

**PETROMIN PNG HOLDINGS LIMITED
AND ITS SUBSIDIARIES**

Annual financial report for the year ended 31 December 2008

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008**

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Petromin PNG Holdings Limited and its subsidiaries
Directors' report
For the year ended 31 December 2008

Directors' Report

The directors of Petromin PNG Holdings Limited submit herewith the annual financial report of the Company for the year ended 31 December 2008. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

The names and particulars of the directors and office holders of the Company during or since the end of the financial year are:

Directors

Name	Executive/non-executive director
Joshua Kalinoe, CSM, CBE	Executive Director
Brown Bai, CSM, CBE	Non Executive/Chairman
Melvin Yalapan	Executive Director (Resigned 3 March 2009)
Sir Peter Barter, KI, OBE	Non Executive (Appointed on 27 July 2008)
Sumasy Singin, OBE	Non Executive
Jerry Wemin	Non Executive
Geoffrey Heal	Non Executive (Ceased on 31 August 2008)
Kerenga Kua	Non Executive (Resigned on 12 December 2008)
George Minjihau	Non Executive(Resigned on 9 August 2008)
William Searson, CBE	Non Executive (Appointed on 4 February 2008)

Company secretary

The Company secretary is Karo Maha (Appointed 8th February 2008)

Melvin Yalapan (Resigned 8 February 2008)

Review of operations

The Group reported a net profit of K93,261,000 (2007:K200,928,000) after charging income tax of K5,112,000 (2007: K50,351,000).

Principal activities

The Company's principal activities are to engage in the mineral exploration, evaluation and development and the production and recovery of minerals and petroleum from its petroleum and mining interests.

Changes in state of affairs

During the financial year there was no significant change in the principal activities or state of affairs of the Company other than that referred to in the financial statements or notes thereto. The Company acquired 100% shareholding of Tolukuma Gold Mines Limited on 21st February 2008 from Emperor Mines Limited.

Directors' remuneration

	Short-term employee benefits			Post-employment benefits		Other long-term employee benefits	Termination benefits	Share-based payment			Total
	Salary & fees	Bonus	Non-monetary	Superannuation	Other			Equity-settled			
								Shares & units	Options & rights	Cash-settled	
K	K	K	K	K	K	K	K	K	K		
Petromin											
Brown Bai, CSM,CBE -- Chairman	55,000	-	-	-	-	-	-	-	-	-	55,000
Joshua Kalinoe, CSM, CBE	462,500	46,250	-	-	-	-	-	-	-	-	508,750
Kerenga Kua	45,000	-	-	-	-	-	-	-	-	-	45,000
George Minjihau	45,000	-	-	-	-	-	-	-	-	-	45,000
Melvin Yalapan	75,000	-	-	-	-	-	-	-	-	-	75,000
Sumasy Singin, OBE	45,000	-	-	-	-	-	-	-	-	-	45,000
Jerry Wemin	45,000	-	-	-	-	-	-	-	-	-	45,000
Sir Peter Barter, Kt, OBE	45,000	-	-	-	-	-	-	-	-	-	45,000
William Searson, CBE	45,000	-	-	-	-	-	-	-	-	-	45,000
Geoffrey Heal	139,276	-	-	-	-	-	-	-	-	-	139,276
	1,001,776	46,250									1,048,026

Petromin PNG Holdings Limited and its subsidiaries
Directors' report
For the year ended 31 December 2008

Remuneration above K100,000 per annum

The number of employees not being directors of the company, whose total remuneration and the other benefits received from Petromin PNG Ltd falls within the following bands are:

Amount	2008	2007
K 100,000 – K 109,999	1	-
K 110,000 – K 120,000	1	-
K 150,000 – K 199,999	6	-
K 200,000 – K 250,000	2	-

Independent audit report

The financial statements have been audited by PricewaterhouseCoopers and should be read in conjunction with the independent audit report on pages 3 to 4. Fees in respect of audit, audit related and non audit services paid to PricewaterhouseCoopers are shown in note 5.

Dividends

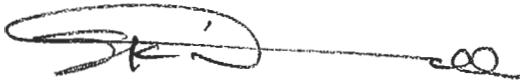
During the year, interim dividend of K5 million was paid. No final dividend has been declared.

Subsequent events

None

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Joshua Kalinoe
Director
Port Moresby
7 May 2009



Brown Bai
Director
Port Moresby
7 May 2009

Independent auditor's report

To the shareholders of Petromin PNG Holdings Limited and its subsidiaries

Report on the financial statements and consolidated financial statements

We have audited the accompanying financial statements of Petromin PNG Holdings Limited and its subsidiary (the 'Company') and the consolidated financial statements of the Company and its subsidiaries (the 'Group') which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements and consolidated financial statements in accordance with International Financial Reporting Standards, other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2008, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and with the requirements of the Papua New Guinea Companies Act 1997.

Report on other legal and regulatory requirements

The Papua New Guinea Companies Act 1997 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i) in our opinion proper accounting records have been kept by the Company and the Group, so far as appears from our examination of those records;
- ii) we have obtained all the information and explanations we have required; and
- iii) in conducting our audit we followed applicable independence requirements of Certified Practising Accountants Papua New Guinea.

