

COMPANY NUMBER  
5267047

**xtractenergy**<sub>plc</sub>

Annual Report & Accounts 2007

*Unlocking Energy Potential*

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COMPANIES HOUSE

## Purpose

XTRACT ENERGY PLC identifies and invests in a diversified portfolio of early stage energy sector technologies and businesses with very significant growth potential. We aim to work closely with the associated management teams to achieve critical project milestones, to finance later development stages and to build and crystallise value for all shareholders and partners.

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## Highlights

### **Net profit after tax of £7.5 million**

(2005 £0.2 million loss for 12 months)

### **Market value of listed portfolio at 30 June 2007 of £48.6 million**

(2005 nil)

### **Earnings per share of 1.49p**

(2005 Loss per share 0.21p)

### **Net assets up £30.6 million to £32.4 million**

(2005 £1.8m)

- Successful placing in November 2006 raised approximately £5.5 million cash
- Acquisition of 100% of Cambrian Oil & Gas plc.
- At 30 June 2007, the share price of key investment, MEO Australia Ltd, had increased by 532% since initial Group investment
- Increased holding in Wasabi Energy Ltd to approximately 34.5%
- Strengthened Board including appointment of new CEO

*Unlocking Energy Potential*

## Chairman's Statement

The past eighteen months have proven both exciting and challenging for Xtract Energy and the results achieved during this period now place the company in a sound and promising position to create wealth for its shareholders

We now hold a diversified and strong portfolio of energy assets and technologies which, with the addition of significant holdings in MEO Australia Ltd and Elko Energy Inc, now includes five key areas of interests

We achieved very positive results from the initial validation tests of Xtract Energy's oil shale extraction technology. These results indicated the potential of doubling crude oil recovery from our shale oil deposits in Australia

We have also announced several new additions to the Board, strengthened with individuals who have both mining and business development experience

The company finalised two major acquisitions during the period including the acquisition of Cambrian Oil & Gas Plc by way of scheme of arrangement in mid 2007 and the purchase of the remaining 78.3 per cent of Xtract Oil Ltd in February 2006. A placing of close to 110 million ordinary shares raising approximately £5.5 million cash was finalised in November 2006 and at this time Xtract Energy acquired significant holdings in Wasabi Energy Ltd (Wasabi) and Aviva Corporation Ltd (Aviva). Both of these companies are listed on the Australian Stock Exchange (ASX)

In order to simplify our corporate structure it was proposed during

the financial period to exchange Xtract Energy's Aviva shareholding together with an interest in a steel making technology, to Wasabi for 175 million new shares and 25 million options in Wasabi. This transaction was approved by Wasabi shareholders on 2 August 2007. As a result of this transaction, Xtract Energy now holds 34.5 per cent of Wasabi, which in turn holds approximately 18 per cent of Aviva

### MEO AUSTRALIA LTD

MEO Australia Ltd (MEO) is an Australian listed company that is focused on off-shore gas exploration and developing gas-to-liquids (GTL) projects in the Australian waters of the Timor Sea, in an area of shallow water known as Tassie Shoal. It has secured Commonwealth Government environmental approvals for two large scale (1.8 million tonnes per annum (mtpa)) methanol plants (50 per cent interest) and a 3 mtpa Liquefied Natural Gas plant (100 per cent interest). Tassie Shoal is adjacent to the Evans Shoal gas field. MEO has successfully farmed out some of its interest in NT/P68, a nearby exploration permit in order to help fund a critical drilling campaign which has commenced on schedule in the fourth quarter of 2007. From a timing perspective, we view this as the most advanced project in the Xtract Energy portfolio. As in any drilling activity there is a range of possible outcomes, but the existence of 3D seismic and the interest of farm-in partners is promising. As at 19 October 2007, Xtract Energy holds an interest in approximately 71.4 million shares in

MEO, representing approximately 21.3 per cent of the issued capital

### ELKO ENERGY INC

Elko Energy Inc (Elko) is a privately held oil and gas exploration company which has an interest in a 5,370 km<sup>2</sup> exploration and production licence in the Danish North Sea, an interest in a gas-bearing block in the Dutch North Sea and a majority holding in Dragon Energy Inc, a private Canadian company, with a 30 per cent share in a producing field in Canada and a development project in Gansu Province, China. Subsequent to the end of the reporting period, Xtract Energy increased its interest in Elko to 21.8 million shares, representing approximately 36.5 per cent of the issued capital

### WASABI ENERGY LTD

Wasabi is an Australian listed company that has a portfolio of early-stage energy assets and technologies where the upside potential is significant. Wasabi's portfolio includes both traditional and clean energy investments with interests covering coal, uranium, biodiesel, geothermal power and industrial waste heat recovery. Its interests in geothermal and waste heat recovery are founded on its position as the major shareholder of Exergy Inc, the developer and owner of patents for the Kalina Cycle technology. We see our interest in Wasabi as both valuable in its own right and as an additional source of opportunities for Xtract Energy

### CENTRAL ASIA

Xtract Energy's Central Asian interests include a production sharing agreement with

*"We now hold a diversified and strong portfolio of energy assets and technologies"*

## ***"The company finalised two major acquisitions during the period, including Cambrian Oil & Gas Plc"***

Kyrgyzneftegaz to instigate a water injection project on the Beshkent-Togap oil field. Xtract Energy also holds interests in several exploration licences in the Tash Kumyr area and in the Toktogul exploration licence.

### **OIL SHALE**

Xtract Energy has oil shale and related petroleum product exploration rights over mining tenements in the Julia Creek area of Queensland and has recently been granted an exploration permit which gives the right to explore for oil shale in an area in South Island, New Zealand. In conjunction with Australian research group Commonwealth Scientific and Industrial Research Organisation ('CSIRO'), the company's wholly owned subsidiary Xtract Oil Ltd has continued to develop the Xtract technology, being a method of processing oil shale in the presence of hydrogen and solvents, known as supercritical solvent extraction. The initial validation tests, comprising small scale batch extractions of oil from the shale, have demonstrated that recovery from Xtract Energy's Julia Creek deposits may be much higher than could be achieved using conventional retort recovery techniques. This has resulted in a doubling of the oil potential and an estimated in situ oil resource of over 1.6 billion barrels of oil.

### **BOARD AND MANAGEMENT**

Xtract Energy continued to strengthen the Board with individuals who possess significant

experience in the energy sector. I became Executive Chairman in July of this year following the appointment of Andy Morrison as our new Chief Executive Officer. Andy has over 25 years experience in the energy and related services sectors, most recently with The BOC Group as a Group Director for New Business Development. He has an excellent track record in the energy sector and we believe he can help the company develop and implement its future strategy. John Conlon joined as a non-executive director in January 2007. John has a depth of mining experience in various locations throughout the world, where he has taken projects through from feasibility to construction and production.

### **FINANCIAL RESULTS**

The Group reported a net profit after tax of £7.5 million (2005 loss of £0.2 million) and basic earnings per share of 1.49p (2005 loss per share 0.21p) for the eighteen month period.

Other gains totalling £6.0 million resulted from the fair value assessment of options held in MEO and realised gains from MEO option sales during the period. The value of these options is now reflected in the carrying value of the MEO associate investment following their conversion into ordinary shares in April 2007 at A\$0.25. Negative goodwill of £5.7 million arose on the acquisition of Cambrian Oil & Gas plc (COIL) during the period as detailed in note 21 to the financial statements. The negative goodwill is primarily attributable to the

increase in the fair value of COIL's MEO shares between the date of initial investment in MEO, and the effective dates of Xtract Energy's business combination with COIL (November 2006 and April 2007).

The Group's net asset position increased significantly during the period to £32.4 million as a result of acquisition activity during the period. This strong balance sheet position is further supported by cash of £1.6 million and an MEO investment market value of £45.3 million at 30 June 2007.

### **OUTLOOK**

During the forthcoming year the Board will continue to identify and invest in early stage energy sector technologies and businesses with significant growth potential. We aim to work closely with the associated management teams to achieve critical project milestones, to finance later development stages and to build and crystallise value for all shareholders and partners.

We believe that the company has now invested in a strong and promising portfolio with the necessary balance between short and longer-term growth positions. With this platform in place we are looking forward to a rewarding and successful future.

### **JOHN NEWTON**

Chairman

19 October 2007

*We identify opportunities through personal relationships and active networking*

## Timeline

### AUGUST 2006

Cambrian Mining completes a purchase of further shares of the Company taking Cambrian Mining's holding over 50% of the issued capital of the Company

### OCTOBER 2006

The Company completes the purchase of 19.5% of Wasabi Energy Ltd, 18.6% of Aviva Corporation Ltd and 28.2% of Cambrian Oil and Gas (COIL) from Cambrian Mining

### DECEMBER 2006

Xtract completes the purchase of 53,333,333 ordinary shares in COIL from Cambrian Mining. This took its holding to approximately 65.5% of the issued share capital of COIL at that time

### SEPTEMBER 2006

Xtract announces that initial validation tests have shown that the recovery of light crude oil products from the Company's Julia Creek, Australia, shale oil deposits may be much higher than could be achieved using conventional retort recovery techniques

### JULY 2006

WH Ireland Limited is appointed as the Company's broker

### NOVEMBER 2006

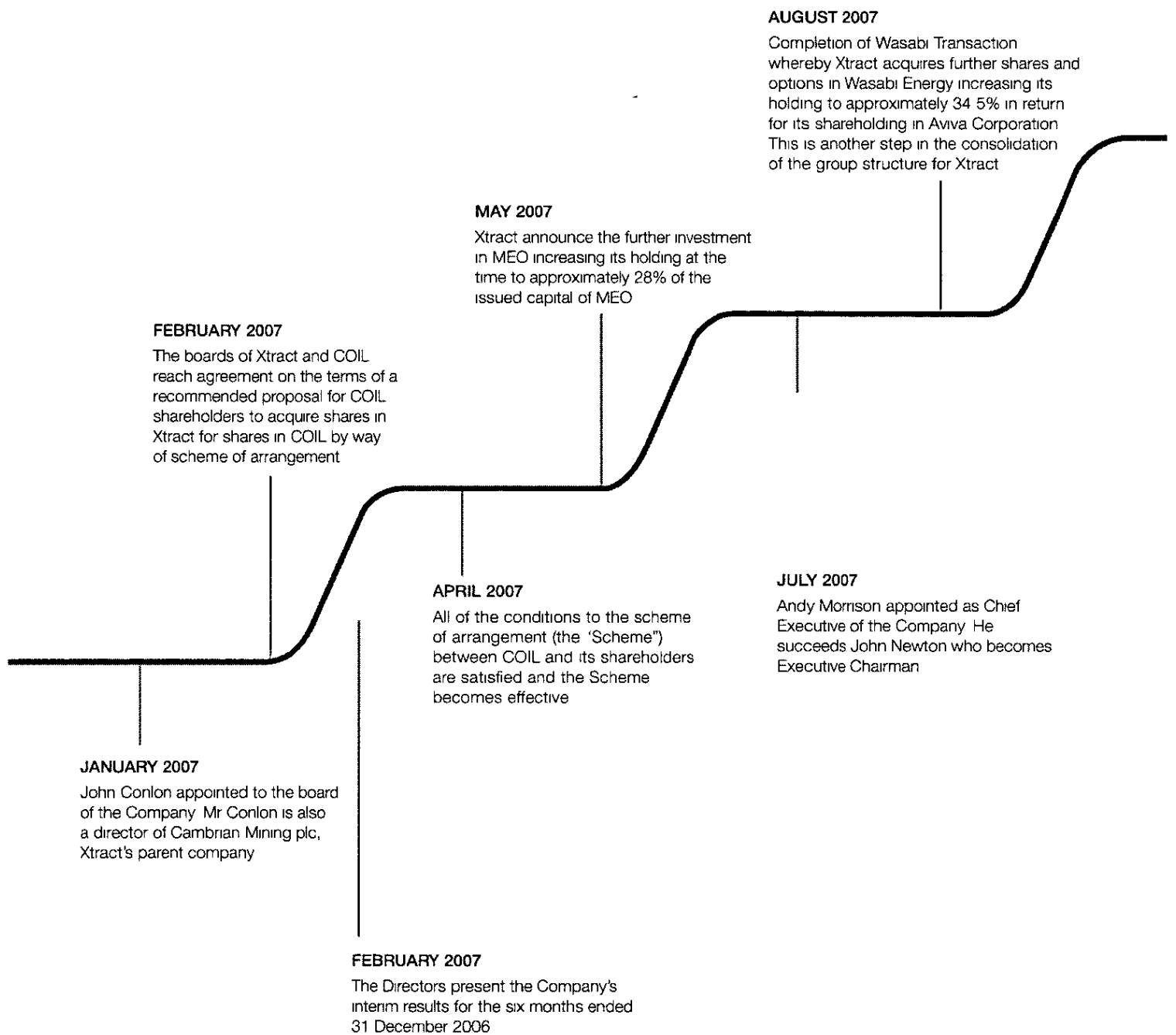
Xtract places 109,795,800 million new ordinary shares of 0.1 pence each at 5.5 pence per ordinary share through its broker WH Ireland Limited, raising approximately £5.5m cash

### SEPTEMBER 2006

The Directors present the Company's unaudited results for the six months ended 30 June 2006

### FEBRUARY 2006

The Company completes the acquisition of the entire issued share capital of Xtract Oil Limited



## CEO's Review

I am delighted to have joined Xtract Energy at such an exciting stage in its development

I very much look forward to getting to know our shareholders, the various management teams around the world, our partners and our people, and most importantly I look forward to delivering our shared aspirations

### KEY DEVELOPMENTS

#### **MEO AUSTRALIA LIMITED (MEO)**

Xtract Energy's investment story in MEO is an example of successfully implementing the company's strategy of identifying and supporting early stage energy sector projects with significant growth potential. With the benefit of Xtract Energy's financial and strategic support, MEO has been able to further develop and progress its business plan over the last eighteen months.

During the quarter ended September 2006, Xtract Energy's wholly owned subsidiary Cambrian Oil & Gas plc (COIL) acquired a substantial shareholding in MEO through on market trades and a share placement at A\$0.225 (Australian Dollars) per share. Subsequent to this placement, and the exercise of approximately 28.6 million options at A\$0.250 per share in April 2007, COIL increased its shareholding in MEO and currently holds approximately 21.3 per cent.

The MEO business plan is centred on the development of gas-to-liquids (GTL) projects in the Australian waters of the Timor Sea, approximately 275 km northwest of Darwin, in an area known as Tassie Shoal. The company has secured Australian Commonwealth Government environmental approvals for two large-scale methanol plants (1.8 mtpa) and an LNG plant (3 mtpa) that are valid until 2052.

Tassie Shoal is an area of shallow water adjacent to the Evans Shoal gas field and is located around 25 km east of MEO's exploration permit, NT/P68. MEO has identified five large structures in NT/P68 and has estimated that the total potential gas in place of the permit's prospects and leads could exceed 14 tcf. Two of these structures were intersected by the Heron-1 well drilled in 1972, confirming gas columns. The resources potentially contained in NT/P68 provide significant valuation upside by potentially providing a feedstock for the GTL projects as an alternative to existing third party gas supply from nearby resources.

