



Circle Oil Plc

Annual Report
2008

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Drilling Rig Mubarak-1 in NW Gemsa Concession, Egypt



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HIGHLIGHTS

- Commences gas production in Morocco
- Oil production commences in Egypt February 2009
- 12 exploration wells drilled: 9 with commercial hydrocarbons and 2 still to be tested
- Tenders for Block 49, Oman seismic study being considered
- Petroholland farming in to Owambo Basin Block, Namibia
- Raised £33 million (US\$58 million) in private placing in September





Circle Oil

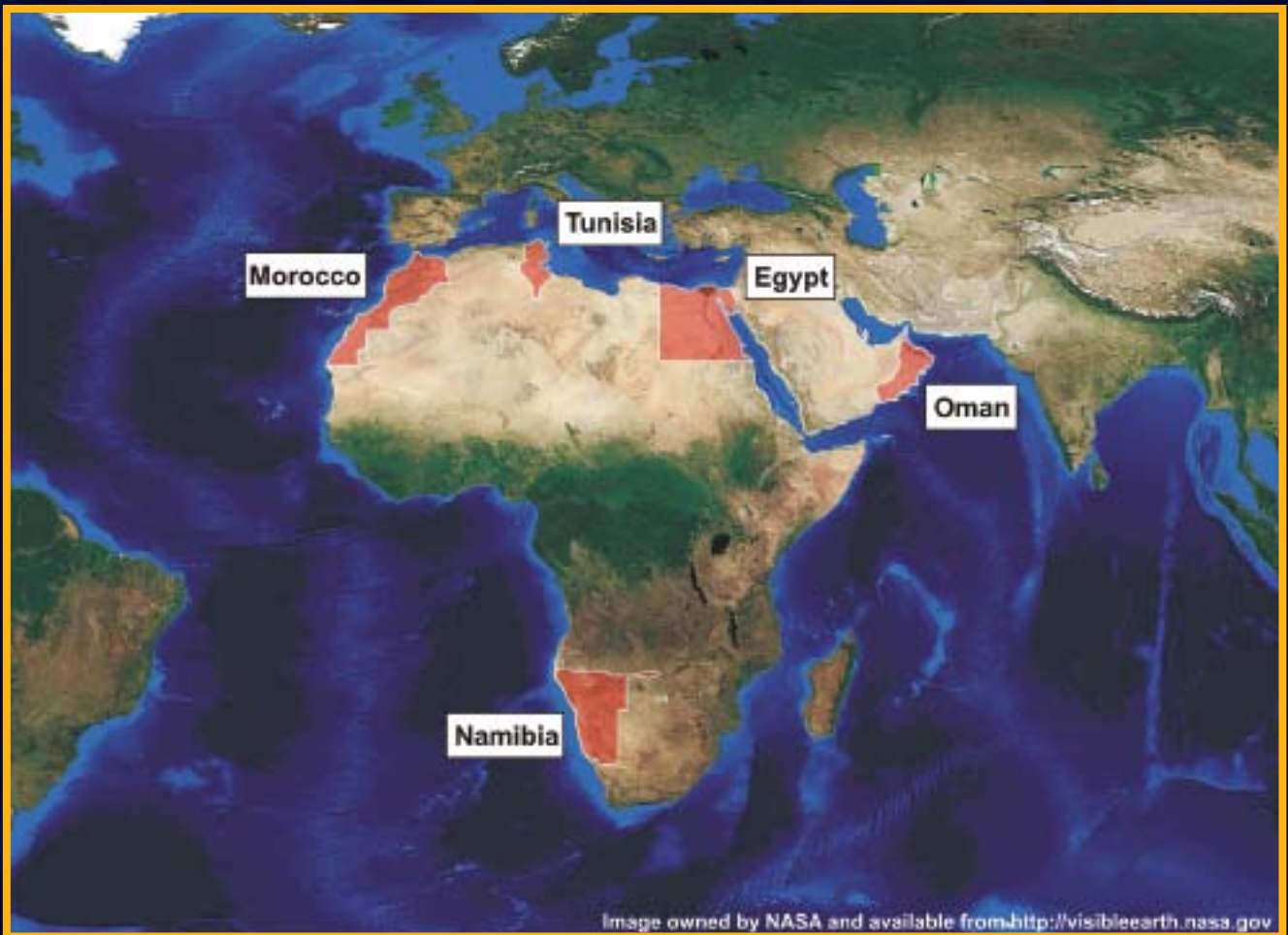


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The Company has enjoyed tremendous success in the year ended 31 December 2008 as it has moved from being an explorer into a producer of both oil and gas. The decision taken a couple of years ago to focus on the acquisition of lower risk, near production assets in Morocco, Tunisia and Egypt has undoubtedly been proven the correct strategy for Circle, as reflected by the drilling results achieved over the past nine months, particularly in Morocco and Egypt.

The Company announced last autumn that it was commencing a 15 well drilling programme on its North African licences and began with wells being drilled in Morocco and Egypt. To date a total of 12 wells have been completed and commercial hydrocarbons have been discovered in 9 of these wells, a remarkable hit rate by any standards, with 2 wells which intersected hydrocarbons yet to be tested. Great credit is due to our team for this success.

Operations

In Morocco, drilling began with the ONZ-6 well and a discovery was announced in early November 2008 with the well testing gas at a sustained rate of 3.32 MMscfd. Discoveries followed in December in CGD-9, testing gas at 8.86 MMscfd, in February 2009 in KSR-8 which has two zones testing at rates of 12.48 and 6.76 MMscfd, in April in well DRJ-6 with a 4 metre gas sand that has yet to be flow tested and in May in well CGD-10 which tested 3.9 MMscfd. The results of the final well of the 6 well programme KSR-9 have just been announced and this well also discovered gas in two zones which tested at 8.05 MMscfd and 4.66 MMscfd.

On the production front, ONZ-4 which was acquired as part of our original agreement with ONHYM went into production in September 2008 but steady production was not achieved until November due to infrastructural problems in the main pipeline. ONZ-6 is now also in production and the combined rate of flow from both wells is 55-60,000m³/day which is in line with the current requirements of the CMCP paper mill in Kenitra. Negotiations have commenced with a number of other large gas users in the area and we expect to be selling gas to these companies in due course.

As reported in the release of 16 February 2009 on the KSR-8 discovery, the drilling programme was severely hampered from early January 2009 by unprecedented rains and extensive flooding in the Rharb Basin. This flooding did not subside until late March resulting in a considerable amount of standby expense as the drill sites were inaccessible and the tying in of new discoveries into the main trunk line was halted. The drilling has now been completed and tie-in plans are back in motion.

In Tunisia, the Serdouk well was drilled on the Grombalia permit. The well confirmed the prospect stratigraphy and structure but no oil was encountered primarily due to the lack of permeability in the formations and it was plugged and abandoned.

In Egypt, we have had tremendous success on the NW Gemsa permit beginning with the announcement in October 2008 of the Al Amir SE-1 ST discovery. This well tested 41 API oil and flowed at rates of 3,388 bopd and 4.25 MMscfd. We then re-entered the Al Amir-1X discovery well, which was originally drilled in 2005, to drill a new sidetrack section of the well to reappraise it as a potential producer. The sidetrack confirmed the upper pay zone but also discovered a new lower pay zone in the Gharib formation dolomites. Both zones contain heavy oil of 16 API.

In January 2009, the Company drilled an appraisal well on the Al Amir SE field, Al Amir SE-2X. This well discovered oil and gas in two pay zones: the upper is 22' thick, the lower zone was tested and flowed at sustained average rates of 5,785 bopd and 7.8 MMscfd. In February 2009 the Company applied to the Egyptian General Petroleum Company for the necessary permits to bring the Al Amir field into production. The development lease was granted and production commenced at 1,450 bopd increasing to 3,000 bopd for a period but now stabilised at 2,000 bopd as a number of receiving tanks and other infrastructural equipment is refurbished at the Gaswarina facility where our oil is piped. Once this work is completed the production levels from Al Amir will be increased.

