For Immediate Release **22 April 2009**

Desire Petroleum

"Desire" or "The Company"

Preliminary Results

Desire Petroleum plc (AIM:DES) the exploration company focusing on the North Falkland Basin, is pleased to announce its Preliminary Results for the year ended 31 December 2008.

Operational Highlights

- Farm-out to Arcadia Petroleum Limited of 3 of 15 prospects in inventory
- Now 2 wells to be drilled at no cost to Desire
- Major new gas play developed
- Top 4 prospects selected for drilling (Alpha, Dawn, Liz and Ann)
- Environmental Impact Assessment submitted covering southern licences
- Rig market easing – Desire holding discussions with rig owners

Financial Highlights

- Loss before tax $1.77 million (2007 : Loss $0.65 million)
- Cash in hand of c.$ 40 million

Commenting on the results Stephen Phipps, Chairman of Desire said:

"2008 was an excellent year of progress building the prospect inventory and attracting a substantial new partner.

"The rig market is improving, albeit slowly, and more opportunities are now arising for contracting a rig to drill on our Falklands acreage."

For further information please contact:

Desire Petroleum plc
Stephen Phipps, Chairman **020 7436 0423**
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Ben Willey
Ben Romney

Chairman's Statement

The past twelve months have been a positive yet frustrating time for Desire. On the positive front the extra geophysical work that your Company undertook through 2007 and early 2008 enabled us to attract an excellent farm-in partner, Arcadia Petroleum Ltd (APL). Also, in conjunction with APL, we applied for, and were awarded, extra acreage, Licence PL034, which contains the bulk of the very exciting Alpha prospect.

However, frustratingly, we were unable to hire a rig to drill on behalf of us and our partners in the North Falkland Basin. Notwithstanding the general unavailability of rigs due to the high utilisation rates and the resulting very high day rates, we were also hampered by the rig owner's demands for long term contract times (typically two to three years), and their reluctance to commit to a rig programme in the remote location that is the North Falkland Basin.

Utilisation in the rig market has remained tight since 2005. Also the transit times table below illustrates the remoteness of the Falklands from areas of drilling activity and the importance of sharing mobilisation and demobilisation charges. The biggest challenge facing Desire over the next months is to secure a suitable rig at a suitable price from as close to the North Falkland Basin as possible. The deepening global economic recession is having a noticeable impact on the drilling rig market. Utilisation levels for all types of rigs are decreasing and daily rig rates are declining, albeit slowly. Desire is seeing the first signs of rigs becoming available on the open market, through contract default or end of primary contract terms and Desire has seen a greater willingness of rig contractors to hold discussions with us. This is in marked contrast to the situation as recently as four months ago. Commercial terms will dictate what rig your Company takes and when, but we believe that, with our US$40 million in cash, and with the agreement of our partners, the Company is in a strong position to negotiate a suitable contract.

The recent collapse in the oil price from its highs in 2008 has led to the revaluation of the commerciality of a great number of exploration and production prospects around the world. Despite the oil price fall the fundamentals of Desire's projects remain unchanged and with our very attractive prospects the economics of any discovery should be exciting.

The results for the year ended 31 December 2008 have been prepared under International Financial Reporting Standards (IFRS). Following a review during the year, the Company has changed its functional and presentation currency to US dollars and the 2008 results are presented in US dollars. This better reflects the primary economic environment in which the Company operates.

The loss for the year was $1,472,000. Administrative expenses were in line with last year, partly due to a strengthening of the US dollar. The majority of administrative expenses are incurred in pounds, so exchange rate movements will influence the dollar presentation. The translated pound equivalent charge for the year of £789,000 compares with £751,000 in 2007.

Transit Times to Falkland Islands

		Towed Semi-Sub	**Self-propelled Semi-Sub**	**Drillship**
Starting Point	**Distance (NM)**	Transit Speed: 4 knots	Transit Speed: 7.5 knots	Transit Speed: 10 knots
Brazil	1,730	18 Days	10 Days	8 Days
South Africa	3,300	35 Days	19 Days	15 Days
Angola	3,900	41 Days	23 Days	17 Days
Gulf of Mexico	6,600	69 Days	38 Days	29 Days
North Sea	7,180	75 Days	42 Days	31 Days

The non-cash charge for share-based payments is lower than 2007 levels and will fall significantly in 2009 as the economic cost of share-based compensation plans has now been largely expensed.

The majority of the Company's funds continue to be held in US dollars, to match expected expenditure on future exploration programmes. The Company's US dollar balances increased from $37.9million to $38.6million during the year. The Company also holds £1.5million in Sterling, down from £2.5million. The exchange loss for the year of $937,000 largely arises on these Sterling balances, and follows a weakening of the pound against the dollar since the last year-end, from $1.99/£ to $1.44/£. Investment income of $1,135,000 is appreciably lower than the corresponding period, with both US dollar and Sterling interest rates falling dramatically over the course of the year.

This is my first Annual Statement to you as Chairman of Desire. Since flotation in 1998 all previous statements were written by my father Colin Phipps whose untimely death has robbed the Falkland Islands and Desire of its most enthusiastic supporter. His unwavering belief in the oil riches that lay beneath the Falkland waters kept the Company going post the last collapse in oil prices in 1998 and the lean years thereafter. It is very sad that he will not be here to see us drilling in the region in the not too distant future. His inspiration will be much missed by his family and by the Board of Desire.

Yours sincerely,

Stephen L. Phipps

Technical Review

Geoscience

Based on all the new studies over the last two years the final drilling programme is now taking shape. Over this period our exploration plans have evolved and we are now in a much better position to understand the potential of the whole of the North Falkland Basin.

Our philosophy remains unchanged, when we resume drilling, to give ourselves the best possible chance of finding commercial hydrocarbons.

We aim to achieve this by drilling as many different play types as possible, at different stratigraphic levels with both oil and gas as potential targets.

Following this review the four high-graded prospects have been identified as Ann, Liz, Dawn and Alpha. A summary of the four prospects can be seen in Table 1.

Table 1

Prospects Summary

Prospect	**Liz**	**Ann**	**Dawn**	**Jacinta**	**Alpha**
Water Depth (metres)	350	400	160	160	145
Target Depth (metres)	2,600	1,750	1,400	1,000	650
Age	Barremian	Aptian	Jurassic?	Aptian	Cretaceous
Oil/Gas	Oil	Oil	Gas	Oil	Gas
Potential Recoverable	660 MMBO	202 MMBO	240 BCF	1,100 MMBO	7,800 BCF

MMBO mid-estimate unrisked recoverable potential million barrels
BCF mid-estimate unrisked recoverable potential billion cubic feet

Liz Prospect

This is a large stratigraphic trap, well defined on 3D seismic, with the morphology of a fan-delta. The main target is of Barremian age with deeper secondary targets. This will test the play at the level of the mature oil source rock. The presence and quality of the sandstone objective is the principal risk.

