Colag UK Limited

Report and Financial Statements

Year Ended

30 June 2009

Company Number 04511114

BDO

Colag UK Limited

Report and financial statements
for the year ended 30 June 2009

Contents

Country of incorporation

England and Wales

Legal form

Private company limited by shares

Directors

P D Moore
M G Allen

Secretary and registered office

M G Allen, 3rd Floor, 20 Abchurch Lane, London, EC4N 7BB

Company number

04511114

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Colag UK Limited

Report of the directors
for the year ended 30 June 2009

The directors present the report and audited financial statements of the Company for the year ended 30 June 2009

Principal activity

Colag UK Limited is an oil and gas business focused on an area offshore from the Philippines The principal activity of the Company during the year comprised investment in oil and gas exploration The strategy of the Company is to build a significant portfolio of assets through the discovery and exploitation of oil and gas reserves

On 14 December 2007, Granby Oil and Gas plc, owner of 100% of the Company's issued share capital, sold all its shares in the Company to NorAsian Energy Limited, a wholly-owned subsidiary of Otto Energy Limited, a company listed on the Australian Stock Exchange By the effective date of sale, all amounts owing from other group companies had been recovered, and all amounts owing to other group companies had been repaid, aside from the loan from Granby Oil and Gas plc of £4 342 Million As an integral part of the transaction and for a cash consideration of US$8 937 Million, Granby Oil and Gas plc assigned the full value of this loan to NorAsian Energy Limited, the purchaser

The Company owns an indirect interest of 9 14% in the Galoc Block SC14 Service Contract through its holding of an equity interest of 15 69% in Galoc Production Company (GPC) the operator of the block, which is located offshore North West Palawan in the Republic of the Philippines The Galoc project remains on track to produce oil in early 2009 In March 2006 the plan of development for the Galoc Oil Field was approved by the Philippines Department of Energy In March 2007 the Company successfully closed the project financing for the development of the project

The principal risks facing the Company are its ability for it to fund its exploration and development activity and the risk that the Company's portfolio of oil and gas reserves do not contain the expected level of commercially producible hydrocarbons

Results and dividends

The Company results for the year are shown in the income statement on page 6 No dividends were paid or are proposed for the year (2008 – Nil)

Going concern

Otto Energy Limited, the parent company, has confirmed its intention to provide operational and financial support to Colag UK Limited and to fund the operations of the company for the foreseeable future and in any event for a period of at least twelve months following the date of the signing of these financial statements

For this reason the directors believe it remains appropriate to continue to prepare the financial statements on a going concern basis

Post balance sheet events

In July 2009, GPC has increased its working interest in the Galoc Field (SC 14C) through an agreement to purchase the combined interests of PetroEnergy Resources Corporation and Alcorn Gold Resources Corporation The acquisition increases GPC's working interest in the Galoc oilfield from 58 29% to 59 84% which then translates Colag UK Limited's indirect interest in the Galoc field from 9 14% to 9 389%

Colag UK Limited

Report of the directors
for the year ended 30 June 2009 *(Continued)*

Directors

Directors who served during the year and up to the date of signing the financial statements were as follows

Alexander Bevan Parks	(resigned 31 July 2009)
Paul Derek Moore	(appointed 31 July 2009)
Jacob Jan Kornelis Poll	(appointed 14 December 2007, resigned 22 September 2010)
Matthew Gerard Allen	(appointed 22 July 2010)

Directors' indemnities

The ultimate parent company Otto Energy Limited maintains liability insurance for its directors and officers during the year and also as at the date of the directors report This group cover extends to and includes the directors and officers of the Company

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next annual general meeting

By order of the Board

Matthew Gerard Allen
Director

Date 25 october 2010

Directors' responsibilities

The directors are responsible for preparing the directors' 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 as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- they have been prepared in accordance with IFRSs as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COLAG UK LIMITED