The drill rig then moved to drill targets Shehab in the centre and Geyad in the northern part of the NW Gemsa licence. The Shehab-1 well encountered significant hydrocarbon bearing sandstones with 22' of net pay in the Kareem formation. It was decided not to test these formations at this location but to do so in a future well in an updip location. The timing of the drilling of this well has yet to be decided. The rig then moved to drill the Geyad-1 well where a new discovery was made in the Kareem formation with 29' of net pay that flow tested 40 API oil at a sustained rate of 2,809 bopd and gas at 3.04 MMscfd. The drill rig has now moved back to Al Amir to drill additional appraisal wells there.

In tandem with our extensive drilling campaign, an offshore seismic study was also carried out on the Mahdia licence in Tunisia, results of which will be used to firm up the locations for the initial well to be drilled on that acreage. Tender documents were also received from eight seismic contractors for the large 3D study proposed for the southern portion of our Block 49 in Oman. These tenders are currently being assessed and it is hoped to award the contract so that the field acquisition can commence in the fourth quarter this year.

I am also very pleased to report that we are soon to be joined in Namibia by a well funded partner, Petroholland, who will carry out a significant exploration programme on our Namibian licence at no cost to Circle Oil for its 20% retained interest in the licence. I wish Petroholland every success in their exploration efforts in this area.

Financial

On the financial front and in order to pay for its aggressive exploration programme Circle successfully carried out a private placing last September which raised £33 million (US\$58 million). The principal participants in this funding were Libya Oil Holdings, a wholly owned subsidiary of Libya Africa Investment Portfolio, who now hold a 28.72% interest in Circle and Kaupthing Bank HF of Iceland who hold a 15.12% interest in the Company.

The Group recorded a loss of US\$10.7 million in 2008 (US\$2.7 for 2007). Pre-licence costs amounting to US\$3.5 million in relation to the Mahdia licence were expensed. A foreign exchange loss of US\$8.9 million was recorded due to the weakening of sterling versus the US dollar. This position has now been cancelled out with a foreign exchange gain recorded in the early part of 2009. Finance revenue amounted to US\$8.5 million which related to a gain of US\$7.5 million on derivative financial instruments and interest income of US\$1.0 million. Net finance costs for the year amounted to US\$2.8 million and comprised actual interest expense of US\$1.8 million and effective interest of US\$1.9 million (both relating to the convertible loan) less US\$0.9 million of interest capitalised to various projects.

Cash and cash equivalents at 31 December 2008 were US\$32.7 million. Total assets for the Group at year-end were almost US\$100 million.

I would like to take this opportunity to welcome Ramadan Aburawi of Libya Oil Holdings to our Board and I look forward to his contribution over the coming years. I would also like to thank John McKeon, a founding director of Circle who resigned last September to pursue other interests, for his contributions over the years since the Company's formation and I wish him every success in his new ventures.

It was a very significant undertaking for a company of the size of Circle to commit to a 15 well drilling programme, raise the necessary funds and have the success rate that has been achieved to date. These results fully justify the expenditure on the best available technology at our technical office near Reading and are a testament to our technical team in the UK and our country management teams in each of our areas of interest under the guidance of Prof. Chris Green. The Vegas Oil and Gas team in Egypt who run the drilling programme in NW Gemsa are also to be commended.

Outlook

Looking ahead, Circle intends to continue with its aggressive exploration programme while expanding its production levels in Egypt through additional appraisal wells on each of its discoveries there. In Morocco we will tie in our recent discoveries to fill the existing pipeline and lay a new trunk line to Kenitra to take the increased production capacity that we now have. All of these actions will result in a substantial increase in the Company's revenues which in time is planned to cover the cost of the ongoing exploration programme. The Company is also seeking to increase its production base by acquiring development or production assets. A number of such projects in the Middle East /North Africa region are currently being assessed.

As our oil production increases it is pleasing to note that oil prices which almost touched US\$150 per barrel last July and then plummeted to the mid US\$30's per barrel is now trading in the region of US\$70 per barrel and remains quite firm. This is very good news for Circle as its cost of production in the NW Gemsa concession is very low.

I said in last year's annual report that I was looking to the future with confidence and enthusiasm. The results for the past 12 months clearly underpin this view and I believe that our team can transform Circle into a substantial oil and gas producer over the coming years.

Finally I would like to thank you, our shareholders, for your support and all of our staff and the staff of our project partners for their commitment during the past year.

Thomas Anderson

Chairman

18 June 2009

This year has been both highly active and demonstrably successful for the Company's operations. Since our last annual report, as operator in our Moroccan Permit we have successfully completed five of the six planned exploration wells. As partner we have enjoyed the successful accomplishment of five further wells in Egypt. In Tunisia, whilst the target formations were located and the envisaged geological structure was found by the well drilled on the Grombalia Permit, it failed to uncover commercial hydrocarbons. Circle remains very satisfied with its exploration drilling strike rate, which the Board believes is well above average for the industry.



Morocco Drill Rig in background showing severe flooding

Morocco

In Morocco, we backed into the Oulad N'Zala permit including the ONZ-4 well which has been in continuous production since late autumn 2008 maintaining a daily rate ranging from 1.0-1.5 MMscfd.

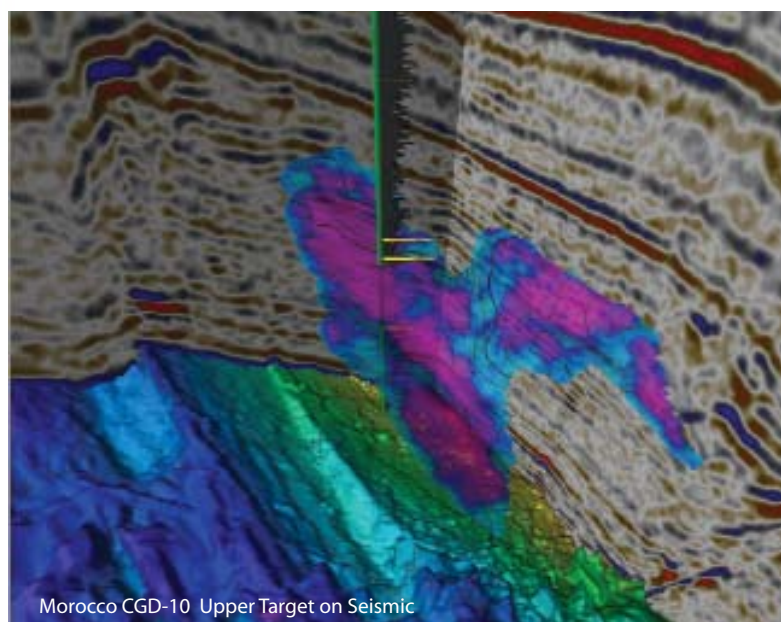
In September 2008, we initiated a six well drilling campaign within the Sebou/Oulad N'Zala Permits with ONZ-6 and were thrilled to announce in November 2008 that this first well had proved to be commercial with the well testing gas at a sustained rate of 3.32 MMscfd.

The second well, CGD-9 also proved to be a discovery with the well flowing under test at 8.86 MMscfd from decent sand in the Lower Guebbas Formation. The winter of 2008-2009 proved to be one of the worst of the past fifty years for the Rharb region and Circle was fortunate to be able to accomplish the testing and completion of its third well. The access roads and well base had been built on a slightly

higher level than the surrounding countryside and fields which subsequently proved to be the contributing factor to facilitating the continuation of activities long after most transportation in the locality had stopped. In mid February we were delighted to confirm a third discovery. The KSR-8 well tested two zones within the Upper and Main Hoot Formations with net pay of 2.5 metres and 11.5 metres respectively. The lower of the two zones in the main Hoot formation flowed gas at a sustained rate of 12.48 MMscfd through a 28/64" choke and produced no liquids. The zone in the Upper Hoot formation flowed at an average rate of 6.76 MMscfd through a 24/64" choke and also produced no liquids.

Unfortunately the weather did impinge upon the good progress Circle had hoped to achieve in Morocco over the winter. These weather conditions allowed us to only recommence drilling in April 2009 with the DRJ-6 well. The drilling of DRJ-6 advanced fairly quickly with logging and gas readings proving we had encountered our 4 metre sand target. However, testing had to be delayed due to both a national transportation strike at this time, and the need for specialised drilling equipment and hardware which would have resulted in significant unnecessary expenditure. This well will be formally tested at a later date.