PricewaterhouseCoopers

PricewaterhouseCoopers

By: JC Seeto

Registered under the Accountants Act 1996

Port Moresby

7 May 2009

Petromin PNG Holdings Limited & its subsidiaries
Directors' declaration
For the year ended 31 December 2008

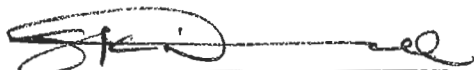
Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Joshua Kalinoe
Director
Port Moresby
7 May 2009



Brown Bai
Director
Port Moresby
7 May 2009

Petromin PNG Holdings Limited and its subsidiaries
Income statements
For the year ended 31 December 2008

	Notes	The Group		The Company	
		2008 K'000	2007 K'000	2008 K'000	2007 K'000
Revenue	3	276,429	72,046	6,600	2,500
Cost of sales	4	(155,282)	(26,241)	-	-
Gross profit		121,147	45,805	6,600	2,500
Administrative expenses	5	(26,321)	(5,082)	(11,422)	(4,618)
Other income	6	-	215,222	107,000	3,022
Exploration cost		(3,325)	-	-	-
Other costs	20	(2,015)	-	-	-
		(31,661)	210,140	95,578	(1,596)
Operating profit		89,486	255,945	102,178	904
Finance costs	7	(5)	(5,249)	-	-
Finance income	7	8,892	583	239	-
Profit before tax		98,373	251,279	102,417	904
Income tax credit/(expense)	8	(5,112)	(50,351)	47	(602)
Profit for the year		93,261	200,928	102,464	302

Notes to the financial statements are included on pages 10 to 37.

Petromin PNG Holdings Limited and its subsidiaries
Balance sheets
As at 31 December 2008

	Notes	The Group		The Company	
		2008 K'000	2007 K'000	2008 K'000	2007 K'000
Current assets					
Cash and cash equivalents	14	90,550	47,246	61,537	1,676
Trade and other receivables	15	16,307	28,896	854	387
Inventories	16	14,753	2,609	-	-
Income tax receivable		14,520	-	-	-
Amount due from related parties	17	-	-	8,082	10
Total current assets		136,130	78,751	70,473	2,073
Non-current assets					
Deposits		314	25	213	25
Investment in subsidiaries	19	-	-	55,401	40,000
Property, plant and equipment	13	11,560	697	1,097	697
Oil and gas assets	9	204,002	186,743	-	-
Deferred costs	11	19,183	4,832	-	-
Total non current assets		235,059	192,297	56,711	40,722
Total assets		371,189	271,048	127,184	42,795
Current liabilities					
Bank overdraft	14	2,153	-	-	-
Trade and other payables	18	28,453	11,889	5,355	5,802
Amount due to related parties	17	-	-	13,322	21,042
Income tax payable		-	6,487	723	656
Provisions	12	3,489	-	-	-
Total current liabilities		34,095	18,376	19,400	27,500
Non current liabilities					
Other payables	18	10,000	15,000	10,000	15,000
Net deferred tax liability/(asset)	8	7,647	31,502	(29)	(54)
Provisions	12	14,677	7,299	47	47
Total non current liabilities		32,324	53,801	10,018	14,993
Total liabilities		66,419	72,177	29,418	42,493
Net assets		304,770	198,871	97,766	302
Equity					
Share capital	21	-	-	-	-
Retained earnings	22	304,770	198,871	97,766	302
Total shareholders equity		304,770	198,871	97,766	302



Joshua Kalinoe
 Director
 Port Moresby
 7 May 2009



Brown Bai
 Director
 Port Moresby
 7 May 2009

Notes to the financial statements are included on pages 10 to 37.

Petromin PNG Holdings Limited and its subsidiaries
Statements of changes in equity
For the year ended 31 December 2008

The Group

	Note	Share Capital K'000	Retained Earnings K'000	Total K'000
Balance at 1 January 2007				
Issuance of shares		-	-	-
Prior period adjustments – Eda Oil	22 (ii)	-	(2,057)	(2,057)
Profit for the period		-	200,928	200,928
Balance at 31 December 2007		-	198,871	198,871
Prior period adjustments – Eda Oil	22 (i)	-	17,638	17,638
Profit for the year		-	93,261	93,261
Dividends paid		-	(5,000)	(5,000)
Balance at 31 December 2008		-	304,770	304,770

The Company

	Note	Share Capital K'000	Retained Earnings K'000	Total K'000
Balance at 1 January 2007		-	-	-
Issuance of shares		-	-	-
Profit for the period		-	302	302
Balance at 31 December 2007		-	302	302
Profit for the year		-	102,464	102,464
Dividends paid		-	(5,000)	(5,000)
Balance at 31 December 2008		-	97,766	97,766

Notes to the financial statements are included on pages 10 to 37.

Petromin PNG Holdings Limited and its subsidiaries
Cash flow statements
For the year ended 31 December 2008

	Notes	The Group		The Company	
		2008 K'000	2007 K'000	2008 K'000	2007 K'000
Cash flows from operating activities					
Receipts from customers and related parties		294,152	82,822	6,133	2,500
Payments to suppliers, employees and related parties		(148,085)	(12,760)	(32,435)	(3,100)
Cash generated from/(used in) operations		146,067	70,062	(26,302)	(600)
Government grant		-	3,022	-	3,022
Tax paid		(72,150)	(26,781)	(72)	-
Interest received		1,500	583	239	-
Interest paid		(5)	-	-	-
Net cash generated / (used) from operating activities	23 (b)	75,412	46,886	(26,135)	2,422
Cash flows from investing activities					
Dividend received		-	-	107,000	-
Purchase of property, plant and equipment		(18,765)	(3,886)	(603)	(746)
Exploration expenditures		(17,676)	-	-	-
Investment in subsidiaries		-	-	(15,401)	-
Acquisition of subsidiary, net of cash acquired	20	1,864	4,246	-	-
Settlement of prior period unitisation adjustment		5,316	-	-	-
Net cash generated / (used) from investing activities		(29,261)	360	90,996	(746)
Cash flows from financing activities					
Dividend paid		(5,000)	-	(5,000)	-
Net cash used in financing activities		(5,000)	-	(5,000)	-
Net increase in cash		41,151	47,246	59,861	1,676
Balance at the beginning of the year		47,246	-	1,676	-
Cash and cash equivalents net of bank overdrafts at end of year	23 (a)	88,397	47,246	61,537	1,676

Notes to the financial statements are included on pages 10 to 37.

