

**Meridian Petroleum plc**

**Meridian Petroleum plc**  
Annual Report & Accounts 2006

# MERIDIAN PETROLEUM PLC

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## MERIDIAN PETROLEUM PLC

### Corporate Information

<b>Directors</b>	Stephen Gutteridge – Non-Executive Chairman (appointed 4 April 2007) Anthony Mason – Chief Executive Officer Angelo Baskaran – Chief Financial Officer (appointed 20 October 2006) Donald Caldwell – Non-Executive Director Peter Clutterbuck – Non-Executive Director David Wake-Walker – Non-Executive Director (appointed 27 October 2006)	
<b>Secretary</b>	David Wake-Walker	
<b>Registered Office</b>	13 Regent Street London SW1Y 4LR	
<b>Website</b>	<a href="http://www.meridianpetroleum.com">www.meridianpetroleum.com</a>	
<b>Nominated Advisor and Broker</b>	Ambrian Partners Limited 8 Angel Court London EC2R 7HP	
<b>Auditors</b>	RSM Robson Rhodes LLP 30 Finsbury Square London EC2P 2YU	
<b>Solicitors</b>	Field Fisher Waterhouse LLP 35 Vine Street London EC3N 6AE	
<b>UK Bankers</b>	Barclays Bank 54 Lombard Street London EC3P 3AH	
<b>US Bankers</b>	JP Morgan Chase Bank N.A. 203 Southwest Freeway Houston Texas 77027	Comerica Bank 910 Louisiana St. Houston Texas 77002
<b>Registrars</b>	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA	
<b>Registered number</b>	05104249	

## MERIDIAN PETROLEUM PLC

### **Chairman's Statement**

Having joined Meridian Petroleum plc as Chairman in April 2007, I am happy to let Tony Mason, Chief Executive, update our shareholders on the events of 2006 in his Statement and Review of Operations. I am however delighted to have this early opportunity to put on record my own perspective on your Company's potential.

In terms of market capitalisation, Meridian Petroleum is currently a small company, but one which owns three potentially significant gas-producing assets – the Calvin Deep and Coal Bed Methane prospects in the USA and the Delores prospect in Australia. The Board of Meridian is committed to putting in place realistic and well-resourced plans to deliver value from these assets at the earliest opportunity. In order to achieve this we needed to strengthen our financial position by generating our own cash-flow from production and raising further money from our shareholders. The latter we have achieved through the further placing of shares in June 2007, and we enter the second half of this year with three gas wells shortly to come on-stream.

We now have the platform to move forward on our major assets, any one of which is capable of transforming the prospects and value of your Group. The fact that each of these opportunities is different in terms of the challenges, risks and potential rewards, makes this an interesting time for Meridian Petroleum and its shareholders.

Stephen Gutteridge

25 June 2007

## MERIDIAN PETROLEUM PLC

### **Chief Executive's Officer's Statement & Review of Operations**

2006 was a year of further progress for Meridian Petroleum, and I am pleased to confirm that progress has continued through into 2007. Indeed, we expect that the achievements of 2006 will deliver production and cash flow for the Group in the second half of 2007.

During 2006, despite some frustrating delays, we signed the lease on the Orion field and confirmed the commerciality of the Calvin 36 well. Both of these assets are expected to contribute to production in 2007.

In May 2006 we received independent assessments from Scott Pickford (part of RPS Energy) on two of our potentially most significant assets. The Prospective Resources of our Delores prospect in Australia were confirmed to have a best estimate of 432 Bcf. For our Coal Bed Methane opportunity in Alabama, USA, they estimated prospective reserves at 240-390 Bcf.

Through the second half of 2006, the Group continued both to add attractive assets and to make progress with its plans to exploit existing opportunities. In July, the rights to exploit the deep gas potential in the Calvin field were acquired and in order to move the development programme forward, a 50/50 joint venture with Ensign Partners was signed in November. Ensign bring significant local expertise and experience to the asset and are located in Shreveport, Louisiana, USA.

Also in July 2006, the Group signed the Native Title Agreement for the PEL 132 Licence in Australia which contains the Delores prospect. This was followed by the official execution of the Agreement by the South Australian Government in April 2007.

There were challenges in 2006. In a tight market it became increasingly difficult and costly to obtain the equipment and technical skills needed by the Group to sustain its development plans. We also experienced operator problems on some wells, principally Calvin 36#1 and together these caused significant delays to our plans. The Group is taking steps to ensure that the required level of resources is available for future needs. During the year the Group raised \$4.4 million by way of 3 share placements and more recently in 2007 the Group raised a further \$3.4 million.