#### **TASSIE SHOAL GTL PROJECTS**

MEO's Tassie Shoal GTL projects which have been designed to share infrastructure, logistic support systems, provide significant process synergies and many operational advantages. Tassie Shoal provides an enviable offshore location, not only in terms of development

economics, but also proximity to rapidly expanding markets and strong demand for GTL products such as methanol and LNG in North East Asia.

The Tassie Shoal Methanol Project (TSMP) proposes the phased construction of two 1.8 mtpa methanol plants, and includes

- Natural gas supply pipelines from the sub-sea gas production well heads to Tassie Shoal,
- Methanol production plant and utilities mounted on a concrete gravity base structure (GBS) which also contains methanol storage tanks,
- Accommodation and control platform adjacent to the production facilities connected by bridge-link, and
- A single point mooring (SPM) system for loading methanol into export tankers.

MEO and Air Products and Chemicals, Inc. continue to develop the TSMP under the terms of the joint development agreement executed in 2004.

MEO's proposed Tassie Shoal LNG Project is designed to have the capacity to produce 3 mtpa of LNG and includes

Natural gas pipelines from the supply gasfield and the associated gas production facilities,

Conventional nickel steel LNG tank constructed on a gravity base structure (GBS), sited in an approximate seawater depth of 14 metres,

LNG process module constructed on a self-installing platform,

Open sea jetty or Calm Buoy system for loading LNG into export tankers, and

Seawater cooling system for LNG production process.

***"I am delighted to have joined Xtract Energy at such an exciting stage in its development"***

Chief Executive Officer

***Appraisal of gas resources in NT/P68***

Heron-1 (drilled in 1972) encountered a 52 metre gas-bearing zone within the Darwin Formation on the Epenarra structure, which is a broad, flat anticline with a mapped closure exceeding 1,200 km<sup>2</sup>. MEO has estimated a potential gas-in-place Contingent Resource of 5.6 tcf (P50) for Epenarra. MEO has successfully completed the acquisition of new 3D seismic data over Epenarra. MEO estimates a further 5.5 tcf (P50) gas in place Contingent Resource in the underlying Heron North and Heron South Elang/Plover Formation structures. The 3D seismic data displays a flat event in the Elang/Plover Formation that MEO believes may be indicative of the gas-water contact. The maximum gas column height within these structures is estimated at over 300 metres. Heron-1 intersected a gas charged sand towards the base of the well in the deeper structures. MEO intends drilling up to three wells (Heron-2, Heron-3 and potentially Blackwood-1) in the permit area. A new jack-up rig (the West Atlas) has been contracted to undertake the appraisal drilling which commenced as expected in October 2007.

Note: MEO defines 'P50' as a probabilistic indicator used to quantify contingent and prospective resources where the low risk estimate is assessed as P90, the mean estimate is assessed as P50 and the high risk estimate is assessed as P10 in the relevant category. MEO defines "Contingent Resource" as those resources which relate to quantities of petroleum (oil or gas) which are

estimated, on a given date, to be potentially recoverable from a known accumulation but which are not currently considered to be proven or commercially recoverable.

As an ASX listed company, MEO is not subject to the AIM Rules and the references to Contingent Resources and resources are not reported against a "Standard" nor reviewed by a "qualified person" as defined and required by the AIM Guidance Note for Mining Oil & Gas companies.

***New farm-in partner***

In addition to its equity raising activities during the year, MEO was able to secure a farm-in partner to provide additional funding and technical expertise for the current drilling programme. Petrofac Resources Limited (Petrofac) farmed into NT/P68 by agreeing to meet 25 per cent of the well programme appraisal drilling costs to earn a 10 per cent interest, with an option to increase the interest to 15 per cent by funding 37.5 per cent of the well costs.

Petrofac has also been granted an option to participate in the proposed Tassie Shoal GTL projects at the same equity participation level as the NT/P68 farm-in. Petrofac's participating interest in the methanol project would reduce Air Product's 50 per cent interest (MEO will retain its current 50 per cent interest). Petrofac's participating interest in the LNG project would reduce MEO's current 100 per cent interest. Petrofac would earn its interests in the GTL projects by contributing to the initial front-end

engineering and design (FEED) costs and paying a net profit interest royalty to MEO from the Petrofac share of the project's eventual operating profits.

Petrofac brings strong engineering, procurement, construction and operational expertise to the NT/P68 joint venture ahead of the drilling programme. Following the completion of the 2007 drilling campaign and approval of the 2008 work program, Petrofac will assume the role of permit operator to manage the subsequent full appraisal of any resources confirmed in the permit and would operate the eventual upstream hydrocarbon production facilities.

MEO has been a very successful investment to date for shareholders in Xtract Energy. Clearly, the drilling programme currently underway will be critical to the future value of the MEO business and we will be watching developments eagerly.

***ELKO ENERGY INC (ELKO)***

As at the end of the reporting period, Xtract Energy had an interest in approximately 32 per cent of the issued capital of Elko (which is held through wholly owned subsidiary COIL), a Canadian oil and gas exploration company formed in 2005. Elko's exploration and appraisal activities are guided by a management team with many years of technical and commercial experience in the oil and gas industry. Elko's area of focus covers North West Europe, North Africa and the Middle East.

In October 2005, Elko acquired an 80 per cent interest in a 5,370 km<sup>2</sup> exploration and production license in close

***We balance traditional energy assets with new energy opportunities***

## CEO's Review *continued*

proximity to the prolific Central Graben in the Danish North Sea. The licence covers 26 Danish licence blocks with a 6 year exploration term and 30 years for exploitation. Elko is an approved offshore operator in Denmark and has set up a Danish subsidiary to hold the licence. The current partnership is Elko (80 per cent) and Nordsoen – a Danish government entity (20 per cent). Elko has undertaken a programme of technical work that has confirmed the presence of eight structures with substantial potential reserves. Drilling is expected to be carried out in 2008.

In early 2007, Elko applied for two off-shore blocks in the Dutch sector of the North Sea, both of which contain a number of drilled and tested gas bearing structures. Block P1 has now been awarded to a consortium in which Elko will be the operator and will retain 33 per cent interest. Award of adjacent Block P2 is pending and discussions continue to secure additional acreage. The known gas discoveries were not developed by the original licencees for reasons likely to include low gas prices, low per well productivity, the carbon dioxide content of gas and better projects available to license holders at the time. Gas prices are now significantly

higher, per well productivity has been resolved in adjacent block K17 through the use of modern horizontal drilling techniques and carbon dioxide removal has become proven offshore technology. Elko's Dutch license partner Horizon Energy Partners BV was involved in the K17 development project.

The development of both the Danish and Netherlands interests will require significant funding over the coming years. We believe that Elko's technical expertise and Xtract Energy's experience in fund-raising will be a powerful combination that will help deliver the projects and secure superior returns to shareholders.

In addition to its exploration assets, Elko owns 51 per cent of Dragon Energy Inc (Dragon), a private Canadian company. Dragon's principal assets are a 30 per cent share of the producing Kotanelee gas field in Canada and a joint venture agreement in respect of the Ma-Ling oilfield in Gansu province, China. Most of the effort to date has been spent in obtaining the necessary permits at regional and national level to commence with operations.

This process has taken much longer than expected, but efforts are underway to move the permit process forward during next year.

Subsequent to the period end, Xtract Energy (through COIL) participated in a private equity placement in Elko, following which COIL increased its total holding to 21.8 million shares, representing approximately 36.5 per cent of

the issued capital of Elko.

### **WASABI ENERGY LIMITED (WASABI)**

Xtract Energy currently holds approximately 34.5 per cent of Wasabi, an Australian listed company with interests in both traditional and clean energy technologies and businesses. In many ways Wasabi can be seen as a microcosm of Xtract Energy, and has been going through a similar period of restructuring. There are a number of developments that we consider to be particularly promising.

#### *Global Geothermal Ltd (GGL)*

In August 2007, Wasabi completed a number of agreements leading to the formation of GGL, a joint venture with AMP Capital Partners LLC (AMP), a U.S. based private equity fund. Under the terms of the agreements, GGL acquired from AMP a Delaware corporation, Recurrent Engineering LLC, that is focused on the delivery of highly efficient geothermal and waste heat power stations and technology and which was granted an option over Wasabi's shareholding in Exergy Inc, owner of rights over the patented Kalina Cycle technology for which Recurrent Engineering is world wide licensee.

Kalina Cycle technology has been developed since the 1980's with numerous patents now in force worldwide. The Kalina Cycle is a process for converting heat to electrical power more efficiently and effectively than previous processes, using an ammonia/water mixture instead of water (Rankine Cycle) or organic fluids (Organic Rankine Cycle). It can be implemented using standard electrical power generation

and refrigeration equipment components as evidenced by the various Kalina power plants that have had operating experience to date

These transactions bring together the necessary component parts to create a world-scale business and we look forward to its development during the next year. Wasabi's current interest in GGL is 70 per cent

#### ***Rum Jungle Uranium Ltd (Rum Jungle)***

Wasabi's subsidiary Rum Jungle is focused on exploration for economic uranium deposits in a variety of geological settings in the Northern Territory of Australia. Rum Jungle's approach to exploration is based on the known geological and geophysical characteristics of major uranium deposits like Ranger, Jabiluka and Rum Jungle and sedimentary style deposits, such as Angela. Potential also exists for the presence of economic precious and base metal deposits associated with uranium mineralisation or, indeed, separate from uranium, providing further upside potential.

Rum Jungle's exploration rights include Exploration Licenses 24917 (Alice Springs) and 24939 (Woolner Dome), acquired during the period. Due diligence was conducted on the Woolner Dome tenement, including reprocessing geophysical images obtained from data acquired after the most recent uranium exploration carried out in a joint venture between E Z / Peko and CRA in the late 1970's. Rum Jungle completed a detailed

airborne magnetic and radiometric survey around the Woolner Dome in early 2007 and plans to expand the survey area. Consultant geophysicists have identified several prospective structural targets and drilling is expected to commence in December 2007.

Wasabi Energy announced the intention to list Rum Jungle on the Australian Stock Exchange, ASX, on 1 June 2007 and a prospectus has recently been issued to raise up to A\$12 million (of which A\$8 million is underwritten). Rum Jungle intends to use the funds raised from the offer to fund exploration projects and as working capital. The Northern Territory provides the dual opportunity of exploring in an area containing large uranium deposits as well as providing a stable environment offering secure development opportunity.

#### ***Aviva Corporation Ltd (Aviva)***

Wasabi currently owns approximately 18 per cent of Aviva, a company listed on the Australian Stock Exchange.

Following the deregulation of the Western Australian power industry in March 2006, prospects for Aviva have improved considerably. Aviva has positioned itself as an integrated energy company providing long-term certainty for the coal producers and power generators.

In February 2007, Aviva made its first international move, signing an agreement to enter into a joint venture over the Mmamantse coal deposit in Botswana. A

drilling programme targeting 600 metres began in June 2007. Aviva is confident that its integrated energy strategy can be translated successfully to Southern Africa.

In addition to these three interests, Wasabi has an active pipeline of promising businesses in areas such as biodiesel and clean coal technologies. Whilst recognising that not all early stage businesses will ultimately succeed, we believe that Wasabi will continue to develop strongly, to the benefit of Xtract Energy shareholders.

#### **CENTRAL ASIAN INTERESTS**

Xtract Energy's Central Asian interests are held through its wholly owned subsidiary COIL. COIL is managed from Australia with offices in Bishkek, the capital of the Kyrgyz Republic, and in the regional Kyrgyz city of Kochkor Ata, which is also the operational base for the company's partner, Kyrgyzneftegaz, the national Kyrgyz oil company. COIL's interests in the Kyrgyz Republic are held by a further wholly owned subsidiary Zhibek Resources Plc (Zhibek) and include

1 a 72 per cent interest in JSC KNG Hydrocarbons (KNG-HC), which holds a number of exploration licences in the Kyrgyz Republic,

*We strategically manage the investment cycle*

## CEO's Review *continued*

2 a 100 per cent direct interest in the Toktogul exploration licence in the Kyrgyz Republic, and

3 a production sharing agreement, between Zhibek and Kyrgyzneftegaz, to develop a water injection project for increasing oil recovery at the Beshkent- Togap Field

In 2005, KNG-HC acquired approximately 100km of 2D seismic data over previously identified prospects and leads in the Tash Kumyr exploration concession. A further 55km of 2D seismic data was acquired in late 2006. A revised structural interpretation of the 2D seismic data has been completed for both the shallow and deeper layers. The structural depth map for the deeper underthrust Paleogene shows improved definition of the KNG-HC's primary South Karagundai prospect in the south west region of the map. The crest of this prospect is shown as occurring at about 3200 metres and will require

a well to be drilled to approximately 4 000 metres to test this prospect. This is considerably deeper than previously anticipated. The greater depth will mean higher drilling costs than originally anticipated.

A revised structural interpretation of the South Karagundai prospect and other exploration prospects and leads was completed after 55 km of 2D seismic data and additional Gore Surveys were acquired in late 2006. Improved definition of the South Karagundai prospect has been achieved. This prospect remains the prime focus for COIL's forward exploration programme and future drilling.

Several lines of 2D seismic were also run over the Pishkaran prospect to test the quality of seismic data that might be possible over the older rock sequence in this area and over a large positive Gore Survey anomaly over major parts of this prospect.

In late 2006, a Gore Survey was

completed over the Toktogul structure. A number of areas show positive indications of hydrocarbon presence at depth within the bounds of the large surface mapped Toktogul anticline.

A pilot water injection project commenced operations in May 2006. Water is injected into selected wells to displace oil in the reservoir towards adjoining oil production wells. Two oil wells have been converted to water injection wells and other facilities installed to source water for injection.

### **GOLD EXPLORATION, MEXICO**

Xtract Energy also holds a 100 per cent interest in Sermines de Mexico S A de C V which owns mineral exploration and development rights in three concessions in the California-Sonora Gold Belt in Sonoro Province, Mexico. The concessions include gold mineralisation located in the historic Esperanza goldfield which has not been the subject of modern exploration but is the location of untested anomalous gold geochemistry as determined by regional exploration surveys conducted during the mid-1990's. Xtract Energy has commenced sampling and surveying programmes which may lead to drill testing of prospective targets.

### **OIL SHALE**

Xtract Energy's wholly owned subsidiary Xtract Oil Ltd has acquired oil shale and related petroleum product exploration rights.

