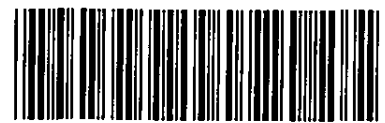


Xtract Energy plc
Financial Statements
For the year ended 30 June 2008

Registered number: 5267047

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Xtract Energy plc

Consolidated Income Statement Year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Continuing operations			
Administrative and operating expenses		(2,885)	(1,707)
Share of results of associates	14	(1,707)	(362)
Operating loss		(4,592)	(2,069)
Investment revenue	4	207	99
Finance costs	8	-	(128)
Other gains and losses	4	5,340	6,034
Negative goodwill on acquisition of subsidiary		-	5,730
Profit before tax		955	9,666
Tax expense	9	(932)	(1,787)
Profit for the year / period from continuing operations		23	7,879
Discontinued operations			
Loss for the year/ period from discontinued operations	17	(811)	(407)
(Loss)/profit for the year/period		(788)	7,472
Attributable to:			
Equity holders of the parent		(788)	6,284
Minority interest		-	1,188
		(788)	7,472
Net (loss)/earnings per share			
From continuing operations			
Basic (pence)	10	0.00	1.59
Diluted (pence)	10	0.00	1.37
From continuing and discontinued operations			
Basic (pence)	10	(0.11)	1.49
Diluted (pence)	10	(0.11)	1.29

Xtract Energy plc

Consolidated and Company statements of recognised income and expenditure Year ended 30 June 2008

	Note	Group		Company	
		Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
(Losses)/gains on revaluation of available-for-sale investments taken to equity	21	(1,963)	782	1,973	782
Unwinding of fair value gains on transfer to investment in associate	21	(547)	-	(547)	-
Revaluation of intangible assets – acquisition of subsidiaries	21	-	962	-	-
Exchange differences on translation of foreign operations	21	829	(18)	-	-
Tax credit/(expense) on items taken directly to equity	21	540	(235)	(663)	(235)
Net (loss)/gain recognised directly in equity		(1,141)	1,491	763	547
Transferred to income statement on sale of available-for-sale investment		(1,558)	-	(1,868)	-
(Loss)/profit for the year / period	21	(788)	7,472	(703)	(907)
Total recognised income and expense for the year / period		(3,487)	8,963	(1,808)	(360)
Attributable to:					
Equity holders of the parent		(3,487)	7,775	(1,808)	(360)
Minority interests		-	1,188	-	-
		(3,487)	8,963	(1,808)	(360)

Xtract Energy plc

Consolidated and Company balance sheets As at 30 June 2008

	Note	Group		Company	
		As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Non-current assets					
Intangible assets	11	10,494	11,601	406	406
Property, plant and equipment	12	28	231	5	2
Investments in associates	14	3,900	23,818	-	-
Investments in subsidiaries	13	-	-	19,101	19,101
Financial assets	15	15,962	3,206	1,869	3,206
Loans to subsidiaries		-	-	802	980
Deferred tax asset	18	595	312	-	-
		<u>30,979</u>	<u>39,168</u>	<u>22,183</u>	<u>23,695</u>
Current assets					
Inventories		-	16	-	-
Derivative financial instruments	15	23	9	9	9
Trade and other receivables	16	130	293	102	83
Cash and cash equivalents	16,23	6,362	1,582	6,201	952
Assets held for sale	17	2,324	-	-	-
		<u>8,839</u>	<u>1,900</u>	<u>6,312</u>	<u>1,044</u>
Total assets		<u>39,818</u>	<u>41,068</u>	<u>28,495</u>	<u>24,739</u>
Current liabilities					
Trade and other payables	19	439	375	353	119
Current tax liabilities	19	3,636	698	347	-
Loans from subsidiaries		-	-	4,293	-
Liabilities directly associated with assets classified as held for sale	17	69	-	-	-
		<u>4,144</u>	<u>1,073</u>	<u>4,993</u>	<u>119</u>
Net current assets		<u>4,695</u>	<u>827</u>	<u>1,319</u>	<u>925</u>
Non-current liabilities					
Deferred tax liabilities	18	5,595	7,616	83	235
Total liabilities		<u>9,739</u>	<u>8,689</u>	<u>5,076</u>	<u>354</u>
Net assets		<u>30,079</u>	<u>32,379</u>	<u>23,419</u>	<u>24,385</u>

Xtract Energy plc

Consolidated and Company balance sheets (continued) As at 30 June 2008

	Note	Group		Company	
		As at June 30 2008 £'000	As at June 30 2007 £'000	As at June 30 2008 £'000	As at June 30 2007 £'000
Equity					
Share capital	20, 21	752	704	752	704
Share premium account	21	24,394	23,800	24,394	23,800
Share based payments reserve	21	956	411	611	411
Available for sale reserve	21	(2,981)	547	(558)	547
Revaluation reserve	21	962	962	-	-
Exchange translation reserve	21	811	(18)	-	-
Retained earnings	21	5,276	6,064	(1,780)	(1,077)
Equity attributable to equity holders of the parent		30,170	32,470	23,419	24,385
Minority interest	21	(91)	(91)	-	-
Total equity		30,079	32,379	23,419	24,385

The financial statements were approved by the board of directors and authorised for release on 14 October 2008. They were signed on its behalf by Andy Morrison, Director



Xtract Energy plc

Consolidated and company cash flow statements Year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000	Group Period ended 30 June 2007 £'000	Year ended 30 June 2008 £'000	Company Period ended 30 June 2007 £'000
Net cash used in operating activities	22	(2,431)	(1,634)	(1,121)	(769)
Investing activities					
Interest received	4	207	99	193	99
Government grants	4	119	66	-	-
Purchase of property plant and equipment	12	(83)	(65)	(5)	(2)
Disposal of property plant and equipment		-	11	-	-
Acquisition of intangible assets		(78)	(282)	-	(69)
Disposal of trading investments		665	2,326	665	-
Purchase of trading investments	15	(433)	(406)	(423)	(406)
Disposal of available for sale investments	15	1,086	-	-	-
Purchase of available for sale investments	15	(424)	-	-	-
Disposal of associates	14	9,751	-	1,581	-
Acquisition of associates	14	(4,223)	(2,973)	(735)	-
Acquisition of subsidiaries, net of cash acquired		-	(149)	-	(2,796)
Net cash from/(used in) investing activities		6,587	(1,373)	1,276	(3,174)
Financing activities					
Interest paid		-	(80)	-	(128)
Proceeds on issue of shares – placing	20	-	5,500	-	5,500
Proceeds on issue of shares – warrants	20	642	1,004	642	1,004
Proceeds received on exercise of options in subsidiary		-	639	-	-
Short term loan repayments		-	(3,436)	-	(1,489)
Loans to subsidiaries		-	-	178	(956)
Loans from subsidiaries		-	-	4,293	-
Share issue expenses		-	(354)	-	(354)
Net cash from financing activities		642	3,273	5,113	3,577
Net increase/(decrease) in cash and cash equivalents		4,798	266	5,268	(366)
Cash and cash equivalents at beginning of year / period		1,582	1,321	952	1,318
Effect of foreign exchange rate changes		(18)	(5)	(19)	-
Cash and cash equivalents at end of year / period		6,362	1,582	6,201	952

Notes to the consolidated financial statements

Year ended 30 June 2008

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 operating and financial review.