The Group's priorities for 2007 are very clear: to bring production on line from the US gas operations as soon as practicable and to dedicate the resources necessary to move forward with the large opportunities of Calvin Deep, Coal Bed Methane and Delores in Australia. As part of this prioritisation, the Board decided in 2006 not to expend further resources on the Emery Hudson field. Consequently this asset has been fully written off in the 2006 accounts.

## MERIDIAN PETROLEUM PLC

***Chief Executive's  
Officer's Statement  
& Review  
of Operations***

The Group has strengthened its Board in 2006 and early 2007, and I am pleased to welcome Angelo Baskaran as Chief Financial Officer, Stephen Gutteridge as Non-Executive Chairman and David Wake-Walker as Non-Executive Director to the Board. I would like to record my thanks to Don Caldwell who has stepped down as Chairman but remains with us as a Non-Executive Director. My thanks also go to our Board, staff and contractors who have all contributed to our progress this year.

In 2007 we are on track to join the small group of AIM-listed oil and gas companies with production and this will mark a significant step in the growth of Meridian. We will use that base to ensure effective and timely exploitation of our attractive assets in the US and Australia.

Tony Mason

25 June 2007

# MERIDIAN PETROLEUM PLC

## **Directors' Report**

The Directors present their report and the audited financial statements of Meridian Petroleum plc, for the year ended 31 December 2006.

### **Financial Review**

The results for 2006 have been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS). Meridian Petroleum has adopted IFRS for its group accounts with effect from 1 January 2005. Following the transition to IFRS, the Group has chosen to adopt the US Dollar as its presentation currency. This is to reflect the fact that most of the Group's activities are denominated in that currency.

The balance sheet of the holding company is still prepared under UK Generally Accepted Accounting Policies (GAAP).

### **Principal activities**

The Group conducts an international business whose principal activities are the exploration for and the evaluation and production of oil and gas.

A detailed review of the development of the business of the Group is contained in the Chief Executive's statement on pages 4 to 5

### **Results and Dividends**

The loss for the year after taxation amounted to US \$5.9m (2005: US \$ 1.6m).

The Directors do not recommend a dividend.

### **Subsequent events**

The Group raised an additional US \$3.4 million by way of a share placement on 8 June 2007.

### **Directors**

The Directors of the Company are as follows:

Stephen Gutteridge (appointed 4 April 2007)

Anthony Mason

Angelo Baskaran (appointed 20 October 2006)

Donald Caldwell

Peter Clutterbuck

David Wake-Walker (appointed 27 October 2006)

None of the Directors has a service agreement of more than one year's duration.

Save as disclosed in note 23 no Director has had a material interest in any contract of significance with the Company or its subsidiaries during the year.

## MERIDIAN PETROLEUM PLC

### Directors' Report

#### Directors' interests

The Directors who held office at 31 December 2006 had the following interests in the share capital of the Company : -

	Number of Shares		Number of Options	Number of Warrants
	31 December 2006	1 January 2006	31 December 2006	31 December 2006
Donald Caldwell	400,000	400,000	800,000	-
Anthony Mason	24,127,334	24,700,000	-	2,240,124
Angelo Baskaran	-	-	750,000	-
Peter Clutterbuck	572,666	-	720,000	-
David Wake-Walker	-	-	720,000	-

During the year the market price of the shares ranged between 7.12p and 44.00p. The market price at 29 December 2006 was 26.93p.

#### Post Balance Sheet Events in respect of options and warrants

- (1) On 22 January 2007 the Company issued 300,000 ordinary shares at 10p per share pursuant to an exercise of options raising £30,000.
- (2) On 22 February 2007 the Company issued 300,000 ordinary shares at 10p per share pursuant to an exercise of options raising £30,000.

#### Substantial Shareholders

As at 18 June 2007, the latest practicable date prior to the publication of this report, the Directors have been advised of the following shareholders who have an interest of 3% or more in the ordinary shares of the Company:

Name	Number of Shares	%
Mellon Nominees UK Limited	14,627,334	15.17%
HSDL Nominees Limited	9,748,536	10.11%
TD Waterhouse Nominees (Europe) Limited	8,239,879	8.54%
Barclayshare Nominees Limited	7,536,771	7.82%
L R Nominees Limited	5,551,698	5.76%
Credit Suisse Client Nominees UK Limited	5,454,500	5.66%
Roy Nominees Limited	5,171,500	5.36%
Raven Nominees Limited	3,947,096	4.09%
Hoodless Brennan Plc	3,664,900	3.80%
City Equities (Nominees) Limited	3,005,000	3.12%

Tony Mason holds a total of 24,127,334 (25.02%) shares which are held in the name of Mellon Nominees and HSBC Global Custody Nominees and in other nominee companies.