*We nurture projects from concept to reality*

over twelve mining tenements in the Tooiebut-Julia Creek area of Queensland (See 'Julia Creek Oil Shale Project' map on the right)

The Julia Creek oil shale deposits are known to contain substantial quantities of kerogen which can be converted to oil. The oil shale deposits located within EPM's 14803 and 14806, at the location known as 'The Pit', were subject to detailed evaluation by CSR Limited (1968-1988) and more recently, in the early 1990's, by CRA Exploration Limited. The investigations provided geological and analytical data to support in-situ resource calculations in an independent report by Nolan (Geology and Resources of Oil Shale within Intermin Farm-in Area, Julia Creek, North-western Queensland, Oct 2005) indicating up to 410 million barrels of oil in situ extractable by conventional retorting methods and having an average Fischer Assay analysis of 74 litres /tonne

GHD Pty Ltd in their report titled 'Julia Creek Independent Geological Assessment' dated 9 January 2006, evaluated EPM 14806 beyond 'The Pit' area and identified a substantial area where the oil shale is close to the surface but below the oxidation zone and which is sufficiently well drilled to determine an additional inferred resource estimated as 415 million barrels of shale oil in situ. Wide spaced drilling demonstrates that further extensive deposits of oil shale are present in the project area with Fischer Assay testing indicating in-situ oil levels ranging from 30 to 110 litres per tonne as determined on dry oil shales.

The combined shale oil inferred resource in these two contiguous areas is estimated as 825 million barrels in situ.

The oil shale at Julia Creek is a 40-50 million year old sedimentary rock that contains kerogen, a solid hydrocarbon precursor. The hydrocarbon component can be extracted through a heating process (known as retorting), which results in the release of hydrocarbons as vapour. When the vapour cools, it becomes liquid oil and gas.

Xtract Oil Ltd together with Monash University and the Commonwealth Scientific and Industrial Research Organisation of Australia (CSIRO) has designed and is operating an experimental programme to carry out extractions using representative

oil shale samples and assess the key risks inherent in the process. Both Monash and CSIRO have the demonstrated capability to work on a project of this type and have an extensive track record of industry participation and in oil shale related research.

Initial validation tests have shown that the recovery of light crude oil products from the Julia Creek deposits may be much higher than could be achieved using conventional retort recovery techniques. The initial solvent extraction tests have demonstrated that recovery from Julia Creek shales could be approximately twice that as indicated by Fischer Assays.

This results in a doubling of the oil potential and an estimated in

***"Julia Creek oil shale deposits are known to contain substantial quantities of kerogen which can be converted to oil"***

## CEO's Review *continued*

Estimated combined indicated and inferred shale oil resource based on Fischer Assays	825 million barrels of oil
Estimated combined indicated and inferred shale oil resource based on increased oil extraction as indicated by Xtract's supercritical solvent extraction test work	1.6 billion barrels of oil

situ oil resource of over 1.6 billion barrels of oil (see table above)

Xtract Energy has also been granted an exploration permit encompassing the Nevis Valley oil shale deposits located in South Island, New Zealand. The permit, EP 40-805 (10,450 ha), includes locations of known oil shale occurrences. The area will be investigated to determine the economic significance of the deposits.

The in-situ resources are the tonnage of oil shale, with a 40 l/t cut-off and the theoretical quantity of shale oil which is within that tonnage of oil shale. The resources are categorised into

- Indicated Resources – comprise most of The Pit area because drill-hole spacing is usually one kilometre or between one and about 1.5 kilometres. Correlation of the oil shales and main stratigraphic units is possible down-dip, from east to west across the area but trends are not uniform along a cross-section. The variation between bores is such that further information is required to increase the confidence of estimation of the quantity of oil shale present. The sub-crop of the oil shale units beneath the weathered zone require further delineation for accurate determination of oil shale resources. Additional points of observation and/or more detailed assessment of variation

of the oil shale units would be expected to raise the resources to Measured Resources category

- Inferred Resources - marginal to and down-dip from the Indicated Resources. The present borehole spacing of two kilometres or more is sufficient only to prove the existence of oil shale at the localities and to infer the thickness and yield. The continuation of those properties between the points of observation can only be inferred. Additional observation may be expected to increase the confidence level of the estimation of the in-situ resources and to raise at least a portion of these resources to Indicated status.

Within those areas of oil shale resources, the density of oil shale is assumed to be 1.85 tonnes per cubic metre (t/m<sup>3</sup>) when dry, the same basis used for reporting oil yield. The thicknesses and oil yields have been weighted over those areas to provide the averages quoted.

The assessment conducted by Nolan & Associates Pty Ltd has verified the thickness and degree of continuity of the oil-bearing strata and has allowed for categorization of Oil Shale and Shale Oil Resources according to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves – The JORC Code – 2004 Edition.

Note: the information relating to Julia Creek and oil shale has been reviewed and approved by Dr John E Shirley, (Managing Director of Xtract Oil Limited) who has a BSc and PhD in Geophysics from the University of Tasmania, over 40 years experience in the resources and energy sector and is a member of the Society of Petroleum Engineers.

### LOOKING FORWARD

The company has assembled a very promising portfolio of interests. Not only do these assets have quantifiable current value, but in MEO, Elko Energy and Oil Shale, there are realistic scenarios that offer investors considerable upside potential over the short, medium and longer-term. We continue to benefit from a strong flow of potential deals arising from our links to our major shareholder Cambrian Mining Plc and from our own independent prospecting. As existing investments mature, and subject to our screening criteria, we will be in a position to reinvest in new and exciting assets and technologies.

**ANDY MORRISON**  
Chief Executive Officer

19 October 2007

## Unlocking Energy Potential

## Financial Review

<b>Financial Summary Table</b>	<b>18 months 30 June 2007 (£million)</b>	<b>12 months 31 December 2005 (£million)</b>
<b>Consolidated income result (for the period/year)</b>		
Administrative and operating expenses	2 12	0 22
Other gains and losses	5 97	-
Negative goodwill	5 73	-
Profit / (Loss) after tax	7 47	(0 22)
Earnings / (loss) per share	1 49p	(0 21)p
<b>Consolidated balance sheet position (as at)</b>		
Intangible assets – Mining rights & exploration expenditure	11 60	0 08
Investments – in associates	23 82	0 41
Investments – available for sale	3 21	-
Cash	1 58	1 32
Total assets	41 07	1 83
Total equity	32 38	1 77
Total equity – number of issued shares (million)	704 23	199 09
<b>Listed portfolio information (as at 30 June 2007) at Market Value</b>		
		<b>£million</b>
MEO Australia (ASX MEO)	<b>77,116,814 shares</b>	45 34
Wasabi Energy (ASX WAS)	<b>61,511,422 shares</b>	1 34
Aviva Corporation (ASX AVA)	<b>12,300,000 shares</b>	1 87
<b>Total market value of portfolio</b>		<b>48 55</b>

### PROFIT ANALYSIS

The Group reported a net profit after tax of £7.5 million (2005 loss of £0.2 million) and basic earnings per share of 1.49p (2005 loss of 0.21p) for the eighteen month period.

Net profit includes other gains totalling £6.0 million resulting from the fair value assessment of options held in MEO Australia Limited (MEO) and realised gains from MEO option sales during the period. The value

of these options is now reflected in the carrying value of the MEO associate investment following their conversion into ordinary shares in April 2007.

Negative goodwill of £5.7 million arose on the acquisition of Cambrian Oil & Gas plc (COIL) during the period as detailed in note 21 to the financial statements. The negative goodwill is primarily attributable to the increase in

the fair value of COIL's MEO shares between the date of initial investment in MEO, and the effective dates of Xtract Energy's business combination with COIL (November 2006 and April 2007).

Administrative and operating expenses of £2.1 million for the eighteen months were in line with the increased activity during the period.

## Financial Review *continued*

### ACQUISITION AND INVESTMENT ACTIVITY

In February 2006 the company acquired all the issued capital of Xtract Oil Limited (that it did not previously own) in consideration for £0.8 million in cash and 57.5 million shares in the company, a total consideration of £4.9 million.

The company also acquired all the issued capital in COIL in two stages. Purchase consideration comprised 144.1 million shares and £4.7 million in cash and debt (£13.6 million in total) with 100 per cent control achieved on the effective date of the approved scheme of arrangement being 23 April, 2007.

Other Group investment activity during the period included the purchase of 77,116,814 shares in MEO (ASX MEO) at a cost of £7.3 million and 81,511,422 shares in Wasabi Energy Limited (ASX WAS) and 12,300,000 shares in Aviva Corporation (ASX AVA) at a combined cost of £2.42 million.

### INCOME TAX

The effective tax rate of the Group for the period was 19 per cent. Current income tax liabilities of £0.70m at 30 June 2007 relate to estimated Australian company tax payable on MEO option disposals during the period.

### EQUITY

The company raised £5.5 million in cash from the issue of 109.8 million shares at 5.5p in November 2007. Proceeds from the share issue were used for general investment and working capital purposes.

As detailed in note 20 to the financial statements, a further 395.3 million shares were issued during the period to fund various acquisition and investment activities.

### CASH POSITION AND GOING CONCERN BASIS

The Group's net cash position was £1.6 million with no borrowings outstanding at 30 June 2007.

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

### SUBSEQUENT EVENTS

On 2 August 2007, the company was issued with 175 million new ordinary shares in Wasabi Energy Ltd (Wasabi) together with 25 million options exercisable on or before 30 June 2008 at a price of A\$0.03 per Wasabi share (ASX WAS) in exchange for 12.3 million ordinary

shares in Aviva Corporation, together with an interest in a steel making technology. Following this transaction the company holds 256,511,422 Wasabi ordinary shares (representing approximately 34.5 per cent of Wasabi's issued share capital). As a result, Wasabi will be an associate of the Group previously recorded as an available for sale investment.

On 24 September 2007, the company announced a further investment of US\$2.0 million in Elko Energy Inc (Elko) through a private placement. Pursuant to the private placement, the company's wholly owned subsidiary COIL received 4 million new common shares in Elko at a cost of US\$0.50 each in cash. Following the placement and the issue of an additional 300,000 common shares to COIL in consideration for a due diligence fee payable by Elko to COIL, COIL's total holding represents approximately 36.5 per cent of the issued capital of Elko, previously 32 per cent.

On 28 September 2007, the company announced that it reduced its interest in MEO from 22.8 per cent to 21.3 per cent of MEO's issued capital. COIL sold 5 million shares in MEO at A\$1.10 per share for cash. Following this disposal COIL retains 71,366,814 shares in MEO representing 21.3 per cent of the issued capital of MEO.

# Directors' Report

The directors present their report together with the financial statements for the 18 month period ended 30 June 2007

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Xtract Energy identifies and invests in a diversified portfolio of early stage energy sector technologies and businesses with very significant growth potential. We aim to work closely with the associated management teams to achieve critical project milestones, to finance later development stages and to build and crystallise value for all shareholders and partners.

A detailed review of the business of the Group during the year and an indication of likely further developments may be found in the Chairman's Statement, (page 2) the CEO's Review (page 6) and the Financial Review (page 13). The directors are pleased with the progress to date.

Risks and Uncertainties are discussed on pages 17-18 of this Director's Report.

## RESULTS AND DIVIDENDS

The net profit for the Group for the period 1 January 2006 to 30 June 2007 amounts to £7,472,000.

No dividends were paid or proposed by the Directors in either the current or previous periods.

## PERFORMANCE

The key indication of performance of the Group is the extent of its success in identifying, acquiring, progressing and divesting investments in projects so as to build shareholder value. At this stage in its development, the Group's performance is not readily measured using quantitative key performance indicators, however, a qualitative summary of performance in the period is provided in the Chairman's Statement and CEO's Review.

## SUBSTANTIAL INTERESTS IN SHARE CAPITAL

Since the Disclosure and Transparency Rules of the FSA (the 'DTR') came into force, the Company has been notified or is aware of the following significant holdings of voting rights in its shares:

Shareholder	Number of shares	% of issued capital
Cambrian Investment Holdings Limited	363,256,048	51.58
RAB Special Situations	36,400,000	5.17
Lehman Brothers International (Europe)	21,700,000	3.08

## DIRECTORS

The names and biographical details of the Directors are set out below. Robert Annells was appointed on 11 November 2004, Susan Wickerson on 9 November 2004, John Newton on 10 March 2006, John Conlon on 4 January 2007 and Andy Morrison on 9 July 2007.

Mr Carl Layden was appointed a Director on 22 October 2004 and resigned on 1 January 2007.

### ANDY MORRISON, AGED 46, CHIEF EXECUTIVE OFFICER (NOMINATIONS COMMITTEE MEMBER)

Mr Morrison has over 25 years experience in the energy and related services sectors, most recently with BOC Group as a Group Director for New Business Development. Prior to BOC Andy was employed by BG Group and Shell in various strategic and business development roles.

### JOHN NEWTON, AGED 60, EXECUTIVE CHAIRMAN

Mr Newton has a background in international stock broking, accounting and corporate finance and has been a director of a number of quoted companies in Australia and Canada. He has maintained a continued involvement in the Australian and International financial sector as an investment adviser and consultant.

### ROBERT J ANNELLS CPA, ASIA, AGED 67, NON-EXECUTIVE DIRECTOR (REMUNERATION AND AUDIT COMMITTEE MEMBER)

Mr Annells is a qualified accountant and was a member of the Australian Stock Exchange. His experience includes extensive provision of corporate investment advice to the business and resource industries. Mr Annells is a director of the emerging Australian petroleum and mineral resource companies Gippsland Offshore Petroleum Limited, Rum Jungle Uranium Ltd and Greenerth Energy Ltd and Chairman of Lakes Oil N.L. and Minotaur Exploration Ltd, which are quoted on the Australian Stock Exchange.

### SUSAN WICKERSON, AGED 59, NON EXECUTIVE DIRECTOR (REMUNERATION, NOMINATIONS AND AUDIT COMMITTEE MEMBER)

Miss Wickerson spent 15 years with a medium size accounting practice, setting up and running both a new registrars division and a management services company. For the last 17 years Miss Wickerson has been running her own successful company which provides accounting and taxation services, company secretarial and financial management services to a wide range of clients, both corporate and private. Miss Wickerson acts as a finance director of various non-listed companies.

## Directors' Report *continued*

### **JOHN CONLON,**

AGED 67, NON EXECUTIVE DIRECTOR

Mr Conlon has been involved in the mining industry since 1972, when he formed Webcon Equipment Inc, a company that supplies milling and mobile equipment worldwide. In 1980 he purchased a part share in Graham Mining, a mining contracting company involved in mine development in northern Canada. In 1995 he formed Driftech Inc, a company engaged in the business of repairs and manufacturing mining equipment. Mr Conlon is a director of several companies including Western Canadian Coal Corporation and Cambrian Mining Plc.

### **CARL E LAYDEN,**

AGED 62, RESIGNED 1 JANUARY 2007

Mr Layden is a graduate from the Bendigo School of Mines (1966) and has a broad experience spanning 38 years in geological and geophysical exploration and project evaluation and development of gold, base metal and industrial mineral deposits. Mr Layden is the principal of Qualrex Pty Ltd, a mineral and energy resources consulting practice providing expertise to the exploration and mining industries in Australia, Indonesia, southern Africa, China, Mongolia, the Pacific Rim and South America. Mr Layden was previously a director and secretary of Molopo Australia Limited, a mineral resource investment company, the Exploration Manager of Panrnga Mining and Exploration Company plc, and the Principal Geologist for Minops Pty Ltd, which was the mineral exploration operator for The Moonie Oil Company Limited. More recently Mr Layden was Managing Director of Gawler Gold and Mineral Exploration N L, which invested in gold exploration in Australia and Mexico.