The drilling rig moved to the penultimate location CGD-10, resulting in the fifth gas discovery in our six well drilling campaign. The well flowed from two pay zones at a combined sustained flow rate of 3.9 MMscfd through a 24/64" choke. The final well of the programme has just been completed and has resulted in a further discovery with two pay zones the upper of which is 2.7 metres thick and flowed at 8.05 MMscfd and the lower 1.7 metres thick flowing at 4.66 MMscfd.



Morocco CGD-10 Upper Target on Seismic



Geyad-1 Prospect NW Gemsa, Egypt

In parallel to this six well campaign, and again acutely affected by the rains and flooding of the winter, we embarked upon tie-in and extended testing of discoveries, primarily to ascertain the extent of reserves and potential flow rates under production. It is often unappreciated that flow rates under test are test flow rates, continuous production rates are likely to be lower to preserve and maintain reservoir integrity. In Spring 2009, Circle was thus able to announce that the first gas discovery, ONZ-6, had been tied into the local pipeline infrastructure and was producing gas as a revenue extended well test. From an environmental and cash earning perspective we consider this to be an extremely satisfactory way to complete the test, also allowing the test to continue longer to get a fuller understanding of potential and in situ recoverable reserves.

We are well advanced in both the rebuilding of the rain damaged access roads and the construction of new roads to facilitate further hook up and testing for our other discoveries. We are particularly interested in hooking up KSR-8, which had extremely high pressures and flow rates and which could turn out to be the jewel in the crown of this Moroccan six well drilling campaign. The revenue

earning extended test of ONZ-6 continues producing at 1.0-1.5 MMscfd. KSR-8 and CGD-9 will be next to go under revenue earning test.

Looking to the immediate future, Circle will concentrate in the coming months on well hook up, testing, reserve estimation, infrastructure cleaning and the engineering planning for a new trunkline increasing the potential gas delivery capacity to incorporate new customers in its vicinity. Early pre-drill based estimates, which are subject to revision, indicate that we already have a minimum of 15 to 20 bcf recoverable. Following a short break in drilling to achieve the foregoing, and with the increase in revenue, we then intend to follow up with a further drilling campaign.

Egypt

In early 2008 we farmed into the North West Gemsa Block acquiring a 40% interest in the licence with operating partner Vegas Oil and Gas and other partner Premier Oil holding 50% and 10% respectively. An initial upside to the farm-in was the Al Amir-1 well discovery of April 2005, having flowed under N2 lift test at 787 bopd.

We were particularly pleased to be able to agree terms to farm into the block as we considered in the short term that it had good prospects to afford to Circle a discovery. We were delighted when Al Amir SE-1X, the first exploration well, discovered both oil and gas in the Kareem Formation sandstones, with the well testing 41° API oil and gas at sustained rates of 3,388 bopd and 4.25 MMscfd using a 64/64" choke. The well was completed as a potential producer. In mid December 2008 the rig then returned to the Al Amir-1 Area to conduct a re-entry and sidetrack designated Al Amir-1X to better understand and appraise the original discovery and in doing so, a second lower pay zone was identified in the Gharib formation dolomites. The upper zone was tested with a sustained rate of 416 bopd, 16° API and the lower zone will be tested as part of the process of bringing the well into commercial production.

Circle and its partners received the Declaration of Commerciality from EGPC for both wells in Spring 2009 and submitted early development plans with the aim of bringing the two discoveries online within the most expedient time period.

In January 2009, the Al Amir SE-2X appraisal well confirmed commercial oil in the Kareem Formation sandstones, carrying on the drilling success. The lower of two potential pay zones, some 42 feet thick, tested 41° API oil and gas with sustained average rates of 5,785 bopd and 7.8 MMscfd using a 64/64" choke. The upper pay zone, some 22 feet net, which was identified within the same formation will be tested at a much later date as part of the development and commercial production.

The partners applied for and were granted a 36 sq km development and production lease over the Al Amir and Al Amir SE area. The development company Petro Wadi Ltd has now been set up to run the development. Interests in the development company reflect those of the exploration licence. An early stage development production was put in place with production commencing at the end of February 2009 in what could be regarded as near record time. The production is intended to augment through the second half of 2009 and hopefully attain a level between 5,500 and 6,000 bopd by H1 2010.

The partners concurrently examined the possibility of drilling other exploration wells within the permit, deciding upon drilling two exploration wells initially designated Shebab-1 and Geyad-1. Shebab-1 was completed at the end of February 2009 and logged further potential hydrocarbons which will be drilled for confirmation and testing in a future well in an updip position.



Production Storage in Al Amir SE, NW Gemsa, Egypt



Well head at Al Amir SE field, Egypt

Subsequently, the drilling rig moved to drill the second of these two exploration wells, Geyad-1. In the third week of May 2009 we confirmed another successful discovery in the Kareem Formation sandstones, testing 40° API oil and gas at a sustained average combined rate from the two pay zones of 2,809 bopd and 3.04 MMscfd using a 64/64" choke. The total calculated net thickness of the two pay zones is approximately 29 feet. We are attempting to put this well into early production.

At the time of writing, the rig Mubarak-1 has moved back to the Al Amir Development Lease to start drilling a second appraisal well, Al Amir SE-3X. Further intensive exploration, appraisal and development drilling is planned over the next two years. This will include providing support wells as required.

The drilling and appraisal in Al Amir Development lease has so far resulted in initial operator calculated potential P Mean oil recoverable reserves totalling approximately 18.75 MMbo and 17.4 bcf of gas primary recovery. Secondary recovery increases these estimates to 26.5 MMbo and 31.3 bcf.

Furthermore the Geyad discovery adds another recoverable P Mean 5.2 MMbo and 7.2 bcf primary and 9.3 MMbo and 13 bcf secondary. These operator calculated estimates are early indications of present reserves and are likely to change through both future drilling, testing, modelling and production monitoring studies.

The estimates also exclude the potential addition of Belayahim and Kareem upside in the Shehab area presently estimated at P Mean 11.1 MMboe. The possibility of upward revision is available on all areas should future exploration and appraisal drilling be successful. In any event this is a very satisfactory start for Circle with a 40% ownership of the asset base so far totalling some P Mean 28.05 MMboe primary and 47.25 MMboe secondary.

Tunisa

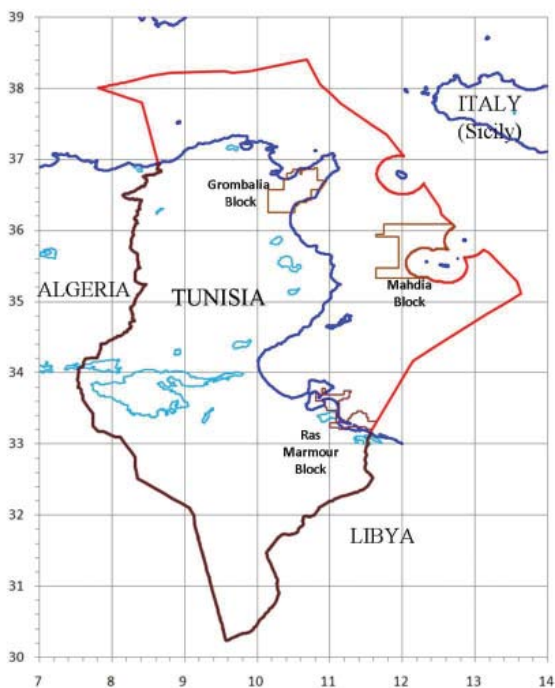
We now have an interest in three permits in Tunisia, two onshore and one offshore. In November 2008, during the reporting year, we completed drilling the Serdouk prospect which logged our objective targets in the Bou Dabbous and Abboid formations with a target depth of 1,620 metres. Unfortunately logging and sampling indicated a lack of permeability leaving the formations “tight” and no oil shows were encountered. The well was plugged and abandoned. We have a number of other prospects identified for future onshore drilling within the permit, each having structures associated with the Abboid and Bou Dabbous formations. We have agreed to shoot additional seismic over the area during 2009. This will be interpreted before the next drilling locations are decided. The success or failure of any individual prospect is immediately related to prospect closure being linked to good fracture based permeability being present. The new seismic will de-risk closure assessment and we are in parallel assessing the area changes in distribution of permeability.