The comparative information relates to the 18 month period ended 30 June 2007.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 2.

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 23). Four interpretations issued by the International Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these interpretations has not led to any changes in the Group's accounting policies.

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 8 *Operating Segments*
IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

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 2008.

2. Significant accounting policies

Basis of accounting and going concern

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, as adopted by 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, and consideration of a material uncertainty relating to the application of the going concern basis is detailed in note 26.

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 year is £703,253.

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

2. Significant accounting policies (continued)

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.

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.

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

2. Significant accounting policies (continued)

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.

Non-current Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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.

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

2. Significant accounting policies (continued)

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

Year ended 30 June 2008

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.

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

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

2. Significant accounting policies (continued)

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.

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.

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

2. Significant accounting policies (continued)

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 board of directors.

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.

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

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, as defined in IFRS 6, 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.

Tax Provisions

Assessing the outcome of uncertain tax provisions requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. The assessments made are based on the advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

Going Concern basis

Considerations relating to the application of the going concern basis for preparation of the financial statements are discussed in note 26

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

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.

4. Revenue and other gains and losses

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

	Group	
	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Continuing operations		
Investment revenue :		
- Interest on bank deposits	207	99
Total revenue	207	99
Continuing operations		
Other gains and losses		
- Gains on disposal of associate	2,920	-
- Gains on disposal of available for sale assets	568	-
- Other income	255	-
- Research and development grants a)	119	66
- Gains on disposal of derivative financial instruments	-	1,233
- Increase in the fair value of derivative financial instruments	233	5,091
- Gain/(loss) on dilution of interest in associates (refer to note 14)	1,245	(356)
Total other gains and losses from continuing operations	5,340	6,034
Discontinued operations		
Other gains and losses		
-Write down of intangible assets	(530)	-
-Gains on disposal of fixed assets	1	10
Total other gains and losses	4,811	6,044

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

Notes to the consolidated financial statements

Year ended 30 June 2008

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, the Netherlands and China. Assets held in Kyrgyzstan are classified as held for disposal, refer to Note 17.
- 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, Australia and an area in the South of New Zealand.
- Investment and other- carries out investments in various listed resource companies

Segment information about businesses is presented below.

Year ended 30 June 2008

	Oil & Gas exploration and production £'000	Oil shale exploration £'000	Investment and other £'000	Discontinued operations £'000	Consolidated £'000
Segment revenue	-	-	-	-	-
Administrative and operating expenses	(282)	(430)	(2,455)	282	(2,885)
Share of results of associates	(1,491)	-	(216)	-	(1,707)
Gains on disposal of fixed assets	1	-	-	(1)	-
Impairment loss	(530)	-	-	530	-
Segment Result	(2,302)	(430)	(2,671)	811	(4,592)
Investment revenue					207
Other gains and losses					5,340
Profit before tax and other gains and losses from discontinued operations					955
Tax					(932)
Loss for the period from discontinued operations					(811)
Loss after tax and discontinued operations					(788)

Discontinued operations relate entirely to oil and gas exploration and production.

Notes to the consolidated financial statements

Year ended 30 June 2008

5. Segment information (continued)

Other information

	Oil & Gas exploration and production	Oil shale exploration	Investment and other	Consolidated
Capital additions – intangible assets	78	-	-	78
Capital additions –property, plant and equipment	77	-	6	83
Depreciation and amortisation	25	10	1	36

Balance sheet

Assets

Intangible assets	-	10,429	65	10,494
Property, plant and equipment	-	23	5	28
Interests in associates	3,900	-	-	3,900
Financial assets	-	-	22,477	22,477
Assets held for sale	2,324	-	-	2,324
Other unallocated corporate assets	-	-	-	595

Consolidated total assets

39,818

Liabilities

Financial liabilities	-	-	439	439
Liabilities directly associated with assets classified as held for sale	69	-	-	69
Unallocated corporate liabilities	-	-	-	9,231

Consolidated total liabilities

9,739

Notes to the consolidated financial statements

Year ended 30 June 2008

5. Segment information (continued)

Business segments (continued)

Period ended 30 June 2007	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Investment and other £'000	Discontinued operations £'000	Consolidated £'000
Segment revenue	-	-	-	-	-
Administrative and Operating expenses	(335)	(395)	(1,394)	417	(1,707)
Share of results of associates	(362)	-	-	-	(362)
Gains on disposal of fixed assets	10	-	-	(10)	0
Segment Result	(687)	(395)	(1,394)	407	(2,069)
Investment revenue					99
Finance costs					(128)
Other gains and losses					6,034
Negative goodwill on acquisition of subsidiary					5,730
Profit before tax					9,666
Tax					(1,787)
Loss for the period from discontinued operations					(407)
Profit after tax					7,472

Discontinued operations relate entirely to oil and gas exploration and production.

Notes to the consolidated financial statements

Year ended 30 June 2008

5. Segment information (continued)

Business segments (continued)

Other information	Oil & Gas exploration and production £'000	Oil shale exploitation £'000	Investment and other £'000	Consolidated £'000
Capital additions – intangible assets	198	389	15	602
Capital additions – intangible assets acquired on acquisition of subsidiaries	2,098	8,820	-	10,918
Capital additions – property, plant and equipment	41	22	2	65
Capital additions – property, plant and equipment acquired on acquisition of subsidiaries	178	-	-	178
Depreciation and amortisation	6	5	-	11
Balance sheet				
Assets				
Intangible assets	2,288	9,313	-	11,601
Property, plant and equipment	200	29	2	231
Interests in associates	23,818	-	-	23,818
Financial assets	-	-	5,106	5,106
Other unallocated corporate assets	-	-	-	312
Consolidated total assets				41,068
Liabilities				
Financial liabilities	137	15	223	375
Unallocated corporate liabilities	-	-	-	8,314
Consolidated total liabilities				8,689

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

5. Segment information (continued)

Geographical segments (continued)

Year ended 30 June 2008

	Europe (including UK) £'000	Central Asia £'000	Australia £'000	Total of segments £'000
Segment revenue	-	-	-	-
Segment assets	11,339	2,324	26,155	39,945
Capital additions	6	155	-	161

Segment assets of the Groups discontinued operations of £2,324,000 relate to the Central Asia segment. Capital additions relating to discontinued operations of £155,000 also relate to the Central Asia segment.