### **DIRECTORS REMUNERATION**

The Company remunerates the directors at a level commensurate with the size of the Company and the experience of its directors. The Remuneration Committee consists of Robert Annells and Susan Wickerson. They have reviewed the directors' remuneration and believe it upholds the objectives of the Company with regard to this issue.

The remuneration paid to the directors of the Company for the 18 month period ended 30 June 2007 was £149,552 (including consulting fees). With effect from 21 March 2005 (or in respect of John Newton 10 March 2006, John Conlon 4 January 2007 and Andy Morrison 9 July 2007) the following remuneration was agreed with the directors:

Director	Annual Salary	Consulting Fees
Robert Annells	£4,000	None
Andy Morrison	£150,000	None
Sue Wickerson	£4,000	£330/day (for time spent in addition to attending board meetings)
John Newton	£60,000	None
Carl Layden	£4,000	£330/day (for time spent in addition to attending board meetings)
John Conlon	£4,000	None

As at the date of this Directors' Report, there has been no change in the fees set out above since 30 June 2007.

In addition the directors hold options as set out in the statement of Directors' Interests.

Under Andy Morrison's service contract, he is eligible for an annual incentive bonus which can be comprised of a cash payment, shares or share options. This bonus shall consist of:

- a cash sum equal to or greater than 50 per cent of his basic salary (£150,000) for the year in question to be paid if he reaches or exceeds the performance target for that year as determined by the Board and/or the Remuneration Committee, and as agreed with Mr Morrison, and notwithstanding the service of notice of termination of his service agreement by either party save for certain circumstances including but not limited to gross misconduct or persistent breach of obligations,
- such share options as the Board and/or Remuneration Committee, in its absolute discretion, may from time to time determine, at a level appropriate to a company of Xtract Energy's nature and in line with the share options awarded to the other management/directors taking into consideration the other incentive compensation,
- such further bonus to be determined by the Board and/or the Remuneration Committee and based on the performance of the Company's share price, the Company's profitability and Mr Morrison's performance.

Mr Morrison's entitlement to receive bonuses is subject to him being employed as and when such incentive bonuses become payable.

On 21 March 2005 the Company and Qualrex Pty Ltd entered into an agreement engaging Qualrex Pty Ltd to provide technical consultancy services to the Company. Carl Layden is a director and shareholder of Qualrex Pty Ltd and will be the person supplying the services under the agreement. The Consultancy Agreement has been extended and shall terminate on 19 June 2008 unless extended by mutual consent. The Company has agreed to pay Qualrex Pty Ltd a monthly fee of £1,200 for the services provided under the agreement on up to four days per month with any extra days of services being charged at £300 per day.

## DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its directors. The Company has also provided an indemnity for its directors, which is a qualifying third party indemnity provision for the purposes of section 309B of the Companies Act 1985.

## DIRECTORS' SERVICE CONTRACTS

All directors' remuneration agreements run for an initial 12 months from 31 March 2005 (or in respect of John Newton, 10 March 2006, John Conlon 4 January 2007 and Andy Morrison 9 July 2007) and continue until terminated by either party upon 6 months notice (one months notice for John Conlon and 12 months notice for Andy Morrison). The Company may not terminate Mr Annell's appointment without the prior approval of the Shareholders in general meeting. In accordance with the Company's Articles, at forthcoming Annual General Meetings at least one third of the directors are required to resign by rotation.

## DIRECTORS' INTERESTS

The directors who held office at 30 June 2007 have the following interests in the Company	1 January 2006 (in the case of John Newton and John Conlon, as at the Date of Appointment)		30 June 2007	
	Ordinary Shares	Warrants	Ordinary Shares	Warrants
Robert Annells	–	1,000,000	–	2,500,000
John Conlon (appointed 04/01/07)	–	–	–	–
Sue Wickerson	–	1,000,000	–	1,750,000
John Newton* (appointed 10/03/06)	–	–	–	1,750,000

\*John Newton was appointed as a director on 10 March 2006. John Newton is a trustee and beneficiary of Drawone Superannuation Fund which holds 9,000,000 ordinary shares (representing 1.28 per cent of the Company's issued ordinary share capital) and 9,000,000 warrants. These are in addition to the 1,750,000 warrants that he holds in his own name as set out above.

No Director had any interest in any of the Company's subsidiaries at the beginning (or if later, the date of their appointment) or end of the reporting period.

Further details of the options in the Company can be found in note 25 of the Accounts on pages 48-50.

Both as at the date of John Conlon's appointment as a Director of the Company and as at 30 June 2007, he held 911,000 shares in Cambrian Mining Plc (the Company's holding company). Subsequent to the end of the reporting period, John Conlon was issued 1,000,000 options in Cambrian Mining Plc. No other Director had any interest in Cambrian Mining Plc at the beginning (or if later, the date of their appointment) or end of the reporting period.

On 9 July 2007 Rob Annells, John Newton and Sue Wickerson were issued 500,000 options each and John Conlon was issued 1,000,000 options in Xtract Energy. All of these options are exercisable for a three year term and expire on 8 July 2010.

On 9 July 2007 Andy Morrison was issued with 3,000,000 options in Xtract Energy exercisable as follows:

- 1,000,000 Options shall be exercisable for a period of 3 years commencing on 9 July 2007 at an exercise price of 8p per Share (subject to price adjustment as a result of alterations in the share capital of the Company)
- 1,000,000 Options shall be exercisable for a period of 3 years commencing on the first anniversary of 9 July 2007 at an exercise price of 10p per Share (subject to price adjustment as a result of alterations in the share capital of the Company) and
- 1,000,000 Options shall be exercisable for a period of 3 years commencing on the second anniversary of 9 July 2007 at an exercise price of 12p per share (subject to price adjustment as a result of alterations in the share capital of the Company)

As at 19 October 2007 Andy Morrison also holds 500,000 shares in the Company.

## CORPORATE GOVERNANCE

A statement on Corporate Governance is set out on page 19.

## ENVIRONMENTAL RESPONSIBILITY

The Company recognises that the Group's exploration and development activities require it to have regard to the potential impact that it and its subsidiary companies may have on the environment. Wherever possible, the Company ensures that all related companies are encouraged to comply with the local regulatory requirements with regard to the environment.

## RISKS AND UNCERTAINTIES

The principal risks facing the Company are set out below. Risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.

### GENERAL AND ECONOMIC RISKS

- contractions in the world economies or increases in the rate of inflation resulting from international conditions, movements in the equity and share markets in Australia, the United Kingdom and throughout the world,
- movements in global equity and share markets and changes in market sentiment towards the resource industry,
- currency exchange rate fluctuations and, in particular, the relative prices of the Australian dollar and the UK Pound,
- adverse changes in factors affecting the success of exploration and development operations, such as increases in expenses, changes in government policy and further regulation of the industry, unforeseen major failure, breakdowns or repairs required to key items of plant and equipment resulting in significant delays, notwithstanding regular programs of repair, maintenance and upkeep, and unforeseen adverse geological factors or prolonged weather conditions.

## Directors' Report *continued*

### FUNDING RISK

- Xtract Energy or the companies in which it has invested may not be able to raise, either by debt or further equity, sufficient funds to enable completion of planned exploration, investment and/or development projects

### COMMODITY RISK

- Commodities are subject to high levels of volatility in price and demand. The price of commodities depends on a wide range of factors, most of which are outside the control of the Company. Production costs depend on a wide range of factors, including commodity prices, capital and operating costs in relation to any operational site

### EXPLORATION AND DEVELOPMENT RISKS

- Exploration and development activity is subject to numerous risks, including failure to achieve estimated mineral resource, recovery and production rates and capital and operating costs
- Success in identifying economically recoverable reserves can never be guaranteed. The Company also can not guarantee that the companies in which it has invested will be able to obtain the necessary permits and approvals required for development of their projects
- Some of the countries in which the Company operates have native title law which could affect exploration activities. The companies in which the Company has an interest may be required to undertake clean-up programs resulting from any contamination from their operations or to participate in site rehabilitation programs which may vary from country-to-country. The Group's policy is to follow all necessary laws and regulations and is not aware of any present material issues in this regard

### INTERNAL CONTROLS

The Board recognises the importance of both financial and non-financial controls and has reviewed the Company's control environment and any related shortfalls during the year. The Company has undergone, and continues to undergo, significant expansion and development which requires commensurate and ongoing development in the Company's financial reporting procedures and internal controls. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, continuing reviews of internal controls will be undertaken to ensure that adequate internal controls are implemented and that they operate effectively.

### RELATIONS WITH SHAREHOLDERS

The Board is committed to providing effective communication with the shareholders of the Company, with significant developments disseminated through stock exchange announcements. The Board sees the annual general meeting as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

### GOING CONCERN

After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. On this basis they continue to adopt the going concern basis in preparing the financial statements.

### CREDITOR PAYMENT POLICY

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction so as to ensure that suppliers and the Company are aware of those terms and abide by them. The number of days' purchases outstanding for payment by the Group at the year end was 29.

### POLITICAL AND CHARITABLE DONATIONS

No political contributions or donations for political purposes or charitable donations were made during the period.

### EXTRAORDINARY GENERAL MEETING

The Company will hold an extraordinary general meeting by the end of January 2008 to lay the annual accounts before the shareholders and to deal with any other business for the consideration of the shareholders. The Company will distribute due notice of the meeting with full details of the business to be considered at that meeting.

### AUDITORS

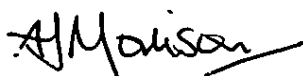
Each of the persons who is a director at the date of approval of this Annual Report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte and Touche LLP have expressed their willingness to continue in office as the auditors and a resolution to reappoint them will be proposed at the next extraordinary general meeting of the Company.

By Order of the Board  
Dated 19 October 2007



**ANDY MORRISON**  
Chief Executive Officer

# Corporate Governance

The Board recognises the importance of sound corporate governance commensurate with the size of the Company and the interests of shareholders. The Company is not required to comply with the Combined Code on Corporate Governance issued by the Financial Reporting Council. However as the Company grows, the Directors intend that it should develop policies and procedures which reflect the Combined Code so far as is practicable, taking into account the size and nature of the Company.

## THE BOARD OF DIRECTORS

The Board of Directors currently comprises five members, two executive directors and three non-executive directors including the Executive Chairman, Mr John Newton. The Directors have significant experience in the evaluation, acquisition and development of mineral and energy resource projects and the management of such investments, quoted and unquoted, both in the UK and overseas.

## BOARD MEETINGS

The Board will meet as and when required and ordinarily meets every two months, to provide effective leadership and overall management of the Company's affairs through the schedule of matters reserved for its decision. This includes the approval of the budget and business plan, major capital expenditure, acquisitions and disposals, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors in a timely manner, prior to the Board Meetings. The Board delegates certain of its responsibilities to the board committees which have terms of reference as listed below.

All Directors have access to the advice of the Company Secretary who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of his duties.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted a Share Dealing Code that applies to Directors, senior management and any employee who is in possession of 'inside information'. All such persons are prohibited from trading in the Company's securities if they are in possession of 'inside information'.

The Board has established Remuneration, Audit Committees and Nominations Committee. The Remuneration Committee is made up of Robert Annells and Susan Wickerson and is responsible for reviewing the performance of the executive directors and for setting the framework and broad policy for scale and structure of their remuneration taking into account all factors which it shall deem necessary. The Remuneration Committee will also determine allocations of share options and is responsible for setting any performance criteria in relation to the exercise of options granted under any share option schemes adopted by the Company. The Audit Committee is made up of Robert Annells and Susan Wickerson and monitors the integrity of the Company's annual and interim financial statements. The committee also monitors and reviews the effectiveness of the management and the external auditors on accounting and internal control matters and recommends the appointment of, and reviews the fees of, the external auditors. The Nominations Committee is made up of Andy Morrison and Sue Wickerson and has responsibility for identifying, evaluating and recommending candidates to join the Board and make recommendations on Board composition and balance.

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditors' Report to the Members of Xtract Energy plc

We have audited the group and parent company financial statements (the "financial statements") of Xtract Energy Plc for the 18 months ended 30 June 2007 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Parent Company Cash Flow Statement and the related notes 1 to 27. 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 235 of the Companies Act 1985. 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility 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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Operational Review and the Finance Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

## 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 also evaluated the overall adequacy of the presentation of information in the financial statements.

## OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 30 June 2007 and of the group's profit for the 18 months then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

## SEPARATE OPINION IN RELATION TO IFRS

As explained in Note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 30 June 2007 and of its profit for the 18 month period then ended.



## DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors

London, UK

19 October 2007

# Consolidated Income Statement

18 months ended 30 June 2007

	Note	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Administrative and operating expenses		(2,124)	(221)
Share of results of associates	14	(362)	(24)
Other revenue	4	66	-
Gain on disposal of fixed assets	4	10	-
<b>Operating loss</b>		<b>(2,410)</b>	<b>(245)</b>
Investment revenue	4	99	25
Finance costs	8	(128)	-
Other gains and losses	4	5,968	-
Negative goodwill on acquisition of subsidiary	21	5,730	-
<b>Profit / (loss) before tax</b>		<b>9,259</b>	<b>(220)</b>
Tax expense	9	(1,787)	-
<b>Profit / (loss) for the period / year</b>		<b>7,472</b>	<b>(220)</b>
Attributable to			
Equity holders of the parent		6,284	(220)
Minority interest		1,188	-
		<b>7,472</b>	<b>(220)</b>
<b>Net gain / (loss) per share</b>			
Basic (pence)	10	1 49	(0 21)
Diluted (pence)	10	1 29	(0 21)

The Group's profit/(loss) relates entirely to continuing operations in both periods

# Consolidated and Company Statements of Recognised Income and Expenditure

18 months ended 30 June 2007

	Note	Group		Company	
		Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Gains on revaluation of available-for-sale investments taken to equity	20	782	-	782	-
Revaluation of intangible assets -- acquisition of subsidiaries	20	962	-	-	-
Exchange differences on translation of foreign operations	20	(18)	-	-	-
Tax on items taken directly to equity	20	(235)	-	(325)	-
<b>Net income recognised directly in equity</b>		<b>1,491</b>	<b>-</b>	<b>457</b>	<b>-</b>
<b>Profit / (loss) for the period / year</b>	20	<b>7,472</b>	<b>(220)</b>	<b>(907)</b>	<b>(170)</b>
<b>Total recognised income and expense for the period / year</b>		<b>8,963</b>	<b>(220)</b>	<b>(450)</b>	<b>(170)</b>
Attributable to					
Equity holders of the parent		7,775	(220)	(450)	(170)
Minority interests		1,188	-	-	-
		<b>8,963</b>	<b>(220)</b>	<b>(450)</b>	<b>(170)</b>

# Consolidated and Company Balance Sheets

As at 30 June 2007

	Note	Group		Company	
		As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
<b>Non-current assets</b>					
Intangible assets	11	11,601	81	406	17
Property, plant and equipment	12	231	-	2	-
Investments in associates	14	23,818	412	-	436
Investments in subsidiaries	13	-	-	19,101	85
Financial assets	15	3,206	-	3,206	-
Loans to subsidiaries		-	-	980	-
Deferred tax asset	17	312	-	-	-
		<b>39,168</b>	<b>493</b>	<b>23,695</b>	<b>538</b>
<b>Current assets</b>					
Inventories		16	-	-	-
Financial assets	15	9	-	9	-
Trade and other receivables	16	293	13	83	21
Cash and cash equivalents	16 23	1,582	1,321	952	1,318
		<b>1,900</b>	<b>1,334</b>	<b>1,044</b>	<b>1,339</b>
<b>Total assets</b>		<b>41,068</b>	<b>1,827</b>	<b>24,739</b>	<b>1,877</b>
<b>Current liabilities</b>					
Trade and other payables	18	375	59	119	59
Current tax liabilities	18	698	-	-	-
		<b>1,073</b>	<b>59</b>	<b>119</b>	<b>59</b>
<b>Net current assets</b>		<b>827</b>	<b>1,275</b>	<b>925</b>	<b>1,280</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	17	7,616	-	235	-
<b>Total liabilities</b>		<b>8,689</b>	<b>1,334</b>	<b>354</b>	<b>59</b>
<b>Net assets</b>		<b>32,379</b>	<b>1,768</b>	<b>24,385</b>	<b>1,818</b>
<b>Equity</b>					
Share capital	19, 20	704	199	704	199
Share premium account	20	23,800	1,756	23,800	1,756
Share based payments reserve	20	411	33	411	33
Available for sale reserve	20	547	-	547	-
Revaluation reserve	20	962	-	-	-
Exchange translation reserve	20	(18)	-	-	-
Retained earnings	20	6,064	(220)	(1,077)	(170)
<b>Equity attributable to equity holders of the parent</b>		<b>32,470</b>	<b>1,768</b>	<b>24,385</b>	<b>1,818</b>
<b>Minority interest</b>	20	<b>(91)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>32,379</b>	<b>1,768</b>	<b>24,385</b>	<b>1,818</b>

The financial statements were approved by the board of directors and authorised for release on 19 October 2007. They were signed on its behalf by Andy Morrison, Director.



## Consolidated Cash Flow Statements

period ended 30 June 2007

	Group			Company	
	Note	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
<b>Net cash used in operating activities</b>	22	(1,634)	(74)	(769)	(74)
<b>Investing activities</b>					
Interest received	4	99	25	99	25
Government grants	4	66	-	-	-
Purchase of property plant and equipment	12	(65)	-	(2)	(21)
Disposal of property plant and equipment		11	-	-	-
Acquisition of intangible assets		(282)	(21)	(69)	-
Disposal of trading investments		2,326	-	-	-
Purchase of trading investments	15	(406)	-	(406)	-
Acquisition of associates	14	(2,973)	(436)	-	(436)
Acquisition of subsidiaries, net of cash acquired	21	(149)	(82)	(2,796)	(85)
<b>Net cash used in investing activities</b>		(1,373)	(514)	(3,174)	(517)
<b>Financing activities</b>					
Interest paid		(80)	-	(128)	-
Proceeds on issue of shares – placing	19	5,500	2,010	5,500	2,010
Proceeds on issue of shares – warrants	19	1,004	-	1,004	-
Proceeds received on exercise of options in subsidiary	21	639	-	-	-
Short term loan repayments		(3,436)	-	(1,489)	-
Loans to subsidiaries		-	-	(992)	-
Share issue expenses		(354)	(101)	(354)	(101)
<b>Net cash from financing activities</b>		3,273	1,909	3,541	1,909
<b>Net increase in cash and cash equivalents</b>		266	1,321	(366)	1,318
<b>Cash and cash equivalents at beginning of period/year</b>		1,321	-	1,318	-
Effect of foreign exchange rate changes		(5)	-	-	-
<b>Cash and cash equivalents at end of period / year</b>		1,582	1,321	952	1,318

# Notes to the Consolidated Financial Statements

period ended 30 June 2007

## 1 GENERAL INFORMATION

Xtract Energy plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is 27 Albemarle Street, London W1S 4DW. The nature of the Group's operations and its principal activities are set out in the Chairman's Statement, CEO's Review and Financial Review.

The Company has changed its accounting reference date to 30 June in order to align with its ultimate parent company, Cambrian Mining plc. It has therefore prepared consolidated financial statements for the 18 month period ("Period") ended 30 June 2007. The comparative information relates to the year ended 31 December 2005 and is therefore not entirely comparable.

These financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policies set out in note 2. At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7	<i>Financial instruments: Disclosures, and the related amendment to IAS 1 on capital disclosures</i>
IFRS 8	<i>Operating Segments</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of embedded derivatives</i>
IFRIC 10	<i>Interim reporting and impairments</i>
IFRIC 11	<i>IFRS 2 – Group and Treasury Share Transactions</i>
IFRIC 12	<i>Service Concession Agreements</i>
IFRIC 13	<i>Customer loyalty programmes</i>
IFRIC 14	<i>The Limit on a Defined Benefit Fund, Minimum Funding Requirements and their interaction</i>

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for reporting periods commencing on or after 1 January 2007.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### *BASIS OF ACCOUNTING*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. Accordingly, the Group complies with all IFRS, including those adopted for use in the European Union. The financial statements have been prepared under the historical cost convention modified for certain items carried at fair value, as stated in the accounting policies. A summary of the more important accounting policies is set out below.

### *PARENT ONLY INCOME STATEMENT*

Xtract Energy plc has not presented its own income statement as permitted by section 230 (3) of the Companies Act 1985. The loss for the period is £907,000.

### *BASIS OF CONSOLIDATION*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group only to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *BUSINESS COMBINATIONS*

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at 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 costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

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 income statement as "negative goodwill on acquisition".

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.

### *INVESTMENTS IN ASSOCIATES*

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

### *REVENUE RECOGNITION*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### *FOREIGN CURRENCIES*

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pound sterling, 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 companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *FOREIGN CURRENCIES (continued)*

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

Where a monetary item forms part of a net investment in a foreign operation, exchange differences are recognised in equity

### *PURCHASE OF SHARES IN CONTROLLED ENTITY*

The cost of the incremental acquisition is measured at the aggregate of the fair value of assets given at the date of exchange, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for shares purchased in a controlled entity plus any costs directly attributable to the transaction. The identifiable assets, liabilities and contingent liabilities of a controlled entity are recognised at fair value at the date of the acquisition, but only to the extent of the incremental proportion of equity acquired

Any goodwill arising on the purchase of shares in a controlled entity is recognised as an asset and initially measured at cost, being the excess of the additional cost of shares over the increase of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised

If the increase in the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the shares purchased, the excess is recognised immediately in the income statement as negative goodwill

### *TAXATION*

The tax expense represents the sum of the tax currently payable and deferred tax

Current tax is based on taxable profit for the year. Taxable profit differs from net profit 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 never 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 amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

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 dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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

### *PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS*

#### *Oil and gas properties and leases*

The costs of oil and gas properties and leases include the cost of acquiring and developing oil and gas properties and leases, together with any costs reclassified from intangible exploration and evaluation. Oil and gas properties and leases are amortised from the commencement of production in proportion to the ratio of production in the period to remaining reserves as at the start of the period

#### *Intangible exploration and evaluation expenditure assets*

The costs of exploration properties and leases, which include the cost of acquiring prospective properties and exploration rights, are capitalised as intangible assets. Exploration and evaluation expenditure is capitalised within exploration and evaluation properties until such time that the activities have reached a stage which permits a reasonable assessment of the existence of commercially exploitable reserves when they are transferred to oil and gas properties and leases. Capitalised exploration and evaluation expenditure is assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 Exploration for and Evaluation of Mineral Reserves. In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the period

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Other Property, Plant and Equipment*

Other tangible fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is provided on all such tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life or the life of the relevant licence, whichever is less, as follows:

Average life in years

Office and computer equipment	3-5
Plant and machinery	7-20

Until they are brought into use, fixed assets and equipment to be installed are included within assets under construction.

The cost of maintenance, repairs and replacement of minor items of tangible fixed assets are charged to the income statement as incurred. Renewals and asset improvements are capitalised. Upon sale or retirement of tangible fixed assets, the cost and related accumulated depreciation are eliminated from the financial statements. Any resulting gains or losses are included in the income statement.

### *Other intangible assets*

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred. Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after all the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated,
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed, and
- the correlation between development costs and future revenues has been established.

Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

### *IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### *RESEARCH AND DEVELOPMENT EXPENDITURE*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### *INVENTORIES*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *FINANCIAL INSTRUMENTS*

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument

#### *Trade receivables*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### *Investments*

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### *Trade payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *Derivative financial instruments*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group continues to assess the use of foreign exchange forward contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the board of directors which provide written principles on the use of financial derivatives.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

### *SHARE-BASED PAYMENTS*

The Group issues equity-settled share-based payments to certain directors and officers and service providers. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Where the value of the goods or services received in exchange for the share-based payment cannot be reliably estimated the fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *OPERATING LEASES*

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term

### *BORROWING COSTS*

Borrowing costs are recognised in the income statement in the period in which they are incurred

### *GOVERNMENT GRANTS*

Government grants towards research and development costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense

### *LOANS AND BORROWINGS*

Loans are initially measured at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method. Interest payable is accrued in the income statement using the effective interest rate method

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### *CRITICAL JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES*

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below)

#### *Impairment of intangible assets*

The assessment of intangible assets for any indications of impairment involves judgement. If an indication of 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 as the higher of fair value less costs to sell and value in use. The calculation of recoverable amount requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

#### *KEY SOURCES OF ESTIMATION UNCERTAINTY*

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *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.

#### *Measurement of fair value for held for trading and available for sale assets*

The estimation of fair value for held for trading assets and available for sale assets is determined based on quoted market prices for assets where quoted market prices exist. For share options held that are not traded on an open market and therefore have no quoted market price, an appropriate valuation model is required to be selected and consideration given to the inputs required for that model. In calculating the fair value of share options held by the Group, the Black-Scholes model has been adopted.

#### *Fair values recognised in business combinations*

The estimation of fair values of oil and gas exploration rights and production licences rights and any associated property, plant and equipment acquired in business combinations involves estimates over the quantities of minerals that may be recovered and the technical and commercial feasibility of extraction, which may be highly uncertain. Generally, fair values assigned to exploration and evaluation assets are limited so as not to generate negative goodwill where there is significant uncertainty over the estimates of fair value.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 4 REVENUE AND OTHER GAINS AND LOSSES

An analysis of the Group's revenue and other gains and losses is as follows

	Group	
	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Other operating revenue		
– Research and development grants <sup>1)</sup>	66	–
Investment revenue		
– Interest on bank deposits	99	25
<b>Total revenue</b>	<b>165</b>	<b>25</b>
Other gains and losses – Trading investments		
– Realised gains on sale of held for trading investments	1,233	–
– Unrealised gains on held for trading investments	5,091	–
– Loss on dilution from subsidiary share issue (see note 21)	(356)	–
	<b>5,968</b>	–
Gains on disposal of fixed assets	10	–
<b>Total other gains and losses</b>	<b>5,978</b>	–

*1) Government grants received in relation to research and development expenditure on oil shale extraction technologies in Australia*

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 5 SEGMENT INFORMATION

### BUSINESS SEGMENTS

For management purposes, the group is currently organised into two operating divisions – oil & gas exploration, evaluation and development and oil shale exploitation. These divisions are the basis on which the group reports its primary segment information.

Principal activities are as follows:

- Oil & gas exploration, evaluation and development – of the Group's interests in Kyrgyzstan and the Danish North Sea
- Oil shale exploitation – including development of technology to produce refinery-acceptable crude oil from the kerogen contained in oil shale, with the aim of commercial production from shale and related petroleum product exploration rights over mining tenements in the Julia Creek area of Queensland and an area in the South of New Zealand

Segment information about businesses is presented below.

*Period ended 30 June 2007*

	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Consolidated £'000
<b>Segment revenue</b>	–	–	–
<b>Segment result</b>	(335)	(395)	(730)
Unallocated corporate expenses			(1,394)
Share of results of associates			(362)
Other operating revenue			66
Gains on disposal of fixed assets			10
<b>Operating loss</b>			(2,410)
Investment revenue			99
Finance costs			(128)
Other gains and losses			5,968
Negative goodwill on acquisition of subsidiary			5,730
<b>Profit before tax</b>			9,259
Tax			(1,787)
<b>Profit after tax</b>			7,472
<b>Other information</b>			
Capital additions – intangible assets	198	389	587
Capital additions – other intangible unallocated assets			15
Capital additions – intangible assets acquired on acquisition of subsidiaries	2,098	8,820	10,918
Capital additions – property, plant and equipment	41	22	63
Capital additions – other property, plant and equipment unallocated			2
Capital additions – property, plant and equipment acquired on acquisition of subsidiaries	178	–	178
Depreciation and amortisation	6	5	11
<b>Balance sheet</b>			
<b>Assets</b>			
Segment assets	3,033	8,740	11,773
Interests in associates			23,818
Financial assets			3,215
Other unallocated corporate assets			2,262
<b>Consolidated total assets</b>			41,068
<b>Liabilities</b>			
Segment liabilities	137	15	152
Unallocated corporate liabilities			8,537
<b>Consolidated total liabilities</b>			8,689

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 5 SEGMENT INFORMATION (CONTINUED)

### BUSINESS SEGMENTS (CONTINUED)

Year ended 31 December 2005

	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Consolidated £'000
<b>Segment revenue</b>	–	–	–
<b>Segment result</b>	–	–	–
Unallocated corporate expenses			(221)
<b>Operating loss</b>			(221)
Share of results of associates			(24)
Investment revenue			25
Finance costs			–
<b>Loss before tax</b>			(220)
Tax			–
<b>Loss after tax</b>			(220)
<b>Other information</b>			
Capital additions – unallocated intangibles	–	–	102
Depreciation and amortisation – unallocated	–	–	21
<b>Balance sheet</b>			
<b>Assets</b>			
Segment assets	–	–	–
Interests in associates			412
Other unallocated corporate assets			1,415
<b>Consolidated total assets</b>			<b>1,827</b>
<b>Liabilities</b>			
Segment liabilities	–	–	–
Unallocated corporate liabilities			59
<b>Consolidated total liabilities</b>			<b>59</b>

### GEOGRAPHICAL SEGMENTS

The group's operations are located in Europe (including UK), Central Asia, and Australia