Petromin PNG Holdings Limited and its subsidiaries
Notes to the financial statements
For the year ended 31 December 2008

1. General information

Petromin PNG Holdings Limited (the Company) was established under the Petromin PNG Holdings Limited Authorisation Act (Petromin Act 2007) and was also incorporated in Papua New Guinea under the Companies Act 1997. The Company holds in trust, manages, nurtures and grows the assets in petroleum and mining projects on behalf of the government of Papua New Guinea ("the State") and its people. The Company was established in order to retain legal title to assets that are beneficially owned by the state. The Prime Minister and Grand Chief Sir Michael Thomas Somare is the registered shareholder of the Company. The share is held on behalf of and in trust for the State subject to the constitution of the Company.

Petromin PNG Holdings' registered office and its principal place of business are as follows:

Registered office

Level 1, Mogoru Motor Building
Champion Parade
Port Moresby
National Capital District

Principal place of business

Level 8,12 and 13, Pacific View Apartments
2 Mile Hill
Port Moresby
National Capital District

2. Significant accounting policies

2.1 Statement of compliance

The financial statements of Petromin PNG Holdings Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

2.2 Basis of preparation

The financial report has been prepared on the basis of historical cost, except where stated, and do not take into account current valuations of non-current assets. The cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Papua New Guinea kina, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Petromin PNG Holdings Limited and its subsidiaries
Notes to the financial statements
For the year ended 31 December 2008

2. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

The purchase method of accounting is used to account for the acquisition of subsidiary. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest.

In preparing the consolidated financial statements, inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred. Wherever necessary, adjustments are made to financial statements of the subsidiary to ensure consistency of accounting policies with the parent Company.

i) Name and description of the combining entity

Eda Oil Limited

Eda Oil Limited's (herein referred to as Eda Oil) principal activity during the year was investment in development and production of hydrocarbons directly by participation in the Moran Joint Venture in Papua New Guinea.

Tolukuma Gold Mines Limited

Tolukuma Gold Mines Limited's activity during the year was mining and production of gold and silver, as well as exploration of precious metals.

Eda Minerals Limited

Eda Minerals Limited's activity during the year was the exploration of precious metals.

Eda LNG Limited

Eda LNG Limited's principal activity during the year was investment in development and production of hydrocarbons directly by participation in the Inter-Oil Joint Venture in Papua New Guinea.

ii) Acquisition dates

Petromin acquired Eda Oil from MRDC on 28 August 2007 by purchase of all its shares.

Petromin acquired Tolukuma Gold Mines Limited by purchase of all its shares from Emperor Mines Limited on 21st February 2008.

iii) Percentage of voting equity instrument acquired

Petromin has acquired 100% of voting equity instruments of Eda Oil and Tolukuma Mines Limited.

Eda Minerals Limited and Eda LNG Limited are incorporated and 100% owned by Petromin PNG Holdings Limited to undertake mineral exploration and participate in the oil and gas sector

iv) Net assets on acquisition

on the acquisition date the net assets of the Eda Oil Limited as at 24th August 2007 was K 252,200,000.

On the acquisition date the net liabilities of Tolukuma Gold Mines Limited as at 21 February 2009 was K879,000.

Petromin PNG Holdings Limited and its subsidiaries
Notes to the financial statements
For the year ended 31 December 2008

2. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

v) Gain on acquisition

A gain/losses on Eda Oil acquisition and Tolukuma were recognised in the consolidated financial statements.

vi) Goodwill on acquisition

The goodwill of K2,014,000 that arose on acquisition of Tolukuma Gold Mines Limited was written off during the year.

vii) Standards and interpretations

(i) Interpretations effective in 2008

IFRIC 11, *IFRS 2- Group and treasury share transactions*, provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based transactions in the stand-alone accounts of the parent and group companies. The interpretation does not have an impact on the group's consolidated financial statements.

(ii) Interpretations effective in 2008 but not relevant

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

IFRIC 12, *Service concession arrangements*;

IFRIC 13, *Customer loyalty programmes*; and

IFRIC 14, *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*.

IAS 41 (Amendment), *Agriculture* (effective from 1 January 2009)

(iii) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the group

IFRS 8, *Operating segments* (effective from 1 January 2009). This standard replaces IAS 14, *Segment reporting*, and aligns segment reporting with the requirements of the US standard SFAS 131, *Disclosure about segments of an enterprise and related information*. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 from 1 January 2009 and it is expected to result in an increase in the number of reportable segments in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

IAS 23 (Amendment), *Borrowing costs* (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 *Financial Instruments: Recognition and measurement*. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The group will apply IAS 23 (Amendment) from 1 January 2009 but it is not expected to have a material impact on the group's consolidated financial statements.

IAS 1 (Revised), *Presentation of financial statements*, (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one

2. Significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income.) The group will apply IAS 1 (Revised) from 1 January 2009 and it is likely that both the income statement and the statement of comprehensive income will be presented as performance statements.

IFRS 2 (Amendment), *Share-based payment* (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009 but it is not expected to have a material impact on the group's consolidated financial statements.