Ann Prospect

A well on this prospect will evaluate the updip extension of the trap drilled by the 14/9-1 well which encountered good oil shows in a sand over 30 metres thick with good porosity. The Ann prospect is a 4-way dip closed structure defined on 2D seismic. There is also a deeper, secondary target at the Jurassic (?) level. The thickness of the Aptian sandstone target over the crest of the structure is the principal risk.

Dawn and Jacinta Prospects

One well will test both of these prospects in an undrilled part of the basin. The Dawn prospect is a fault-bounded structural closure with the target anticipated to be Jurassic sandstone. Hydrocarbon charge and the presence of reservoir sandsones are the main risks. The Jacinta prospect is a large stratigraphic trap which largely relies on the pinch-out of the Aptian sandstone. Seal and reservoir quality are the principal risks associated with this prospect.

Alpha Prospect

A large fault and dip-bound structure with reservoir anticipated to be of Mid-Cretaceous age. Hydrocarbon charge is considered to be a principal risk.

These prospects are largely independent of each other but flexibility will be retained in the programme to allow changes in the event that the results in one well have a significant bearing on another prospect. All of these prospects are in shallow water, 400 metres or less, with total drilling depths ranging from 1,000 to 3,600 metres. Due to the experience gained in drilling in 1998 these wells are expected to be straightforward to drill with no particular hazards.

The technical work on Tranche F has now been concluded and confirmed Helen as a significant prospect but the Jayne prospect has been downgraded to the status of a lead.

Operations

Site survey data are available at these four locations and the data has been integrated into the well planning and design. It should be noted that wellheads and tubulars for 4 x 3,000 metre wells are still stored near Aberdeen. All the casing is new, as advantage was taken of the tight steel market to allow Desire stock to be used by other operators and replaced. As these materials and most of the other equipment for the drilling programme will likely be mobilised from the UK, the time from securing a rig to first drilling is likely to be in the order of 5-6 months. An Environmental Impact Assessment (EIA), approved by the Falkland Islands Government (FIG), is in place covering Tranches C and D where the Ann and Liz prospects are located. An EIA covering Tranches I and L and Licence PL 034, covering the Dawn/Jacinta and Alpha prospects, is currently proceeding through the approval process with FIG. Note both EIAs will require an addendum once the final rig details are known, and the Oil Spill Contingency Plan is complete.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The principal activity of the Group for the year continued to be that of oil and gas exploration.

Business review

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2008 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils the requirements of the business review can be found within the Chairman’s Statement and Technical Review. These include details of expected future developments in the business of the Group. The Directors do not believe that there are any significant key performance indicators that are relevant to the Group at present.

Dividends

The Directors do not recommend payment of a dividend (2007 - $nil).

Share capital

During the year, options were exercised over 1,391,834 shares and these were subsequently allotted. The option exercises raised $588,865.

Directors and their interests

On 14 January 2008, Mr R Lyons was appointed as a director of the Company. On 30 April 2008, Dr C B Phipps resigned as a Director. On 4 February 2009, Mr D L Clifton resigned as a Director. The interests of the Directors who served at the end of the year in the ordinary shares of the Company are shown below.

Mr E Wisniewski and Dr I Duncan retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. In addition, Mrs A R Neve who was appointed since the last Annual General Meeting, retires and offers herself for election.

Details of the Directors' interests in contracts with the Group are set out in note 21 to the accounts.

Special business - Annual General Meeting resolutions

Items 6 and 7 of the Notice of the forthcoming Annual General Meeting contain resolutions which renew and extend existing authorisations for a further year. The Directors believe that they should have the authorities proposed under items 6 and 7 in order to take advantage of business opportunities as they arise, thus maintaining a desirable degree of flexibility.

A Under the Companies Act 2006, the Directors are prohibited from allotting securities of the Company without prior authorisation from shareholders to do so. The effect of this resolution is to give the Directors authority, until the 2010 Annual General Meeting, to allot relevant securities up to an aggregate nominal amount of £228,520.

B The Companies Act 2006 also provides that, unless shareholders otherwise consent, all new equity securities to be offered for cash must first be offered to existing shareholders in proportion to their individual holdings. The effect of this resolution is to give the Directors authority, until the 2010 Annual General Meeting, to allot equity securities for cash, other than to existing shareholders, up to a limited aggregate nominal amount of £114,260.

Report of the Directors

Substantial shareholdings

As at 2 March 2009 the Company had been notified of the following holdings of 3% or more of its issued share capital:

	Number of ordinary shares	%
Phipps & Company Limited	30,582,633	13.38%
Barclay Nominees Limited	13,116,383	5.74%
TD Warehouse Nominees (Europe) Limited	11,532,881	5.05%
HSDL Nominees Limited	7,298,720	3.19%
LR Nominees Limited	6,949,314	3.05%

Corporate governance

The Combined Code Principles of Good Governance and Code of Best Practice is not mandatory for companies traded on the Alternative Investment Market of the London Stock Exchange. However, the Directors are committed to applying the requirements of the Code where they are considered appropriate. This statement explains how the Group has applied the principles of the Code throughout the year. The Board meets regularly throughout the year and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and consideration of significant financing matters. It reviews the strategic direction of individual trading companies, their annual budgets, their progress toward achievement of these budgets and their capital expenditure programmes.

Status of non-executive directors

None of the non-executive directors would be deemed independent under the Combined Code. However, the non-executive directors have considerable experience in the Oil & Gas sector which the Company draws upon on a regular basis. In addition, the non-executive directors are sufficiently independent of management so as to be able to exercise independent judgment and bring an objective viewpoint and, thereby, protect and promote the interests of shareholders.

Audit Committee

The Audit Committee was chaired by Mr E Wisniewski and included Mr A G Windham and Mr D L Clifton as members throughout the year. Mr R Lyons was appointed to the Committee on 11 June 2008. Mr D L Clifton resigned from the Committee on 4 February 2009.

The Committee convenes twice a year and its terms of reference include the review of the Annual and Interim Accounts, accounting policies of the Company and its subsidiaries, internal management and financial controls, and the planning, scope and results of the Auditor’s programme. UHY Hacker Young Manchester LLP attend the meetings at the request of the Committee.

