice		
Option Term – years	**2.6**	3.6
Share price – pence sterling	**30.0**	12.75
Risk-free rate (%)	**1.25**	1.17
Expected volatility (%)	**67.0**	68.3
Dividend yield (%)	**-**	-
Black-Scholes		
Option Term – years	**0.4**	1.4
Share price – pence sterling	**30.0**	12.75
Risk-free rate (%)	**0.46**	0.26
Expected volatility (%)	**67.0**	76.7
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.

20. Share capital & share premium

	2009 €000	2008 €000
Authorised:		
1,000,000,000 ordinary shares of €0.01 each	**10,000**	10,000

Issued:	**No. of Shares**	**Share Capital US$000**	**Share Premium US$000**
At 1 January 2008	162,697,200	2,147	25,708
Shares issued in 2008	185,486,843	2,652	59,018
Share issue costs	-	-	(6,333)
At 31 December 2008	348,184,043	4,799	78,393
Shares issued in 2009	**64,652,776**	**931**	**27,246**
Share issue costs	-	-	(2,303)
At 31 December 2009	**412,836,819**	**5,730**	**103,336**

In August 2009 the Company issued 61,152,776 fully paid new ordinary shares in a private placing to a number of new investors at £0.27 each for gross proceeds of £16.5 million (US$26.94 million).

During the year 2,500,000 options and 1,000,000 warrants were exercised at prices ranging from £0.20 to £0.25 for gross proceeds of £758,000 (US$1.24 million).

21. 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 Company'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.

In September 2009, the Company issued 1,809,365 warrants to Fox-Davies Capital Limited with an exercise price of £0.27 per warrant. These warrants were granted in lieu of fees and the share-based payment charge of US$345,000 was charged to share premium and a corresponding credit charged to other reserves.

21. Other reserves (continued)

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):

	2009		2008	
	No. of share options/ warrants 000's	**Weighted average exercise price £**	No. of share options/ warrants 000's	Weighted average exercise price £
1 January	**34,070**	**0.24**	15,300	0.26
Granted during year	**7,309**	**0.29**	20,120	0.23
Exercised during year	**(3,500)**	**0.22**	-	-
Lapsed during year	**(50)**	**0.25**	(1,350)	0.30
31 December	**37,829**	**0.25**	34,070	0.24
Exercisable at 31 December	**32,329**	**0.25**	17,450	0.25

The weighted average share price at exercise date for options and warrants exercised in 2009 was £0.315.

Options and warrants outstanding at 31 December 2009 had exercise prices ranging from £0.20 to £0.30 and had a weighted average remaining contractual life of 3.36 years.

The fair values of the options and warrants was calculated using a Black-Scholes option pricing model and this produced an average fair value of the options of £0.138 each. The inputs used in the model were as follows:

	2009	2008
Weighted average share price (£)	**0.30**	0.23
Weighted average exercise price (£)	**0.29**	0.23
Expected volatility (%)	**67**	70
Average expected life (years)	**3.0**	3.04
Weighted average risk free rate (%)	**1.85**	4.3
Expected dividend yield (%)	**-**	-

Expected volatility was determined by calculating the historical volatility of the Company's share price over a period similar to the expected life of the options.

This calculation results in a credit to other reserves of US$2.83 million (2008: US$1.49 million). An amount of US$12,000 (2008: US$359,000) was transferred from share-based payment reserve to retained losses as the options to which the initial expense related to had lapsed.

Of the net charge to reserves for the year of US$2.83 million an amount of US$1.50 million (2008: US$956,000) is charged in the income statement, US$410,000 (2008: US$537,000) is capitalised to exploration and evaluation assets, US$576,000 (2008: Nil) is capitalised to production and development assets and US$345,000 (2008: Nil) to share premium.