The additional 2D seismic is also planned to include acquisition over parts of the southern Ras Mamour Permit, in particular over the Zita well area. Zita had very good oil shows from the Zebbag formation, with oil returning to the surface. We suffered substantial drilling problems that likely induced an unsatisfactory drill stem test, but we still need a better understanding of the oil water content and total geological structure before returning.

We have identified and mapped other prospects in the permit along similar formational and structural trends e.g. North Ezzouia and Sedouikch, these will also have some additional 2D seismic taken which will be used to prioritise the future drilling programme.

We signed a farm-in agreement to the Mahdia Permit in June 2008 acquiring a 70% working interest with the right to become operator following the completion of 500 kilometres of 2D seismic and permit conversion at the end of June 2009. The 2D seismic was completed at the end of February 2009 and is now being processed with a view to interpretation in our technical office over the remaining months of 2009. We have mapped multiple prospects already and will firm these up and integrate all datasets to de-risk and prioritise the prospects for future drilling. There is undoubtedly a proven petroleum system and we feel there is a high probability of success in the drilling programme here in the future; there is a record of historical success which could be continued.

Individual prospects are considered to range from a preliminary estimated 10-60 MMbo recoverable. Water depths range from 85-200 metres. The permit is a particular favourite of two members of the senior management having worked there in former years.



Tunisia Concession Map

Oman

We hold two concessions in Oman, Blocks 49 and 52.

Block 49, covers approximately 15,438 sq km and is undrilled in most of the southern part of the block. It is the southern section that we are particularly interested in, believing it to be the most prospective part of the block. We have completed a provisional interpretation of the area and this indicates the possible presence of Ara Salt. We are at tender for a 900 sq km 3D seismic survey for this southern section which is planned to commence later this year once the warmer weather has subsided. We are waiting on the survey to confirm the prognosis that a complementary salt basin and/or connection exists into the prolific producing South Oman salt basin.

We hope to prove from the seismic study the potential for carbonate stringers trapped within the Ara Salt. These would likely be either Huqf sourced or self-sourcing and if so, would be a tremendous result which could immediately turn the prospectivity of the area into a potentially top class oil play. We also have a secondary play capacity covered within the area of the seismic survey.

In Block 52, offshore southern Oman, we completed processing and interpretation of the 2007 2D data set and presented the first phase report to the Omani Ministry of Oil and Gas in April 2008. We requested and were granted the first extension to the license whilst concurrently we designated and relinquished 30% of the block, mainly in very deep water areas. As part of the first extension approvals, we were granted an additional six month period prior to the start of this extension period to assist us in seeking a farm-in partner. The first extension period will see the acquisition, processing and interpretation of an additional 5,000 kilometres of marine 2D data, concentrating on prospective elements within the Block. We have already identified multiple leads with a large reserve potential in different play concepts and these are incorporated into our farm-out brochure.

Namibia

In September 2008 we had signed a farm-out agreement on the Owambo Basin License with Petroholland Ltd. Under the terms of this farm-out agreement, which is expected to close shortly, Petroholland will acquire a 70% undivided interest in the license with Circle retaining a 20% interest and NAMCOR, the Namibian State oil company holding a 10% share. Under the agreement, Petroholland Ltd is to become operator and Circle has the right of a free carry through to production. Petroholland has engaged the services of Halliburton consultants to provide the technical capacity, personnel and resources to fulfil its obligations under the terms of the farm-out agreement and the Joint Operating Agreement. Halliburton have been intensively engaged in completing a full review and interpretation of all the existing data sets and are now "up to speed" on the permit to carry out full operations. Circle remains on the TCM and OCM for the permit and will maintain full involvement in the exploration programme to contribute towards and monitor progress.

Summary

The operations report has given some indications of the year's successes and plans for the immediate future but as we continue to drill and develop our success in NW Gemsa we will in parallel be concentrating on turning the Moroccan drilling success into revenue. There is considerable demand for natural gas in the Rharb area, especially for industry. We are in the process of discussing new uptake contracts with potential customers and are discussing and completing engineering plans with our partner to enable an increase in gas production in the shorter term. We need to assess our drilling sequencing after the successful six well drilling campaign; this will include re-inversion and quantification from the considerable amount of log and drilling data we have collected. The integration of VSP results, checkshots and shear wave logging will all play their part in this re-assessment. We have many more targets to drill, but it is only natural that we would wish to prioritise them and drilling accordingly. We are now planning a similar drilling campaign for the next round of drilling to enhance and bolster our initial discoveries.

We have had a tremendously exciting and successful year and can only thank all our staff for their efforts. Our service companies have also contributed to our accomplishments, in addition to the support and willing assistance we have received from both our partners and the Ministries and State organisations in the areas of our operations. For this we are incredibly thankful.

We stay convinced that the Middle East and North Africa remains a "good place to be" and hope we will strive to build the company and our asset base within this area.

The Company is examining the possibility of acquiring additional value by farm-in to potential development projects and we have been undertaking both internal and commercial reviews of a number of P1/P2 based development projects in the MENA region, with a view to negotiating farm-ins. These studies continue and we will report progress in due course.

Thomas Anderson, Non-Executive Chairman

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

David Joseph Hough, Chief Executive Officer

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

Professor Chris Green, Chief Operating Officer

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

Rafat A. Rizvi, Non-Executive Director

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

Mohammad Sultan, Non-Executive Director

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

Ramadan Aburawi, Non-Executive Director

Mr. Aburawi is a Geologist with over forty years of operational, technical and managerial experience in upstream oil and gas and is currently a member of the Board of Directors and Exploration and Production Director of Libya Oil Holdings Limited. Prior to his involvement with Libya Oil Holdings, Mr. Aburawi spent a considerable portion of his career with Waha Oil Company (a major Libyan based upstream oil exploration and production company) with whom he held a number of senior technical and managerial positions. He also held managerial roles with Algerian Libyan Arab Petroleum E & P Company and the Arab Petroleum Services Company. Mr. Aburawi holds a B.Sc. in Geology from the University of Libya and an M.Sc. in Geology from the University of South Carolina, USA.

Directors

T. Anderson (Chairman)*#
D. Hough
C.D. Green (UK)
R.A. Rizvi (UK)#
M. Sultan (Kuwait)*
R. Aburawi (Libya)

* Member of the Audit Committee

Member of the Remuneration Committee

Chief Financial Officer & Secretary

Brendan McMorrow

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Chartered Accountants and Registered Auditors
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Website

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Market

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of the London Stock Exchange (LSE)

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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 2008.

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 11. 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 financial 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.

Principle risks and uncertainties

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

A number of the main financial risks include credit risk, liquidity risk and market risk and these are set out in more detail in Note 24 to the financial statements.

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 2009		Ordinary Shares 31 December 2008		Ordinary Shares 31 December 2007	
		%		%		%
Directors						
T. Anderson	20,000,000	5.7	20,000,000	5.7	20,000,000	12.3
D. Hough	12,550,000	3.6	12,550,000	3.6	12,550,000	7.7
C.D. Green	-	-	-	-	-	-
R.A. Rizvi	250,000	0.1	250,000	0.1	250,000	0.2
M. Sultan	-	-	-	-	-	-
R. Aburawi*	-	-	-	-	-	-
Secretary						
B. McMorrow	-	-	-	-	-	-

*Mr. R. Aburawi was appointed a Director on 24 April 2009.

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

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

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

Results

The consolidated loss after taxation for 2008 was US\$10,712,000 (2007: Loss US\$2,735,000).

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008 (2007: US\$Nil).

Directors

The present Directors of the Company are listed on page 11. Mr. John McKeon resigned as a Director on 19 September 2008. Mr Ramadan Aburawi was appointed a Director on 24 April 2009. Mr. Ramadan Aburawi retires from the Board in accordance with the Articles of Association of the Company and being eligible offers himself for re-election. Mr. Thomas Anderson and Prof. Chris Green retire from the Board by rotation in accordance with the Articles of Association of the company and being eligible offer themselves for re-election.