Remuneration Committee and Nomination Committee

The Remuneration Committee is chaired by Mr A G Windham and included Mr E Wisniewski and Mr D L Clifton as members throughout the year. Mr R Lyons was appointed to the Committee on 11 June 2008. Mr D L Clifton resigned from the Committee on 4 February 2009.

The Nomination Committee was chaired by Mr D L Clifton and included Mr E Wisniewski and Mr A G Windham as members throughout the year. Mr R Lyons was appointed to the Committee on 11 June 2008. Mr D L Clifton resigned from the Committee on 4 February 2009 and Mr R Lyons was appointed Chairman of the Committee on that date. The Committees’ responsibilities include the consideration and approval of the terms of service, nomination, remuneration and benefits of the Company’s Directors.

The Board, as a whole, determines the remuneration of the non-executive Directors (with Directors absenting themselves from discussions regarding their own remuneration as appropriate).

Internal control

The Board, which presently comprises the Chairman, the Chief Executive Officer and non-executive Directors, meets formally on a regular basis. The Directors are responsible for ensuring that the Group maintains adequate internal control over the business and its assets. There is an agreed schedule of matters requiring referral to the Board. These matters include the Group’s corporate strategy, acquisitions and disposals, approval of major capital expenditure, treasury policy and risk-management policies. Procedures have been formalised where the Directors may need to take independent professional advice. The Audit Committee has reviewed the necessity for the establishment of an internal audit function, but considers that, due to the nature and size of the Group at present, it would not be appropriate for the Group to have its own internal-audit department.

On the wider aspects of internal control, relating to operational and compliance controls and risk management, as included in provision D.2.1 of the Code, the Board, in setting the control environment, identifies, reviews, and reports on the key areas of business risk facing the Group. These procedures have been in place throughout the current financial year.

There is close day-to-day involvement by the Directors in all of the Group’s activities. This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest-rate fluctuations, commitment to the Health, Safety and the

Environment Management System, government and fiscal-policy issues, employment and information-technology requirements and cash-control procedures. Attendance at joint venture meetings and site visits are made whenever appropriate. In this way, the key risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

Any system of internal control can provide only reasonable, and not absolute, assurance that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

Performance evaluation

A formal performance evaluation of the Board, its Committees and its Directors was not undertaken during the year due to the nature and size of the Group at present.

The Board is satisfied that the Board and its Committees are operating in an effective and constructive manner.

Relations with shareholders

The Group is active in communicating with both its institutional and private investors. The Annual General Meeting, at which Directors are introduced and available for questions, provide further opportunities for dialogue.

Creditor-payment policy

It is the policy of the Group to ensure that all of its suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations. At 31 December 2008 there were no (2007 - $nil) purchases remaining unpaid.

Political contributions and charitable donations

The Group made charitable donations during the year amounting to $5,669 (2007 - $4,303).

Auditors

In accordance with the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for the re-appointment of UHY Hacker Young Manchester LLP as the Auditors of the Company.

Statement of disclosure to Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

A so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and

B the Director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This report was approved by the Board on 22 April 2009 and signed on its behalf by:

Mrs A R Neve BA Secretary

Report of the Remuneration and Nomination Committees

Remuneration Committee and Nomination Committee

The Committees met as required during the year.

The Chairman and other Directors may also attend meetings but are not involved in any matter relating to themselves.

The Group considers that it has, to the extent appropriate given the Company's particular circumstances, applied the Combined Code throughout the year regarding remuneration committees. In formulating remuneration policy the Committees gives due consideration to the best practice provisions section of the Code.

Remuneration policy

The remit of the Committees is to advise on all aspects of the remuneration packages of Directors.

The policy of the Committees is to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate Directors of a high calibre, with a significant proportion of the remuneration package linked to performance. The Directors' emoluments are not pensionable.

Details of Directors' emoluments are set out in note 4 to the financial statements.

Directors' contracts

The Directors' Service contracts are for an indefinite period but can be terminated with six-months' notice by either party.

Details of the Directors' contracts are summarised as follows:-

	Effective date of service contract
Mr S L Phipps	7 April 1998
Dr I G Duncan	14 March 2005
Mr A G Windham	1 May 2005
Mr E Wisniewski	13 June 2006
Mr R Lyons	14 January 2008
Mrs A R Neve	15 July 2008

Directors' interests

The interests (all of which are beneficial) of the Directors in office at the end of the year in the ordinary shares of the Company are shown below, together with their share options under the Desire Petroleum PLC Unapproved Share Option Scheme and their share appreciation rights.

	2 March 2009 1p ordinary shares	31 December 2008 1p ordinary Shares	1 January 2008 1p ordinary Shares
Dr I G Duncan	332,834	332,834	332,834
Mr S L Phipps	33,422,633	33,422,633	33,422,633
Mr E Wisniewski	-	-	-
Mr A G Windham	7,100	7,100	-
Mr R Lyons	-	-	-
Mrs A R Neve	33,422,633	33,422,633	33,422,633
Mr D L Clifton	n/a	1,612,500	1,112,500

Mr S L Phipps' and Mrs A R Neve's interests in 30,582,633 (2007 - 30,582,633) shares are through their shareholding in Phipps & Company Limited.

Mr S L Phipps and Mrs A R Neve have an interest (included above) in 2,840,000 (31 December 2007 - 2,840,000) shares through their interest in the Phipps & Company Retirement Benefit Scheme.

At 31 December 2008, the interest of Dr I G Duncan includes 107,143 (2007 - 107,143) held by Chase Energy Limited of which he is a director and shareholder. His interest also includes 92,571 (2007 - 92,571) shares held by Hargreave Hale Nominees Limited.

The interests of Mr D L Clifton include 1,000,000 (2007 - 500,000) shares held by Byron Holdings Limited, of which he is a Director and shareholder. Mr D L Clifton resigned as a Director on 4 February 2009.