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

Notes to the consolidated financial statements

Year ended 30 June 2008

6. Profit for the year / period

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

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Net foreign exchange (gains)/losses	(17)	39
Research and development costs	310	269
Depreciation of property, plant and equipment	37	11
Share based payments expense (see note 25)	200	152
Staff costs (see note 7)	666	230
Research and development grants (see note 4)	(119)	(66)
Gain on disposal of property, plant, and equipment	(1)	(10)

Auditors' remuneration

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
The analysis of auditors' remuneration is as follows:		
Fees payable to the Company's current auditor and their associates for the audit of the Group's annual accounts	80	80
Fees payable to the Company's current auditors and their associates for other services to the group:		
-the audit of the company's subsidiaries pursuant to legislation	102	-
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
Total audit fees	182	99
Fees payable to the Group's auditor and its associates for other services:		
- other services relating to taxation	2	2
- other assurance services relating to interim reviews	25	-
Fees payable to the Group's previous auditor and its associates for other services:		
-other assurance services relating to interim reviews	-	33
Total non-audit fees	27	35
	209	134

Notes to the consolidated financial statements

Year ended 30 June 2008

7. Staff costs

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

	Year ended 30 June 2008	Period ended 30 June 2007
	No.	No.
Corporate	25	4
	<hr/>	<hr/>
	£'000	£'000
Their aggregate remuneration comprised:		
Salaries and fees	666	230
	<hr/>	<hr/>

8. Finance costs

	Year ended 30 June 2008	Period ended 30 June 2007
	£'000	£'000
Interest on bank overdrafts and loans	-	80
Interest on convertible loan notes	-	48
	<hr/>	<hr/>
	-	128
	<hr/>	<hr/>

Notes to the consolidated financial statements

Year ended 30 June 2008

9. Tax

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Current tax	2,530	698
Deferred tax (note 18)	(1,598)	1,089
	932	1,787

Corporation tax is calculated at 28% (2007: 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 year/period can be reconciled to the profit per the income statement as follows:

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Profit / (loss) before tax:		
Continuing operations	955	9,666
Discontinued operations	(811)	(407)
	144	9,259
Tax at the UK corporation tax rate of 28% (2007: 30%)	41	2,778
Tax effect of permanent differences	35	39
Tax effect of unrecognised tax losses carried forward and other temporary differences	559	688
Overseas taxes on disposal	2,466	698
Double tax relief	(2,231)	(698)
Impact of differing tax rates in overseas jurisdictions	62	-
Tax effect of non-taxable negative goodwill	-	(1,718)
	932	1,787
Tax expense for the year / period		

Notes to the consolidated financial statements

Year ended 30 June 2008

10. Earnings per share

From continuing operations

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
Earnings for the purposes of basic and diluted earnings per share ("EPS") being net profit/(loss) for the year attributable to equity holders of the parent	23	6,284
	Number	Number
Weighted average number of ordinary shares for purposes of basic EPS	729,535,781	420,569,934
Effect of dilutive potential ordinary shares - options and warrants	22,078,162	67,143,088
Weighted average number of ordinary shares for purposes of diluted EPS	751,613,943	487,713,022

From continuing and discontinued operations

	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
(Loss)/earnings for the purposes of basic and diluted earnings per share ("EPS") being net (loss)/profit for the year attributable to equity holders of the parent	(788)	6,284
	Number	Number
Weighted average number of ordinary shares for purposes of basic EPS	729,535,781	420,569,934
Effect of dilutive potential ordinary shares - options and warrants	-	67,143,088
Weighted average number of ordinary shares for purposes of diluted EPS	729,535,781	487,713,022

As in the year 30 June 2008, where a loss has occurred, basic and diluted earnings per share are the same because the outstanding share options and warrants are anti-dilutive.

Notes to the consolidated financial statements

Year ended 30 June 2008

11. Intangible assets

Group	Total £'000
At 1 January 2006	81
Additions	602
Acquired on acquisition of subsidiaries	<u>10,918</u>
At 30 June 2007	11,601
Foreign currency translation	1,203
Written off during the period (a)	(530)
Transfer to held for sale (refer to note 17)	(1,858)
Additions	<u>78</u>
At 30 June 2008	<u>10,494</u>
Company	Total £'000
At 1 January 2006	17
Additions	<u>389</u>
At 30 June 2007	406
Additions	<u>-</u>
At 30 June 2008	<u>406</u>

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.

(a) Subsequent to year end, Zhibek Resources Limited ('Zhibek'), a subsidiary company of Xtract served notice of their desire to terminate the service agreement in regard to the Beshkent -Togap water injection project. The result of this action is to cease operations in regard to the project and therefore, all assets held in relation to this project have been written off, including previously capitalised exploration and development costs of £431,324 and exploration and evaluation assets recognised on acquisition of £98,817

Notes to the consolidated financial statements

Year ended 30 June 2008

12. Property, plant and equipment

Group	Plant and machinery £'000	Office and computer equipment £'000	Total £'000
Cost			
At 1 January 2006	-	-	-
Additions	48	17	65
Acquisition of subsidiary	178	-	178
Disposals	-	(1)	(1)
At 30 June 2007	226	16	242
Additions	67	16	83
Transferred to assets held for sale (refer to note 17)	(261)	-	(261)
Exchange differences	13	1	14
Disposals	(5)	(2)	(7)
At 30 June 2008	40	31	71
Accumulated depreciation and impairment			
At 1 January 2006	-	-	-
Charge for the period	6	5	11
At 30 June 2007	6	5	11
Charge for the year	20	17	37
Exchange differences	1	-	1
Disposals	(2)	(4)	(6)
At 30 June 2008	25	18	43
Carrying amount			
At 30 June 2008	15	13	28
At 30 June 2007	220	11	231

Notes to the consolidated financial statements

Year ended 30 June 2008

12. Property, plant and equipment (continued)

Company	Office and Computer Equipment £'000	Total £'000
Cost		
At 1 January 2006	-	-
Additions	2	2
At 30 June 2007	2	2
Additions	5	5
At 30 June 2008	7	7
Accumulated depreciation and impairment		
At 1 January 2006	-	-
Charge for the period	-	-
At 30 June 2007	-	-
Charge for the year	2	2
At 30 June 2008	2	2
Carrying amount		
At 30 June 2008	5	5
At 30 June 2007	2	2

13. Subsidiaries

Interests in subsidiaries	Company £'000
At 1 January 2006	85
Additions	19,016
At 30 June 2007	19,101
Additions	-
At 30 June 2008	19,101

Notes to the consolidated financial statements

Year ended 30 June 2008

13. Subsidiaries (continued)

Details of the Company's subsidiaries consolidated at 30 June 2008 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
Xtract International Ltd (formerly Cambrian Oil & Gas Plc)	UK	15/11/06	100	Holding Company
Zhibek Resources Limited ⁽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
Zhibek Oil and Gas Limited ⁽ⁱ⁾	Kyrgyz Republic	13/11/2007	100	Oil and Gas exploration
Xtract Energy Holdings Limited	UK	03/12/2007	100	Holding Company

i) Interest held through wholly owned subsidiary Xtract International Ltd, acquired on 15 November 2006.

ii) Interest held through wholly owned subsidiary Zhibek Resources Limited, acquired on 15 November 2006.