Share Options

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

Directors	At 31 December 2007	Granted during year	At 31 December 2008	Price £Stg	Expiry date
T. Anderson	750,000	-	750,000	0.20	October 2010
	500,000	-	500,000	0.30	October 2010
		750,000	750,000	0.225	September 2014
D. Hough	1,500,000	-	1,500,000	0.20	October 2010
	1,500,000	-	1,500,000	0.30	October 2010
		2,500,000	2,500,000	0.225	September 2014
C.D. Green	2,000,000	-	2,000,000	0.30	October 2010
	2,000,000	-	2,000,000	0.25	August 2012
		10,000,000	10,000,000	0.225	September 2014
Secretary B. McMorrow	600,000	-	600,000	0.30	October 2010
	200,000	-	200,000	0.25	August 2012
		700,000	700,000	0.225	September 2014

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	28.72
Kaupthing Bank	52,631,579	15.12
Eskander Maleki	13,126,316	3.77
John McKeon	12,521,000	3.60
Windermere Finance S.A.	11,052,632	3.17
Wolcott Assets S.A.	10,526,316	3.02

Political donations

No political donations were made during the year. (2007: 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 accounts are kept at the Company's offices at 2 New Wellington Terrace, O'Connell Avenue, Limerick.

Subsequent events

A number of significant events have occurred since year end all of which are set out in detail in the Chairman's Statement on pages 4 and 5 and Operations Review on pages 6 to 11.

Share price information

The market price of the Company's shares at the end of the financial year was £0.13 (2007: £0.23).

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

D. Hough
Chief Executive Officer

18 June 2009

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 10 Board 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 17.

The Remuneration Committee

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

The Audit Committee

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



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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

We have audited the financial statements of Circle Oil Plc for the year ended 31 December 2008 which comprise the Group Financial Statements: the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Company Financial Statements: the Company Balance Sheet, the Company Cash Flow Statement, the Company Statement of Changes in Equity and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, as set out in the Statement of Directors' Responsibilities, 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 2006, and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company's balance sheet is in agreement with the books of account.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistency with the financial statements. The other information comprises only the Chairman's Statement, the Operations Review, the Directors' Report 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.

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 2008 and of the loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and the European Communities (Companies: Group Accounts) Regulations, 1992.
- 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 affairs of the Parent Company as at 31 December 2008 and of the loss for the year then ended; and
- the Parent Company financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

Emphasis of Matter – Valuation of Assets

Without qualifying our opinion, we draw your attention to Notes 12 and 15 to the financial statements concerning the valuation of exploration and evaluation assets of US\$65,827,000 included in the consolidated balance sheet and of the amounts due from group companies of US\$58,501,000 included in intercompany and other receivables in the company balance sheet. The realisation of the exploration and evaluation assets by the Group and the amounts due from group companies by the Company is dependent on successful development of economic reserves and the availability of sufficient finance to bring reserves to economic maturity and profitability. The ultimate outcome of these uncertainties cannot presently be determined.

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

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

The net assets of the Company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2008 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Limerick

19 June 2009

	Notes	2008 US\$000	2007 US\$000
Revenue		-	-
Administrative expenses	3	(3,006)	(3,185)
Share option expense	2	(956)	(226)
Pre-licence costs	4	(3,479)	-
Exploration costs written-off	12	-	(530)
Foreign exchange (loss)/gain	5	(8,944)	187
Operating loss – continuing activities		(16,385)	(3,754)
Finance revenue	6	8,497	2,945
Finance costs	7	(2,795)	(1,913)
Loss before taxation	8	(10,683)	(2,722)
Taxation	9	(29)	(13)
Loss for the year		(10,712)	(2,735)
Basic and diluted loss per share	10	4.60c	1.68c

On behalf of the Board

Thomas Anderson
Chairman
18 June 2009

David Hough
Chief Executive Officer

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008



ANNUAL REPORT 2008

	Notes	2008 US\$000	2007 US\$000
Assets			
Non-current assets			
Exploration and evaluation assets	12	65,827	26,475
Property, plant and equipment	13	310	298
		66,137	26,773
Current assets			
Trade and other receivables	15(a)	921	237
Cash and cash equivalents	23	32,670	29,715
		33,591	29,952
Total assets		99,728	56,725
Equity and liabilities			
Capital and reserves			
Called up share capital	18	4,799	2,147
Share premium	18	78,393	25,708
Other reserves	19	3,183	2,049
Retained losses	20	(20,621)	(10,268)
Total equity		65,754	19,636
Non-current liabilities			
Convertible loan – debt portion	17	19,261	17,376
Derivative financial instruments	17	4,078	11,560
Total non-current liabilities		23,339	28,936
Current liabilities			
Trade and other payables	16	10,635	8,153
Total current liabilities		10,635	8,153
Total liabilities		33,974	37,089
Total equity and liabilities		99,728	56,725

On behalf of the Board

Thomas Anderson
Chairman
18 June 2009

David Hough
Chief Executive Officer

COMPANY BALANCE SHEET

AT 31 DECEMBER 2008

ANNUAL REPORT 2008

	Notes	2008 US\$000	2007 US\$000
Assets			
Non-current assets			
Exploration and evaluation assets	12	109	133
Property, plant and equipment	13	235	224
Financial assets	14	10	10
		354	367
Current assets			
Intercompany and other receivables	15(b)	59,059	45,382
Cash and cash equivalents		31,862	4,628
		90,921	50,010
Total assets		91,275	50,377
Equity and liabilities			
Capital and reserves			
Called up share capital	18	4,799	2,147
Share premium	18	78,393	25,708
Other reserves	19	3,186	2,052
Retained losses	20	(21,529)	(10,230)
Total equity		64,849	19,677
Non-current liabilities			
Convertible loan – debt portion	17	19,261	17,376
Derivative financial instruments	17	4,078	11,560
Total non-current liabilities		23,339	28,936
Current liabilities			
Trade and other payables	16	3,087	1,764
Total current liabilities		3,087	1,764
Total liabilities		26,426	30,700
Total equity and liabilities		91,275	50,377

On behalf of the Board

 Thomas Anderson
 Chairman
 18 June 2009

 David Hough
 Chief Executive Officer

CONSOLIDATED CASH FLOW STATEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2008

ANNUAL REPORT 2008

	Notes	2008 US\$000	2007 US\$000
Operating activities			
Net cash used by operations	22	(3,665)	(4,176)
Taxes paid		(13)	(3)
Net cash outflow from operating activities		(3,678)	(4,179)
Cash flows from investing activities			
Payments to acquire oil & gas interests		(34,906)	(10,573)
Payments to acquire property, plant and equipment		(187)	(184)
Interest received		690	1,144
Net cash used in investing activities		(34,403)	(9,613)
Cash flows from financing activities			
Issue of ordinary share capital		58,077	-
Issue of convertible loan		-	30,000
Financing costs		(6,261)	(349)
Interest paid		(1,805)	(549)
Net cash from financing activities		50,011	29,102
Increase in cash and cash equivalents		11,930	15,310
Cash and cash equivalents at beginning of year		29,715	14,216
Effect of foreign exchange rate changes		(8,975)	189
Cash and cash equivalents at end of year	23	32,670	29,715

	Notes	2008 US\$000	2007 US\$000
Operating activities			
Net cash used by operations	22	1,186	(3,620)
Taxes paid		(13)	(3)
Net cash inflow/(outflow) from operating activities		1,173	(3,623)
Cash flows from investing activities			
Advances to group undertakings		(15,123)	(35,431)
Payments to acquire oil & gas interests		-	(86)
Payments to acquire property, plant and equipment		(160)	(120)
Interest received		348	500
Net cash used in investing activities		(14,935)	(35,137)
Cash flows from financing activities			
Issue of ordinary share capital		58,077	-
Issue of convertible loan		-	30,000
Financing costs		(6,261)	(349)
Interest paid		(1,805)	(549)
Net cash from financing activities		50,011	29,102
Increase/(decrease) in cash and cash equivalents		36,249	(9,658)
Cash and cash equivalents at beginning of year		4,628	14,097
Effect of foreign exchange rate changes		(9,015)	189
Cash and cash equivalents at end of year		31,862	4,628

**Consolidated**

	Share capital US\$000	Share premium US\$000	Share based payment reserve US\$000	Translation reserve US\$000	Retained losses US\$000
At 1 January 2007	2,147	25,708	1,563	(3)	(7,533)
Share based payment	-	-	489	-	-
Net loss for the year	-	-	-	-	(2,735)
At 31 December 2007	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)

Company

	Share capital US\$000	Share premium US\$000	Share based payment reserve US\$000	Retained losses US\$000
At 1 January 2007	2,147	25,708	1,563	(5,154)
Share based payment	-	-	489	-
Net loss for the year	-	-	-	(5,076)
At 31 December 2007	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)

1. Accounting policies

Principal accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted for use by the European Union. They have also been prepared in accordance with the Companies Acts, 1963 to 2006.