We have audıted the fınancıal statements of Colag UK Lımıted for the year ended 30 June 2009 whıch comprıse the ıncome statement, the statement of changes ın equıty, the balance sheet, the cash flow statement and the related notes The fınancıal reportıng framework that has been applıed ın theır preparatıon ıs applıcable law and Internatıonal Fınancıal Reportıng Standards as adopted by the EU ("IFRS")

Thıs report ıs made solely to the company's members, as a body, ın accordance wıth sectıons 495 and 496 of the Companıes Act 2006 Our audıt work has been undertaken so that we mıght state to the company's members those matters we are requıred to state to them ın an audıtor's report and for no other purpose To the fullest extent permıtted by law, we do not accept or assume responsıbılıty to anyone other than the company and the company's members as a body, for our audıt work, for thıs report, or for the opınıons we have formed

Respectıve responsıbılıtıes of dırectors and audıtors

As explaıned more fully ın the statement of dırectors' responsıbılıtıes, the dırectors are responsıble for the preparatıon of the fınancıal statements and for beıng satısfied that they gıve a true and faır vıew Our responsıbılıty ıs to audıt the fınancıal statements ın accordance wıth applıcable law and Internatıonal Standards on Audıtıng (UK and Ireland) Those standards requıre us to comply wıth the Audıtıng Practıces Board's (APB's) Ethıcal Standards for Audıtors

Scope of the audıt of the fınancıal statements

An audıt ınvolves obtaınıng evıdence about the amounts and dısclosures ın the fınancıal statements suffıcıent to gıve reasonable assurance that the fınancıal statements are free from materıal mısstatement, whether caused by fraud or error Thıs ıncludes an assessment of whether the accountıng polıcıes are approprıate to the company's cırcumstances and have been consıstently applıed and adequately dısclosed, the reasonableness of sıgnıfıcant accountıng estımates made by the dırectors, and the overall presentatıon of the fınancıal statements

Opınıon on fınancıal statements

In our opınıon the fınancıal statements

- gıve a true and faır vıew of the state of the company's affaırs as at 30 June 2009 and of ıts profıt for the year then ended,
- have been properly prepared ın accordance wıth IFRS's as adopted by the European Unıon, and
- have been prepared ın accordance wıth the requırements of the Companıes Act 2006

Opınıon on other matters prescrıbed by the Companıes Act 2006

In our opınıon the ınformatıon gıven ın the dırectors' report for the fınancıal year for whıch the fınancıal statements are prepared ıs consıstent wıth the fınancıal statements

Colag UK Limited

Report of the independent auditors *(Continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

BDO LLP

Anne Sayers, (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

Date 25 October 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Colag UK Limited

Income statement
for the year ended 30 June 2009

	Note	Year ended 30 June 2009 $'000	Period ended 30 June 2008 $'000
Administrative expenses		146	393
Loss from operations	3	(146)	(393)
Finance expense		-	-
Finance income	5	697	713
Profit before tax		551	320
Tax expense	6	(187)	(80)
Profit for the year		364	240

The notes on pages 10 to 23 form part of these financial statements

Colag UK Limited

Statement of changes in equity
for the year ended 30 June 2009

	Share capital $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2007	1	424	**425**
Profit for the year	-	240	240
Total recognised income and expense for the year	-	**240**	**240**
Balance at 30 June 2008 and 1 July 2008	1	664	665
Profit for the year		364	364
Total recognised income and expense for the year	-	**364**	**364**
Balance at 30 June 2009	**1**	**1,028**	**1,029**

The following describes the nature and purpose of each reserve within owner's equity

Share capital - amount subscribed for share capital at nominal value

Retained earnings – Cumulative net gains and losses recognised in the financial statements

The notes on pages 10 to 23 form part of these financial statements

Colag UK Limited

Balance sheet
at 30 June 2009

Company number 04511114	Note	2009 $'000	2009 $'000	2008 $'000	2008 $'000
Assets					
Non-current assets					
Property, plant and equipment	7	-		-	
Investment in an associate	8	402		402	
Total non-current assets			402		402
Current assets					
Trade and other receivables	9	15,986		7,602	
Cash and cash equivalents		-		3,994	
Total current assets			15,986		11,596
Total assets			16,388		11,998
Liabilities					
Current liabilities					
Trade and other payables	10	1		2	
Corporate tax liability	10	267		80	
Advances from the parent	11	15,091		11,251	
Total current liabilities			15,359		11,333
Total liabilities			15,359		11,333
Total net assets			1,029		665
Capital and reserves attributable to equity holders of the company					
Share capital	12		1		1
Retained earnings			1,028		664
Total equity			1,029		665