#### **Key Performance Indicators**

Key Performance Indicators are used to measure the extent to which directors and management are reaching key objectives.

In the 2 years ended December 2006 there has been no significant production of oil or gas. During this time the key objective of the directors has been to develop the assets acquired to bring them into production in a cost effective and efficient manner. In 2007 Production is expected to commence.

In reaching the current stage of development of the company the principal method by which the director's monitor the Group's performance has been the regular review of cash available for exploration and development. The directors also review actual capital expenditure and operating expenses against forecasts and budgets.

#### **Environment**

Meridian ensures that it understands and effectively manages the actual and potential environmental impact of its current and future activities. All local and national environmental regulations are observed in the countries in which the group operates.

#### **Principal risks and uncertainty facing the company**

The principle risks and uncertainty arises from unsuccessful drilling. The company then suffers a loss on all costs to that point in time. The risk falls into three main areas:

- Although seismic data may indicate a reserve, a test drilling may reveal that there is no significant oil or gas.
- Detailed evaluation after the test drilling may demonstrate that, after production costs, the well is not commercially viable.
- Before production commences unforeseen technical problems may result in cost over runs that make the well uneconomic.

#### **Payment Policy and Practice**

It is the Group's normal practice to settle the terms of payment when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms and to abide by them. Trade creditors at the year end amount to 40 days (2005: 75 days) of average supplies for the period.

#### **Financial risk management objectives and policies**

The Group has to date financed its operations from equity issues raised in pounds sterling and principally pays for exploration and development costs in US Dollars. To date, the Group has chosen not to hedge this exchange rate risk. The Group reviews its financing requirements and its hedging policy when required. Further details are set out in note 20.

**Directors'  
Report**

**Third Party Indemnities**

The Group has taken out Directors and Officers liability insurance.

**Related parties**

The Group has entered into related party transactions, the details of which are outlined in note 23.

**Annual General Meeting**

The Annual General Meeting will be held on 2 August at 11:00 a.m.

**ON BEHALF OF THE BOARD**

**A. Mason**

Director

25 June 2007

**Corporate  
Governance  
Statement**

It is the objective of the Board to maintain a high standard of Corporate Governance. As an AIM listed company, full compliance with the Combined Code is not a formal obligation. The Group has, however, sought to adopt the provisions of the code that are appropriate to its size and organisation and establish frameworks for the achievement of this objective.

**The Board**

Meridian Petroleum's business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the sector and regulatory environment in which Meridian Petroleum operates and appropriate financial and risk management skills. In each Board appointment, whether executive or non-executive, the Board considers that objectivity and integrity, as well as skills, experience and ability which will assist the Board in its key functions, are pre-requisites for appointment.

The Board currently comprises the Chairman, the Chief Executive, one other executive director and three non-executive directors.

**Board Committees**

The audit committee is comprised of David Wake-Walker (chairman) and Peter Clutterbuck.

The remuneration committee is comprised of Peter Clutterbuck (chairman) and Stephen Gutteridge

*The role of the Audit Committee includes:*

- monitoring the integrity of the financial statements of the Group and formal announcements relating to the Group's financial performance and reviewing any significant financial reporting judgments contained in them
- reviewing accounting policies, accounting treatments and disclosures in financial reports
- reviewing the Group's internal financial controls and internal control and risk management systems
- overseeing the Group's relationship with the external auditors, including making recommendations to the Board as to the appointment or reappointment of the external auditors, reviewing their terms of engagement, and monitoring the external auditors' independence, objectivity and effectiveness, and
- reviewing the Group's whistleblowing procedures and ensuring that arrangements are in place for the proportionate and independent investigation of possible improprieties in respect of financial reporting and other matters and for appropriate follow up action.

*The role of the Remuneration Committee includes:*

- determining and recommending to the Board the remuneration policy for the executive directors and any employees whose total compensation exceeds US\$500,000 or equivalent. The non-executive directors' remuneration is set by the Board upon the recommendation of the Remuneration Committee
- within the terms of the agreed policy, determining the total individual remuneration package for each executive director

## MERIDIAN PETROLEUM PLC

### **Corporate Governance Statement**

- determining the level of awards made under the Company's share option plans and any long-term incentive plan and the performance conditions which are to apply
- determining bonuses payable under any cash bonus scheme adopted by the Group
- determining the vesting awards under any long term incentive plan put in place by the Group and exercise of share options, and
- determining the policy for pension arrangements, service agreements and termination payments for executive directors.