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

Notes to the consolidated financial statements

Year ended 30 June 2008

14. Interests in associates

Details of the Group's associates at 30 June 2008 are as follows:

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Opening balance	23,818	412	-	436
Acquired on acquisition of subsidiary	-	10,093	-	-
Revaluation on acquisition of minority interest	-	3,481	-	-
Investment in associates (a)	6,953	-	2,862	-
Exercise of options in associate	128	2,973	128	-
Transferred from available for sale investment (b)	818	7,628	818	-
Transferred to available for sale investment (c)	(21,021)	-	(2,151)	-
Transferred to investment in subsidiary	-	(407)	-	(436)
Disposal of investment in associate (d)	(6,847)	-	(1,667)	-
Profit on dilution of interests in associates (e)	1,245	-	10	-
Share of associates losses for the period	(1,707)	(362)	-	-
Share of associates' share based payments reserve	493	-	-	-
Exchange translation	20	-	-	-
	3,900	23,818	-	-

- a) Includes additional investments in the Group's Wasabi Energy Limited and Elko Energy Limited associates during the period. This is made up of shares purchased for cash of £4,223,407 and Wasabi Energy Limited shares received in return for Aviva Holdings Limited shares of £2,729,780
- b) Relates to value of Wasabi Energy Limited shares transferred from available for sale assets on becoming an associate in April 2008.
- c) Represents the carrying value of Wasabi Energy Limited transferred to available for sale investments on ceasing to be an associate in April 2008 and the transfer of MEO Australia Limited carrying value to available for sale investments on ceasing to be an associate in December 2007.
- d) Carrying value of MEO Australia Limited and Wasabi Energy Limited shares disposed during the year.
- e) Relates to gains made on MEO Australia Limited and Wasabi Energy Limited shares held during the year.

Name	Place of Incorporation and Operation	Date associate interest acquired	Date associate interest disposed	Proportion of ownership & voting power held %	Principal Activities
MEO Australia Limited ⁱ⁾	Australia	15/11/06	13/12/07	N/A	Oil & gas exploration
Elko Energy Limited	Canada	15/11/06	N/A	35.24	Oil & gas exploration
Wasabi Energy Limited ⁱ⁾	Australia	2/08/07	21/04/08	N/A	Energy and technology investments

- i) Transferred to available for sale investment during the period.

Notes to the consolidated financial statements

Year ended 30 June 2008

14. Interests in associates (continued)

Aggregated amounts relating to associates	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Total assets	10,186	39,175
Total liabilities	1,113	773
Revenues	2,938	378
Loss	(5,230)	(1,707)

15. Financial assets

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Available for sale investments				
Opening balance	3,206	-	3,206	-
Unwinding of fair value on transfer to investment in associate (a)	(547)	-	(547)	-
Movement in fair value prior to transfer to investment in associate (b)	26	-	26	-
Transferred to investments in associates (c)	(818)	-	(818)	-
Transferred from investments in associates (d)	21,021	-	1,934	-
Acquired during the period (e)	424	2,424	-	2,424
Disposed during the period (f)	(5,359)	-	(4,274)	-
Movement in fair value (b)	(1,991)	782	2,342	782
	15,962	3,206	1,869	3,206

- (a) Fair value adjustments for Wasabi Energy Limited unwound against available-for-sale reserve upon ceasing to be available-for-sale and becoming an associate.
- (b) Movement in fair value of Wasabi Energy Limited shares.
- (c) Wasabi Energy Limited shares transferred to investment in associate.
- (d) MEO Australia Limited shares and Wasabi Energy Limited shares transferred from investment in associate
- (e) MEO Australia Limited shares acquired in the period after the transfer from investment in associate.
- (f) Aviva Holdings Limited and MEO Australia Limited shares sold during the period.

Available for sale investments comprise the Group's investment in listed securities, which are held by the Group as strategic investments. The fair value of available for sale investments is based on the share price at 30 June 2008. Available for sale investments held are subject to currency and market risk, refer to note 23. In the period subsequent to year end, the share price of MEO Australia Limited has declined significantly, refer to note 27.

Notes to the consolidated financial statements

Year ended 30 June 2008

15. Financial assets (continued)

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Derivative financial instruments				
Opening balance	9	-	9	-
Purchased during the period (a)	135	406	-	406
Acquired on acquisition	-	3,639	-	-
Disposals	-	(1,093)	-	-
Fair value increase (b)	311	5,082	-	-
Transferred to investments in associates (c)	(128)	(7,628)	-	-
Transferred to held for trading on exercise of options	(304)	-	-	-
Transferred to investment in subsidiary on acquisition of subsidiary (e)	-	(406)	-	(406)
Other	-	9	-	9
	<u>23</u>	<u>9</u>	<u>9</u>	<u>9</u>

(a) Options in Elko Energy Limited and Wasabi Energy Limited purchased during the period

(b) Fair value increase in held for trading investments during the period. Fair value has been calculated using the Black-Scholes model.

(c) Fair value of share options transferred to investments in associates upon exercise of options.

(d) Fair value of share options transferred to held for trading upon exercise of options.

At 30 June 2008, Xtract held 480,000 warrants in Elko Energy Limited, with an expiry date of 20 December 2008 and a strike price of USD \$0.60 per share. The fair value of these warrants at 30 June 2008 is £14,538. Xtract also held 3,665,364 warrants in Wasabi Energy Limited, with an expiry date of 27 May 2009 and a strike price of AUD \$0.04 per share. The fair value of these warrants at 30 June 2008 is £8,740.

16. Other financial assets

Trade and other receivables

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 08 £'000	As at 30 June 2007 £'000
Other debtors	70	189	57	80
Prepayments	60	104	45	3
	<u>130</u>	<u>293</u>	<u>102</u>	<u>83</u>

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

Notes to the consolidated financial statements

Year ended 30 June 2008

16. Other financial assets (continued)

Cash and cash equivalents

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Cash held and on deposit	6,362	1,582	6,201	952

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.

17. Assets and liabilities held for sale and discontinued operations

At the balance sheet date certain parts of the Group's assets in the Kyrgyz Republic are expected to be sold within 12 months and therefore have been classified as a disposal group held for sale and presented separately in the balance sheet. The proceeds of the disposal are expected to exceed the book value of the related net assets and accordingly the assets and liabilities continue to be recognised at their carrying value. The major classes of assets and liabilities included as held for sale are as follows:

	As at 30 June 2008 £'000
Mining exploration rights	426
Exploration and evaluation assets	1,432
Property, plant and equipment	261
Cash and cash equivalents	16
Trade and other receivables	131
Inventories	58
Total assets classified as held for sale	<u>2,324</u>
Trade and other payables	<u>69</u>
Total liabilities classified as held for sale	<u>69</u>
Net assets of the disposal group	<u>2,255</u>

Notes to the consolidated financial statements

Year ended 30 June 2008

17. Assets and liabilities held for sale and discontinued operations (continued)

The results of the discontinued operations which have been included in the consolidated income statement, were as follows:

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Administrative and operating expenses	(282)	(417)
Gain on disposal of property, plant and equipment	1	10
Operating loss	(281)	(407)
Write down of intangible assets	(530)	-
Loss before tax	(811)	(407)
Attributable tax expense	-	-
Net loss attributable to discontinued operations	(811)	(407)

During the year, the operations to be sold used £344,000 of the Group's operating cash flow, and did not generate or receive any cash in respect of financing or investing activities.

The effect of discontinued operations on segment results is disclosed in note 5.