Directors' interests (continued)

Share options

	At 1 January 2008 or at appointment	Exercised in year	At 31 December 2008	Exercise Price	Exercise Period
Dr I G Duncan	478,239	-	478,239	20.11p	up to 6 May 2009
	335,356	-	335,356	21.47p	up to 7 May 2011
	100,000	-	100,000	33.00p	up to 1 June 2012
	1,500,000	-	1,500,000	39.50p	up to 21 July 2012
Mr S L Phipps	478,239	-	478,239	20.11p	up to 6 May 2009
	335,356	-	335,356	21.74p	up to 7 May 2011
	4,857,119	-	4,857,119	17.92p	up to 23 June 2010
	100,000	-	100,000	33.00p	up to 1 June 2012
Mr D L Clifton	100,000	-	100,000	33.00p	up to 1 June 2012
Mr A G Windham	100,000	-	100,000	33.00p	up to 1 June 2012
Mr E Wisniewski	100,000	-	100,000	38.75p	up to 13 June 2012
Mrs A R Neve	239,121	-	239,121	20.11p	up to 6 May 2009
	134,356	-	134,356	21.74p	up to 7 May 2011
	4,857,119	-	4,857,119	17.92p	up to 23 June 2010
	50,000	-	50,000	33.00p	up to 1 June 2012

No directors share options lapsed during the year.

Mr S L Phipps' and Mrs A R Neve's interests include share options granted over 4,857,119 (2007 - 4,857,119) shares which are beneficially held by Phipps & Company Limited in which they are interested as directors and shareholders.

The share options of Mr D L Clifton lapsed on 4 February 2009.

Report of the Remuneration & Nomination Committees

Share Appreciation Rights ('SARS')

In 2005, the Company replaced its existing Unapproved Executive Share Option Scheme (under which it is currently intended that no further awards will be made to existing directors or senior staff) with a new incentive plan that would permit the grant of awards over up to 5% of the issued share capital of the Company. The Remuneration Committee, sought advice from external independent remuneration consultants as to its design and implementation, and in 2006 the Company adopted the new Desire Incentive Plan 2006 (the "Plan").

As has previously been the case with the operation of the Unapproved Share Option Scheme, the Plan will operate for the potential benefit of both executive and non-executive directors. The Committee is aware that, under normal circumstances, it would be unusual for non-executive directors to participate in share-based incentive arrangements. However, the Committee believes that offering participation in such arrangements to non-executive directors should be continued. This approach reflects the specific roles and responsibilities of the non-executive directors which are wider than is typically the case at other companies, an approach that keeps head office full-time staff levels and costs to a minimum. It also ensures that each member of the Board is fully aligned with both their colleagues' interests and with the interests of all other shareholders.

The awards under the Plan are structured as "Share Appreciation Rights" ("SARs"). SARs are designed to deliver a net gain equal to the increase in the price of a share between grant and exercise. The number of shares actually issued following exercise will therefore be less than the percentage of the current issued share capital to which the grant relates as referred to below.

Name	**Position**	**SARs (Percentage at time of award of issued-share capital)**	**Base price**	**Date of award**	**Exercise period**
Mr S L Phipps	Chairman	0.4	33.75p	26 January 2006	up to 23 January 2016
Dr I G Duncan	Chief Executive Officer	1.1	33.75p	26 January 2006	up to 23 January 2016
Mr A G Windham	Non-Executive Director	0.4	33.75p	26 January 2006	up to 23 January 2016
Mr D L Clifton	Non-Executive Director	0.4	33.75p	26 January 2006	up to 23 January 2016
Mr E Wisniewski	Non-Executive Director	0.4	33.75p	26 January 2006	up to 23 January 2016
Mrs A R Neve	Non-Executive Director	0.2	33.75p	26 January 2006	up to 23 January 2016
Mr R Lyons	Non-Executive Director	0.4	46.50p	26 February 2008	26 February 2011 to 26 February 2018

On 26 January 2006, the Company granted SARs over shares representing 4% of the issued, ordinary-share capital of the Company.

On 26 February 2008, the Company granted SARs over shares representing 0.4% of the issued, ordinary-share capital of the Company.

SARs have been granted to the following Directors, as shown in the table above.

As described above, upon exercise of the SARs, the relevant Awardee will be issued with shares, or the cash equivalent, with a market value at the date of exercise equivalent to the notional gain that the Awardee would have made, being the amount by which the aggregate market value on exercise of the number of shares, in respect of which the SAR is exercised, exceeds the aggregate base price of that number of shares. The base price of a SAR will be the middle-market quotation of a share on the dealing day immediately preceding the date of grant.

SARs can be satisfied by either the issue of new shares, the transfer of existing shares or the cash equivalent.

No further awards of SARs will be made to the listed Awardees. No consideration is payable on the grant of a SAR.

The market price of the shares on 31 December 2008 was 26.75p and the range during the year was 22.75p to 107p

Other than shown in this report, no Director had any interest in the shares of the Company or any of its subsidiaries at 31 December 2008.

The SARs of Mr D L Clifton lapsed on 4 February 2009.

Approval
This Report was approved by the Board on 22 April 2009:

Mr A G Windham Chairman of the Remuneration Committee

Mr R Lyons Chairman of the Nomination Committee

Statement of Directors' Responsibilities in respect of the Accounts

The following statement, which should be read in conjunction with the Report of the Auditors is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the Accounts.

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and article 4 of IAS regulation.

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 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 International Financial Reporting Standards. 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; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with requirements of the Companies Act 1985.

Reporting

The Directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

After making enquires, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the Accounts.

On behalf of the Board

S L Phipps Chairman

Independent Report of the Auditors

Registered Auditor
UHY Hacker Young Manchester LLP
St. James Building
79 Oxford Street
Manchester M1 6HT

22 April 2009

To the shareholders of Desire Petroleum PLC
We have audited the Group and Parent Company financial statements ("the financial statements") of Desire Petroleum PLC for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheets, the Cash Flow Statement, the Statement of Recognised Income and Expenses, the Directors' emoluments disclosure contained within the Report of the Remuneration and Nomination Committees, the statement of accounting polices and the related notes 1 to 22. 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 auditor's 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 as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and that part of the Report of the Remuneration and Nomination Committees 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 and the part of the Report of the Remuneration and Nomination Committees give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS regulation. We also report to you if, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

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 the information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Advisers, Chairman's Statement, Corporate Governance Statement and the Report of the Remuneration and Nomination Committees. 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 other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group 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 and the part of the Report of the Remuneration and Nomination Committees to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 December 2008 and of the Group's loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985;and as regards the group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

Consolidated Income Statement

For the year ended 31 December 2008	note	2007 $000	2008 $000
Administrative expenses	3	(1,504)	**(1,461)**
Share-based payment expense		(535)	**(498)**
Foreign exchange loss		(664)	**(937)**
Operating loss		(2,703)	**(2,896)**
Finance expenses		-	**(13)**
Investment revenues	6	2,052	**1,135**
Loss before tax		(651)	**(1,774)**
Tax	7	(504)	**302**
Loss for the financial year	18	(1,155)	**1,472**
Earnings per share			
loss per share (cents): Basic	8	(0.52)	**(0.61)**
loss per share (cents): Diluted	8	n/a	**n/a**

Movements on reserves are shown in note 18 to these Accounts.