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 instruments in accordance with generally accepted accounting principles, 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 27 to the financial statements.

Functional & presentational currency

As all of the Group's project expenditures are denominated in US dollars, the Group considers the US dollar to be the currency of the primary economic environment in which it operates. Sales revenue will also be in US dollars. Accordingly the Group's functional and presentational currency is US dollars.

Adoption of new and revised Standards

Three interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*

IFRIC 12 *Service Concession Arrangements*

IFRIC 14 *IAS19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

Standards and Interpretations in issue not yet adopted

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

IFRS 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)

IFRS 2 (amended) *Share-based Payment – Vesting Conditions and Cancellations* (effective for accounting periods beginning on or after 1 January 2009)

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

IFRS 7 *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* (effective for accounting periods beginning on or after 1 January 2009)

IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009)
IAS 1 (Revised 2007) *Presentation of Financial Statements* (effective for accounting periods beginning on or after 1 January 2009)
IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements* (effective for accounting periods beginning on or after 1 July 2009)
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 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 2008)
IFRIC 15 *Agreements for the Construction of Real Estate* (effective for accounting periods beginning on or after 1 January 2009)
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after 1 October 2008)
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, except for those standards currently being considered by the Directors, that those standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application. The Directors are considering the impact that IFRS 8 *Operating Segments* will have on the Group financial statements as this standard may well impact on the segmental disclosures included in the financial statements.

In addition, the Directors are currently considering the impact

IFRS 2 (amended) *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 3 (Revised 2008) *Business Combinations*
IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements*

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.

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 amount of an exploration and evaluation asset in the geographic area may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount 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 amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Pre-licence costs

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

Revenue recognition

Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have been transferred and is measured at the fair value of consideration received or receivable.

Revenue is stated after deducting sales taxes, excise duties and similar levies. 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, or valuation, 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 balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 balance sheet date. Income and expense items are translated at the average exchange rates for the period. 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 balance sheet 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 balance sheet.

Finance costs

Finance costs of debt are amortised over the term of the related debt at the effective rate. 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 balance sheet 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 balance sheet.

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.

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 2008 this resulted in a charge of US\$956,000 (2007: US\$226,000) 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 2008 share option expense amounting to US\$537,000 (2007: US\$263,000) has been capitalised in oil and gas interests. See Note 19 (a).

3. Administrative expenses

	2008 US\$000	2007 US\$000
Salaries & consultancy	2,502	1,917
Professional fees	698	550
Office overheads	1,546	1,577
Capitalised to exploration and evaluation assets	(1,740)	(859)
	3,006	3,185

4. Pre-licence costs

Pre-licence costs amounting to US\$3.48 million (2007: US\$Nil) relate to the value of shares issued as non-cash consideration for services rendered in relation to the acquisition of the Mahdia permit in Tunisia.

5. Foreign exchange loss

A foreign exchange loss of US\$8.94 million (2007: US\$187,000 gain) was incurred in 2008 as a result of the weakening of sterling versus the US dollar. Of this amount a loss of US\$6.52 million was unrealised at 31 December 2008 (2007: US\$59,000 unrealised gain).

6. Finance revenue

	2008 US\$000	2007 US\$000
Interest receivable	1,015	1,133
Gain on fair value of conversion option (Note 17)	6,536	972
Gain on fair value of additional option to subscribe for shares (Note 17)	946	840
	8,497	2,945

The gain recorded on both the conversion option and additional option (relating to the convertible loan) arose mainly as a result of the reduction in the Company share price in 2008 which was £0.13 at 31 December 2008 (2007: £0.23)

7. Finance costs

	2008	2007
	US\$000	US\$000
Interest payable:		
Convertible loan	3,690	1,872
Capitalised to exploration and evaluation assets	(895)	(30)
Other	-	71
	2,795	1,913

Interest payable relating to the convertible loan includes interest paid of US\$1.8 million (2007: US\$750,000) and an effective interest expense of US\$1.83 million (2007: US\$1.1 million) plus amortisation of transaction costs of US\$56,000 (2007: US\$28,000)

8. Loss before taxation

	2008	2007
	US\$000	US\$000
Loss before taxation is stated after charging:		
Depreciation	175	120
Auditors remuneration	78	70
Directors' emoluments		
- Fees	175	171
- Other emoluments	1,211	963
- Share based payment	977	142
Total Directors remuneration	2,363	1,276

At 31 December 2008 Directors fees amounting to US\$43,000 (2007: US\$4,000) were outstanding.

9. Taxation
Analysis of taxation charge for the year

	2008	2007
	US\$000	US\$000
Irish corporation tax:		
Adjustments in respect of prior year	-	2
	-	2
Foreign tax:		
Based on the loss for the year	29	11
	29	11
Total current tax	29	13

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:

	2008 US\$000	2007 US\$000
Loss on ordinary activities before tax	(10,683)	(2,722)
Loss on ordinary activities multiplied by the standard rate of Irish corporation tax of 25% (2007: 25%)	(2,671)	(681)
Effects of:		
Adjustment in respect of prior year	-	2
Losses carried forward	2,671	681
Higher rate of tax on foreign income	29	11
Tax charge for year	29	13

No deferred tax asset has been recognised on accumulated tax losses as it cannot be considered probable that future taxable profit will be available against which the unused tax losses can be utilised. The amount not recognised amounts to US\$5.55 million (2007: US\$2.88 million).

	2008 US\$000	2007 US\$000
Deferred tax arising from:		
Losses forward*	4,756	2,367
Share based payment	797	514
	5,553	2,881

*The deferred tax asset not recognised in respect of temporary differences associated with subsidiaries is US\$1.47 million (2007: US\$61,000).

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:

	2008 US\$000	2007 US\$000
Loss for the year attributable to equity holders of the parent	(10,712)	(2,735)
The basic weighted average number of ordinary shares in issue is calculated as follows:		
Number of ordinary shares in issue at start of year	162,697,200	162,697,200
Adjustment for shares issued during the year	70,075,000	-
Weighted average number of ordinary shares	232,772,200	162,697,200
Basic and diluted loss per share	4.60c	1.68c

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 2008 and 2007 respectively. The Group had total potential ordinary shares outstanding of 100,121,099 at 31 December 2008 (2007: 49,180,951).

11. Employees and remuneration

	2008	2007
	US\$000	US\$000
Employee costs during the year:		
Wages and salaries	1,765	1,490
Share based payments	1,059	360
Social welfare costs	130	92
Pension costs	45	9
	2,999	1,951
Average number of persons employed:		
Management and administration	7	4
Other technical	5	3
	12	7

The amount noted for share based payments of US\$1.06 million (2007: US\$360,000) refers to the cost of share options awarded to employees during 2008. (See Note 19(a)).

12. Exploration and evaluation assets

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

Group	Opening Balance	Additions	Amounts written-off	Credits/Transfers	Closing Balance
	US\$000	US\$000	US\$000	US\$000	US\$000
2008					
Morocco	9,587	21,446	-	(305)	30,728
Egypt	-	12,996	-	-	12,996
Tunisia	5,310	3,900	-	24	9,234
Oman	6,901	1,280	-	-	8,181
Namibia	4,544	35	-	-	4,579
Other	133	-	-	(24)	109
Total	26,475	39,657	-	(305)	65,827

2007

Morocco	1,366	8,491	(270)	-	9,587
Egypt	-	-	-	-	-
Tunisia	-	5,310	-	-	5,310
Oman	3,990	2,911	-	-	6,901
Namibia	3,689	855	-	-	4,544
Other	251	142	(260)	-	133
Total	9,296	17,709	(530)	-	26,475

Revenue generated from the sale of gas in Morocco during the latter part of 2008 amounted to US\$305,000 (2007: US\$Nil). As sufficient information does not yet exist to demonstrate the commercial viability and technical feasibility of extracting the gas, this amount was credited to exploration and evaluation assets (Group: Morocco). Therefore, such assets will continue to be carried as exploration and evaluation assets while progress is made in assessing the commerciality of the asset.