The following table provides an analysis of the group's revenue by geographical market, irrespective of the origin of the goods/services

Period ended 30 June 2007

	Europe (including UK) £'000	Central Asia £'000	Australia £'000	Total of segments £'000
Segment revenue	–	–	–	–
Segment assets	1,466	1,567	8,740	11,773
Capital additions	17	2,677	9,216	11,910

Year ended 31 December 2005

	Europe (including UK) £'000	Central Asia £'000	Australia £'000	Total of segments £'000
Segment Revenue	–	–	–	–
Segment assets	–	–	–	–
Capital additions	–	–	–	–

In the year ended 31 December 2005, there were no revenues, assets or additions in any geographic segment

## Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

### 6 PROFIT/(LOSS) FOR THE PERIOD / YEAR

Profit/(Loss) for the period / year has been arrived at after charging/(crediting)

	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Net foreign exchange losses/(gains)	39	(1)
Research and development costs	269	–
Depreciation of property, plant and equipment	11	–
Share based payments expense (see note 25)	152	79
Staff costs (see note 7)	230	12
Research and development grants (see note 4)	(66)	–
Gain on disposal of property, plant, and equipment	(10)	–

### AUDITOR'S REMUNERATION

	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
The analysis of auditors' remuneration is as follows		
Fees payable to the Group's current auditor for the audit of the Group's annual accounts	80	–
Fees payable to the Group's previous auditor for the audit of the Group's annual accounts for the year ended 31 December 2005	19	15
<b>Total audit fees</b>	<b>99</b>	<b>15</b>
Fees payable to the Group's previous auditor and its associates for other services		
– other services relating to taxation	2	–
– other assurance services relating to interim reviews	33	–
<b>Total non-audit fees</b>	<b>35</b>	<b>–</b>
	<b>134</b>	<b>15</b>

### 7 STAFF COSTS

The average monthly number of employees (including executive directors) was

	Period ending 30 June 2007 No	Year ending 31 December 2005 No
Corporate	4	2
	£'000	£'000
Their aggregate remuneration comprised		
Salaries and fees	230	12

### 8 FINANCE COSTS

	Period ending 30 June 2007 £'000	Year ending 31 December 2005 £'000
Interest on bank overdrafts and loans	80	–
Interest on convertible loan notes	48	–
	<b>128</b>	<b>–</b>

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 9 TAX

	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Current tax	698	–
Deferred tax (note 17)	1,089	–
	<b>1,787</b>	<b>–</b>

Corporation tax is calculated at 30 % (2005 30 %) of the estimated assessable profit for the year

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

The Group tax charge for the period/year can be reconciled to the profit/(loss) per the income statement as follows

	Period ended 30 June 2007 £'000	Year Ended 31 December 2005 £'000
Profit / (loss) before tax	9,259	(220)
Tax at the UK corporation tax rate of 30% (2005 30%)	2,778	(66)
Tax effect of expenses not deductible in determining taxable profit / (loss)	45	31
Tax effect of utilisation of tax losses not previously recognised	682	35
Tax effect of non-taxable negative goodwill	(1,718)	–
Tax expense for the period / year	<b>1,787</b>	<b>–</b>

## 10 EARNINGS PER SHARE

	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Earnings/(loss) for the purposes of basic and diluted earnings per share ("EPS") being net profit/(loss) for the period attributable to equity holders of the parent	6,284	(220)
	Number	Number
Weighted average number of ordinary shares for purposes of basic EPS	420,569,934	102,744,761
Effect of dilutive potential ordinary shares – options and warrants	67,143,088	–
Weighted average number of ordinary shares for purposes of diluted EPS	<b>487,713,022</b>	102,744,761

Where a loss has occurred, basic and diluted earnings per share are the same because the outstanding share options and warrants are anti-dilutive

## 11 INTANGIBLE ASSETS

### GROUP

	Total £'000
At 1 January 2005	–
Additions	81
At 1 January 2006	81
Additions	602
Acquired on acquisition of subsidiaries	10,918
At 30 June 2007	<b>11,601</b>

### COMPANY

	Total £'000
At 1 January 2005	–
Additions	17
At 1 January 2006	17
Additions	389
At 30 June 2007	<b>406</b>

Costs of exploration and evaluation are capitalised and carried forward during the exploration and evaluation stage. No amortisation is charged prior to the commencement of production.

## Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

### 12 PROPERTY, PLANT AND EQUIPMENT GROUP

	Plant and machinery £'000	Office and computer equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2005 and 31 December 2005	–	–	–
At 1 January 2006	–	–	–
Additions	48	17	65
Acquisition of subsidiary	178	–	178
Disposals	–	(1)	(1)
At 30 June 2007	226	16	242
<b>Accumulated depreciation and impairment</b>			
At 1 January 2005 and 31 December 2005	–	–	–
At 1 January 2006	–	–	–
Charge for the year	6	5	11
At 30 June 2007	6	5	11
<b>Carrying amount</b>			
At 30 June 2007	220	11	231
At 31 December 2005	–	–	–

### COMPANY

	Office and Computer Equipment £'000	Total £'000
<b>Cost</b>		
At 1 January 2005 and 31 December 2005	–	–
At 1 January 2006	–	–
Additions	2	2
Disposals	–	–
At 30 June 2007	2	2
<b>Accumulated depreciation and impairment</b>		
At 1 January 2005 and 31 December 2005	–	–
At 1 January 2006	–	–
Charge for the year	–	–
At 30 June 2007	–	–
<b>Carrying amount</b>		
At 30 June 2007	2	2
At 31 December 2005	–	–

### 13 SUBSIDIARIES

Interests in subsidiaries	Company £'000
At 1 January 2005	–
Additions	85
At 1 January 2006	85
Additions	19,016
At 30 June 2007	19,101

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 13 SUBSIDIARIES (CONTINUED)

Details of the Company's subsidiaries consolidated at 30 June 2007 are as follows

Name	Place of Incorporation and Operation	Date controlling interest acquired	Proportion of ownership & voting power held %	Principal Activities
Sermines de Mexico S A de C V	Mexico	08/08/05	100	Mining exploration
Xtract Oil Limited	Australia	17/02/06	100	Mining exploration and technology development
Cambrian Oil & Gas plc	UK	15/11/06	100	Holding Company
Zhibek Resources plc i)	UK	15/11/06	100	Oil & gas exploration, development and production
CSJC KNG Hydrocarbons ii)	Kyrgyz Republic	15/11/06	72	Oil & gas exploration
CSJC Zhibek Hydrocarbons ii)	Kyrgyz Republic	15/11/06	85	Oil & gas exploration

i) Interest held through wholly owned subsidiary Cambrian Oil & Gas plc, acquired on 15 November 2006

ii) Interest held through wholly owned Group on acquisition of Cambrian Oil plc on 15 November 2006

Information relating to acquisition of subsidiaries during the period is included in note 21

All of these subsidiaries have been consolidated for the period of ownership

## 14 INTERESTS IN ASSOCIATES

Details of the Group's associates at 30 June 2007 are as follows

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
Opening balance	412	-	436	-
Acquired on acquisition of subsidiary (a)	10,093	-	-	-
Revaluation on acquisition of minority interest	3,481	-	-	-
Investment in associate	-	436	-	436
Exercise of options in associate (b)	2,973	-	-	-
Transferred from trading investments (c)	7,628	-	-	-
Transferred to investment in subsidiary (d)	(407)	-	(436)	-
Share of associates losses for the period	(362)	(24)	-	-
	23,818	412	-	436

a) Fair value of shares in associates acquired during the period on acquisition of subsidiary (see note 21)

b) Cost of exercising options in associate

c) Fair value of options transferred from held for trading assets on exercise of options at (b)

d) During the period to 30 June 2007 Xtract Oil Limited (an associate in 2005) became a 100% owned subsidiary of Xtract and the investment in associates cost was transferred to be included in the acquisition cost of the subsidiary. See note 21 for further details

Name	Place of Incorporation and Operation	Date associate interest acquired	Proportion of ownership & voting power held %	Principal Activities
MEO Australia Limited i)	Australia	15/11/06	24	Oil & gas exploration
Elko Energy Limited i)	Canada	15/11/06	32	Oil & gas exploration

i) Interest held through wholly owned subsidiary Cambrian Oil & Gas plc, acquired on 15 November 2006

Aggregated amounts relating to associates	As at 30 June 2007 £'000	As at 31 December 2005 £'000
Total assets	39,175	156
Total liabilities	773	-
Revenues	378	-
Loss	(1,707)	(111)

The fair value of the Company's associate investment in MEO Australia Limited at 30 June 2007 is £45.3 million. This fair value is based on the closing ASX market price of MEO Australia Limited shares (ASX: MEO) at balance date.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 15 FINANCIAL ASSETS

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
<b>Available-for-sale investments</b>				
Opening balance	-	-	-	-
Acquired during the period	2,424	-	2,424	-
Movement in fair value (a)	782	-	782	-
	<b>3,206</b>	<b>-</b>	<b>3,206</b>	<b>-</b>

a) Fair value of available for sale investments is based on the listed market share price at 30 June 2007

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
<b>Trading investments</b>				
Opening balance	-	-	-	-
Other	9	-	9	-
Purchased during the period	406	-	406	-
Acquired on acquisition (a)	3,639	-	-	-
Disposals (b)	(1,093)	-	-	-
Fair value increase (c)	5,082	-	-	-
Transferred to investments in associates (d)	(7,628)	-	-	-
Transferred to investment in subsidiary on acquisition of subsidiary (e)	(406)	-	(406)	-
	<b>9</b>	<b>-</b>	<b>9</b>	<b>-</b>

a) Fair value of share options acquired during the period on acquisition of subsidiary See note 21 for further details

b) Fair value of share options transferred to the income statement upon disposal during the period

c) Fair value increase in trading investments during the period Fair value has been calculated using the Black-Scholes model

d) Fair value of share options transferred to investments in associates upon exercise of options

e) As part of the acquisition of the minority interest of COIL, warrants held by Xtract in COIL were cancelled and the value of the warrants was included as part of the costs of acquisition Refer to note 21 for further detail

## 16 OTHER FINANCIAL ASSETS

### *Trade and other receivables*

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
Other debtors	189	1	80	9
Prepayments	104	12	3	12
	<b>293</b>	<b>13</b>	<b>83</b>	<b>21</b>

The directors consider that the carrying amount of trade and other receivables approximates their fair value

### *Cash and cash equivalents*

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
Cash held and on deposit	1,582	1,321	952	1 318

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less The carrying amount of these assets approximates their fair value

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 17 DEFERRED TAX

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
Deferred tax assets	312	-	-	-
Deferred tax liabilities	(7,616)	-	(235)	-
	<b>(7,304)</b>	-	<b>(235)</b>	-

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period

Group	Available for sale investments £'000	Investment in associates £'000	Intangible assets £'000	Investments held for trading £'000	Total £'000
Charge to income	-	(110)	-	1,199	1,089
Charge to equity	235	-	-	-	235
Acquisition of subsidiary	-	3,334	2,646	-	5,980
As 30 June 2007	235	3,224	2,646	1,199	7,304

Company	Available for sale investments £'000	Total £'000
Charge to income	-	-
Charge to equity	235	235
Acquisition of subsidiary	-	-
At 30 June 2007	235	235

At the balance sheet date, the Group has available unused tax losses of £3.2 million (2005: £0.1 million) available for offset against future profits. No related deferred tax asset has been recognised due to the unpredictability of future profit streams. Losses may be carried forward indefinitely and will be recoverable if suitable taxable profits arise in future periods.

## 18 OTHER FINANCIAL LIABILITIES

### TRADE AND OTHER PAYABLES

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
Trade creditors and accruals	325	59	74	59
Current tax payable (see note 9)	698	-	-	-
Amounts due to related parties (see note 26)	50	-	45	-
	<b>1,073</b>	<b>59</b>	<b>119</b>	<b>59</b>

The directors consider that the carrying amount of trade payables approximates to their fair value.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 19 SHARE CAPITAL

Company Authorised	As at 30 June 2007 £'000	As at 31 December 2005 £'000
1,000,000,000 (2005 1,000,000,000) ordinary shares of £0 1p each	1,000	1,000
Issued and fully paid		
This comprises issued and fully paid ordinary shares of £0 1p each	Number of shares	£'000
At 1 January 2006	199,088,550	199
Issued for access to mining tenement rights (a)	32,000,000	32
Share consideration for Xtract Oil Limited at 7p per share (b)	57,471,250	57
Shares issued as payment for services (c)	250,000	2
Share consideration for Cambrian Oil and Gas plc at 6 375p per share (d)	29,090,909	29
Share consideration for Cambrian Oil and Gas plc at 5 675p per share (e)	115,016,676	115
Conversion of loan note at 5 5p per share (f)	61,113,291	61
Placing at 5 5p per share (g)	109,795,800	109
Issue for warrants exercised at 1p per share (h)	100,400,000	100
<b>At 30 June 2007</b>	<b>704,226,476</b>	<b>704</b>

- a) Consideration for the assignment of mining tenements in Australia from Intermin Resources Limited
- b) On 17 February 2006, the Company issued 57,471,250 shares of 0 1p each valued at £4,022,988 based on the market value of 7p per share, as part consideration for acquiring 78.3% of the issued share capital in Xtract Oil Limited (note 21)
- c) 250,000 shares of 0 1p each issued as consideration to brokers for services in relation to acquisition of Xtract Oil Limited
- d) On 15 November 2006, the Company issued 29,090,909 shares of 0 1p each valued at £1,854,545 based on the market value of 6 375p per share, as consideration for the purchase of 53.3 million shares in Cambrian Oil and Gas plc ("COIL") from Cambrian Mining Plc. Refer to note 21 for the detailed disclosures relating to this business combination
- e) On 23 April 2007 the company issued 115,016,676 shares of 0 1p each valued at £6,527,196 based on the market value of 5 675p, as consideration to COIL shareholders (other than Xtract) for the acquisition of all minority interest owned COIL shares by way of scheme of arrangement under section 425 of the Companies Act 1985 (the "Scheme"). Under the terms of the Scheme, COIL shareholders received 9 new Xtract shares for every 10 COIL shares. The consideration forms the cost of the acquired shares in COIL (note 21)
- f) On 21 September 2006 the Company entered into a convertible loan arrangement in settlement of the purchase of shareholdings from the Company's ultimate parent company Cambrian Mining Plc and its subsidiaries. The value of the loan of £3.4 million, including interest payable of £48,498, was converted into 61,113,291 new ordinary shares of 0 1p each at the placing price of 5 5p a share on 17 November 2006. There were no additional costs associated with the convertible loan issue or subsequent conversion.
- g) On 22 November 2006 the Company completed a placing and open offer of 109,795,800 new ordinary shares of 0 1p each at 5 5p per share generating proceeds of £6,038,769, before expenses. These comprised £5,500,000 cash plus £538,769 in relation to 9,785,800 shares placed with Cambrian Mining Plc settled by way of offset against short-term loan amounts due to Cambrian Mining Plc.
- h) During the period 100,400,000 new ordinary shares of 0 1p each were issued and allotted following the exercise of warrants in the Company. The exercise price was 1p per share issued.