There is no difference between the results as disclosed above and the results on an historical cost basis.

All operating income and operating gains and losses relate to continuing activities.

Consolidated Statement of Total Recognised Income & Expense

For the year ended 31 December 2008	2007 $000	2008 $000
Loss for the financial year	(1,155)	**(1,472)**
Currency-translation difference on foreign currency, net investment	(10)	**-**
Total recognised income and expense for the year	(1,165)	**(1,472)**

Balance Sheets

At 31 December 2008	note	The Group 31.12.07 $000	**31.12.08 $000**	The Company 31.12.07 $000	**31.12.08 $000**
Non-current assets					
Intangible assets	10	15,227	**16,668**	15,227	**16,668**
Property, plant & equipment	11	4,563	**4,561**	4,563	**4,561**
		19,790	**21,229**	19,790	**21,229**
Current assets					
Trade and other receivables	13	136	**386**	133	**386**
Cash and cash equivalents	14	43,065	**40,690**	43,064	**40,690**
		43,201	**41,076**	43,197	**41,076**
Total assets		62,991	**62,305**	62,987	**62,305**
Current liabilities					
Trade and other payables	15	(282)	**(444)**	(242)	**(444)**
Current tax liabilities		(500)	**-**	(500)	**-**
Bank overdrafts		(23)	**(59)**	(23)	**(59)**
Total liabilities		(805)	**(503)**	(765)	**(503)**
Net assets		62,186	**61,802**	62,222	**61,802**
Equity					
Share capital	17	4,521	**4,549**	4,521	**4,549**
Share premium account	18	92,775	**93,337**	92,775	**93,337**
Retained earnings	18	(35,110)	**(36,084)**	(35,074)	**(36,084)**
Total equity		62,186	**61,802**	62,222	**61,802**

These Accounts were approved by the Board of Directors and authorised for issue on 22 April 2009

They were signed on its behalf by:

S L Phipps
Chairman

Consolidated Cash Flow Statement

For the year ended 31 December 2008	note	Year ended 31.12.07 $000	**Year ended 31.12.08 $000**
Net cash from operating activities	20a	(1,522)	**(2,065)**
Investing activities			
Interest paid		-	**(13)**
Interest received		2,052	**1,135**
Purchase of tangible and intangible assets		(4,219)	**(1,040)**
Net cash from/(invested in) investing activities		(2,167)	**82**
Financing activities			
Proceeds on issue of shares		2,054	**590**
Net cash from financing activities		2,054	**590**
Net decrease in cash and cash equivalents		(1,635)	**(1,393)**
Cash and cash equivalents at the beginning of period		44,572	**43,042**
Effect of foreign-exchange rate changes		105	**(1,018)**
Cash and cash equivalents at the end of the year	20b	43,042	**40,631**

Notes to the Financial Statements

1 Accounting policies

The Accounts are based on the following policies which have been consistently applied:

Basis of preparation

The results for the year ended 31 December 2008 have been prepared in accordance with IFRS as adopted by the EU and the International Accounting Standards Board. The Group has continued to apply the full cost accounting policy, explained further in the Goodwill and intangible asset accounting policy note, as permitted by IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

Accounting Estimates

The Group's accounting policies make use of accounting estimates and judgments in the following areas; impairment, depreciation and share based payments. These are described in more detail in the relevant accounting policy.

Basis of consolidation

The Group accounts consolidate the accounts of the Parent Company and all its subsidiary undertakings, all of which were made up to 31 December 2008.

Goodwill and intangible assets

a. Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement. Goodwill is not amortised but is reviewed at least annually for impairment.

b. Acquired intangibles

Intangible assets, which are capable of being recognised separately and measured reliably on acquisition, are capitalised at fair value on acquisition. Where these assets have a finite life, they are amortised over the period that they are expected to generate benefits, but generally not exceeding ten years.

c. Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a technological and commercial success. Other development expenditure is recognised as an expense as incurred.

d. Computer software

Computer software costs are amortised over their expected useful lives, as follows:

Computer software 20% straight line basis

e. Oil and gas expenditure

The Group applies the full-cost method of accounting, in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources' (IFRS 6), under which expenditure relating to the acquisition, exploration, and evaluation of oil and gas interests, including an appropriate share of directly attributable overheads and relevant financing cost, is capitalised. If no discoveries are made, the accumulated capitalised costs will be written off through the income statement. Where the facts and circumstances indicate that exploration and evaluation costs exceed their recoverable amount, the intangible costs are tested for impairment. The cost of plant acquired to carry out exploration activities is treated as a tangible asset. The depreciation of such plant is capitalised as intangible assets.

f. Consortia and farm out agreements

In addition to holding licences on its own account, the Group is a member of consortia. The Group's proportionate share of the consortia costs are included in intangible assets or PPE, as appropriate. During the year, the Group continued with a farm out agreement with a third party in respect of certain licences. The Group's proportionate share of the costs is included in intangible assets and PPE as appropriate.

Property, Plant and Equipment (PPE)
a. Oil and gas interests
The Group applies the full-cost method of accounting, in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources' (IFRS 6), and the Statement of Recommended Practice' Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities', under which expenditure relating to the development of oil and gas interests, including an appropriate share of directly attributable overheads and relevant financing cost, is capitalised in cost pools on the basis of income generating units. Capitalised costs are amortised on a unit of production basis, over proven and probable reserves, taking account of estimates of future costs of development relating to those reserves. Depreciation of plant acquired to carry out exploration activities is capitalised as intangible assets.

b. Other
Property plant and equipment are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value of each asset, over its expected useful life, as follows:

Equipment and fixtures	20% straight line basis

Investments
Investments in subsidiary undertakings are shown at cost less provisions for estimated impairments in value.

Foreign currencies
a. Functional and presentation currency
Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Following a review during the year, the Group has changed its functional and presentational currency to US Dollars, and the 2008 Annual Report is presented in US Dollars as this better reflects the primary economic environment in which the Group operates

The comparative figures have been restated into US Dollars from the original functional currency in accordance with IAS21 requirements whereby assets and liabilities are translated at the closing rate at the date of the balance sheets, income and expenses at the average rate for the period, and resulting exchange differences shown as a component of equity.

b. Transactions and balances
Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates ruling at the year-end. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying investment hedges. Exchange differences arising from the translation
of the balance sheets and income statements of foreign operations into US$ are recognised as a separate component of equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Taxation
a. Current income tax
Current tax, including UK corporation tax, is provided on amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

b. Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences are controlled by the Group, and it is probable that the temporary differences will not reverse in the foreseeable future.