21. Other reserves (continued)

b) Reconciliation of other reserves

Group	**2009 US$000**	2008 US$000
Opening reserves	**3,183**	2,049
Share-based payment	**2,828**	1,493
Transfer to retained losses	**(12)**	(359)
Closing reserves	**5,999**	3,183

Company	**2009 US$000**	2008 US$000
Opening reserves	**3,186**	2,052
Share-based payment	**2,828**	1,493
Transfer to retained losses	**(12)**	(359)
Closing reserves	**6,002**	3,186

22. Decommissioning provision

	2009 US$000	**2008 US$000**
Opening provision	**-**	-
Charge for year	**446**	-
Closing provision	**446**	-

Decommissioning costs represent the present value of decommissioning costs relating to production and development assets in Africa which are expected to be incurred over the remaining useful lives of the assets, which are estimated to be between 2010 and 2025. These provisions are based on the Group's internal estimates and, operator estimates. Assumptions based on current economic environment have been used which management believe are a reasonable basis on which to estimate the future liability. Actual decommissioning costs will depend on future market prices of materials required to complete decommissioning. The useful life estimates are likely to change as facilities are put in place to increase production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. Retained deficit

Group	2009 US$000	2008 US$000
Opening balance	**(20,621)**	(10,268)
Loss for the year	**(13,509)**	(10,712)
Transfer from share-based payment reserve	**12**	359
Closing balance	**(34,118)**	(20,621)

Company	2009 US$000	2008 US$000
Opening balance	**(21,529)**	(10,230)
Loss for the year	**(18,318)**	(11,658)
Transfer from share-based payment reserve	**12**	359
Closing balance	**(39,835)**	(21,529)

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$18.32 million (2008: US$11.66 million).

24. Reconciliation of movement in shareholders' funds

Group	2009 US$000	2008 US$000
Loss for the year	**(13,509)**	(10,712)
Increase in share capital and share premium	**25,874**	55,337
Share-based payment	**2,828**	1,493
Increase in shareholders' funds	**15,193**	46,118
Opening shareholders' funds	**65,754**	19,636
Closing shareholders' funds	**80,947**	65,754

Company	2009 US$000	2008 US$000
Loss for the year	**(18,318)**	(11,658)
Increase in share capital and share premium	**25,874**	55,337
Share-based payment	**2,828**	1,493
Increase in shareholders' funds	**10,384**	45,172
Opening shareholders' funds	**64,849**	19,677
Closing shareholders' funds	**75,233**	64,849

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

Group	2009 US$000	2008 US$000
Loss before taxation	(13,475)	(10,683)
Finance revenue	(134)	(8,497)
Finance costs	13,265	2,795
Increase/(decrease) in trade and other payables	2,069	(490)
Increase in trade and other receivables	(11,438)	(375)
Increase in inventory	(91)	-
Impairment of exploration costs	4,932	-
Foreign exchange (gain)/loss	(1,034)	8,975
Pre-licence acquisition costs	-	3,479
Depreciation	3,673	175
Share option expense	1,496	956
Net cash used by operations	(737)	(3,665)

Company	2009 US$000	2008 US$000
Loss before taxation	(18,284)	(11,629)
Finance revenue	(96)	(8,183)
Finance costs	13,265	2,795
Increase in trade and other payables	816	1,361
Decrease/(increase) in trade and other receivables	35	(79)
Provision for subsidiary company losses	(117)	6,769
Foreign exchange (gain)/loss	(1,043)	9,015
Impairment of exploration costs	312	-
Financial assets written-off	10	-
Impairment of intercompany receivable	4,271	32
Depreciation	121	149
Share option expense	1,496	956
Net cash generated by operations	786	1,186

26. Cash and cash equivalents at year-end

The Group's cash balances at 31 December 2009 of US$22.33 million (2008: US$32.67 million) include restricted cash amounts of US$1.30 million (2008: US$1.86 million) relating to bank guarantees issued in respect of the completion of certain project work programs.

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27. 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 statement of financial position 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.