The company has one class of ordinary shares which carry no right to fixed income.

### UNLISTED WARRANTS

Shares issued as a result of warrants exercised generated cash proceeds of £1,004,000 during the period. After exercises and further grants during the period, the following warrants remain outstanding at 30 June 2007:

Issued 29 March 2005	–	33,688,550 exercisable at 1p per share
Issued 29 March 2005	–	50,000,000 exercisable at 2p per share
Issued 29 March 2005	–	3,000,000 exercisable at 1 5p per share
Issued 24 April 2006	–	5,000,000 exercisable at 5 5p per share
Issued 22 November 2006	–	7,213,475 exercisable at 5 5p per share
Issued 1 January 2007 to 30 June 2007	–	600,000 exercisable at 6p per share

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 19 SHARE CAPITAL (CONTINUED)

Each one of the above warrants vested immediately and expires within three years of issue, entitling the holder to one fully paid share in the Company upon payment of the warrant exercise price per share

In addition to the above, in April 2007 Xtract issued shares in exchange for all minority owned shares in COIL. As part of this transaction 231,150 COIL options exercisable at 5p, 6,150,000 COIL options exercisable at 7p and 1,500,000 COIL warrants exercisable at 3p continue in accordance with their terms except that COIL option and warrant holders are entitled to receive Xtract shares upon exercise of such options and warrants on the basis of 9 new Xtract ordinary shares for every 10 COIL shares which the option or warrant holder is entitled to under the terms of the option or warrant

## 20 RECONCILIATION OF CHANGES IN EQUITY

Group	Share capital £'000	Share premium account £'000	Share based payments reserve £'000	Available for sale reserve £'000	Revaluation reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Minority Interest £'000	Total Equity £'000
<b>At 1 January 2005</b>	-	-	-	-	-	-	-	-	-
Balance on incorporation	-	-	-	-	-	-	-	-	-
Issue of shares	199	1,857	-	-	-	-	-	-	2,056
Share based payments expense	-	-	33	-	-	-	-	-	33
Share issue expenses	-	(101)	-	-	-	-	-	-	(101)
Loss for the period	-	-	-	-	-	-	(220)	-	(220)
<b>At 31 December 2005</b>	<b>199</b>	<b>1,756</b>	<b>33</b>	-	-	-	<b>(220)</b>	-	<b>1,768</b>
Issue of shares	505	22,641	-	-	-	-	-	-	23,146
Share based payments expense	-	-	378	-	-	-	-	-	378
Share issue expenses	-	(597)	-	-	-	-	-	-	(597)
Gain on revaluation of available for sale investments	-	-	-	782	-	-	-	-	782
Deferred tax on revaluation of available for sale investments	-	-	-	(235)	-	-	-	-	(235)
Revaluation on acquisition of subsidiaries	-	-	-	-	962	-	-	-	962
Exchange differences on translation	-	-	-	-	-	(18)	-	-	(18)
Minority interest arising on acquisition of subsidiary	-	-	-	-	-	-	-	5,007	5,007
Issue of shares by subsidiary	-	-	-	-	-	-	-	995	995
Acquisition of minority interest	-	-	-	-	-	-	-	(7,281)	(7,281)
Profit for the period	-	-	-	-	-	-	6,284	1,188	7,472
<b>At 30 June 2007</b>	<b>704</b>	<b>23,800</b>	<b>411</b>	<b>547</b>	<b>962</b>	<b>(18)</b>	<b>6,064</b>	<b>(91)</b>	<b>32,379</b>

## Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

### 20 RECONCILIATION OF CHANGES IN EQUITY (CONTINUED)

Company	Share capital £'000	Share premium account £'000	Share based payments reserve £'000	Available for sale reserve £'000	Retained earnings £'000	Total Equity £'000
<b>At 1 January 2005</b>	–	–	–	–	–	–
Balance on incorporation	–	–	–	–	–	–
Issue of shares	199	1,857	–	–	–	2,056
Share based payments expense	–	–	33	–	–	33
Share issue expenses	–	(101)	–	–	–	(101)
Loss for the period	–	–	–	–	(170)	(170)
<b>At 31 December 2005</b>	<b>199</b>	<b>1,756</b>	<b>33</b>	<b>–</b>	<b>(170)</b>	<b>1,818</b>
Issue of shares	505	22,641	–	–	–	23,146
Share based payments expense	–	–	378	–	–	378
Share issue expenses	–	(597)	–	–	–	(597)
Gain on revaluation of available for sale investments	–	–	–	782	–	782
Deferred tax on revaluation of available for sale investments	–	–	–	(235)	–	(235)
Exchange differences on translation	–	–	–	–	–	–
Loss for the period	–	–	–	–	(907)	(907)
<b>At 30 June 2007</b>	<b>704</b>	<b>23,800</b>	<b>411</b>	<b>547</b>	<b>(1,077)</b>	<b>24,385</b>

#### AVAILABLE FOR SALE RESERVE

The available for sale reserve is used to recognise fair value changes on available-for-sale investments

#### FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of foreign subsidiaries

#### SHARE BASED PAYMENTS RESERVE

The share based payments reserve is used to recognise the equity component of share based payments

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 21 ACQUISITION OF SUBSIDIARIES

### XTRACT OIL LIMITED

On 17 February 2006 the Company acquired 78.3% of the issued share capital of Xtract Oil Limited ("Xtract Oil") increasing its holding to 100% for consideration of £4.9 million including expenses. Xtract Oil has interests in oil shale mining tenements in Australia and is researching technologies to commercially extract oil from shale through a liquid solvent process.

The consideration and net assets acquired were as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
<b>Net assets acquired</b>			
Trade receivables	69	–	69
Bank and cash balances	65	–	65
Mining rights	–	8,820	8,820
Deferred tax liability	–	(2,646)	(2,646)
	134	6,174	6,308
Less revaluation reserve		962	962
	134	5,212	5,346
<b>Satisfied by</b>			
Cash			817
Directly attributable costs			99
			916
Fair value of shares issued (refer to note 19)			4,023
Total consideration			4,939
Carrying value of associate brought forward			407
			5,346
<b>Net cash outflow arising on acquisition</b>			
Cash and cash equivalents acquired			65
Cash paid for shares			(817)
Directly attributable costs			(99)
			(851)

The fair value of mining rights held by Xtract Oil at the date of acquisition were determined based on the purchase consideration (£4.9 million) paid on 17 February 2006. The purchase consideration represents 78.3% of the fair value of the mining rights prior to deferred tax of 30%.

Xtract Oil contributed to the Group's 12 month consolidated results, an operating loss of £0.4 million and a loss before tax of £0.3 million for the period between the date of acquisition and the balance sheet date.

If the acquisition of Xtract Oil had been completed on the first day of the financial period, Group revenues for the period would have been £0.2 million and Group profit attributable to equity holders of the parent would have been £7.2 million.

### CAMBRIAN OIL AND GAS PLC

During the eighteen month period, the Company acquired 100% of the issued share capital of Cambrian Oil & Gas Plc ("COIL") for total consideration of £13,641,000 including expenses. The acquisition occurred in two stages, being the purchase of a controlling interest of 65.5% on 15 November 2006 and purchase of the remaining minority interest 23 April 2007.

The book values of other assets held by Xtract Oil at the date of acquisition are assumed to equate their fair value.

COIL is a PLC that with its subsidiary and associate undertakings ("COIL group") is involved in investment in and financing of oil and gas exploration and development assets. COIL group includes a subsidiary with interests in Kyrgyzstan and two associates: 24% in MEO Australia Ltd ("MEO"), listed on the Australian Stock Exchange, and 32% of Elko Energy Inc, based in Canada.

## Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

### 21 ACQUISITION OF SUBSIDIARIES (CONTINUED)

*Purchase of controlling interest (65.5% of issued share capital)*

As at 15 November 2006, Xtract acquired a controlling interest of 65.5% in COIL are as follows

Effective date	Number of shares	Percent acquired	Consideration £'000
15 November 2006	202,964,102	65.5%	6,544
Expenses			35
<b>Total Investment</b>			<b>6,579</b>

The net assets of the COIL Group acquired in the first step of the acquisition are as follows

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Mining rights and exploration costs	2,098	–	2,098
Investment in associates	6,100	3,993	10,093
Property, plant and equipment	178	–	178
Deferred tax asset	–	268	268
Investments – held for trading	3,639	–	3,639
Inventories	14	–	14
Trade and other receivables	385	–	385
Cash and cash equivalents	2,716	–	2,716
Trade and other payables	(2,169)	–	(2,169)
Deferred tax liability	(1,092)	(1,467)	(2,559)
	<b>11,869</b>	<b>2,794</b>	<b>14,663</b>
Excess of acquirer's interest in net assets of acquiree over cost			(3,077)
Minority interest			(5,093)
Minority interest in subsidiary acquired			86
			<b>6,579</b>
<b>Satisfied by</b>			
Cash			1,850
Directly attributable costs			35
Convertible loan			889
Short-term loan			1,950
Fair value of shares issued			1,855
<b>Total consideration</b>			<b>6,579</b>
<b>Net cash outflow arising on acquisition</b>			
Cash paid			(1,885)
Cash and cash equivalents acquired			2,716
			<b>831</b>

The fair value of COIL's associate investment in MEO has been based on the market value of MEO shares (ASX MEO) at the date of acquisition. The fair value of COIL's other assets and liabilities is assumed to approximate their carrying values at the date of acquisition.

As the fair value of the Company's share in net assets at the date of acquisition exceeds the total consideration paid for the 65.5% interest acquired, negative goodwill of £3.1 million arises on acquisition.

The COIL Group contributed to the Group's results for the period an operating profit of £1.2 million and a profit before tax of £0.9 million for the period between the date of acquisition and the balance sheet date.

If the acquisition of COIL had been completed on the first day of the financial period, Group revenues (excluding other gains and losses) for the period would have been £0.2 million and Group profit attributable to equity holders of the parent would have been £9.8 million.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 21 ACQUISITION OF SUBSIDIARIES (CONTINUED)

*Dilution of interest in COIL between 15 November 2006 and 23 April 2007*

During the period between 15 November 2006 and 23 April 2007, 16,499,993 warrants and 4,266,670 options in COIL were exercised by parties other than Xtract, resulting in a dilution of Xtract's interest in COIL from 65.5% to 61.4%. Proceeds to COIL from the exercise of warrants and options totalled £0.6 million and a loss on dilution of £0.4 million has been recognised in the income statement for the period.

*Purchase of minority interest (38.6% of issued share capital)*

On 23 April 2007 the company acquired the remaining 38.6% minority interest of COIL by way of a scheme of arrangement through the issue of shares to the value of £6.5 million – see note 19(e). The total cost of acquisition including the value of COIL share warrants held by Xtract that were cancelled as part of the transaction was as follows:

Effective date	Number of shares	Percent acquired	Consideration £'000
April 2007	127,796,382	38.6%	6,527
COIL share warrants held by Xtract cancelled			406
Expenses			129
<b>Total investment</b>			<b>7,062</b>

Acquiring shares in a controlled entity does not meet the definition of a business combination and therefore does not fall within the scope of IFRS 3 Business Combinations. Accordingly a policy has been developed in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which is also consistent with generally accepted accounting practice. This policy recognises an increase in the fair value of the entity to the extent of the further ownership interest acquired. As a result, shares in the associate MEO have been further revalued upwards by £3.5 million and deferred tax liabilities increased by £1.0 million a net revaluation of £2.5 million.

The negative goodwill arising on the purchase of the revalued minority interests is £2.6 million and the transaction gave rise to cash outflow of £129,000.

## 22 NOTES TO THE CASH FLOW STATEMENT

	Group		Company	
	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000	Period ended 30 June 2007 £'000	Year ended 31 December 2005 £'000
Profit/(loss) for the period/year	7,472	(220)	(907)	(170)
Adjustments for				
Share of results of associates	362	24	–	–
Investment revenue	(99)	(25)	(77)	(25)
Other gains and losses	(5,968)	–	(9)	–
Income tax expense	1,787	–	–	–
Government grants	(66)	–	–	–
Depreciation of property, plant and equipment	11	–	–	–
Amortisation of intangible assets	–	21	–	4
Negative goodwill released to income	(5,730)	–	–	–
Share-based payments expense	152	79	152	79
Gain on disposal of property, plant and equipment	(10)	–	–	–
Operating cash flows before movements in working capital	(2,089)	(121)	(841)	(112)
Increase in inventories	(2)	–	–	–
Increase in receivables	175	(12)	(62)	(21)
Increase in payables	172	59	15	59
Cash used in operations	(1,744)	(74)	(888)	(74)
Income taxes paid	–	–	–	–
Interest paid	128	–	119	–
Foreign exchange differences	(18)	–	–	–
<b>Net cash used in operating activities</b>	<b>(1,634)</b>	<b>(74)</b>	<b>(769)</b>	<b>(74)</b>

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 23 FINANCIAL INSTRUMENTS

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk

<b>As at 30 June 2007</b>	<b>Less than one year £'000</b>	<b>Total £'000</b>
<i>Floating rate</i>		
Cash and cash equivalents	1,582	1,582
	<b>1,582</b>	<b>1,582</b>
<hr/>		
<b>As at 31 December 2005</b>	<b>Less than one year £'000</b>	<b>Total £'000</b>
<i>Floating rate</i>		
Cash and cash equivalents	1,321	1,321
	<b>1,321</b>	<b>1,321</b>

The Group calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance sheet date. The Group's financial assets and liabilities, together with their fair values are as follows

	<b>Book value</b>		<b>Fair value</b>	
	<b>2007 £'000</b>	<b>2005 £'000</b>	<b>2007 £'000</b>	<b>2005 £'000</b>
<b>Financial assets</b>				
Cash and cash equivalents	1,582	1,321	1,582	1,321
Available for sale assets	3,206	-	3,206	-
Trading investments	9	-	9	-
	<b>4,797</b>	<b>1,321</b>	<b>4,797</b>	<b>1,321</b>
<b>Financial liabilities</b>				
Amounts due to related parties	50	-	50	-
	<b>50</b>	<b>-</b>	<b>50</b>	<b>-</b>

Market values have been used to determine the fair value of available for sale assets. The fair value of held for trading assets has been calculated using the Black-Scholes model. The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of other financial assets has been calculated using market interest rates.