Cash and Cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within current liabilities on the balance sheet.

Share based payments
The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

Financial instruments
The Group uses certain financial instruments in its operating and investing activities that are appropriate to its strategy and circumstances.

Financial instruments currently comprise cash and short-term debtors and creditors. The Group regularly reviews the funding opportunities available to it in order to finance its operations, including considering the use of borrowings, as well as equity, to fund short-term cash
requirements.

The main risks arising from the Group's present use of financial instruments are currently risk relating to the Group's non-US$ cash resources. The addition of any borrowings to the Group's portfolio of financial instruments will introduce interest rate risk.

Notes to the Financial Statements

Standards and interpretations in issue but not yet effective
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 1 First-time Adoption of International Financial Reporting Standards
Amendment relating to cost of an investment on first-time adoption (effective periods beginning on or after 1 January 2009).

IFRS 2 Share-based Payment
Amendment relating to vesting conditions and cancellations (effective periods beginning on or after 1 January 2009).

IFRS 7 Financial Instruments: Disclosures
Amendments enhancing disclosures about fair value and liquidity risk (effective periods beginning on or after 1 January 2009).

IAS 1 Presentation of Financial Statements
Comprehensive revision including requiring a statement of comprehensive income (effective periods beginning on or after 1 January 2009).

IAS 1 Presentation of Financial Statements
Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective periods beginning on or after 1 January 2009).

IAS 1 Presentation of Financial Statements
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 January 2009).

IAS 16 Property, Plant and Equipment
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 January 2009).

IAS 19 Employee Benefits
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 January 2009).

IAS 20 Government Grants and Disclosure of Government Assistance
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 January 2009).

IAS 23 Borrowing Costs
Comprehensive revision to prohibit immediate expensing (borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009).

IAS 23 Borrowing Costs
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 January 2009).

IAS 27 Consolidated and Separate Financial Statements
Amendment relating to cost of an investment on first-time adoption (effective periods beginning on or after 1 January 2009).

IAS 27 Consolidated and Separate Financial Statements
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 January 2009).

IFRS 3 Business Combinations
Comprehensive revision on applying the acquisition method (effective periods beginning on or after 1 July 2009).

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Amendments resulting from May 2008 Annual Improvements to IFRSs (effective periods beginning on or after 1 July 2009).

IAS 27 Consolidated and Separate Financial Statements
Consequential amendments arising from amendments to IFRS 3 (effective periods beginning on or after 1 July 2009).

IAS 28 Investments in Associates
Consequential amendments arising from amendments to IFRS 3 (effective periods beginning on or after 1 July 2009).

IAS 31 Interests in Joint Ventures
Consequential amendments arising from amendments to IFRS 3 (effective periods beginning on or after 1 July 2009).

IAS 39 Financial Instruments: Recognition and Measurement
Amendments for eligible hedged items (effective periods beginning on or after 1 July 2009).

IFRIC 17 Distributions of Non-cash Assets to Owners
(effective periods beginning on or after 1 July 2009).

IFRIC 18 Transfers of Assets from Customers
(transfers received on or after 1 July 2009).

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 periods commencing on or after 1 January 2009.

Notes to the Financial Statements

2 Production costs incurred

Pre-production costs incurred, or provided in, Oil and Gas Exploration Activities were as follows:	Falkland Islands	
	2007 $000	**2008 $000**
Acquisition of unproved properties		
Operating Lease - License costs	231	238
Exploration and appraisal costs	2,962	1,204
Total costs (includes costs capitalised of $1,442,000 (2007 - $3,193,000)	3,193	1,442

3 Operating expenses

		2007 $000	**2008 $000**
Administrative and other expenses			
Auditors' remuneration	- audit fees	66	**37**
	- other services		
	a) taxation	6	**3**
	b) Consultancy and review of Interim Accounts	10	**6**
Directors' fees		460	**410**
Wages and salaries		47	**48**
Legal and professional fees		317	**381**
Management fees		674	**625**
Miscellaneous expenses		50	**94**
Travel and entertaining		98	**68**
Depreciation		6	**6**
Operating leases - land and buildings		32	**22**
Recharge of administrative expenses		(262)	**(239)**
		1,504	**1,461**

Notes to the Financial Statements

4 Directors

The emoluments of the Directors were as follows:	2007 Fees $000	**2008 Fees $000**
Dr C B Phipps	40	**12**
Mr S L Phipps	30	**28**
Dr I G Duncan	300	**245**
Mr D L Clifton	30	**28**
Mr A G Windham	30	**28**
Mr E Wisniewski	30	**28**
Mr R Lyons	-	**28**
Mrs A R Neve	-	**13**
	460	**410**

Further information on the remuneration of Directors and their share awards can be found in the Remuneration and Nomination committee's report.

Information on related-party transactions is disclosed in note 21 to these Accounts

5 Employment costs

	2007 $000	**2008 $000**
Wages and salaries (excluding Directors fees)	8	**13**
Social-security costs	39	**35**
	47	**48**

The average monthly number of employees, including Directors, during the year was as follows:	2007 Number	**2008 Number**
Directors	6	**7**
Administrators	1	**1**
	7	**8**

Notes to the Financial Statements

6 Investment revenues

	2007 $000	**2008** **$000**
Interest on bank deposits	2,052	1,135

7 Taxation

a) Analysis of charge in the period	2007 $000	**2008** **$000**
Current tax:		
Current tax in the period	504	**-**
In respect of previous years	-	**(302)**
	504	**(302)**

b) Reconciliation of the total tax charge	2007 $000	**2008** **$000**
The tax assessed for the period is different from the standard rate of		
corporation tax in the UK of 28% (2007 - 30%)		
Accounting loss before tax	(651)	**(1,774)**
Tax at the standard rate of corporation tax in the UK of 28% (2007 - 30%)	(195)	**(497)**
Effects of:		
Adjustments in respect of prior years	-	**(302)**
Share-based payments	161	**139**
Expenses carried forward	538	**358**
	504	**(302)**

c) Factors that may affect future tax charges

The Company is carrying forward an amount of tax-deductible expenditure under the assumption that it will have an income from oil exploration in the future.