The Group's financial assets and liabilities stated at carrying amount and fair value are as follows at 31 December 2009:

	Carrying amount 2009 US$000	**Fair value 2009 US$000**	Carrying amount/fair value 2008 US$000
Trade and other receivables	**13,789**	**13,789**	921
Cash and cash equivalents	**22,334**	**22,334**	32,670
Convertible loan – debt portion	**21,562**	**21,562**	19,261
Derivative financial instruments	**14,403**	**14,403**	4,078
Decommissioning provision	**446**	**446**	-
Trade and other payables	**14,798**	**14,798**	10,635

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

Convertible loan – debt portion
Details of the methods and assumptions used in estimating the fair value of the convertible loan – debt portion are set out at the start of this note and in Note 19.

Derivative financial instruments
Details of the methods and assumptions used in estimating the fair value of the derivative financial instruments are set out at the start of this note and in Note 19.

Decommissioning provision
The carrying value of the decommissioning provision is the fair value of discounted future cashflows based on estimated costs and timings for well decommissioning.

Risk management

The Group is exposed to a variety of financial risks as a result of its activities. These risks include capital 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.

27. Financial instruments (continued)

Capital 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 2008.

The capital structure of the Group consists of debt as disclosed in note 19, cash and cash equivalents and equity comprising issued capital and retained earnings as disclosed in notes 20 and 23 respectively.

	2009 US$000	2008 US$000
Debt		
Convertible loan debt portion – amortised cost	**21,562**	19,261
Derivative financial instruments		
Derivative financial instruments – fair value	**14,403**	4,078
Cash and cash equivalents		
Cash and cash equivalents	**22,334**	32,670
Capital and reserves		
Issued share capital	**5,730**	4,799
Share premium	**103,336**	78,393
Retained deficit	**(34,118)**	(20,621)

The Group meets its capital management objectives by close monitoring of future capital expenditure requirements based on both budgeted and actual expenditures by the Board. When required the Board decide on the mix and level of capital to raise in order to allow all ongoing projects to continue without delay.

Credit risk

Credit risk is 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 only dealing with creditworthy counterparties. The Group's exposure to credit risk relates to the carrying value of cash and cash equivalents and trade and other receivables which at 31 December 2009 amounted to US$36.12 million (2008: US$33.59 million).

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 and regular monitoring of its cashflow forecasts.

The Group manages liquidity risk by regularly monitoring projected cashflows against actual casflows. The nature of the Group's activities can result in differences between expected and actual cashflows. A conservative approach to cashflow forecasting is taken as a result of this. Surplus cash is kept on deposit which maximizes return on funds while ensuring short-term cashflow requirements of the Group are met.

At 31 December 2009 the Group had free cash and cash equivalent balances of US$21.03 million (2008: US$30.81 million) and current liabilities of US$14.80 million (2008: US$10.64 million).

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27. Financial instruments (continued)

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.

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalent balances. Exposure to interest rate on cash and cash equivalent balances is closely monitored and managed. If interest rates rose by 1% the Group's loss would decrease and Group equity would increase by approximately US$223,000. A decrease of 1% in interest rates would result in Group loss increasing and Group equity decreasing by the same amount.

The Group manages interest rate risk by closely monitoring deposit interest rates applied to funds on deposit and maximizing the return without affecting the short-term cashflow of the Group.

Group borrowings comprise of a convertible loan which has a fixed interest rate and is therefore not exposed to interest rate risk.

Currency risk
The Group is exposed to currency risk on bank balances and purchases that are denominated in a currency other than the US dollar which comprises primarily of Euro, Sterling and Moroccan Dirham. 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.

At 31 December 2009 the Group's foreign currency balances were as follows:

2009	**Denominated in Euro US$000**	**Denominated in Sterling US$000**	**Denominated in Moroccan Dirham US$000**
Trade and other receivables	**80**	**102**	**2,491**
Trade and other payables	**(270)**	**(194)**	**(2,033)**
Cash and equivalents	**14**	**3,346**	**291**
2008			
Trade and other receivables	51	469	323
Trade and other payables	(1,517)	(190)	(3,872)
Cash and equivalents	21	31,718	336

A 5% increase in value of the US$ dollar against the three currencies mentioned above would result in a decrease in Group loss and an increase in Group equity of US$191,000. A 5% decrease would result in an increase in Group loss and a decrease in Group equity by the same amount.