18. Deferred tax

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Deferred tax assets	595	312	-	-
Deferred tax liabilities	(5,595)	(7,616)	(83)	(235)
	<u>(5,000)</u>	<u>(7,304)</u>	<u>(83)</u>	<u>(235)</u>

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

Notes to the consolidated financial statements

Year ended 30 June 2008

18. Deferred tax (continued)

Group	Available-for-sale investments £'000	Investment in associates £'000	Intangible assets £'000	Investments in derivatives £'000	Total £'000
As at 30 June 2007	(235)	(3,224)	(2,646)	(1,199)	(7,304)
Charge to income	291	1,315	-	(11)	1,674
Charge to equity	1,218	(148)	(361)	-	630
Transfer	(3,853)	2,652	-	1,201	-
As at 30 June 2008	(2,579)	595	(3,007)	(9)	(5,000)

Company	Available-for-sale investments £'000	Investment in associates £'000	Intangible assets £'000	Investments in derivatives £'000	Total £'000
As at 30 June 2007	(235)	-	-	-	(235)
Charge to income	-	14	-	-	14
Charge to equity	138	-	-	-	138
Acquisition of subsidiary	-	-	-	-	-
As at 30 June 2008	(97)	14	-	-	(83)

At the balance sheet date, the Group has available unused tax losses of £5.8 million (2007: £3.8million) 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 may be recoverable if suitable taxable profits arise in future periods.

19. Other financial liabilities

Trade and other payables

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Trade creditors and accruals	439	325	353	74
Current tax payable (see note 9)	3,636	698	347	-
Amounts due to related parties (see note 27)	-	50	4,293	45
	<u>4,075</u>	<u>1,073</u>	<u>4,993</u>	<u>119</u>

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

Notes to the consolidated financial statements

Year ended 30 June 2008

20. Share capital

	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Company Authorised:		
1,000,000,000 (2007:1,000,000,000) 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	£
At 1 July 2007	704,226,476	704,226
Issue of shares due to warrants exercised at 3.33p per share	1,350,000	1,350
Issue of shares due to warrants exercised at 1p per share	15,000,000	15,000
Issue of shares due to warrants exercised at 1p per share	7,400,000	7,400
Issue of shares due to warrants exercised at 2p per share	6,500,000	6,500
Issue of shares due to warrants exercised at 1p per share	3,088,550	3,089
Issue of shares due to warrants exercised at 2p per share	7,000,000	7,000
Issue of shares due to warrants exercised at 1p per share	7,200,000	7,200
At 30 June 2008	751,765,026	751,765

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 £641,886 during the period. After exercises and further grants during the period, the following warrants remain outstanding at 30 June 2008:

Issued 29 March 2005 – 36,500,000 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 1 January 2008 – 1,200,000 exercisable at 6p per share

Issued 1 Feb 2008 to 1 March 2008 – 200,000 exercisable at 10p per share

Issued 9 July 2007 – 4,500,000 exercisable at 8p per share

Issued 9 July 2007 – 1,000,000 exercisable at 10p per share

Issued 9 July 2007 – 1,000,000 exercisable at 12p per share

Issued 15 January 2008 – 250,000 exercisable at 8p per share

Issued 15 January 2008 – 250,000 exercisable at 10p per share

Issued 15 January 2008 – 250,000 exercisable at 12p per share

Issued 21 January 2008 – 500,000 exercisable at 8p per share

All of the above warrants entitle the holder to one fully paid share in the Company upon payment of the warrant exercise price per share. All warrants vest either immediately or within 3 years of issue and expire within 3 years of vesting.

Notes to the consolidated financial statements

Year ended 30 June 2008

21. Reconciliation of Changes in Equity

Group	Share Capital	Share premium account	Share based payments reserve	Available-for-sale investments reserve	Revaluation reserve	Foreign currency translation reserve	Retained Earnings	Minority Interest	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2006	199	1,756	33	-	-	-	(220)	-	1,768
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
At 30 June 2007	704	23,800	411	547	962	(18)	6,064	(91)	32,379

Group	Share Capital	Share premium account	Share based payments reserve	Available-for-sale investments reserve	Revaluation reserve	Foreign currency translation reserve	Retained Earnings	Minority Interest	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2007	704	23,800	411	547	962	(18)	6,064	(91)	32,379
Issue of shares	48	594	-	-	-	-	-	-	642
Share based payments expense	-	-	200	-	-	-	-	-	200
Movement in share based payments reserves of associates	-	-	493	-	-	-	-	-	493
Tax effect of movement in share based payments reserves of associates	-	-	(148)	-	-	-	-	-	(148)
Loss on revaluation of available-for-sale investments	-	-	-	(1,963)	-	-	-	-	(1,963)
Unwinding of fair value on transfer to investment in associate	-	-	-	(547)	-	-	-	-	(547)
Tax effect of unwind of fair value on transfer to investment in associate	-	-	-	164	-	-	-	-	164
Deferred tax on revaluation of available-for-sale investments	-	-	-	376	-	-	-	-	376
Transfer of available-for-sale revaluations to income statement on disposal	-	-	-	(2,236)	-	-	-	-	(2,236)
Transfer of deferred tax on revaluation of available-for-sale assets on disposal	-	-	-	678	-	-	-	-	678
Currency translation differences	-	-	-	-	-	1,190	-	-	1,190
Tax effect of currency translation differences	-	-	-	-	-	(361)	-	-	(361)
Profit for the period	-	-	-	-	-	-	(788)	-	(788)
At 30 June 2008	752	24,394	956	(2,981)	962	811	5,276	(91)	30,079

Notes to the consolidated financial statements

Year ended 30 June 2008

21. Reconciliation of Changes in Equity (continued)

Company	Share capital	Share premium account	Share based payments reserve	Available for sale reserve	Retained earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2006	199	1,756	33	-	(170)	1,818
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)
Loss for the period	-	-	-	-	(907)	(907)
At 30 June 2007	704	23,800	411	547	(1,077)	24,385
Issue of shares	48	594	-	-	-	642
Share based payments expense	-	-	200	-	-	200
Unwind of fair value on transfer to investment in associate	-	-	-	(547)	-	(547)
Tax effect of unwind of fair value on transfer to investment in associate	-	-	-	164	-	164
Gain on revaluation of available for sale investments	-	-	-	1,973	-	1,973
Deferred tax on revaluation of available for sale investments	-	-	-	(827)	-	(827)
Transfer of available-for-sale revaluations to income statement on disposal	-	-	-	(2,669)	-	(2,669)
Transfer of deferred tax on revaluation of available-for-sale assets on disposal	-	-	-	801	-	801
Exchange differences on translation	-	-	-	-	-	-
Loss for the period	-	-	-	-	(703)	(703)
At 30 June 2008	752	24,394	611	(558)	(1,780)	23,419

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

21. Reconciliation of Changes in Equity (continued)

Share based payments reserve

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

Revaluation Reserve

The revaluation reserve is made up of the revaluation of the assets of Xtract Oil Limited upon the piecemeal acquisition of that company.