### **Relations with Shareholders**

Communications with shareholders are given high priority by the Board. Meridian Petroleum sends both its annual report and accounts and interim report and accounts to all shareholders. The Group endeavours to maintain a regular dialogue with institutions and analysts particularly in relation to interim and full year results.

The Board welcomes as many investors as possible to the Annual General Meeting and invites discussion on issues facing the Group.

### **Going Concern**

The directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

### **Internal Control**

The Board acknowledges its responsibility for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. As an oil and gas exploration and production company with current operations concentrated in the USA and Australia, Meridian Petroleum is, by virtue of the nature of its business and the countries in which it operates, subject to a variety of business risks.

The Group's system of internal control plays a critical role in managing the risks towards the achievement of Meridian Petroleum's corporate vision and objectives, and is also central to safeguarding Meridian Petroleum's shareholders' interests and the Group's assets. An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group.

**Statement of  
Directors'  
Responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether the financial statements comply with IFRS as adopted by the European Union
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the Group and the parent company will continue in business.

The Directors confirm that the financial statements comply with these requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## MERIDIAN PETROLEUM PLC

### ***Statement of Directors' Responsibilities***

At the date of the Report of the Directors, each of the Company's Directors, as listed on page 6, confirms the following:

- so far as each Director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware, and
- each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

# MERIDIAN PETROLEUM PLC

## *Independent Auditors' Report*

### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MERIDIAN PETROLEUM PLC**

We have audited the group and parent company financial statements ("the financial statements") of Meridian Petroleum plc for the year ended 31 December 2006 which comprise the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of recognised income and expenditure and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders 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 group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information that is cross-referred from the Chief Executive Officer's Statement and Review of Operations.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's Statement and Review of Operations and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our

**Independent  
Auditors' Report**

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's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the group as at 31 December 2006 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the parent company as at 31 December 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**RSM ROBSON RHODES LLP**

**CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS**

**LONDON, ENGLAND**

25 June 2007

MERIDIAN PETROLEUM PLC

**Consolidated  
Income Statement  
Year ended 31  
December 2006**

	Note	2006 US \$000	2005 US \$000
<b>Revenue</b>	4	8	160
<b>Cost of sales</b>			
Production costs		<u>(63)</u>	<u>(225)</u>
<b>Gross loss</b>		(55)	(65)
Administrative expenses		(1,845)	(1,225)
Impairment charge	5	<u>(4,065)</u>	<u>(390)</u>
Operating loss		(5,965)	(1,680)
Investment Income – interest on bank deposits		<u>21</u>	<u>32</u>
Loss before taxation	5	(5,944)	(1,648)
Taxation	7	<u>-</u>	<u>-</u>
<b>Loss for the year attributable to equity shareholders</b>		<u><u>(5,944)</u></u>	<u><u>(1,648)</u></u>
<b>Loss per share – basic and diluted (cents)</b>	8	<u><u>(8.3)</u></u>	<u><u>(2.7)</u></u>

**Statement of  
recognised income  
and expenditure  
Year ended 31  
December 2006**

	Note	2006 US \$000	2005 US \$000
<b>Total (expense)/income recognised direct in equity</b>			
Currency translation differences- gain/(loss)		105	(118)
<b>Loss for year</b>		<u>(5,944)</u>	<u>(1,648)</u>
<b>Total recognised income and expense for the year</b>		<u><u>(5,839)</u></u>	<u><u>(1,766)</u></u>

The accompanying accounting policies and notes form an integral part of these financial statements.

MERIDIAN PETROLEUM PLC

*Consolidated  
balance sheet  
As at 31 December  
2006*

	Note	2006 US \$000	2005 US \$000
<b>Non-current assets</b>			
Intangible assets	9	646	424
Property, plant and equipment	10	<u>2,020</u>	<u>5,398</u>
		<u>2,666</u>	<u>5,822</u>
<b>Current assets</b>			
Trade and other receivables	11	234	141
Cash and cash equivalents	12	<u>2,332</u>	<u>370</u>
		<u>2,566</u>	<u>511</u>
<b>Total assets</b>		<u><u>5,232</u></u>	<u><u>6,333</u></u>
<b>Current liabilities</b>			
Trade and other payables	13	<u>211</u>	<u>298</u>
<b>Total liabilities</b>		<u><u>211</u></u>	<u><u>298</u></u>
<b>Net assets</b>		<u><u>5,021</u></u>	<u><u>6,035</u></u>
<b>Equity</b>			
Called up share capital	14	7,362	5,925
Share premium	15	6,565	3,316
Retained earnings	16	(9,157)	(3,213)
Translation reserve	16	112	7
Other reserves	16	<u>139</u>	-
<b>Total equity attributable to the equity holders</b>		<u><u>5,021</u></u>	<u><u>6,035</u></u>

The financial statements were approved by the board of directors and authorised for issue on 25 June 2007. They were signed on its behalf by:

**A Mason**

Director

25 June 2007

The accompanying accounting policies and notes form an integral part of these financial statements.