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 regular basis by the Directors.

27. Financial instruments (continued)

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 19:

Expected volatility	Conversion option US$000	Additional option US$000	Total options US$000	Gain/ (Loss) US$000
2009				
Per Note 19	**14,168**	**235**	**14,403**	**-**
5% points lower	**13,414**	**179**	**13,593**	**810**
5% points higher	**14,906**	**297**	**15,203**	**(800)**
2008				
Per Note 19	3,943	135	4,078	-
5% points lower	3,472	100	3,572	506
5% points higher	4,398	175	4,573	(495)

28. Related party transactions

The following related party transactions were carried out during the year:

(i) Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Amounts owed by and to such subsidiaries are stated in Note 16 (b) and Note 18. Transactions between the Company and its subsidiaries were as follows:

	2009 US$000	2008 US$000
Net intercompany loan advances to subsidiaries	**50,302**	11,455

(ii) Mr. 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 in 2007. (See note 19). Interest amounting to US$1.8 million (2008: US$1.8 million) was paid on this loan during 2009. At 31 December 2009, the amount of interest outstanding was US$296,000 (2008: US$296,000).

(iii) Mr. Ezzedin Hamyouni, a Director of the Company since 4 June 2010, is also a Director of Libyan Oil Holdings Ltd. (LOH). LOH purchased 100,000,000 new ordinary shares in the Company as part of the private placing in September 2008 resulting in LOH currently holding 24.05% of the Company's issued ordinary shares.

(iv) The Directors of the Company are deemed to be the key management personnel as defined by IAS 24 Related Party Disclosures. Compensation of the Directors is set out in Note 8.

(v) A provision for impairment of US$4.27 million has been set up in the Company financial statements in respect of amounts owing from certain Group companies as the Directors now believe that these amounts are unlikely to be recoverable.

29. Capital commitments

The Group has estimated capital commitments at 31 December 2009 amounting to US$45 million which will be payable over the next 2 years. US$22 million is estimated to be spent on production and development assets in Africa. Spending on exploration and evaluation assets is estimated to be US$11.5 million in Africa and US$11.5 million in the Middle-East.

30. Subsequent events

In February 2010, the Company announced the award of the Lalla Mimouna Permit covering an area of 2,211 sq km situated in the Rharb Basin in Morocco.

31. 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 be able to secure 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 statement of financial position of the Group.

31. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

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. Key assumptions used by management in determining the recoverability include: future oil and gas prices, estimated proved and probable reserves and discount rates (see Notes 12 & 13).

(ii) Review of production and development assets carrying values

The assessment of production and development 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 using discounted cashflow models 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. Key assumptions used by management in determining the recoverability include: future oil and gas prices, estimated proved and probable reserves and discount rates (see Notes 12 & 13).

(iii)Decommissioning

The provision for decommissioning costs is based on management's best estimate of the costs associated with decommissioning the wells in each licence area to return them to their original condition. The estimates include certain assumptions with regard to future costs, inflation rates and discount rates.

(iv) 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.

(v) 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.

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FOR THE YEAR ENDED 31 DECEMBER 2009

32. Subsidiary undertakings

The Company's principal subsidiary undertakings at 31 December 2009, 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 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 Namibia Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Libya Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration

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

ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING
of
CIRCLE OIL PLC
(the "Company")

Notice is hereby given that the Annual General Meeting of Circle Oil Plc will be held at the Burlington Hotel, Upper Leeson Street, Dublin 4 at 12 noon on Thursday 16 September 2010 to transact the following business:

ORDINARY BUSINESS

1 To receive and consider the Report of the Directors and Auditors and the Financial Statements for the year ended 31 December 2009.