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk

<b>As at 30 June 2007</b>	<b>Less than one year £'000</b>	<b>Total £'000</b>
<i>Floating rate</i>		
Cash and cash equivalents	952	952
	<b>952</b>	<b>952</b>
<hr/>		
<b>As at 31 December 2005</b>	<b>Less than one year £'000</b>	<b>Total £'000</b>
<i>Floating rate</i>		
Cash and cash equivalents	1,318	1,318
	<b>1,318</b>	<b>1,318</b>

The company's financial assets and liabilities, other than trade receivables and payables, together with their fair values are as follows

	<b>Book value</b>		<b>Fair value</b>	
	<b>2007 £'000</b>	<b>2005 £'000</b>	<b>2007 £'000</b>	<b>2005 £'000</b>
<b>Financial assets</b>				
Cash and cash equivalents	952	1,318	952	1,318
	<b>952</b>	<b>1,318</b>	<b>952</b>	<b>1,318</b>
<b>Financial liabilities</b>				
	-	-	-	-

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 23 FINANCIAL INSTRUMENTS (CONTINUED)

### *Credit risk*

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. An allowance for impairment is made where there is an identified loss event which, is evidence of a reduction in the recoverable cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

## 24 EXPENDITURE COMMITMENTS

At the balance sheet date the Group and Company have outstanding commitments under non-cancellable operating lease, which fall due as follows:

	Group		Company	
	As at 30 June 2007 £'000	As at 31 December 2005 £'000	As at 30 June 2007 £'000	As at 31 December 2005 £'000
<b>Operating lease rentals</b>				
Within one year	41	41	41	41
Within the second to fifth years inclusive	82	166	82	166
	<b>123</b>	<b>207</b>	<b>123</b>	<b>207</b>
<b>Capital expenditures</b>				
Within one year	454	182	181	182
Within the second to fifth years inclusive	419	727	362	727
	<b>873</b>	<b>909</b>	<b>543</b>	<b>909</b>

The expenditure commitments relate to various annual mining lease rental and work programme capital expenditures. The capital expenditure commitments are subject to variation on application to the relevant governmental authority.

## 25 SHARE BASED PAYMENTS

### *EQUITY-SETTLED DIRECTORS' AND EMPLOYEE SHARE WARRANTS*

The Company has issued share warrants to certain employees and officers of the Group. All warrants vest immediately. If the warrants remain unexercised after a period of three years from the date of grant the warrants expire. Details of the share warrants outstanding during the period are as follows:

	Period ended 30 June 2007		Year ended 31 December 2005	
	Number of share warrants	Weighted average exercise price £	Number of share warrants	Weighted average exercise price £
Outstanding at beginning of period	3,000,000	0.015	–	–
Granted during the period	5,000,000	0.055	3,000,000	0.015
Forfeited during the period	–	–	–	–
Exercised during the period	–	–	–	–
Expired during the period	–	–	–	–
Outstanding at the end of the period	<b>8,000,000</b>	<b>0.040</b>	<b>3,000,000</b>	<b>0.015</b>
Exercisable at the end of the period	<b>8,000,000</b>		<b>3,000,000</b>	

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 25 SHARE BASED PAYMENTS (CONTINUED)

No share warrants were exercised during the period. The warrants outstanding at 30 June 2007 had a weighted average exercise price of £0.040, and a weighted average remaining contractual life of 1.42 years. For the period to June 30 2007, 5,000,000 warrants were granted on 24 April 2006. The aggregate of the estimated fair values of the options granted on those dates is £141,654. In 2005, 3,000,000 options were granted on 29 March 2005. The aggregate of the estimated fair values of the options granted on those dates is £11,766. All share-based payments to Directors and employees are recognised as an expense in the income statement.

### *Warrants granted 29 March 2005*

The inputs into the Black-Scholes model are as follows:

Number of warrants granted	3,000,000
Weighted average share price GBP	1.5p
Weighted average exercise price GBP	1.5p
Expected volatility	30%
Expected life in years	3 years
Risk-free rate	4.5%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0.0039 per share.

### *Warrants granted 24 April 2006*

The inputs into the Black-Scholes model are as follows:

Number of warrants granted	5,000,000
Weighted average share price GBP	6.0p
Weighted average exercise price GBP	5.5p
Expected volatility	70%
Expected life in years	3 years
Risk-free rate	4.5%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0.0283 per share.

Expected volatility of warrants granted was determined by calculating the historical volatility of the share price of comparable companies (including Xtract's ultimate parent entity) over the previous 3 years as the Group itself had no trading history at that time. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### *EQUITY-SETTLED PAYMENTS TO SMITH AND WILLIAMSON*

The company granted 3,088,550 share warrants to Smith and Williamson on 29 March 2005.

The inputs into the Black-Scholes model are as follows:

Weighted average share price GBP	1.5p
Weighted average exercise price GBP	1.0p
Expected volatility	30%
Expected life in years	3 years
Risk-free rate	4.5%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0.0067p per share. Total fair value of £20,730 is recognised in equity.

On 24 March 2005 3,088,550 ordinary shares were issued to Smith and Williamson relating to their corporate finance fee for provision of advisory services in connection with the Company's listing on AIM. No consideration was payable with respect to these shares which had a fair value of £0.015p per share on the date of listing. Though these shares were issued in exchange for goods and services, the fair value of the goods and services is determined by the fair value of the shares rather than the fair value of the share-based payment transaction being measured with reference to the fair value of those services as no fixed value of the services provided was stipulated in negotiating the issue of the options. This resulted in the recognition of £46,328 in equity.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 25 SHARE BASED PAYMENTS (CONTINUED)

### EQUITY-SETTLED PAYMENTS TO BROKERS

The company granted 7,213,475 share warrants to WH Ireland Group PLC on 22 November 2006

The inputs into the Black-Scholes model are as follows

Weighted average share price GBP	6 0p
Weighted average exercise price GBP	5 5p
Expected volatility	70%
Expected life in years	3 years
Risk-free rate	5 25%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0 0313 per share. Total fair value of £225,882 is recognised in share premium

There was no impact on the income statement as the cost of the options has been taken to share premium account as a cost of share issuance. Though these options were issued in exchange for goods and services, the fair value of the goods and services is determined by the fair value of the option rather than the fair value of the option being measured with reference to the fair value of those services as no fixed value of the services provided was stipulated in negotiating the issue of the options

### EQUITY-SETTLED PAYMENTS TO RAM PARTNERS SA

The company granted share warrants to RAM Partners SA ("RAM") on the basis of 100,000 share options per month for the period January 2007 to June 2007

The inputs into the Black-Scholes model are as follows

Weighted average share price GBP	5 5p
Weighted average exercise price GBP	6 0p
Expected volatility	70%
Expected life in years	3 years
Risk-free rate	5 25%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0 0211 per share. Total fair value of £10,587 is recognised in income statement

The warrants were issued to RAM in relation to investor and public relations services provided. Though these warrants were issued in exchange for goods and services, the fair value of the goods and services is determined by the fair value of the option rather than the fair value of the option being measured with reference to the fair value of those services as no fixed value of the services provided was stipulated in negotiating the issue of the options

### CAMBRIAN OIL & GAS PLC ("COIL") WARRANTS AND OPTIONS

In April 2007 Xtract issued shares in exchange for all minority owned shares in Cambrian Oil & Gas Plc ("COIL"). As part of this transaction 231,150 COIL options exercisable at 5p, 6,150,000 COIL options exercisable at 7p and 1,500,000 COIL warrants exercisable at 3p continue in accordance with their terms. COIL option and warrant holders are entitled to receive Xtract shares upon exercise of such options and warrants on the basis of 9 new Xtract ordinary shares for every 10 COIL shares which the option or warrant holder is entitled to under the terms of the option or warrant. All options and warrants were granted and vested prior to the acquisition of COIL by Xtract

The effective number and exercise price of Xtract shares subject to the existing COIL share options and warrants on the basis of 9 new Xtract ordinary shares for every 10 COIL shares is as follows

	Expiry date	Effective number of Xtract shares	Effective exercise price for Xtract shares
231,150 COIL options exercisable at 5p (a)	15 July 2007	208 035	5 56p
6,150,000 COIL options exercisable at 7p (b)	1 March 2008	5,535 000	7 78p
1,500,000 COIL warrants exercisable at 3p (a)	23 October 2007	1,350,000	3 33p

a) Issued to external 3rd parties

b) Issued to Directors and employees of COIL

**The Group recognised total expenses of £152,241 and £78,825 related to equity-settled share-based payment transactions in 2007 and 2005 respectively**

**The amount recognised in equity relating to share-based payments at the balance sheet date was £410,660 (2005 £78,825)**

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 26 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2007 £'000	2005 £'000
Short-term employee benefits (a)	150	36
Share-based payment	142	–
	<b>292</b>	<b>36</b>

a) Payments to Qualrex Pty Limited of £41,252 during the year relate to consultancy services provided by Mr Carl Layden, a director of the Company. Payments to Abacus London Limited of £8,300 during the year relate to consultancy services provided by Ms Susan Wickerson, a director of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

### Transactions with Drawone Pty Ltd

Drawone Pty Ltd ("Drawone") was granted a royalty from the Company on 2 November 2005. The royalty agreement entitles Drawone to 1% of the sales revenue of the Company generated by sale of oil, gas and any related petroleum product from the following tenements located in Queensland, Australia, EPM 14798 to 14806, 14957 and 15066. John Newton, a director of the Company is also a director and joint shareholder in Drawone. No sales revenue has been generated to date by the Company for the purposes of the royalty agreement.

### OTHER RELATED PARTY TRANSACTIONS

During the year the Group entered into transactions with other related parties. Transactions entered into and balances outstanding at 30 June 2007 are discussed below.

### Transactions with ultimate parent entity Cambrian Mining plc and subsidiaries ("Cambrian")

Amounts owed to Cambrian Mining plc, Xtract's ultimate parent entity, as at 30 June 2007 totaled £49,786.

During the period Xtract was charged for management services by Cambrian Mining plc totaling £48,000.

In September 2006 Xtract acquired 44,630,669 ordinary shares in Cambrian Oil & Gas Plc ("COIL") and warrants over an additional 22,844,994 ordinary shares for a total consideration £888,923 in Loan Notes and £450,000 in cash. These loan notes were converted by Cambrian into 16,638,927 shares on 17 November 2006.

In September 2006 Xtract acquired 81,511,422 ordinary shares in Wasabi Energy Limited (representing 19.5% of Wasabi's issued ordinary share capital) from Cambrian for a total consideration of £818,388 in Loan Notes. These loan notes were converted by Cambrian into 15,318,647 shares on 17 November 2006.

In September 2006 Xtract acquired 61,500,000 ordinary shares in Aviva Corporation (representing 18.6% of Aviva's issued ordinary share capital) and options over 10,000,000 Aviva shares exercisable at a price of A\$0.10 per share from Cambrian for a total consideration of £1,605,422 in Loan Notes. These loan notes were converted by Cambrian into 30,050,408 shares on 17 November 2006.

The Company entered into a loan facility with Cambrian under the terms of which Cambrian provided a loan facility to Xtract for an amount of £2,000,000. The loan was at an interest rate of LIBOR plus 2%. The loan was repaid during the period.

# Notes to the Consolidated Financial Statements

at 30 June 2007 *continued*

## 26 RELATED PARTY TRANSACTIONS (CONTINUED)

In November 2006 Xtract acquired from Cambrian 53,333,333 ordinary shares (together with the same number of warrants exercisable at a price of 3p per share) in COIL, the consideration for which was the issue to Cambrian of 29,090,909 new Xtract ordinary shares

During the period Xtract's subsidiary COIL purchased 15,000,000 special warrants of Elko Energy Inc ("Elko") from Cambrian. COIL previously owned 2,500,000 special warrants of Elko and the enlarged holding represents 29% (fully diluted) of the issued capital of Elko. During the period each special warrant converted into 1 common share in the capital of Elko for no further consideration. COIL purchased the special warrants for a total cash consideration of £1,544,993

On 16 November 2006 Xtract placed 109,795,800 million new ordinary shares of 0.1 pence each at 5.5 pence per ordinary share. As part of the Placing, Cambrian subscribed for 9,795,800 new ordinary shares. In addition, Cambrian Investment Holdings Limited converted its loan notes of £3,361,231 (including interest) into ordinary shares of Xtract at the Placing price

### *Transactions with associate entity MEO Australia Limited ("MEO")*

On 4 May 2007 Xtract, via its wholly owned subsidiary COIL increased its investment in MEO Australia Limited through the exercise of 28,598,157 A\$0.25 options. Following this transaction COIL held 77,116,814 shares in MEO representing 24% of the issued capital in MEO as at balance date

### *Transactions with investee company Wasabi Energy Limited*

During the period Xtract agreed to sell its holding of 61.5 million ordinary shares in Aviva, together with an interest in a steel-making technology, to Wasabi in exchange for the issue of 175 million new Wasabi ordinary shares together with 25 million warrants exercisable at a price of A\$0.03 per Wasabi share. The transaction was subject to approval of Wasabi shareholders that was granted subsequent to the period end

## 27 EVENTS AFTER THE BALANCE SHEET DATE

### *Authorised share capital of the Company*

On 31 July 2007, shareholder approval was obtained for the authorised share capital of the Company to be increased from £1,000,000 divided into 1,000,000,000 ordinary shares of 0.1p each to £2,000,000 divided into 2,000,000,000 ordinary shares of 0.1p each by the creation of 1,000,000,000 new ordinary shares of 0.1p each such shares to rank pari passu in all respects with the existing ordinary 0.1p shares in the capital of the Company

### *Issue of share options*

On 9 July 2007 5,500,000 options were granted to directors. 3,500,000 options have an exercise price of £0.08 per share and are exercisable for a three year term and expire on 8 July 2010. 1,000,000 options have an exercise price of £0.10 per share and are exercisable for a three year term from 9 July 2008 and expire on 8 July 2011. 1,000,000 options have an exercise price of £0.12 per share and are exercisable for a three year term from 9 July 2009 and expire on 8 July 2012

### *Investment activity*

On 2 August 2007, the Company was issued with 175 million new ordinary shares in Wasabi Energy Ltd ("Wasabi") together with 25 million options exercisable on or before 30 June 2008 at a price of A\$0.03 per Wasabi share (ASX: WAS) in exchange for 12.3 million ordinary shares in Aviva Corporation, together with an interest in a steel making technology. Following this transaction the Company holds 256,511,422 Wasabi ordinary shares (representing approximately 34.5% of Wasabi's issued share capital). As a result, Wasabi will become an associate of the Group, previously recorded as an available for sale investment

On 24 September, the Company announced a further investment of US\$2.0 million in Elko Energy Inc ("Elko") through a private placement. Pursuant to the private placement, the Company's wholly owned subsidiary Cambrian Oil and Gas Plc (COIL) received 4 million new common shares in Elko at a cost of US\$0.50 each in cash. Following the placement and the issue of an additional 300,000 common shares to COIL in consideration for a due diligence fee payable by Elko to COIL, COIL's total holding represents approximately 36.5% of the issued capital of Elko, previously 32%

On 28 September 2007, the Company announced that it reduced its interest in MEO Australia Ltd ("MEO"). COIL sold 5 million shares in MEO at A\$1.10 per share for cash. Following this disposal COIL retains 71,366,814 shares in MEO representing 21.3% of the issued capital of MEO

## Directors and Advisors

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5267047

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John Newton

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