MERIDIAN PETROLEUM PLC

**Consolidated cash  
flow statement  
31 December 2006**

	Note	2006 US \$000	2005 US \$000
<b>Cash flows from operating activities</b>			
Cash consumed by operations	17	(1,955)	(1,037)
Interest received		<u>21</u>	<u>32</u>
		<u>(1,934)</u>	<u>(1,005)</u>
<b>Cash flows from investing activities</b>			
Expenditure on exploration and evaluation assets		(459)	(807)
Expenditure on development and production assets		<u>(450)</u>	<u>(382)</u>
		<u>(909)</u>	<u>(1,189)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		<u>4,686</u>	<u>1,190</u>
Net increase/(decrease) in cash and cash equivalents		1,843	(1,004)
Opening cash and cash equivalents at beginning of year		370	1,430
Exchange gains/(losses) on cash and cash equivalents		<u>119</u>	<u>(56)</u>
<b>Closing cash and cash equivalents</b>		<u><u>2,332</u></u>	<u><u>370</u></u>

The accompanying accounting policies and notes form an integral part of these financial statements.

1. **General information**

**Corporate Status**

Meridian Petroleum plc is a company incorporated in England under the Companies Act 1985. The address of the registered office is given on page 2. The nature of the Group's operations and its principal activities are set out in note 4 and in the Directors' Report on pages 6 to 9. The Company is quoted on the AIM market of the London Stock Exchange (ticker: MRP), and is headquartered in London UK, with offices in Houston, Texas, USA.

**Presentation Currency**

The presentation currency of the group is United States (US) Dollars. This represents a change in comparison to previous years when the reporting currency of the Group, under UK GAAP, was Pounds Sterling. Following the transition to accounting under International Financial Reporting Standards (IFRS), the group has decided, in order to aid better disclosure, that the US Dollar be adopted as its presentation currency as the trading and majority of the group's transactions are in US Dollars. The Group's policy on foreign currencies is detailed in note 2(g).

2. **Significant accounting policies**

**a) Basis of preparation**

The Group financial statements have been prepared in accordance with EU endorsed IFRS, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. All accounting standards and interpretations issued by the International Accounting Standards Board and the IFRIC effective at the time of preparing these financial statements have been applied.

The Group financial statements have been prepared under the historical cost convention. A summary of the significant Group accounting policies adopted in the preparation of the financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These are the first financial statements of Meridian Petroleum plc to have been prepared under IFRS and the disclosures required by IFRS 1 'First time adoption of IFRS' concerning the transition from UK GAAP to IFRS are given in note 24.

**2. Significant accounting policies (continued)**

**a) Basis of preparation (continued)**

Standards and interpretations issued but not yet effective

The following Standards and Interpretations have been issued, but are not yet effective and have not been early adopted by the Group:

- IFRS 7 '*Financial Instruments: Disclosures*' and the related amendment to IAS 1 on capital disclosures
- IFRS 8 '*Operating Segments*'
- IAS 23 '*Borrowing Costs*'
- IFRIC 7 '*Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*'
- IFRIC 8 '*Scope of IFRS 2*'
- IFRIC 9 '*Reassessment of Embedded Derivatives*'
- IFRIC 10 '*Interim Financial Reporting and Impairment*'
- IFRIC 11 IFRS2 '*Group and Treasury Share Transactions*';
- IFRIC 12 '*Service Concession Arrangements*'

The above Standards and Interpretations are not expected to have any material impact on the Group's financial statements in their periods of initial application.

**b) Basis of accounting**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied to all periods presented.

**2. Significant accounting policies (continued)**

**c) Basis of consolidation**

The group financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the group financial statements from the date that control commences until the date that control ceases. The results of subsidiaries are included from the date of acquisition.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into the US dollar at exchange rates ruling at the balance sheet date. The revenues and expenses of the UK and Australian operations are translated into the US Dollar at average annual exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within equity.

The Group's exploration, development and production activities are generally conducted as co-licensee in joint operations with other companies. The financial statements reflect the relevant proportions of production, capital expenditure and operating costs applicable to the Group's interest. Where a Group company is party to a joint arrangement, which is not an entity, that company accounts directly for its part of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

**d) Revenue recognition**

Revenue represents the Group's share of sales of oil and gas during the year, excluding sales tax and royalties, and is recognised when title passes to the customer. The Group proportionately recognises its share of revenue on co-licensed operations. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**e) Oil and natural gas exploration and development expenditure**

The Group adopts the successful efforts method of accounting for exploration, evaluation and development costs.