2 To re-elect the following Directors who retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election:

a. Mohammad Sultan
b. Ezzedin Hamyouni

3 To authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions:

As a Special Resolution

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(i) That, the authorised share capital of the Company be and is hereby increased from €10,000,000 divided into 1,000,000,000 ordinary shares of €0.01 each to €20,000,000 by the creation of an additional 1,000,000,000 ordinary shares of €0.01 each, such shares to rank pari passu in all respects with the existing ordinary shares of €0.01 each in the capital of the Company:

(ii) That the text of Clause 4 of the Memorandum of Association of the Company be deleted and the following be substituted therefor:

"The share capital of the Company is €20,000,000 divided into 2,000,000,000 shares of €0.01 each"

(iii) That the text of Clause 3 of the Articles of Association of the Company be deleted and the following be substituted therefor:

"The share capital of the Company is €20,000,000 divided into 2,000,000,000 shares of €0.01 each"

ANNUAL GENERAL MEETING

As an Ordinary Resolution

5. That, the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities of the Company within the meaning of Section 20 of the Companies (Amendment) Act, 1983 up to an amount equal to but not exceeding 20% of the authorised but unissued share capital of the Company as of the passing of this resolution, provided that this authority shall expire at the close of business on the 16 December 2011 or if earlier at the close of business of the next annual general meeting of the Company unless previously renewed, extended, or revoked by the Company in general meeting, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.

   This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot relevant securities, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made, pursuant to such authorities.

As a Special Resolution

6. That, the Directors are hereby empowered pursuant to Section 24 of the Companies (Amendment) Act, 1983 to allot equity securities (within the meaning of Section 23 of the said Act) for cash pursuant to such authority as aforesaid as if subsection (1) of said Section 23 did not apply to any such allotment. Such power shall expire on the expiration or the revocation of the authority granted to the Directors pursuant to Section 20 of the said Act for said purposes save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.'

By Order of the Board

Brendan McMorrow
Secretary
2 New Wellington Tce.,
O'Connell Avenue, Limerick

18 June 2010

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you should contact an appropriate independent advisor. If you have recently sold or transferred all your shares in Circle Oil Plc you should forward this document together with the accompanying Form of Proxy, to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Notes

1 Any member entitled to attend and vote at the meeting is entitled to appoint a proxy (who need not be a member of the company) to attend, speak and vote in his/her place. Completion of a Form of Proxy will not affect the right of a member to attend, speak and vote at the meeting in person.

2 To be effective, the Form of Proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of the power of attorney) must be lodged with the Company's Registrar, Capita Corporate Registrars Plc, P.O. Box 7117, Dublin 2 (if delivered by post) or to Unit 5, Manor Street Business Park, Manor Street, Dublin 7 (if delivered by hand) to be received not later than 48 hours before the time for holding the Annual General Meeting.

3 The Form of Proxy in the case of an individual member should be signed by the member or his/her attorney duly authorised in writing. In the case of joint holders, the vote of the senior who tenders a vote, either in person or by proxy, will be accepted to the exclusion of the other joint holder(s) and for this purpose, seniority will be determined by the order in which the names stand in the Register of Members. In the case of a body corporate the Form of Proxy should be given under its common seal or signed on its behalf by a duly authorised officer or attorney.

4 Only those shareholders registered in the Register of Members of the Company as at 5.30pm on 14 September 2010 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time.

GLOSSARY OF TERMS

41° API	Oil Gravity of 41 degrees on the American Petroleum Institute scale
bcf	Billion cubic feet
BO	Barrel of oil
bopd	Barrels of oil per day
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
kms	Kilometres
MENA	Middle-East/North Africa
MMbo	Millions of barrels of oil
MMboe	Millions of barrels of oil equivalent
Mscf	Thousand cubic feet
MMscfd	Million cubic feet per day
Primary recovery	Recovery of petroleum to surface on natural depletion or with natural aquifer influx
PSA	Production Sharing Agreement
P10	Probability of success of 10%
P1 development projects	A discovered field with proven reserves awaiting development
P2 development projects	A discovered field with proven plus probable reserves awaiting development
Secondary recovery	Assisted recovery of petroleum to surface with the aid of water injection or other methods
Sq km	Square kilometres
2D	Two dimensional
3D	Three dimensional

Circle Oil Plc

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