The Company signed an agreement in September 2008 with Petroholland Limited, a Dubai based company, for the sale of a 70% interest in its exploration licence in Namibia for consideration of US\$15 million. As the farm-out agreement has not yet been completed the transaction has not been recognised in the financial statements at 31 December 2008.

Oil and gas interests at 31 December 2008 represent exploration and related expenditure on the Group's licences & permits in the geographical areas noted above, full details of which are set out in the Operations Review. The realisation of these intangible assets by the Group and Company is dependent on the development of economic reserves and the ability of the Group to raise sufficient funds to develop these interests. Should the development of economic reserves prove unsuccessful, the carrying value in the balance sheet will be written off.

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 2008. 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.

Company

The net book value of exploration and evaluation assets by geographical area for the Company was: Other: US\$109,000 (2007: Other: US\$133,000).

13. Property, plant and equipment

Group	2008 US\$000	2007 US\$000
Cost:		
At 1 January	469	284
Additions	187	185
At 31 December	656	469
Accumulated depreciation:		
At 1 January	171	51
Charge for year	175	120
At 31 December	346	171
Net book value at 31 December	310	298
Company	2008 US\$000	2007 US\$000
Cost:		
At 1 January	376	256
Additions	158	120
At 31 December	534	376
Accumulated depreciation:		
At 1 January	152	47
Charge for year	147	105
At 31 December	299	152
Net book value at 31 December	235	224

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

**14. Financial assets**

Company		2008 US\$	2007 US\$
Shares in subsidiary companies (unlisted shares) at cost:	% Owned		
Circle Oil Company, (Panama), S.A.	100%	10,000	10,000
First African Oil Corporation	100%	20	20
Circle Oil Jersey Limited	100%	4	4
Total		10,024	10,024

Details of the registered offices of principal subsidiary companies is set out in Note 28 to these financial statements.

15. (a) Trade and other receivables

Group	2008 US\$000	2007 US\$000
VAT	47	24
Prepayments & accrued income	874	213
	921	237

(b) Intercompany and other receivables

Company	2008 US\$000	2007 US\$000
VAT	29	24
Prepayments	529	117
Amounts due from Group companies	58,501	45,241
	59,059	45,382

Included in amounts due from Group companies is US\$Nil (2007: US\$24.98 million) representing cash balances held in a subsidiary company and US\$58.50 million (2007: US\$20.26 million) representing amounts advanced to other subsidiary companies in relation to expenditure incurred on oil and gas interests.

Amounts due from Group companies in the Company balance sheet are stated after a provision for doubtful debts of US\$6.77 million (2007: US\$Nil).

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 balance sheet date, nor any material bad debt provisions (other than as disclosed above in respect of amounts due from Group companies in the Company balance sheet).

16. Trade and other payables

Group	2008 US\$000	2007 US\$000
Trade creditors and accruals	10,602	8,112
Other creditors – taxes	33	41
	10,635	8,153
Company	2008 US\$000	2007 US\$000
Trade creditors and accruals	806	1,269
Other creditors – taxes	22	41
Amounts due to group companies	2,259	454
	3,087	1,764

17. 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 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.

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 recognized in profit or loss as they arise. The embedded derivatives and host contract are presented under separate headings in the balance sheet.

The above principles have been reflected as follows:

Group and Company	2008 US\$000	2007 US\$000
Balance 1 January	29,721	-
Proceeds from issue of convertible loan	-	30,000
Loan transaction costs	-	(279)
Net proceeds from convertible loan	29,721	29,721
Convertible loan debt portion – amortised cost	19,261	17,376
Derivative financial instruments – fair value	4,078	11,560
	23,339	28,936
Convertible loan debt portion at 1 January/inception	17,376	16,349
Interest charged	3,634	1,844
Interest paid	(1,805)	(845)
Amortisation of transaction costs	56	28
Closing convertible loan debt portion – amortised cost	19,261	17,376
Opening derivative financial instruments – conversion option	10,479	11,451
Fair value movement – gain (Note 6)	(6,536)	(972)
Closing derivative financial instruments – conversion option	3,943	10,479
Opening derivative financial instruments – additional option	1,081	1,921
Fair value movement – gain (Note 6)	(946)	(840)
Closing derivative financial instruments – additional option	135	1,081

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

The inputs used in each model were as follows:

	2008	2007
	Binomial Lattice	
Option Term – years	3.6	4.6
Share price – pence sterling	12.75	23.25
Risk-free rate (%)	1.17	3.41
Expected volatility (%)	68.3	63.1
Dividend yield	-	-
	Black Scholes	
Option Term – years	1.4	2.4
Share price – pence sterling	12.75	23.25
Risk-free rate (%)	0.26	3.07
Expected volatility (%)	76.7	60.4
Dividend yield	-	-

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

18. Called up share capital & share premium

		2008	2007
		US\$000	US\$000
Authorised:			
1,000,000,000 ordinary shares of €0.01 each		10,000	5,000
Issued:	No. of Shares	Share Capital	Share Premium
		US\$000	US\$000
At 1 January 2007	162,697,200	2,147	25,708
Shares issued in 2007	-	-	-
At 31 December 2007	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

On 5 March 2008 the Company issued 750,000 fully paid ordinary shares at €0.10 each as non-cash consideration in connection with the payment of sales commission relating to fundraising before the company's admission to AIM.

On 5 September 2008 the Company issued 173,684,211 fully paid ordinary shares in a private placing to a number of new investors at £0.19 each for gross proceeds of £33 million.

On 15 December 2008 the Company issued 11,052,632 fully paid ordinary shares to Windermere S.A. at £0.19 each as non-cash consideration in respect of technical services and consultancy fees for services rendered to the Company.

19. Other reserves
a) Share based payment reserve

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

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

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



	2008		2007	
	No. of share options	Weighted average exercise price	No. of share options	Weighted average exercise price
	000's£	000's£		
1 January	15,300	0.26	18,050	0.26
Granted during year	20,120	0.23	400	0.25
Exercised during year	-	-	-	-
Lapsed during year	(1,350)	0.30	(3,150)	0.25
31 December	<u>34,070</u>	<u>0.24</u>	<u>15,300</u>	<u>0.26</u>
Exercisable at 31 December	<u>17,450</u>	<u>0.25</u>	<u>14,900</u>	<u>0.26</u>

Options outstanding at 31 December 2008 had exercise prices ranging from £0.20 to £0.30 and had a weighted average remaining contractual life of 3.77 years.

The fair values of the options were calculated using a Black-Scholes option pricing model and this produced an average fair value of the options of £0.105 each. The inputs used in the model were as follows:

	2008	2007
Weighted average share price (£)	0.23	0.27
Weighted average exercise price (£)	0.23	0.26
Expected volatility (%)	70	70
Average expected life (years)	3.04	2.35
Weighted average risk free rate (%)	4.3	5.0
Expected dividends	-	-

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\$1.49 million (2007: US\$489,000). An amount of US\$359,000 (2007: US\$ Nil) was transferred from share based payment reserve to retained losses as the options to which the initial expense related to lapsed.