22. Notes to the cash flow statement

	Group		Company	
	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000	Year ended 30 June 2008 £'000	Period ended 30 June 2007 £'000
(Loss)/profit for the year/period	(788)	7,472	(703)	(907)
Adjustments for:				
Share of results of associates	1,707	362	-	-
Investment revenue	(207)	(99)	(193)	(77)
Other gains and losses	(4,617)	(5,968)	(984)	(9)
Income tax expense	932	1,787	274	-
Government grants	(119)	(66)	-	-
Depreciation of property, plant and equipment	38	11	2	-
Negative goodwill released to income	-	(5,730)	-	-
Share-based payments expense	200	152	200	152
Due diligence fee income	(74)	-	-	-
Gain on disposal of property, plant and equipment	(1)	(10)	-	-
Operating cash flows before movements in working capital	(2,929)	(2,089)	(1,404)	(841)
Increase in inventories	(42)	(2)	-	-
Decrease/(increase) in receivables	31	175	(19)	(62)
Increase in payables	134	172	234	15
Cash used in operations	(2,806)	(1,744)	(1,189)	(888)
Income taxes paid	-	-	-	-
Interest paid	-	128	-	119
Foreign exchange differences	375	(18)	68	-
Net cash used in operating activities	(2,431)	(1,634)	(1,121)	(769)

Notes to the consolidated financial statements

Year ended 30 June 2008

23. Financial instruments

Capital and liquidity risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group is not subject to externally imposed capital requirements. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 20 and 21.

The Group manages its liquidity through orderly and planned realisation of existing investments in order to fund investment in new opportunities and provide working capital for operating costs and overheads.

The Group currently has no debt and as such does not review its gearing ratio at present.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instruments

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

	Book value		Fair value	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	6,362	1,582	6,362	1,582
Available for sale assets	15,962	3,206	15,962	3,206
Derivative financial instruments	23	9	23	9
Trade and other receivables	130	293	130	293
Assets held for sale	2,324	-	2,324	-
	<u>24,801</u>	<u>5,090</u>	<u>24,801</u>	<u>5,090</u>
Financial liabilities				
Trade and other payables	439	375	439	375
Liabilities directly associated with assets held for sale	69	-	69	-
	<u>508</u>	<u>375</u>	<u>508</u>	<u>375</u>

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

Notes to the consolidated financial statements

Year ended 30 June 2008

23. Financial instruments (continued)

	Book value		Fair value	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Financial assets				
Cash and cash equivalents	6,201	952	6,201	952
Available for sale assets	1,869	3,206	1,869	3,206
Loans to subsidiaries	802	980	802	980
Derivative financial instruments	9	9	9	9
Trade and other receivables	102	83	102	83
	<u>8,983</u>	<u>5,230</u>	<u>8,983</u>	<u>5,230</u>
Financial liabilities				
Trade and other payables	353	119	353	119
Loans from subsidiaries	4,293	-	4,293	-
	<u>4,646</u>	<u>119</u>	<u>4,646</u>	<u>119</u>

Market Risk

The Group's activities subject it primarily to the financial risks of changes in the market prices of equities and changes in foreign currency exchange rates. The Group applies a continuous review process to manage its exposure to foreign currency and equity price risk:

- Equity prices of the Group's holdings are monitored by senior management on a daily basis.
- The Board has established strategies for each of the respective holdings based on their expectations of likely movements in equity prices and the desired balance of the Group's investment portfolio.
- These strategies are updated on a regular basis to reflect actual market data and the changing needs of the business.
- The respective exchange rates of the currencies for which the Group holds significant balances are monitored on a daily basis.
- Known cash requirements in the respective currencies in which the Group transacts are matched against cash reserves and any short falls are addressed through transfers throughout the longest practical timeframes in order to minimise as best as possible foreign currency risk.

Foreign currency sensitivity analysis

The group is mainly exposed to the US dollar and Australian dollar.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the US dollar and Australian dollar. 10% represents management's assessment of a reasonably possible change in the foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in the foreign currency rates. A positive number below indicates an increase in the profit and other equity where the sterling strengthens against the relevant currency. For a 10% weakening there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Australian Dollar impact	US Dollar impact
	2008	2008
	£'000	£'000
Profit or loss	539	105

Notes to the consolidated financial statements

Year ended 30 June 2008

23. Financial instruments (continued)

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The chosen sensitivity is a 50% increase/decrease in equity prices, based on management's assessment of the underlying assets in the portfolio and the current market conditions

If equity prices had been 50% higher/lower at the period end:

Other equity reserves would increase/decrease by £8,053,239 (2007: £1,611,988) for the Group before taxation effects, as a result of the changes in fair value of available for sale investments

Interest Rate Risk.

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

As at 30 June 2008	Less than one year £'000	Total £'000
<i>Floating rate</i>		
Cash and cash equivalents	6,362	6,362

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

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

As at 30 June 2008	Less than one year £'000	Total £'000
<i>Floating rate</i>		
Cash and cash equivalents	6,201	6,201

As at 30 June 2007	Less than one year £'000	Total £'000
<i>Floating rate</i>		
Cash and cash equivalents	952	952

Notes to the consolidated financial statements

Year ended 30 June 2008

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 leases, which fall due as follows:

	Group		Company	
	As at 30 June 2008 £'000	As at 30 June 2007 £'000	As at 30 June 2008 £'000	As at 30 June 2007 £'000
Operating lease rentals				
Within one year	47	41	47	41
Within the second to fifth years inclusive	28	82	28	82
	<u>75</u>	<u>123</u>	<u>75</u>	<u>123</u>
Capital expenditures				
Within one year	503	454	206	181
Within the second to fifth years inclusive	129	419	129	362
	<u>632</u>	<u>873</u>	<u>335</u>	<u>543</u>

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.

Notes to the consolidated financial statements

Year ended 30 June 2008

25. Share based payments

The Company has issued share warrants to certain employees and officers of the Group, along with external third parties. All warrants vest immediately, with the exception of one external contractor, refer below. If the warrants remain unexercised after the relevant time period from the date of grant the warrants expire. Details of the share warrants outstanding during the period are as follows.

	Year ended 30 June 2008		Period ended 30 June 2007	
	Number of share warrants	Weighted average exercise price £	Number of share warrants	Weighted average exercise price £
Outstanding at beginning of period	15,713,475	0.048	3,000,000	0.15
Granted during the period	8,650,000	0.088	12,713,475	0.055
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	<u>24,363,475</u>	0.062	<u>15,713,475</u>	0.048
Exercisable at the end of the period	<u>24,363,475</u>		<u>15,713,475</u>	

No share warrants were exercised during the period. The warrants outstanding at 30 June 2008 had a weighted average exercise price of £0.062, and a weighted average remaining contractual life of 1.68 years. Refer below for details of options issued in the year ended 30 June 2008. All share-based payments to Director's and employees are recognised as an expense in the income statement over the vesting period of the options.

Equity-settled Directors' and employee share warrants

The company granted 5,500,000 share options to directors on 9 July 2007, with an aggregated estimated fair values of £154,703 and weighted average contractual life of 2.57 years. Of these options, 3,500,000 vested on 9 July 2007, with 1,000,000 vesting on 8 July 2008 and 1,000,000 vesting on 8 July 2009. The weighted average exercise price of these options was £0.091. All share-based payments to Director's and employees are recognised as an expense in the income statement over the vesting period of the options.

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

Weighted average share price GBP	6.75p
Weighted average exercise price GBP	9.1p
Expected volatility	76.88%
Expected life in years	3-5 years
Risk-free rate	6.08%
Expected dividend yields	0%

The company issued a further 750,000 share options to directors on 15 January 2008, with an aggregated estimated fair values of £13,096 and weighted average contractual life of 3.55 years. Of these options, 250,000 vested on 15 January 2008, with 250,000 vesting on 15 January 2009 and 250,000 vesting on 15 January 2010. The weighted average exercise price of these options was £0.010. All share-based payments to Director's and employees are recognised as an expense in the income statement over the vesting period of the options.