The amount currently available for offset against future revenue is estimated at $33million.

No deferred tax is provided on this expenditure as it is not reasonably certain that the income from this source will materialise.

8 Earnings per share

The calculation of basic earnings per ordinary share is based on a loss of $1,472,000 (2007: loss $1,155,000) and on 228,021,821 (2007: 224,134,960) ordinary shares, being the weighted-average number of ordinary shares in issue during the year.

As the Group reports a loss for the current and comparative year then, in accordance with IAS 33, the share options and Share Appreciation Rights in issue are not considered dilutive.

Details of such instruments that could potentially dilute basic-earnings per share in the future are included in note 17.

9 Profit for the financial year

Desire Petroleum PLC has not presented its own profit and loss account, as permitted by section 230 of the Companies Act 1985. The loss for the financial year dealt with in the accounts of the Holding Company amounts to $1,508,000 (2007: loss $1,208,000).

Notes to the Financial Statements

10 Intangible fixed assets

The Group

	Goodwill $000	Oil and gas interests $000	Computer software $000	Total $000
Cost				
At 1 January 2008	1,873	15,224	6	17,103
Additions	-	1,442	-	1,442
At 31 December 2008	**1,873**	**16,666**	**6**	**18,545**
Amortisation/impairment				
At 1 January 2008	1,873	-	3	1,876
Charge for the year	-	-	1	1
At 31 December 2008	**1,873**	**-**	**4**	**1,877**
Net Book Value at 31 December 2008	**-**	**16,666**	**2**	**16,668**
Net Book Value at 31 December 2007	-	15,224	3	15,227

The Group's oil and gas interests all relate to the Falkland Islands.

The Company

	Oil and gas interests $000	Computer software $000	Total $000
Cost			
At 1 January 2008	15,224	6	15,230
Additions	1,442	-	1,442
At 31 December 2008	**16,666**	**6**	**16,672**
Amortisation			
At 1 January 2008	-	3	3
Charge for the year	-	1	1
At 31 December 2008	**-**	**4**	**4**
Net Book Value at 31 December 2008	**16,666**	**2**	**16,668**
Net Book Value at 31 December 2007	15,224	3	15,227

The Company's oil and gas interests all relate to the Falkland Islands.

Notes to the Financial Statements

11 Property, plant and equipment

The Group and Company	Long lead items $000	Equipment and fixtures $000	Total $000
Cost			
At 1 January 2008	4,552	24	4,576
Additions	-	3	3
At 31 December 2008	**4,552**	**27**	**4,579**
Depreciation			
At 1 January 2008	-	13	13
Charges for the year	-	5	5
At 31 December 2008	**-**	**18**	**18**
Net Book Value at 31 December 2008	**4,552**	**9**	**4,561**
Net Book Value at 31 December 2007	4,552	11	4,563

12 Investments

The Company 2008	**2008 $000**
Cost at 1 January 2008 and at 31 December 2008	**2,166**
Provision at 1 January 2008 and at 31 December 2008	**(2,166)**
At 1 January 2008 and at 31 December 2008	**-**

Particulars of the principal subsidiary undertakings at 31 December 2008 were as follows:

Name of subsidiary	**Holding**	**Proportion of voting rights and shares held**	**Country of Incorporation**	**Nature of business**
Gaelic Resources plc	Ordinary shares	100%	Republic of Ireland	Holding company
Interoil Limited	Ordinary shares*	99.80%	England	Non-trading
Anglo Scandinavian Petroleum plc	Ordinary shares*	100%	England	Non-trading

* Held in the name of Gaelic Resources plc.

Notes to the Financial Statements

13 Trade and other receivables	**The Group**		**The Company**	
	2007 $000	**2008** **$000**	2007 $000	**2008** **$000**
Other receivables	118	**368**	115	**368**
Prepayments and accrued income	18	**18**	18	**18**
	136	**368**	133	**368**

14 Cash and cash equivalents	**The Group**		**The Company**	
	2007 $000	**2008** **$000**	2007 $000	**2008** **$000**
Cash at bank and short-term deposits	43,065	**40,690**	43,064	**40,690**

15 Trade and other payables	**The Group**		**The Company**	
	2007 $000	**2008** **$000**	2007 $000	**2008** **$000**
Other tax and social-security creditors	126	**8**	126	**8**
Other creditors	76	**112**	76	**112**
Accruals	80	**324**	40	**324**
	282	**444**	242	**444**

Notes to the Financial Statements

16 Financial Instruments

The Group's policies as regards to financial instruments are set out in the accounting policies. The Company does not trade in financial instruments. The risks and uncertainties facing the Group include, but are not limited to:

Currency rate risk

The Group currency risk is primarily attributable to GBP cash deposits held at the bank. These deposits are held in GBP as the Group incurs some expenditure in this currency. Foreign exchange movements on monetary assets and liabilities are taken to the income statement and potential exposure is set out in the table below.

As at 31 December 2008	US$ ($000)	GB£ ($000)	FI£ ($000)	**Total $000**
Non-monetary assets	21,247	-	-	**21,247**
Cash and short term deposits	38,565	2,088	37	**40,690**
Other monetary assets	-	368	-	**368**
Monetary liabilities	-	(503)	-	**(503)**
	59,812	1,953	37	**61,802**

As at December 2007	US$ ($000)	GB£ ($000)	FI£ ($000)	**Total $000**
Non-monetary assets	19,809	-	-	**19,809**
Cash and short term deposits	37,940	5,060	65	**43,065**
Other monetary assets	-	117	-	**117**
Monetary liabilities	-	(805)	-	**(805)**
	57,749	4,372	65	**62,186**

Credit risk and counter-party risk

The Group's principal financial assets are cash at bank and other receivables. The Company's credit risk is primarily attributable to amounts included in other receivables. The maximum credit-risk exposure relating to financial assets is represented by the carrying values as at the Balance Sheet date.

Liquidity risk

The Group manages liquidity risk via maintaining adequate cash reserves, and by continuously monitoring forecast and actual cash flows relating to oil exploration and administrative costs.

Interest rate risk

The Group is exposed to the risk that investment income may be reduced by interest rate cuts in the UK and USA. The Group keeps the majority of its cash deposits in short term fixed rate accounts. At 31 December 2008, short term deposits were earning interest at a weighted average fixed deposit rate of 1.53%. Cash at bank earns interest at floating rates based on US$/GB£ LIBOR

The floating rate liabilities comprise bank borrowings which bear interest based on GBP LIBOR.