IFRS 3 (Revised), *Business Combinations* (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IAS 36 (Amendment), *Impairment of assets* (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

There are a number of minor amendments to IFRS 7 *Financial instruments: Disclosures*, IAS 8 *Accounting policies, changes in accounting estimates and errors*, IAS 10 *Events after the reporting period*, IAS 18 *Revenue* and IAS 34 *Interim financial reporting*. These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowings costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Significant accounting policies (cont'd)

(c) Business combinations

Acquisition of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date. Contributions to defined contribution superannuation plans are expensed when incurred.

(f) Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Papua New Guinea kina, which is the functional currency of Petromin PNG Holdings Limited.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of

2. Significant accounting policies (cont'd)

(f) **Foreign currency (cont'd)**

Historical costs in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

(g) **Government grants**

Government grants are assistance by the government in the form of transfer of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

(h) **Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not

2. Significant accounting policies (cont'd)

exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount

Attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

2. Significant accounting policies (cont'd)

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined as follows:

- i. materials, which include drilling and maintenance stocks, are valued at the cost of acquisition; and
- ii. petroleum products, comprising extracted crude oil and condensate stored in tanks and pipeline systems, are valued using the full absorption cost method.
- iii. Inventories of broken ore, concentrate, work in process and metal comprises direct material, labour and transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure, based on weighted average costs incurred during the year in which such inventories were produced.

Recoverable amount is the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs incurred prior to its sale.

Low value by-products which are obtained as a result of the production process for a primary product are valued at net realisable value with that value being offset against the cost of producing the main products. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their disposal.

Replacement and capital (or circulating) spare parts are capitalised, and depreciated over the same remaining life as the equipment with which they are associated.

(k) Oil and gas assets

The cost of oil and gas assets in production are separately accounted for and include past exploration and evaluation costs, past development costs and on-going costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and building. Costs in relation to producing areas are amortized on a production output basis. In relation to the Moran fields, exploration and development costs, along with any future expenditure necessary to develop the assumed reserves, are amortized over the remaining estimated economic life of the fields.

(l) Plant and equipment

Plant and equipment is depreciated or amortised over their estimated useful lives. The prime cost method of depreciation is used.

The depreciation rates used are as follows:

Buildings	20%
Plant and equipment	20%
Office Equipment	10% - 20%
Furniture and Fittings	7.5%
Motor Vehicles	20%

2. Significant accounting policies (cont'd)

(m) **Deferred costs**

Mining

Exploration and evaluation expenditure is carried forward in the financial statements, in respect of areas of interest for which rights of tenure are current and where:

- i. such costs are expected to be recouped through successful development and exploitation of area of interest, or
- ii. exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable mineral resources, and active and significant operations in relations to the area are continuing.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area.

Oil and gas

Exploration and evaluation expenditures are accounted for under the successful efforts method. Exploration licence acquisition costs for established areas are initially capitalised except for new unexplored areas which are expensed as incurred. For exploration wells, costs directly associated with the drilling of wells are initially capitalised pending evaluation of whether potentially economic reserves of hydrocarbons have been discovered. Costs are expensed where the well does not result in the successful discovery of potentially economically recoverable hydrocarbons, unless the well is to be used in the recovery of economically recoverable hydrocarbons.

(n) **Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(o) **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2. Significant accounting policies (cont'd)

(p) Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognized when there is a present obligation as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites/wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal and other requirements and technology. Future restoration costs are reviewed annually and changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

(q) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Sale of crude oil

Revenue from the sale of crude oil is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and benefits of ownership of sale of crude oil;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the crude oil sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Gold and silver

Gold and silver revenue is recognised upon delivery which is when the risks and benefits of ownership are transferred to the buyer, including when title passes.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Management fees

The core responsibility of the Company is administration of various state owned petroleum and minerals assets, which are vested in the Company through state assets equity share transfers from mining and petroleum resource entities. The Company will manage the entities and incur related expenses. Expenses of the Company will be funded through a monthly management fee payable by the entities in accordance with the respective Management Services Agreements. Revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Dividends

Control of a right to receive consideration for the investment in assets is attained, usually evidenced by approval of the dividend at a meeting of shareholders.

(r) Comparatives

Comparative amounts are, where appropriate, reclassified so as to be comparable with the figure presented for the current financial year.

Petromin PNG Holdings Limited and its subsidiaries
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For the year ended 31 December 2008

2. Significant accounting policies (cont'd)

- (s) Leases**
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the year in which they are incurred.
- (t) Accounts payable**
Liabilities are recognised for amounts to be paid in the future for the goods and services received, whether billed by the supplier or not. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.
- (u) Dividend distribution**
Dividend distribution to the company's shareholders is recognised as a liability in the group's consolidated financial statements in the year in which the dividends are approved by the company's directors.

2.3 Critical accounting estimates

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards require management to make estimates and assumptions concerning the future that affect the amounts reported in the financial information and accompanying notes. Managements' estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates, by definition, rarely equal the related actual results. The estimates and assumptions have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the accounting policies note and within the notes to the financial report.