**2. Significant accounting policies (continued)**

**Exploration and Evaluation Expenditure – Intangible Assets**

All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable expenditure is capitalised insofar as it relates to specific exploration and evaluation activities. Pre-licence costs are expensed in the period in which they are incurred. Exploration and evaluation costs are then written off unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment. Exploration and evaluation expenditure is not amortised. If the criteria for recognition of an exploration and evaluation asset are met, it is classified as either a tangible or intangible asset, depending on the nature of the asset. Cost pools are established on the basis of specific fields. When it is determined that such costs will be recouped through successful development and exploitation or alternatively by sale of the interest, expenditure will be transferred to Production Assets.

**Development and Production Assets - Tangible Assets**

All field development costs and transferred exploration and evaluation are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are amortised in accordance with the Group's Depletion and Amortisation accounting policy. The directors carry out regular reviews of development and production assets and assess the need for provisions for impairment.

**Depreciation, depletion and amortisation**

All capitalised expenditure carried within each field is depleted from the commencement of production on a unit of production basis, over the proved reserves. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

**Impairment**

Exploration and evaluation assets are reviewed regularly for indicators of impairment and costs are written off where circumstances indicate that the carrying value may not be recoverable. Any such impairment is recognised in the Income Statement for the period. Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed.

At each reporting date, the Group assesses whether there is any indication that its development and production assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

**2. Significant accounting policies (continued)**

**Impairment (continued)**

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. This present value is discounted using a pre-tax rate that reflects current market assessments of the time value of money and of the risks specific to the asset, for which future cash flow estimates have not been adjusted. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss.

An impairment loss relating to assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the income statement.

**f) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value. The group recognises in the carrying amount of property, plant and equipment the subsequent costs of replacing part of such items when it is expected to generate future economic benefits and its costs can be reliably determined. The carrying value of a part is derecognised when it is replaced. All other costs are recognised in the income statement as an expense as they are incurred.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment (other than development and production assets) over their estimated useful lives. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

2. **Significant accounting policies (continued)**

**g) Foreign currencies**

**Presentation Currency**

The presentation currency is the currency of the primary economic environment in which a group operates and is normally the currency in which the group primarily generates and expends cash. The Group's presentation currency is the US dollar. The Group's presentation currency is different from the functional and presentation currency of the holding company which is UK sterling.

**Transactions**

Transactions in currencies other than the US Dollar are translated at the foreign exchange rate ruling at the date of the transaction. All exchange differences on transactions are recognised in profit or loss in the period in which they are incurred.

**Assets and liabilities**

Monetary assets and liabilities (other than group balances) that are denominated in currencies other than the US Dollar at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the income statement.

**Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

**2. Significant accounting policies (continued)**

**g) Foreign currencies (continued)**

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

Foreign exchange differences on group balances, where the loan is long term, that are denominated in currencies other than the US Dollar at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised directly in equity.

On transition to IFRS the Group has taken advantage of the exemption offered under IFRS 1 and assumed zero brought forward translation differences on subsidiary undertakings as at 1 January 2005.

**h) Financial instruments**

**Trade and other receivables**

Trade receivables are recognised and carried at the original invoiced amount less any allowances for doubtful debts. Other debtors are recognised and measured at nominal value. Trade and other receivables are recognised when invoiced.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and short term deposits with an original maturity of three months or less.

**Trade payables and other creditors**

Trade payables and other creditors are non-interest bearing and are measured at cost.

**Equity**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

**i) Deferred Taxation**

Deferred tax is recognised on all temporary differences under the balance sheet liability method where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that the future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured using rates of tax that are expected to apply when the deferred tax asset is realised or liability is settled.

**2. Significant accounting policies (continued)**

**j) Share Based payments**

The Group has applied the requirements of IFRS 2 Share Based Payments. In accordance with the transitional provisions of that standard, only those awards that were granted after 7 November 2002, and had not vested at 1 January 2005, are included. All share based awards of the Group are equity settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted annually by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period. The fair values were calculated using a Black Scholes option pricing model.

**3. Critical accounting judgments and key sources of estimation uncertainty**

In order to prepare the Consolidated Financial Statements in conformity with IFRS, management of the Group have to make estimates and judgments. The matters described below are considered to be the most important in understanding the judgments that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial condition and cash flows. Group accounting policies are described in Note 2.