Of the net charge to reserves for the year of US\$1.49 million an amount of US\$956,000 (2007: US\$226,000) is charged in the income statement and US\$537,000 (US\$263,000) is capitalized to exploration and evaluation assets.

b) Reconciliation of other reserves

Group	2008 US\$000	2007 US\$000
Opening reserves	2,049	1,560
Share based payment	1,493	489
Transfer to retained losses	(359)	-
Closing reserves	3,183	2,049
Company		
	2008 US\$000	2007 US\$000
Opening reserves	2,052	1,563
Share based payment	1,493	489
Transfer to retained losses	(359)	-
Closing reserves	3,186	2,052

20. Retained losses

Group	2008 US\$000	2007 US\$000
Opening balance	(10,268)	(7,533)
Loss for the year	(10,712)	(2,73)
Transfer from share based payment reserve	359	-
Closing balance	(20,621)	(10,268)
Company		
	2008 US\$000	2007 US\$000
Opening balance	(10,230)	(5,154)
Loss for the year	(11,658)	(5,076)
Transfer from share based payment reserve	359	-
Closing balance	(21,529)	(10,230)

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\$11.66 million (2007: US\$5.08 million)

21. Reconciliation of movement in shareholders' funds

Group	2008	2007
	US\$000	US\$000
Loss for the year	(10,712)	(2,735)
Increase in share capital and share premium	55,337	-
Share based payment	1,493	489
Increase/(decrease) in shareholders' funds	46,118	(2,246)
Opening shareholders' funds	19,636	21,882
Closing shareholders' funds	65,754	19,636
Company	2008	2007
	US\$000	US\$000
Loss for the year	(11,658)	(5,076)
Increase in share capital and share premium	55,337	-
Share based payment	1,493	489
Increase/(decrease) in shareholders' funds	45,172	(4,587)
Opening shareholders' funds	19,677	24,264
Closing shareholders' funds	64,849	19,677

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

Group	2008	2007
	US\$000	US\$000
Operating loss	(16,385)	(3,754)
Decrease in trade and other payables	(490)	(1,186)
(Increase)/decrease in trade and other receivables	(375)	77
Exploration costs written off	-	530
Foreign exchange loss/(gain)	8,975	(189)
Pre-licence acquisition costs	3,479	-
Depreciation	175	120
Share option expense	956	226
Net cash used by operations	(3,665)	(4,176)
Company	2008	2007
	US\$000	US\$000
Operating loss	(17,017)	(5,435)
Increase/(decrease) in trade and other payables	1,361	(696)
(Increase)/decrease in trade and other receivables	(79)	9
Provision for subsidiary company losses	6,769	-
Foreign exchange loss/(gain)	9,015	(189)
Impairment of intercompany receivable	32	2,316
Exploration costs written off	-	44
Depreciation	149	105
Share option expense	956	226
Net cash generated/(used) by operations	1,186	(3,620)

23. Cash at bank

The Group's cash balances at 31 December 2008 amounted to US\$32.67 million (2007: US\$29.72 million) including restricted cash amounts of US\$1.86 million (2007: \$2.43 million) relating to bank guarantees issued in respect of the completion of certain project work programs.

24. Financial instruments
Fair value of financial instruments

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

The Group's financial assets and liabilities stated at carrying amount and fair value are as follows at 31 December 2008:

	Carrying amount 2008	Fair value 2008	Carrying amount/fair value 2007
	US\$000	US\$000	US\$000
Trade and other receivables	921	921	237
Cash and cash equivalents	32,670	32,670	29,715
Convertible loan – debt portion	19,261	19,261	17,376
Derivative financial instruments	4,078	4,078	11,560
Trade and other payables	10,635	10,635	8,153

The following sets out the methods and assumptions used in estimating the fair values of financial assets and liabilities:

Trade and other receivables/payables

As both receivables and payables have a remaining life of less than six months, the carrying value is deemed to reflect the fair value.

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.

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.

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.

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 2007.

The capital structure of the Group consists of debt as disclosed in note 17, cash and cash equivalents and equity comprising issued capital and retained earnings as disclosed in notes 18 and 20 respectively.

	2008	2007
	US\$000	US\$000
Debt		
Convertible loan debt portion – amortised cost	19,261	17,376
Derivative financial instruments – fair value	4,078	11,560
Cash and cash equivalents		
Cash and cash equivalents	32,670	29,715
Capital and reserves		
Issued share capital	4,799	2,147
Share premium	78,393	25,708
Retained losses	(20,621)	(10,268)

The Group meets its capital risk 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 2008 amounted to US\$33.59 million (2007: US\$29.95 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.

At 31 December 2008 the Group had free cash and cash equivalent balances of US\$30.81 million (2007: US\$27.28 million) and current liabilities of US\$10.64 million (2007: US\$8.15 million).

Market risk

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

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\$327,000. A decrease of 1% in interest rates would result in Group loss increasing and Group equity decreasing by the same amount.

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 functional currency of the Group 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 2008 the Group's foreign currency balances were as follows:

	Denominated in Euro US\$000	Denominated in in Sterling US\$000	Denominated in Moroccan Dirham US\$000
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\$1.37 million. 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 monthly basis by the Directors.



The Directors consider that the expected volatility assumption is the most important driver of the fair value of the conversion option and additional option. The following table provides an analysis of the fair value of these options based on an expected volatility figure five percentage points lower and five percentage points higher respectively than the assumptions set out in Note 17:

Expected volatility	Conversion option US\$000	Additional option US\$000	Total options US\$000	Gain (Loss) US\$000
2008				
Per Note 17	3,943	135	4,078	-
5% points lower	3,472	100	3,572	506
5% points higher	4,398	175	4,573	(495)
2007				
Per Note 17	10,479	1,081	11,560	-
5% points lower	9,814	889	10,703	857
5% points higher	11,120	1,281	12,401	(841)

25. Related party transactions

- (i) During the year the Company paid fees (net of VAT) to Grosvenor International Finance Limited amounting to US\$427,000 (2007: US\$232,000) a company controlled by Mr. John P McKeon a former Director of the Company. The fees relate to a consultancy agreement with the Company for the provision of the services of Mr. McKeon and include a termination payment of US\$276,000. Mr. McKeon resigned as a Director of the Company on 19 September 2008.
- (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 17). Interest amounting to US\$1.8 million (2007: US\$549,000) was paid on this loan during 2008. At 31 December 2008, the amount of interest outstanding was US\$296,000 (2007: US\$296,000).
- (iii) Mr. Ramadan Aburawi, a Director of the Company since 24 April 2009, 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 holding 28.7% 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.

26. Capital commitments

The Group has estimated capital commitments at 31 December 2008 amounting to US\$17.49 million which will be payable over the next year.

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

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

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

(i) Capitalisation of exploration and evaluation costs

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

(ii) Deferred tax assets

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

(iii) Going concern

The preparation of the financial statements requires an assessment on the validity of the going concern assumption. The validity of the going concern assumption is dependent on the availability of adequate financial resources to allow the Group to continue in operational existence for the foreseeable future. The Directors have reviewed budgets, projected cash flows and other general financial options, and based on this review are confident that the Group will 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 balance sheet of the Group.

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

(i) Review of exploration and evaluation assets carrying values

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

(ii) Share-based payments

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

(iii) Fair value of embedded derivatives

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

28. Subsidiary undertakings

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

Name of Subsidiary	Registered Office	Nature of Business
Circle Oil Jersey Limited	Colomberie Close, St. Helier, Jersey.	Holding Company
Circle Oil Namibia Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Oman Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Oman Offshore Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Maroc Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Tunisia Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Egypt Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Iraq Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration
Circle Oil Libya Limited	Colomberie Close, St. Helier, Jersey.	Oil & Gas Exploration

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

**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 10 September 2009 to transact the following ordinary business:

- 1 To receive and consider the Report of the Directors and Auditors and the Financial Statements for the year ended 31 December 2008.
- 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. Thomas Anderson
 - b. Prof. C. D. Green
 - c. Ramadan Aburawi
- 3 To authorise the Directors to fix the remuneration of the Auditors.
- 4 To transact any other ordinary business.

By Order of the Board

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

18 June 2009

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 8 September 2009 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time.

API40	Kerosene
bcf	Billion cubic feet
bopd	Barrels of oil per day
EGPC	Egyptian General Petroleum Corporation
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
MENA	Middle East/North Africa
MMbo	Millions of barrels of oil
MMboe	Millions of barrels of oil equivalent
MMscfd	Million cubic feet per day
M3	Cubic metres
NAMCOR	National Petroleum Corporation of Namibia
OCM	Operating Management Committee
ONHYM	Office National de Hydrocarbures et des Mines
P Mean	denotes the probability (P) of the resources being recoverable at the stated confidence level
P1 reserves	proven hydrocarbon reserves claiming to have a reasonable certainty (normally 90% confidence) of being recoverable.
P2 reserves	proven and probable hydrocarbon reserves, claiming a 50% confidence level of being recoverable.
Sq km	Square kilometres
TCM	Technical Management Committee
VSP	Vertical Seismic Profile
2D	Two dimensional
3D	Three dimensional



Circle Oil Plc



Controlled Flaring during testing of KSR-8 well in Sebou Concession, Morocco



Circle Oil Plc

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