Petromin PNG Holdings Limited and its subsidiaries
Notes to the financial statements
For the year ended 31 December 2008

3. Revenue

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Oil sales	186,468	72,046	-	2,500
Management fees	-	-	6,600	-
Gold & silver sales	89,961	-	-	-
	276,429	72,046	6,600	2,500

4. Cost of sales

	Notes	The Group		The Company	
		2008 K'000	2007 K'000	2008 K'000	2007 K'000
Joint operation expenses		24,733	7,368	-	-
Development levy		2,465	4,634	-	-
Royalties		4,394	-	-	-
Amortisation of oil and gas assets	9	22,714	15,700	-	-
Depreciation	13	2,243	-	-	-
Amortisation of site restoration		-	472	-	-
Stock movement		10,049	(1,982)	-	-
Transport and logistic cost		27,796	-	-	-
Direct mining cost		17,336	-	-	-
Power generation and maintenance		10,637	-	-	-
Mobile maintenance		11,092	-	-	-
Milling cost		9,186	-	-	-
Community relation expenses		1,034	-	-	-
Other operating expenses		11,603	49	-	-
		155,282	26,241	-	-

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For the year ended 31 December 2008

5. Administrative expenses

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Staff costs	10,539	841	6,483	841
Bank charges	133	2	14	2
Consultancy and professional fees ⁽ⁱ⁾	4,462	2,621	2,184	2,281
Office and property rental	1,018	130	734	130
Repairs & maintenance	63	35	63	35
Transport & fuel	182	75	182	75
Board expenses	823	398	823	377
Utilities	1,075	70	403	70
Travel & accommodation	1,221	443	1,221	412
Conference	239	97	239	97
Insurance cost	2,221	-	-	-
Mining levies	1,622	-	-	-
Subscription and donations	135	-	-	-
Licence fees	137	-	-	-
Other operating costs ⁽ⁱⁱ⁾	2,451	370	(924)	298
	26,321	5,082	11,422	4,618

(i) Included in consultancy and professional fees is auditor's remuneration as follows.

	2008	2007	2008	2007
	K'000	K'000	K'000	K'000
Audit fees	430	215	108	108
Taxation fees	149	-	12	-
	579	215	120	108

(ii) Included in other operating costs are depreciation charges of K203,000 (2007: K49,000) for both the Group and the Company.

Petromin PNG Holdings Limited and its subsidiaries
Notes to the financial statements
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6. Other income

	The Group		The Company	
	2008	2007	2008	2007
	K'000	K'000	K'000	K'000
Dividend income	-	-	107,000	-
Gain on acquisition	-	212,200	-	-
Government grant *	-	3,022	-	3,022
	-	215,222	107,000	3,022

*Grant income from the government was applied to the initial set up and operational costs of the Company.

7. Finance costs and income

	The Group		The Company	
	2008	2007	2008	2007
	K'000	K'000	K'000	K'000
Interest expenses	(5)	-	-	-
Interest revenue	1,500	583	239	-
Foreign exchange gains / (losses)	7,390	(5,249)	-	-

Petromin PNG Holdings Limited and its subsidiaries
Notes to the financial statements
For the year ended 31 December 2008

8. Income taxes

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
(a) Income tax recognised in profit or loss				
Tax expense/(income) comprises:				
Profit before tax	98,373	251,279	102,417	904
Less: Gain on acquisition not subject to tax	-	(212,200)	-	-
Profit before tax and after adjustments	98,373	39,079	102,417	904
Prima facie tax	54,484	19,359	30,725	271
Expenses not deductible for tax purposes				
Non-deductible items	2,639	331	(30,691)	331
Opening balance adjustments*	(56,233)	30,661	(81)	-
Tax losses for which no deferred tax assets is recognised	4,222	-	-	-
Income tax expense/(income) for the year	5,112	50,351	(47)	602
(b) Net deferred tax asset/(liability):				
Opening balance at beginning of the year	(31,502)	-	54	-
Movement during the year	(3,262)	(1,023)	(25)	54
Opening balance adjustments*	27,117	(30,479)	-	-
	(7,647)	(31,502)	29	54

* Following the determination of the Allowance for Capital Expenditure (ACE) and Allowance for Exploration Expenditure (AEE), Eda Oil Limited lodged on their income tax returns for 2006 and 2007. This resulted in tax refunds due from the IRC. The returns have not been assessed by the IRC.

(c) Net deferred tax asset/(liability)

Comprising:

Interest receivable	-	(21)	-	-
Prepaid insurance	(178)	-	(27)	-
Unrealised foreign exchange gain	(4,370)	566	-	-
Fixed assets / Oil and gas assets	(4,214)	(32,161)	-	-
Provision for employee benefits	683	24	56	24
Provision for doubtful debts	178	-	-	-
Inventories	(2,379)	-	-	-
Other provisions	2,633	90	-	30
	(7,647)	31,502	29	54

(d) Amounts recognised directly in equity

Aggregate current and deferred tax arising and note recognised in profit and loss but directly debited to equity

Current tax (note 22)	11,338	-	-	-
Deferred tax (note 22)	1,041	-	-	-
	12,379			

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Notes to the financial statements
For the year ended 31 December 2008

9. Oil and gas assets

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Cost:				
Oil and gas assets acquired	280,238	277,569	-	-
Prior period adjustments	24,701	-	-	-
Additions during the period	15,272	2,669	-	-
Total assets for amortisation	320,211	280,238	-	-
Accumulated amortisation:				
Transferred accumulated amortisation	93,495	77,795	-	-
Amortisation for the period	22,714	15,700	-	-
Total accumulated amortisation	116,209	93,495	-	-
Balance at end of year	204,002	186,743	-	-

10. Joint venture

The Company participates in various petroleum projects in the Southern Highlands Province of Papua New Guinea through joint venture arrangements.

The principal activity of the joint ventures is exploration and production of hydrocarbons.