The financial statements were approved and authorised for issue by the Board of Directors on 25 october 2010 [~~date~~] and were signed on its behalf by

M G Allen
Director

The notes on pages 10 to 23 form part of these financial statements

Colag UK Limited

Cash flow statement
for the year ended 30 June 2009

	2009 $'000	2009 $'000	2008 $'000	2008 $'000
Cash flows from operating activities				
Profit for the year		364		240
Adjustment for				
Depreciation		-		1
Interest income		(697)		(713)
Taxation		187		80
Decrease in trade and other receivables		-		6,425
Decrease in trade and other payables		-		(893)
Cash generated (used in)/from operations		(146)		5,140
Income taxes paid	-		(234)	
Disposal of property, plant and equipment	-		52	
Net cash flows (used in)/ from operating activities		(146)		4,958
Investing activities				
Increase in loans receivable	(7,687)		(4,948)	
Increase in investment in associate	-		(20)	
Net cash used in investing activities		(7,687)		(4,968)
Financing activities				
Decrease in advances from parent	(232)		(792)	
Increase in advances from parent	4,071		-	
Net cash flow from financing activities		3,839		(792)
Net decrease in cash and cash equivalents		(3,994)		(802)
Cash and cash equivalents at beginning of year		3,994		4,796
Cash and cash equivalents at end of year		-		3,994

The notes on pages 10 to 23 form part of these financial statements

1 Accounting policies

General information

Colag UK Limited is a company incorporated in the UK The address of the registered office is given in the officers and advisers section of this report The nature of the Company's operations and its principal activities are set out in the Directors' report

Effective 14 December 2007, the Company's functional currency changed from pounds sterling to the United States dollar (US$) This change was made as the directors considered the US$ to most faithfully represent the economic effects of the underlying transactions, events and conditions in the Company Concurrent with this change in functional currency, the Group adopted the US$ as its presentation currency The Company's comparatives are prepared for the fifteen month period ended 30 June 2008

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below The policies have been consistently applied to all the years presented, unless otherwise stated

These financial statements have been prepared on the basis of a going concern and in line with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union and in accordance with Companies Act 2006 The adoption of all of the new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are relevant to the operations and effective for annual reporting years beginning on 1 July 2008 are reflected in these financial statements

Going concern

Otto Energy Limited, the parent company, has confirmed its intention to provide operational and financial support to Colag UK Limited and to fund the operations of the company for the foreseeable future and in any event for a period of at least twelve months following the date of the signing of these financial statements For this reason the directors believe it remains appropriate to continue to prepare the financial statements on a going concern basis

New Accounting Standards, Amendments and Interpretations to Existing Standards

The accounting policies adopted in the preparation of the Company's financial statements have been consistently applied in all years presented unless otherwise stated

The IASB and IFRIC have issued the following standards and interpretations

There were no amendments to published standards and interpretations to existing standards effective in the year adopted by the Group

Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Group

International Accounting Standards (IAS/IFRS)			Effective date *(periods beginning on or after)*
•	IFRIC 12	Service concession arrangements	1 Jan 2008
•	IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 Jan 2008
•	IFRIC 13	Customer loyalty programmes	1 Jul 2008
•	IAS 39/IFRS7	Reclassification of financial instruments	1 Jul 2008
•	IAS 39/IFRS7*	Reclassification of financial instruments – Effective date and transition	1 Jul 2008

1 Accounting policies *(Continued)*

Basis of preparation (continued)