**Estimation of oil and gas reserves**

Oil and gas reserves are key elements in the Company's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and gas reserves will also affect the standardised measure of discounted cash flows and changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges to income.

Proved oil and gas reserves are the estimated quantities of oil and natural gas made by management and verified by industry experts that demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made.

Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as the standardised measure of discounted cash flows, depreciation, depletion and amortisation charges, and decommissioning provisions) that are based on proved reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs.

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

### Estimation of oil and gas reserves (continued)

Proved reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

## 4. Geographical and Business segments

In the opinion of the Directors the operations of the Group comprise one class of business, oil and gas exploration, development and production and the sale of hydrocarbons and related activities. The Group currently operates in one geographical market, the USA, and has a head office and associated corporate expenses in the UK.

## 5. Loss before taxation

Loss before taxation has been arrived at after charging:

	2006	2005
	US \$000	US \$000
Depreciation of property, plant and equipment	-	64
Write off of intangible assets	-	390
Impairment of tangible assets	4,065	-
Staff costs (see note 6)	443	355
Auditors' remuneration for audit services (see below)	83	80
Rentals payable in respect of land and buildings	<u>72</u>	<u>93</u>

Impairment of tangible assets relates to the write down of the Emery Hudson asset following an impairment review. Further details are set out in Note 10.

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## 5. Loss before taxation (continued)

	<i>2006</i>	<i>2005</i>
	<i>US \$000</i>	<i>US \$000</i>
<b>Auditors' remuneration</b>		
Services to the Company and its subsidiaries		
Fees payable to the Company's auditors for the audit of the annual financial statements	80	85
Fees payable to the Company's auditors and its associates for other services:		
Audit of the financial statements of the Company's subsidiaries pursuant to legislation		
	5	10
Other services relating to taxation	25	37

## 6. Staff costs

The average monthly number of employees of the Group and Company, (including executive directors) was: 2

	<i>2006</i>	<i>2005</i>
	<i>Number</i>	<i>Number</i>
Average monthly number of employees (including executive directors)	<u>2</u>	<u>2</u>
	<i>US \$000</i>	<i>US \$000</i>
Their aggregate remuneration comprised:		
Wages and salaries	394	340
Social security costs	<u>9</u>	<u>15</u>
	<u>403</u>	<u>355</u>

The above staff costs relate solely to executive directors.

## 7. Taxation

No liability in respect of corporation tax arises as a result of trading losses.

US tax losses to be carried forward as at 31 December 2006 at the standard rate of US corporation tax of 35% amounted to US \$1,100,000. UK tax losses to be carried forward as at 31 December 2006 at the standard rate of UK corporation tax of 30% amount to US \$1,400,000. No deferred tax asset has been recognised in respect of losses carried forward as their future recovery is uncertain.

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7. Taxation (continued)

	2006	2005
	US \$000	US \$000
<b>Tax reconciliation</b>		
Loss on ordinary activities before taxation	<u>(5,944)</u>	<u>(1,648)</u>
Loss on ordinary activities before taxation multiplied by the average of the standard rate of UK corporation tax (30%)	(1,783)	494
<i>Tax effects</i>		
Losses not available for offset against taxable profits	1,603	81
Expenses not deductible for tax purposes	63	30
Difference between UK corporation tax rate and USA federal rate	64	30
Losses carried forward	<u>21</u>	<u>205</u>
	<u>-</u>	<u>-</u>

8. Loss per Share

The calculation of the basic and diluted loss per share is based on the following data:

	2006	2005
	US \$000	US \$000
<b>Loss</b>		
Loss for the purposes of basic earnings per share being net loss attributable to equity holders of the parent company	5,944	1,648
Loss for the purposes of diluted earnings per share	<u>5,944</u>	<u>1,648</u>
	<i>Number</i>	<i>Number</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>71,310,566</u>	<u>59,490,453</u>
	2006	2005
	<i>US cents</i>	<i>US cents</i>
Basic	<u>(8.3)</u>	<u>(2.7)</u>
Diluted	<u>(8.3)</u>	<u>(2.7)</u>

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## 8. Loss per Share (continued)

### Potentially dilutive instruments

The group has issued 3,720,000 (2005 : 1,030,000) options to directors and employees to purchase shares in the group, which could potentially have a future dilutive effect.

The group has issued 3,940,154 (2005 : 3,940,154) warrants to directors and employees to purchase shares in the group, which could potentially have a future dilutive effect.