The Company's interests are as follows:

Petroleum Development License – Moran 20.50% (This equates to an 11.275% interest in PDL 5)

The Company's share of the assets and liabilities (net of accumulated amortisation and depreciation) employed in the Moran Joint Venture is included in the balance sheet under the following classifications:

	2008 K'000	2007 K'000
Current assets		
Inventories	1,829	2,444
Other debtors and prepayments	(884)	1,704
Non current assets		
Property, plant and equipment	209,331	185,132
Share of assets employed in the joint ventures	210,276	189,280
Current liabilities		
Trade creditors	6,274	2,537
Total liabilities relating to the Company's interest in joint venture	6,274	2,537
Net assets	204,002	186,743

Petromin PNG Holdings Limited and its subsidiaries
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For the year ended 31 December 2008

11. Deferred costs

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Deferred restoration expenditure	4,995	4,832	-	-
Evaluation expenditure FEED – PNG LNG	2,698	-	-	-
Elk / Antelope project costs	10,551	-	-	-
Precious metal exploration	939	-	-	-
	19,183	4,832	-	-

12. Provisions

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Current				
Employee entitlements	985	-	-	-
Royalties	636	-	-	-
Mining levy	1,868	-	-	-
	3,489	-	-	-
Non – current				
Long service leave	1,153	47	47	47
Rehabilitation & restoration costs	13,524	7,252	-	-
	14,677	7,299	47	47

	2008 K'000	2007 K'000
Provision for rehabilitation and restoration costs ⁽ⁱ⁾		
Balance at 1 January 2008	7,252	7,252
Acquisition of subsidiary	6,272	-
Additional charged	-	-
Balance at 31 December 2008	13,524	7,252

i) Provision for restoration relates to the estimated costs associated with the restoration of sites that will be incurred at the conclusion of the economic life of the producing assets in which the Group holds an interest. No usage of this provision is expected during the next 12 months.

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13. Property, plant and equipment

The Group

	Land & Building	Motor Vehicles	Furniture & Fittings	Plant & Equipment	Office Equipment	Capital work-in Progress	Total
COST	K'000	K'000	K'000	K'000	K'000	K'000	K'000
1 January 2007	-	-	-	-	-	-	-
Additions	-	257	41	-	448	-	746
Disposals	-	-	-	-	-	-	-
31 December 2007	-	257	41	-	448	-	746
Acquisition of subsidiary	7,392	-	-	87,031	-	2,471	96,894
Additions	-	85	78	1,514	440	1,475	3,592
Disposals	-	-	-	-	-	-	-
31 December 2008	7,392	342	119	88,545	888	3,946	101,232
DEPRECIATION							
1 January 2007	-	-	-	-	-	-	-
Depreciation	-	(34)	(1)	-	(14)	-	(49)
Disposals	-	-	-	-	-	-	-
31 December 2007	-	(34)	(1)	-	(14)	-	(49)
Acquisition of subsidiary	(7,149)	-	-	(80,028)	-	-	(87,177)
Depreciation	(71)	(54)	(8)	(2,172)	(141)	-	(2,446)
Disposals	-	-	-	-	-	-	-
31 December 2008	(7,220)	(88)	(9)	(82,200)	(155)	-	(89,672)
Net Book Value 2007	-	223	40	-	434	-	697
Net Book Value 2008	172	254	110	6,345	733	3,946	11,560

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For the year ended 31 December 2008

13. Property, plant and equipment (cont'd)

The Company

COST	Motor Vehicles K'000	Furniture & Fittings K'000	Office Equipment K'000	Total K'000
1 January 2007	-	-	-	-
Additions	257	41	448	746
Disposals	-	-	-	-
Balance at 31 December 2007	257	41	448	746
Additions during the year	86	78	440	604
Disposals	-	-	-	-
Balance at 31 December 2008	343	119	888	1,350
DEPRECIATION				
1 January 2007	-	-	-	-
Depreciation	(34)	(1)	(14)	(49)
Disposals	-	-	-	-
Balance at 31 December 2007	(34)	(1)	(14)	(49)
Depreciation	(54)	(9)	(141)	(203)
Disposals	-	-	-	-
Balance at 31 December 2008	(88)	(10)	(155)	(253)
Net Book Value 2007	223	40	434	697
Net Book Value 2008	255	109	733	1,097

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14. Cash and cash equivalents

	The Group		The Company	
	2008	2007	2008	2007
	K'000	K'000	K'000	K'000
Cash at bank	17,958	32,607	11,964	925
Petty cash	62	1	2	1
Short term deposits	72,530	14,639	49,571	750
	90,550	47,246	61,537	1,676
Bank overdraft	(2,153)	-	-	-
Cash and cash equivalents net of bank overdrafts	88,397	47,246	61,537	1,676

15. Trade and other receivables

	The Group		The Company	
	2008	2007	2008	2007
	K'000	K'000	K'000	K'000
Trade receivables	11,981	27,631	-	-
Prepaid expenses	2,697	43	94	44
Interest receivable	-	43	-	-
Other receivables	2,221	1,179	1,352	343
Provision for other receivables	(592)	-	(592)	-
	16,307	28,896	854	387

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16. Inventories

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Oil stock	433	2,609	-	-
Gold on hand and in circuit	5,590	-	-	-
Consumable stock	12,701	-	-	-
Less: Provision for inventory obsolescence	(3,971)			
	14,753	2,609	-	-

17. Related parties

During the financial year, the following transactions occurred between the Company and its related parties:

- Management fees to Petromin PNG Holdings Limited from Eda Oil Limited of K5.0 million and from Tolukuma Gold Mine Limited of K1.6 million.

Related party balances

The following balances arising from transactions between the Company and its related parties are outstanding at the reporting date:

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
<u>Amount due from related parties</u>				
Tolukuma Gold Mine Limited	-	-	8,061	-
Eda Minerals Limited	-	-	21	-
Eda Oil Limited	-	-	-	10
	-	-	8,082	10
<u>Amount due to related parties</u>				
Eda Oil Limited	-	-	13,322	21,042

Key management compensation

Key management personnel comprises of the Petromin Holding Limited Board of Directors and Petromin Executive management team.