Standards, Interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements

	International Accounting Standards (IAS/IFRS)		Effective date *(periods beginning on or after)*
•	IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 Oct 2008
•	IAS 1	Amendment - Presentation of financial statements a revised presentation	1 Jan 2009
•	IAS 23	Amendment - Borrowing costs	1 Jan 2009
•	IAS 32 and 1	Amendments - Puttable financial instruments and obligations arising on Liquidation	1 Jan 2009
•	IFRS 1	First-time adoption of international accounting standards	1 Jan 2009
•	IFRS 2	Amendment - Vesting conditions and cancellations	1 Jan 2009
•	IFRS 2	Amendment - Share-based payment vesting conditions and cancellations	1 Jan 2009
•	IFRS 7	Amendment – Improving Disclosures about Financial Instruments	1 Jan 2009
•	IFRS 8	Operating Segments	1 Jan 2009
•	IFRS1 and IAS 27	Amendments – Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 Jan 2009
•	IFRIC 15	Agreements for the Construction of Real Estate	1 Jan 2009
•	IFRIC9 and IAS 39	Amendments – Embedded derivatives	30 Jun 2009
•	IAS 27	Amendment - Consolidated and separate financial statements	1 Jul 2009
•	IAS 39	Amendment –Recognition and measurement Eligible hedged items	1 Jul 2009
•	IFRS 3	Revised - Business combinations	1 Jul 2009
•	IFRIC 17	Distributions of non-cash assets to owners	1 Jul 2009
•	IFRIC 18	Transfers of assets from customers	1 Jul 2009
•	IFRS 1	Additional exemptions for first-time adopters	1 Jan 2010
•	IFRS 2	Amendment – Group cash-settled share based payment transactions	1 Jan 2010
•		Improvements to IFRSs (2009)	generally 1 Jan 2010
•	IAS 32	Amendment – Classification of rights issues	1 Feb 2010
•	IFRIC19*	Extinguishing financial liabilities with equity instruments	1 Apr 2010
•	IFRS 1	Amendment – first-time adopters of IFRS	1 Jul 2010
•	IAS24	Revised – Related party disclosures	1 Jan 2011
•	IFRIC 14	Amendment to IFRIC 14 – IAS 19 Limit on a defined benefit asset, Minimum funding requirements and their interaction	1 Jan 2011
•		Improvements to IFRSs (2010)*	generally 1 Jan 2011
•	IFRS9*	Financial instruments	1 Jan 2013

Except for the adoption of IFRS 3 Revised and the adoption of IAS 23 the above standards, interpretations and amendments will not significantly affect the Group's results or financial position, although the adoption of IFRS 8 may affect note disclosures

Items marked * had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board

1 Accounting policies *(Continued)*

Investments in associate

An associate is an entity over which the Company has significant influence but not control and which is neither a subsidiary nor a joint venture Investments in associates are carried at cost, less any impairment losses

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions Non-monetary items measured at the fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined

Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired, if any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated

1 Accounting policies *(Continued)*

Finance income and expenses

Finance income comprises interest income on funds invested Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method

Finance costs comprise interest expense on borrowings and the accumulation of interest on provisions All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs

Financial Instruments

Initial Recognition

Financial assets and financial liabilities are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument In the case of a regular way purchase or sale of financial assets, recognition is done at trade date, which is the date on which the Company commits to purchase or sell the asset

Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit and loss (FVPL)

Classification of Financial Instruments

The Company classifies its financial assets in the following categories held-to-maturity (HTM) investments, available-for-sale (AFS) investments, financial assets at FVPL, and loans and receivables Financial liabilities are classified as financial liabilities at FVPL and other liabilities The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date

Determination of Fair Value

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions) When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models

1 Accounting policies *(Continued)*

The Company classifies its financial assets into the following categories

- *Cash and Cash Equivalents*

  Cash includes cash in bank Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value

- *Loans and Receivables*

  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

  The Company's loans receivable is included in this category (see Note 10)

The Company classifies its financial liabilities into the following categories

- *Other Financial Liabilities*

  This classification pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability Included in this category are liabilities arising from operations or borrowings

  Financial liabilities are classified according to the substance of the contractual arrangements entered into