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

Notes to the consolidated financial statements

Year ended 30 June 2008

25. Share based payments (continued)

Weighted average share price GBP	5.5p
Weighted average exercise price GBP	8.0p
Expected volatility	65.55%
Expected life in years	3-5 years
Risk-free rate	5.86%
Expected dividend yields	0%

Equity-settled payments to Employees of Cambrian Mining

The company granted 1,000,000 share warrants to employees of Cambrian Mining on 9 July 2007.

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

Weighted average share price GBP	6.8p
Weighted average exercise price GBP	8.0p
Expected volatility	76.88%
Expected life in years	3 years
Risk-free rate	6.08%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0.007p per share. Total fair value of £29,815 is recognised in the income statement.

Equity-settled payments to RAM Partners SA

The company granted share warrants to RAM Partners SA on the basis of 100,000 share options per month for the period January 2007 to March 2008.

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 £0.02 per share. Total fair value of £28,524 is recognised in income statement.

The warrants were issued to RAMPartners 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.

Notes to the consolidated financial statements

Year ended 30 June 2008

25. Share based payments (continued)

Equity-settled payments to Other Contractors

The company granted 150,000 share warrants to Craig Hasson for contract services provided.

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

Weighted average share price GBP	3.1p
Weighted average exercise price GBP	8.0p
Expected volatility	71.9%
Expected life in years	3 years
Risk-free rate	5.5%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0.0025 per share. Total fair value of £1,001 will be recognised in income statement over the vesting period of the options.

Equity-settled payments to Directors of Subsidiary Companies

The company granted 175,000 share warrants each to Oil and Gas Worx Limited and Ian Ennis and Company Limited for contract services provided

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

Weighted average share price GBP	3.1p
Weighted average exercise price GBP	8.0p
Expected volatility	71.9%
Expected life in years	3 years
Risk-free rate	5.5%
Expected dividend yields	0%

These inputs resulted in a Market Option Value of £0.0025 per share. Total fair value of £2,336 will be recognised in income statement over the vesting period of the options.

The warrants were issued to Oil and Gas Worx Limited and Ian Ennis and Company Limited in relation to services provided for the Groups' operations in the Kyrgyz Republic

The Group recognised total expenses of £199,799 and £152,241 related to equity-settled share-based payment transactions in 2008 and 2007 respectively.

The amount recognised in equity relating to share-based payments at the balance sheet date was £1,134,749 (2007:£410,660).

Notes to the consolidated financial statements

Year ended 30 June 2008

26. Going Concern

Historically, the Group's portfolio of listed investments has provided a relatively liquid source of funding when required.

At 30 June 2008, the Group's available for sale investment portfolio, which consists of investments in MEO Australia Ltd of 59,147,814 shares at AUD 0.495 and in Wasabi Energy Ltd, of 153,176,786 shares at AUD 0.026, which had a total market value of £15,962,000. At 30 September 2008, the MEO share price had fallen to AUD 0.21 and Wasabi to AUD 0.021 caused by prevailing conditions across equity markets. This has, resulted in a decrease to the market value of the portfolio to £7,060,539.

At prevailing share prices, the majority of the available for sale portfolio would need to be realised in order to meet committed investments and budgeted operating costs and overheads. Consequently, there is a material uncertainty in that a further decrease in the market value of the investment portfolio would cast a significant doubt as to the Group's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business.

Having taken into account this material uncertainty, the Directors have a reasonable expectation that the group will be able to continue as a going concern and therefore the financial statements have been prepared on this basis.

27. 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*.

	2008	2007
	£	£
Short-term employee benefits (a)	331	150
Share-based payment	168	142
	<u>499</u>	<u>292</u>

(a) Payments to Abacus London Limited of £1,400 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.

Notes to the consolidated financial statements

Year ended 30 June 2008

27. Related party transactions (continued)

Other related party transactions

During the year the Group entered into transactions with other related parties.

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 2008 totaled £70,815 (2007: £49,786)

During the period Xtract was charged for management services by Cambrian Mining plc totaling £159,989 (2007: £48,000)

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. Subsequently Xtract sold 132 million of its Wasabi shares. Following these transactions, Xtract held 153,176,789 shares in Wasabi representing 19.0% of the issued capital in Wasabi as at balance date.

Transactions with associate company Elko Energy Limited

During the period, Xtract, via its wholly owned subsidiary Xtract International Ltd participated in share capital raisings and thereby increased its investment in Elko. Following these transactions, Xtract International Limited held 33,800,000 shares in Elko, representing 35.1% of the issued capital in Elko as at the balance date. As part of the capital raising by Elko, Xtract Energy received a due diligence fee for services provided as part of the capital raising of £74,482 and a fee relating to brokerage services of £181,443.

28. Events after the balance sheet date

Investment with Merty Energy

On 16 July 2008 Xtract entered into an agreement to establish a joint venture operation with Merty Energy, Petroleum Exploration, Education and Services ('Merty'), Inc, a Turkish company. At this time Xtract provided funding of USD \$1.5 million as part of the deal. On 1 August 2008, Xtract signed a definitive agreement with Merty to establish a new company in which Xtract would initially take a 20% holding, with the opportunity to increase this before 30 June 2009. On this date Xtract contributed a further USD \$2 million, along with another USD \$1.5 million on 1 October 2008. The new company, Extrem Energy A.S. will be involved in Oil and Gas exploration and drilling both onshore and offshore in Turkey, on licenses previously granted to Merty, which are being provided to the new company as part of the deal.

Beshkent- Togap Project

Subsequent to year end, Zhibek Resources Limited ('Zhibek'), a subsidiary company of Xtract served notice of their intent to terminate the service agreement in regard to the Beshkent -Togap water injection project. The result of this action is to cease operations in regard to the project and therefore, all assets held in relation to this project have been written off, refer to note 17 for further details.

Morocco Oil Shale

On the 23 July 2008, Xtract established a joint venture company with Alraed Limited Investment Holding Company WLL, to evaluate and develop oil shale projects in Morocco. Xtract has a 70% ownership stake in the joint venture. The joint venture company, Xtract Energy (Oil Shale) Morocco SA, signed on 29 July 2008 a Memorandum of Understanding with the Office National des Hydrocarbures et des Nines in Morocco for the purposes of evaluation and possible development of an oil shale deposit near Tarfaya, in south west Morocco.

Notes to the consolidated financial statements

Year ended 30 June 2008

28. Events after the balance sheet date (continued)

Decline in share price of MEO Australia Limited.

In the period subsequent to year end the share price of available for sale investment MEO Australia has declined from AUD \$0.495 at 30 June 2008 to AUD \$0.16 at 13 October 2008. This has an impact of reducing the value of that investment and available for sale reserve of £10,615,887 at prevailing exchange rates. Management do not see this as a permanent decrease in the value of this investment, therefore there is no impact to the income statement of this movement.

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 30 June 2008.