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Wages and salaries	1,453	1,173	1,423	1,143
Other short term benefits	91	-	91	-
	1,544	1,173	1,514	1,143

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18. Trade and other payables

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Current				
Trade payables	9,063	32	355	32
Cash calls payable	-	1,516	-	-
Amounts due to MRDC	6,851	6,851	5,000	5,000
Other creditors	12,539	3,490	-	770
	28,453	11,889	5,355	5,802
Non current				
Amounts due to MRDC	10,000	15,000	10,000	15,000

19. Investment in subsidiaries

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Eda Oil Limited	-	-	40,030	40,000
Eda Minerals Limited	-	-	3,685	-
Eda LNG Limited	-	-	10,551	-
Tolukuma Gold Mines Limited	-	-	1,135	-
	-	-	55,401	40,000

Petromin was created through a change in policy by the Government, based on an Independent Advisory Committee Review titled "Treatment of State Equity in Mining and Petroleum Projects

Consequently:

- Petromin acquired 100% of Eda Oil Limited from MRDC with effect from 28 August 2007 for a consideration of K40m.

During 2008 the Company has made the following additional investments:

- Acquired 100% Tolukuma Gold Mine Limited from Emperor Gold Mines Limited on 21 February 2008.
- Invested in InterOil's Elk/Antelope gas project in the Gulf Province in August 2008 through a wholly owned subsidiary company Eda LNG Limited. The costs to date represents farm in and exploration costs to end of the year. Petromin, through Eda LNG Limited expects to be nominated under the Petromin PNG Holdings Authorisation Act 2007 to be the State's Nominee in respect of the State's interest in the Elk/Antelope Project. In anticipation of this Eda LNG Limited will contribute the State's participating interest of the exploration and development costs of the Elk/Antelope Project until the grant of a PDL.
- Incorporated a wholly-owned subsidiary, Eda Minerals Limited, to carry out mineral exploration in Papua New Guinea. In 2008 it started explorations into the 11 tenements it purchased from Tolukuma Gold Mines Limited in the same year, and the costs are for exploration work to end of the year.

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19. Investment in subsidiaries (cont'd)

The group has the following subsidiaries at 31 December 2008

Name of subsidiary	Shareholding	Country of Incorporation	Reporting date
Eda Oil Limited	100%	PNG	31 December
Eda Minerals Limited	100%	PNG	31 December
Eda LNG Limited	100%	PNG	31 December
Tolukuma Gold Mines Limited	100%	PNG	31 December

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20. Business combinations

In February 2008, the group acquired 100% of the share capital of Tolukuma Gold Mines Limited. The acquired business contributed revenues of K89,9 million and net losses of K17.9 million from 29 February 2008 to 31 December 2008. These amounts have been determined using the group's accounting policies and by adjusting the results of the subsidiary and assuming the fair value adjustments from acquisition date.

Details of the provisional fair value of assets and liabilities acquired are as follows:

	K'000	
Purchase consideration:		
- Cash paid	-	
- Direct costs relating to the acquisition	<u>1,135</u>	
Total purchase consideration	<u>1,135</u>	
	Fair value	Carrying amount
	K'000	K'000
Cash and cash equivalents	2,999	2,999
Trade and other receivables	5,134	5,134
Inventories	17,383	17,383
Property, plant & equipment	9,717	9,717
Trade and other payables	(16,553)	(16,553)
Provisions	(10,559)	(10,559)
Contingent tax liability*	(9,000)	-
Deferred taxes	-	-
Fair value of net assets / (liabilities)	<u>(879)</u>	<u>8,121</u>
Goodwill on acquisition ⁽¹⁾	<u>2,014</u>	
Purchase consideration settled in cash	(1,135)	
Cash and cash equivalents in subsidiary	<u>2,999</u>	
Cash inflow on acquisition	<u>1,864</u>	

* Contingent tax liability has been recognised within the current tax balance for the Group.

Accounting for the business combination has been determined on a provisional basis pending a final assessment by the Company's management of the fair value of the assets and liabilities acquired. Notwithstanding this, the Company's management and board of directors consider that the carrying values of the assets and liabilities acquired reasonably approximate their fair values at the date of acquisition. The final fair value exercise may result in material changes to the fair values and therefore require a restatement of the results for 2008, once finalised.

⁽¹⁾ The goodwill on acquisition of K2.0 million was fully written off on acquisition.

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21. Authorised and issued share capital

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
1 fully paid ordinary share @ K1.00	-	-	-	-

22. Retained earnings – prior period adjustments

	The Group		The Company	
	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Balance at the beginning of the year	198,871	-	302	-
Prior period adjustments – Eda Oil [Note 22(i) & (ii)]	17,638 ⁽ⁱ⁾	(2,057) ⁽ⁱⁱ⁾	-	-
Profit for the year/period	93,261	200,928	102,464	302
Dividends paid	(5,000)	-	(5,000)	-
	304,770	198,871	97,766	302

22. (i) prior year adjustment is made based on the unitisation of Moran field assets during the year. The details of the adjustment are as follows.

	2008
	K'000
Unitisation gain	30,017
Tax effect on unitisation adjustment	(12,379)
Net adjustment	17,638

The unitisation included the following:

	2008
	K'000
-Increase to oil and gas assets	24,701
-Increase to current tax liability	(11,338)
-Increase to deferred tax liability	(1,041)
-Cash received on adjustment	5,316
Net adjustment	17,638

The error related to periods prior to 2007 therefore there has been no restatement of prior period financial statements.