  The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs

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

  The Company's advances from the parent and accrued expenses are included in this category (see Note 11 and Note 12)

1 Accounting policies *(Continued)*

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when (a) the rights to receive cash flows from the asset have expired, (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or (c) the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously This is not generally the case with master netting agreements, when the related assets and liabilities are presented gross in the balance sheet

Related Parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions Individuals, associates or companies that directly or indirectly control or are controlled by or under common control are considered related parties

Provisions and Contingencies

Provisions are recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

Contingent liabilities are not recognized in the financial statements They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable

Events after the Financial Reporting Date

Post year-end events up to the date of the auditors' report that provide additional information about the Company's position at financial reporting date (adjusting events) are reflected in the financial statements Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material

2 Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities The Company's principal financial instruments comprise of cash and cash equivalents, loan receivables from a related party, and advances from a related party The main purpose of these financial instruments is to raise finance for the operation

The Company has policies and guidelines covering credit risk, operation risk, market risk, interest rate risk and foreign currency risk The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company results and financial position

The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company The Company is exposed to risks through its loans receivable amounting to US$15,986,051 (2008 - $7,602,616), with maximum exposure equivalent to its carrying amount

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements), as summarized below

	2009 US$'000	2008 US$'000
Loans receivable	15,986	7,602

Market Risk

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices that will affect the Company's income or the value of its holdings of financial instruments The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return

The Company is subject to various market risks, including risks from changes in oil prices, interest rates and foreign currency exchange rates

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they fall due The Company is mainly exposed to liquidity risk through its maturing liabilities The Company has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met

As of 30 June 2009, the company's advances from NorAsian Energy Limited ("NAEL") amounted to US$15,090,777 (2008 - US$11,251,577 - due to Granby Plc)

2 Financial Risk Management Objectives and Policies *(Continued)*

Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates

The Company's interest rate exposure management policy centres on reducing its exposure to changes in interest rates The Company's exposure to changes in interest rates relates primarily to the cash in bank with fixed interest rates

Management have calculated that as at 30 June 2009 a 2 percentage point change to the LIBOR interest rate would have increased finance income £263,529 (2008 -£117,903) On the other hand, a 2% decrease will have decreased finance income by £306,436 (2008 - £235,806)

Capital Risk Management

The primary objective of the Company's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value

The Board of Directors has overall responsibility for monitoring of capital in proportion to risk Profiles for capital ratios are set in the light of changes in the Company's external environment and the related risks underlying the Company's business operations and industry

The Company receives continual support from NAEL, its immediate parent

3 Loss from operations

	Year ended 30 June 2009 $'000	Period ended 30 June 2008 $'000
This has been arrived at after charging/ (crediting)		
Depreciation of property, plant and equipment	-	1
Exchange differences	-	366
Loss on disposal of property, plant and equipment	-	52

Auditor remuneration is borne by a fellow Group undertaking

4 Staff costs

The only employees of the company during the year were the directors, none of whom received any remuneration from the company All directors were remunerated through another group company, and it is not possible to apportion the cost of their remuneration relevant to services rendered to Colag UK Limited

5 Finance income and expense

	Year ended 30 June 2009 $'000	Period ended 30 June 2008 $'000
Finance income		
Interest received on bank deposits	36	307
Interest income on financial assets	661	406
Net finance income recognised in profit or loss	697	713

6 Tax expense

	Year ended 30 June 2009 $'000	Period ended 30 June 2008 $'000
Current tax	187	80

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows

	Year ended 30 June 2009 $'000	Period ended 30 June 2008 $'000
Profit for the year	551	240
Expected tax charge based on the standard rate of corporation tax in the UK of 28% (2008 – 29 6 %)	154	71
Expenses not deductible for tax purposes	33	-
Prior year adjustment	-	9
Total tax expense	187	80