Interest rate risk profile	2007 $000	**2008** **$000**
Short term fixed rate financial assets	42,295	**39,928**
Floating rate financial assets	770	**762**
Floating rate financial liabilities	(23)	**(59)**

17 Share capital

The Group and Company	2007 Number of shares	2007 £000	**2008 Number of shares**	**2008 £000**
Authorised				
Ordinary shares of £0.01 Pound Sterling each	400,000,000	4,000	**400,000,000**	4,000

Allotted, called-up and fully-paid	Ordinary £0.01 shares Number
At 1 January 2008	227,128,012
Issued in year	1,391,834
At 31December 2008	**228,519,846**

	Ordinary £0.01 shares $000
At 1 January 2008	4,521
Issued in year	28
At 31December 2008	4,549

The Company has one class of ordinary shares which carry no rights fixed income.

Share options		**No**
During the year, options were exercised over 1,391,834 shares raising $588,865.	9 April 2008	478,239
	21 April 2008	478,239
	7 July 2008	435,356

Date of grants	Number of shares at 1 January 2008	Number of shares exercised in the year	Awarded during the year	Number of shares at 31 December 2008	Exercise price (pence Sterling)	Exercise period
7 May 2002	2,152,077	(956,478)	-	1,195,600	20.11p	up to 6 May 2009
26 June 2003	4,857,119	-	-	4,857,119	17.92p	up to 23 June 2010
27 May 2004	1,811,136	(335,356)	-	1,475,780	21.74p	up to 7 May 2011
1 June 2005	550,000	(100,000)	-	450,000	33.00p	up to 1 June 2012
13 June 2005	100,000	-	-	100,000	38.75p	up to 13 June 2012
21 July 2005	1,500,000	-	-	1,500,000	39.50p	up to 21 July 2012
1 January 2006	25,000	-	-	25,000	33.00p	1 January 2009 to 1 January 2013
15 August 2008	-	-	100,000	100,000	79.75p	15 August 2011 to 15 August 2015

The aggregate fair value of options and SAR's awarded during the year was $201,636. There have been no awards since the year end. Expected volatility was determined by calculating the historical volatility of the Group's share price. The expected life used in the valuation model has been adjusted, based on management's best estimates, for the effects of any exercise restrictions and behavioural considerations.

Share Appreciation Rights ('SARs')
Further details relating to SARs can be found in the Report of the Remuneration and Nomination Committees. In addition to the SARs disclosed in the Report of the Remuneration and Nomination Comittees, Dr C B Phipps had an interest in SARs over 1.1% of the issued share capital at a base price of 33.75p exercisable up to 23 January 2016.

Notes to the Financial Statements

18 Reserves

The Group	Called-up share capital $000	Share premium reserve $000	Retained earnings $000	Total equity $000
At 1 January 2008	4,521	92,775	(35,110)	62,186
Loss for the year	-	-	(1,472)	(1,472)
Share issue in the year	28	562	-	590
Share based payment charge	-	-	498	498
At 31 December 2008	**4,549**	**93,337**	**(36,084)**	**61,802**

The Company	Called-up share capital $000	Share premium reserve $000	Retained earnings $000	Total equity $000
At 1 January 2008	4,521	92,775	(35,074)	62,222
Loss for the year	-	-	(1,508)	(1,508)
Share issue in the year	28	562	-	590
Share based payment charge	-	-	498	498
At 31 December 2008	**4,549**	**93,337**	**(36,084)**	**61,802**

Share capital
The balance classified as share capital is the nominal value on issue of the Group's equity share capital, comprising £0.01 Pound Sterling ordinary shares.

Share premium
The balance classified as share premium is the premium on issue of the Group's equity share capital, comprising £0.01 Pound Sterling ordinary shares less any costs of issuing the shares.

19 Commitments

Operating leases	2007 Land and buildings	**2008 Land and buildings**
At the Balance Sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:	$000	**$000**
Expiring:		
Within 1 year	239	**239**
Between 1 and 5 years	23	**17**

Operating lease payments represent rentals payable by the Group for its office properties and oil exploration licences.

Notes to the Financial Statements

20a Net cash flows from operating activities

Reconciliation of operating loss to net cash from operating activities	Year ended 31.12.07 $000	**Year ended 31.12.08 $000**
Operating loss for the financial year	(2,703)	**(2,896)**
Foreign exchange	654	**1,018**
Depreciation on property, plant and equipment	6	**7**
Share-based payment expense	535	**498**
Operating cash flows before movement in working capital	(1,508)	**(1,373)**
Decrease in receivables	636	**29**
Increase/(decrease) in payables	24	**(321)**
Cash generated from operations	(848)	**(1,665)**
Income tax paid	(674)	**(400)**
Net cash from operating activities	(1,522)	**(2,065)**

20b Analysis of changes in net funds

	At 31 December 2007 $000	Cash flows $000	Exchange movement $000	**At 31 December 2008 $000**
Cash at bank and in hand	43,065	(1,333)	(1,042)	**40,690**
Bank overdraft	(23)	(60)	24	**(59)**
Cash at bank and in hand	43,042	(1,393)	(1,018)	**40,631**

Notes to the Financial Statements

21 Related party transactions

The Group entered into transactions with the following companies in which certain of the Directors were materially interested:

Company	**Related party**
Phipps & Company Limited	Dr C B Phipps , Mr S L Phipps and Mrs A R Neve
Copernicus Consultancy Limited	Mr E Wisniewski
Byron Holdings Limited	Mr D L Clifton
Ardoyne Consultants Limited	Mr R Lyons

The transactions with the group during the year were as follows:	Total 2007	Services as a Director	Management Services	Consultancy Services	**Total 2008**
	$000	$000	$000	$000	**$000**
Ardoyne Consultants Limited	-	28	-	28	**56**
Phipps & Company Limited	745	53	625	-	**678**
Copernicus Consultancy Limited	8	-	-	15	**15**
Byron Holdings Limited	30	28	-	-	**28**
Mr A G Windham	34	28	-	14	**42**

At 31 December 2008 the following amounts were included in creditors:	2007 $000	**2008 $000**
Phipps & Company Limited	2	-

In addition, The Company paid $16,800 (2007 - $23,300) to Phipps & Company Limited for the rent of offices.

22 Capital Commitments

As part of the lease agreement with the Falkland Islands Government, the Company has drilling commitments for oil exploration before May 2013 on Tranches C and D, before November 2012 on Tranches F, I and L and before August 2012 on PL034.