22.(ii) Prior year adjustments relate to adjustments in Eda Oil and include the following.

	2007
	K'000
-Revision of amortisation of oil and gas assets	(2,786)
-Revision of cost estimate on restoration cost	659
-Revision of amortisation on restoration cost	(177)
-Prior period charge on amortisation adjustment	247
Net adjustment	(2,057)

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23. (a) Reconciliation of cash and cash equivalents

	The Group		The Company	
	2008	2007	2008	2007
	K'000	K'000	K'000	K'000
Cash and cash equivalents net of bank overdrafts	15,867	32,606	11,966	926
Short term Deposits	72,530	14,640	49,571	750
	88,397	47,246	61,537	1,676

23. (b) Reconciliation of profit for the period to net cash flows from operating activities

	The Group		The Company	
	2008	2007	2008	2007
Profit after tax	93,261	200,928	102,464	904
<i>Add (less) non-cash/non operating items</i>				
Depreciation & amortisation	25,363	16,220	203	49
Dividend received	-	-	(107,000)	-
Foreign exchange (gains)/losses	(7,391)	-	-	-
Amortisation of rehabilitation asset	-	1,583	-	-
Provision for site restoration cost	-	(1,112)	-	-
Exploration cost	3,325	-	-	-
Profit on acquisition	-	(212,200)	-	-
Impairment of goodwill	2,014	-	-	-
<i>Add (less) movements in working capital balances (excluding effects of acquisition and prior period adjustments:</i>				
Increase/(decrease) in current tax liability	(34,256)	23,520	67	-
(Increase) / decrease in trade and other receivables	17,723	10,776	(467)	(387)
(Increase) / decrease in inventories	5,239	(1,982)	-	-
(Increase) / decrease Deposits	(289)	25	(188)	(25)
Increase in amounts due from related party	-	-	(15,792)	(10)
Increase/(decrease) in trade and other payables	(4,989)	7,230	(5,447)	802
Increase/(decrease) in amounts due to related party	-	1,851	-	1,043
Increase/(decrease) in deferred liabilities	(24,896)	-	25	-
Increase/(decrease) in provisions	308	47	-	47
Net cash from operating activities	75,412	46,886	(26,135)	2,422

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24. Commitments for expenditure

a) Capital expenditure

There were no capital expenditure commitments arising at balance sheet date.

(b) Non – cancellable operating lease

Petromin is leasing five units of office space in the Pacific View Apartments with the lease period effective from 1st June 2007 to 31st May 2009. The total lease commitments payable is K84,825 per month.

(c) Cancellable commitments

The Group has significant commitments in respect of its interest in PDL 5 through Eda Oil Limited and the Elk, Antelope project with InterOil Corporation. These commitments are considered voluntary and non binding thus the directors believe additional disclosure of these amounts is not warranted.

25. Financial risk management

(a) Financial risk management objectives

The group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate and commodity price risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Foreign currency risk management

i) The group operates internationally and is exposed to foreign exchange risk arising from various exposures primarily with respect to the US dollar for Oil sales and Australian Dollar for gold sales. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

ii) At 31 December 2008, if the USD and AUD currency had weakened/ strengthened by 5% against the Kina with all other variables held constant, the post-tax profit for the year would have been K8.4 million (2007: K4.2 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar.

(d) Credit risk management

The group uses an agent to ensure sales transactions are undertaken only with major oil companies. Payment terms are maintained at 30 days, in accordance with standard oil industry practice.

Gold sales are made direct to AGR Matthey Refinery. Payment terms are in accordance with standard industry practice.

(e) Interest rate risk management

As the group has significant interest-bearing assets, the group's income and operating cash flows are substantially dependent on the changes in market interest rates.

Interest earned from term deposit for 2008 was K1.5 million (2007: K 0.6 million) at an average interest rate of 6% (2007: 5%). A 100 basis point increase/decrease in the interest rate with all other variables held constant would have resulted in an increase/decrease of post-tax profit for the year of K0.2 million (2007: K 0.1 million)

(f) Price risk

The group is exposed to crude oil price and gold price fluctuations and it is not the group policy to hedge this exposure.

A 10% increase/decrease in the gold price, with all other variables held constant would have resulted in an increase/decrease in post-tax profit for the year of K6.0 million (2007: nil).

A 10% increase/decrease in the oil price, with all other variables held constant would have resulted in an increase/decrease in post-tax profit for the year of K 13.1 million (2007: K5.0 million)

25. Financial risk management (cont'd)

(g) Liquidity risk management

The Company aims to prudently manage liquidity risk by maintaining sufficient cash and other liquid assets or the availability of funding through uncommitted credit facilities. Liquidity is not considered a significant risk to the Company as all its funds are held as cash in the bank. At 31 December 2008, the Company had K61 million in cash and cash equivalents. The Company's financial liabilities are trade payables, other payables and current income tax set out in the balance sheet. These financial liabilities are expected to be settled within 12 months from the balance date.

(h) Cash flow and interest rate risk

The group holds interest bearing deposits however the income and operating cash flows are largely independent of changes in the rates on these deposits.

26. Contingent liabilities

At 31 December 2008, the group had contingent liabilities in respect of legal claims arising in the ordinary course of business. The group has disclaimed liability in all cases and is vigorously defending these actions. It is not practical to estimate the potential effect of these claims but legal advice indicates that any liability that may arise in the unlikely event these claims are successful will not be significant.

27. Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect the operations of the group, the results of those operations, or the state of the affairs of the group in future financial years.