7 Property, plant and equipment

	Computer equipment $'000
Cost	
At 1 July 2007	128
Disposals	(102)
At 30 June 2008 and 2009	26
Accumulated depreciation	
At 1 July 2007	75
Depreciation charge for the year	1
Disposals	(50)
At 30 June 2008 and 2009	26
Net book value	
At 30 June 2008 and 2009	-
At 30 June 2007	53

8 Investments in associates

The following entities meet the definition of an associate and are recorded at cost

Name	Country of incorporation	Proportion of ownership interest at 30 June	
		Year ended 30 June 2009	Period ended 30 June 2008
Galoc Production Corp ("GPC")	Bahrain	15 69%	15 69%

	Year ended 30 June 2009 $'000	Period ended 30 June 2008 $'000
GPC	402	402

Despite owning less than 20% of the company, management still consider the investment to represent an associate This was because

- In accordance with the sale and purchase agreement, the Company was represented by 1 of 5 directors at GPC
- During the year the funding loan between the two companies was material The Company has an outstanding loan to GPC of $15,986,051 ($7,602,000 in June 2008)

9 Trade and other receivables

	2009 $'000	2008 $'000
Loans to related parties	15,986	7,602
Total financial assets other than cash and cash equivalents classified as loans and receivables	15,986	7,602

The loan to the related party represents shareholder loans to the associated company, GPC

All outstanding principal amounts as well as accrued interest must be repaid by the borrower five years from the date of the initial advance (30 September 2006) The GPC loan is subordinated to the senior project debt

The loan is denominated in US$ and bears interest at LIBOR + 3%

The ageing of receivables is as follows

	2009 $'000	2008 $'000
6 to 12 months	15,986	7,602

The carrying values of the group's trade and other receivables are denominated in US$

10 Trade and other payables - current

	2009 $'000	2008 $'000
Accruals	1	2
	1	2

The Company's financial liabilities are due within 3 months of the year end

11 Loans and borrowings

The book value and fair value of loans and borrowings are as follows

	Book value 2009 $'000	Fair value 2009 $'000	Book value 2008 $'000	Fair value 2008 $'000
Advances from the Parent	15,091	15,091	11,251	11,251
Total borrowings	15,091	15,091	11,251	11,251

The company receives financial support from NAEL to fund its operations These advances are non-interest bearing, unsecured and payable upon commercial production depending on the net cash flows of the Galoc oil field development project

12 Share capital

	Authorised			
	2009 Number	**2009 $'000**	**2008 Number**	**2008 $'000**
Ordinary shares of 10p each	**12,500,000**	**2,497**	12,500,000	2,497

	Allotted, issued and fully paid			
	2009 Number	**2009 $'000**	**2008 Number**	**2008 $'000**
Allotted, issued and fully paid ordinary shares	**5,000**	**1**	5,000	1

13 Related party transactions

In 2009, the Company provided US$7,722,073 (2008 - $4,607,394) support and recognised interest income of US$661,362 (2008-$406,222) which was capitalised as part of the loan balance The support provided has been treated as an additional loan made by the shareholders to GPC The loan bears interest of three percent (3%) above LIBOR rate compounded quarterly and is repayable within 5 years from the date of initial loan The outstanding balance at 30 June 2009 amounted to US$15,986,051 (2008 - $7,602,616)

Moreover, the Company receives financial support from NAEL to fund its operations Included in the 30 June 2009 loans and borrowings balance is the Company's obligations of US$8,937,459 incurred prior to its acquisition by NAEL for which NAEL subsequently assumed responsibility The outstanding balance of advances as at 30 June 2009 amounted to US$15,090,777 (2008 - $11,251,577)

14 Events after the balance sheet date

In July 2009, GPC increased its working interest in Galoc Field (SC 14C) through an agreement to purchase the combined interests of PetroEnergy Resources Corporation and Alcorn Gold Resources Corporation The acquisition increases GPC's working interest in the Galoc oilfield from 58 29% to 59 84% which then translates Colag UK Limited's indirect interest in Galoc field from 9 14% to 9 389%

15 Ultimate parent company

At 30 June 2009 the Company's immediate parent company was NorAsian Energy Limited The Company's ultimate parent company is Otto Energy Limited