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 4) and the Finance Review (page 12). The directors are pleased with the progress to date.

Risks and Uncertainties are discussed on pages [17] of this Director's Report.

Results and Dividends

The net profit from continuing operations for the Group for the year ended 30 June 2008 amounts to £23,000 (profit from continuing operations for 18 months ended 30 June 2007: £7,879,000)

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:

<i>Shareholder</i>	<i>Number of shares</i>	<i>% of Issued capital</i>
Cambrian Investment Holdings Limited	376,756,048	50.12
RAB Special Situations	33,450,000	4.45
Lehman Brothers International (Europe)	29,450,000	3.92

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 20. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company.

There are no specific restrictions on the size of holding nor the transfer of shares, which are both governed by the general provisions of the Articles of association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the share holders. The powers of directors are described in the Articles of Association, and the Corporate Governance Statement on page 19

Under its articles of association, the company has the authority to issue 1,000,000,000 ordinary shares

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, Andy Morrison on 9 July 2007, and Mark Nichols on 15 January 08.

Andy Morrison, aged 47, 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 61, Executive Chairman

John 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 68, 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 Rum Jungle Uranium Ltd and Greenearth Energy Ltd and Chairman of Lakes Oil N.L. and Minotaur Exploration Ltd, which are quoted on the Australian Stock Exchange.

Susan Wickerson, aged 60, 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 20 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.

John Conlon, aged 68, Non Executive Director

Mr John 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.

Mark Nichols, aged 51, Non Executive Director (Remuneration and Audit Committee Member)

Mark James Nichols is a qualified accountant who has over 20 years' experience in the energy and chemicals sectors, with the major French oil company Total S.A. and with BOC Group Plc respectively. His most recent executive position was as Director of Strategy for Laing O'Rourke, the privately-owned construction firm. In addition to his role at Xtract Energy, Mark acts as a business consultant to a number of enterprises.

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, Susan Wickerson and Mark Nichols. 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 12 month period ended 30 June 2008 was [£332,361] (18 month period ended 30 June 2007: 149,552). The remuneration consists of directors fees of £247,736, bonuses of £75,000 paid to CEO Andy Morrison, and £9,625 of pension contributions for Andy Morrison.

With effect from 1 July 2008 (or in respect of John Newton, 10 March 2006, Andy Morrison 9 July 2007, and Mark Nichols 15 January 2008), the following remuneration was agreed with the directors:

<i>Director</i>	<i>Annual Salary from 1 July 2008</i>	<i>Annual salary to 30 June 2008</i>
Robert Annells	£18,000	£4,000
Andy Morrison	£157,500	£150,000
Sue Wickerson	£18,000	£4,000
John Newton	£84,000	£60,000
John Conlon	£18,000	£4,000
Mark Nichols (appointed 15 January 2008)	£18,000	£9,000

As at the date of this Director's Report, there has been no change in the fees set out above.

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) 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;
- (b) 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;
- (c) 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.

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

Directors' contracts are continuous unless terminated (or run for an initial 12 months in respect of John Newton from 10 March 2006, John Conlon from 4 January 2007, and Andy Morrison from 9 July 2007) and continue until terminated by either party upon 1 months notice (6 months notice for John Newton, and 12 months notice for Andy Morrison). 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 2008 have the following interests in the Company:

	30 June 2007		30 June 2008	
	Ordinary Shares	Warrants	Ordinary Shares	Warrants/Options
Andy Morrison* (appointed 9 July 2007)	-	-	-	3,000,000
Robert Annells	-	2,500,000	-	3,000,000
John Conlon	-	-	-	1,000,000
Sue Wickerson	-	1,750,000	-	2,250,000
John Newton**	-	1,750,000	-	2,250,000
Mark Nichols (appointed 15 January 2008)	-	-	170,000	750,000

*As at 30 June 2008 Andy Morrison's Self Invested Personal Pension fund held 1,000,000 ordinary shares. On 24 July 2008, Andy Morrison purchased a further 500,000 ordinary shares bringing the total number of ordinary shares held by his Self Invested Personal Pension fund to 1,500,000 ordinary shares (representing 0.20 per cent. of the Company's issued ordinary share capital).

**John Newton was appointed as a director on 10 March 2006. John Newton is a trustee and beneficiary of Drawone Superannuation Fund which holds 18,000,000 ordinary shares (representing 2.39 per cent. of the Company's issued ordinary share capital). 9,000,000 shares were acquired during the period as a result of the exercise of 9,000,000 warrants. These were separate to the 1,750,000 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 20 of the Accounts on page [42].

At 30 June 2008, John Conlon held 1,000,000 options and 911,000 shares in Cambrian Mining Plc (the Company's holding company as at 30 June 2008). Andy Morrison acquired 8,000 shares in Cambrian Mining Plc during the period, the shares are held in his Self Invested Personal Pension fund. 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. 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 exercisable as follows:

- (a) 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);
- (b) 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
- (c) 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).

On 15 Jan 2008, Mark Nichols was issued with 750,000 options exercisable as follows:

- (d) 250,000 Options shall be exercisable for a period of 3 years commencing on 15 January 2008 at an exercise price of 8p per Share (subject to price adjustment as a result of alterations in the share capital of the Company);
- (e) 250,000 Options shall be exercisable for a period of 3 years commencing on the first anniversary of 15 January 2009 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
- (f) 250,000 Options shall be exercisable for a period of 3 years commencing on the second anniversary of 15 January 2010 at an exercise price of 12p per share (subject to price adjustment as a result of alterations in the share capital of 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, US 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.

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 cannot 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 see the annual general meeting as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

Going Concern

As discussed in note 26 of the financial statements, at prevailing share prices, the majority of the available for sale portfolio would need to be realised in order to meet committed investments and budgeted operating costs and overheads. Consequently, if there was to be further sustained decrease in the market value of the investment portfolio this would cast a significant doubt as to the Group's ability to realise its assets and discharge its liabilities in the normal course of business.

Having taken into account this materiality uncertainty, the Directors have a reasonable expectation that the group will be able to continue as a going concern and therefore the financial statements have been prepared on this basis.

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 of those terms and abide by them. The number of days' purchases outstanding for payment by the Group at the year end was 30.

Political and Charitable Donations

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

General Meeting

The Company will hold a general meeting by the end of November 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: 14 October 2008

A handwritten signature in black ink, appearing to read 'A Morrison', with a horizontal line underneath the name.

Andrew 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 six members, two executive directors and four 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 a Remuneration Committee, Audit Committee and Nominations Committee. The Remuneration Committee is made up of Robert Annells, Susan Wickerson, and Mark Nichols 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, Susan Wickerson, and Mark Nichols 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 year ended 30 June 2008 which comprise the Group Income Statement, the Group and Parent Company Statements of Recognised Income and Expense, The Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 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 whether the financial statements have been 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 Operating and Financial 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 as described in the contents section 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 group 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 affairs as at 30 June 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 June 2008;
- 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.

Emphasis of matter – Going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 26 of the financial statements which indicate the existence of a material uncertainty relating to the Group's ability to realise sufficient value from its listed investment portfolio under prevailing market conditions, which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not quantify the adjustments that would result if the company was unable to continue as a going concern as it not practicable to do so.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

14 October 2008