## 9. Intangible assets - Exploration and Evaluation Assets

	<i>US \$000</i>
<b>Cost</b>	
At 1 January 2005	1,265
Additions	807
Transfer to Tangible Assets	(1,258)
Amounts written off	<u>(390)</u>
At 1 January 2006	424
Additions	459
Transfer to Tangible Assets	<u>(237)</u>
At 31 December 2006	<u><u>646</u></u>

The amounts for Intangible Exploration and Evaluation Assets represent active exploration projects. These amounts will be written off to the Income Statement as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of Exploration and Evaluation Assets will ultimately be recovered, is inherently uncertain.

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10. Property, Plant and Equipment

	US \$000
<b>Cost</b>	
At 1 January 2005	3,953
Additions	382
Transfer from Intangible Assets	<u>1,258</u>
At 1 January 2006	5,593
Additions	450
Transfer from Intangible Assets	<u>237</u>
At 31 December 2006	<u><u>6,280</u></u>
<b>Depreciation</b>	
At 1 January 2005	131
Charge for the year	<u>64</u>
At 1 January 2006	195
Impairment	<u>4,065</u>
At 31 December 2006	<u><u>4,260</u></u>
Net book value:	
At 31 December 2006	<u><u>2,020</u></u>
At 31 December 2005	<u><u>5,398</u></u>

The Directors commissioned a detailed review of the Group's reserves by their consultants RPS Energy. On the basis of consultation with RPS Energy, in conjunction with a review of other data available, they have taken the view that the Emery Hudson field is impaired and that expending further resources on developing the field will not be commercially viable. Accordingly an impairment charge has been made to reduce the carrying value of the asset to nil.

The value of other oil and gas reserves will be reviewed regularly and could change as a result of further exploration and development activity over the coming months given the inherent uncertainties involved in oil and gas activities.

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**11. Trade and other receivables**

	<i>2006</i>	<i>2005</i>
	<i>US \$000</i>	<i>US \$000</i>
Trade receivables	6	69
Other debtors	124	30
Prepayments	<u>104</u>	<u>42</u>
	<u><u>234</u></u>	<u><u>141</u></u>

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

**Credit risk**

The Company has no material credit risk in respect of receivables.

**12. Cash and cash equivalents**

	<i>2006</i>	<i>2005</i>
	<i>US \$000</i>	<i>US \$000</i>
Cash at bank and in hand	285	301
Short term deposits	<u>2,047</u>	<u>69</u>
	<u><u>2,332</u></u>	<u><u>370</u></u>

Short term deposits, are held in pounds sterling. The effective interest rate on short term deposits was 4.577% for deposits over £1,000,000 as at 31 December 2006.

**13. Trade and other payables**

	<i>2006</i>	<i>2005</i>
	<i>US \$000</i>	<i>US \$000</i>
Trade payables	104	120
Other payables	<u>107</u>	<u>178</u>
	<u><u>211</u></u>	<u><u>298</u></u>

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## 14. Share capital

Authorised:

150,000,000 (2005: 150,000,000) ordinary shares of par value £0.05 (US \$ 0.098) each with an aggregate nominal value of US \$1,437,000 (2005: US \$681,000).

2006	2005
US \$000	US \$000

### Equity share capital

Allotted, called up and fully paid:

Ordinary shares of par value £0.05 (US\$ 0.098) each

79,649,063 (2005: 64,093,193)	7,362	5,925
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The Company has one class of ordinary shares, which carry no right to fixed income.

### The issued share capital is reconciled as follows:

	2006	2005
	US \$000	US \$000
Opening balance	5,925	5,245
Shares issued	1,409	680
Share options exercised	28	-
Closing balance	7,362	5,925

### The Company has granted warrants to subscribe for shares as follows:

	Exercise Price	At 31 December 2006	At 31 December 2005
Warrants expiring 20 July 2007	£0.30	3,940,154	3,940,154

No warrants were granted or exercised or lapsed during the year.

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15. Share Premium

	2006	2005
	US \$000	US \$000
Balance at beginning of year	3,316	2,808
Premium on allotment	3,441	681
Share issue costs	<u>(192)</u>	<u>(173)</u>
Balance at end of year	<u>6,565</u>	<u>3,316</u>

16. Retained earnings and other reserves

	Share capital	Share premium	Retained earnings	Foreign currency reserves	Other reserves	Total
	US \$000	US \$000	US \$000	US \$000	US \$000	US \$000
Balance at 1 January 2005	5,245	2,808	(1,565)	125	-	6,613
Shares issued	680	508	-	-	-	1,188
Total recognised income and expense	<u>-</u>	<u>-</u>	<u>(1,648)</u>	<u>(118)</u>	<u>-</u>	<u>(1,766)</u>
Balance at 31 December 2005	<u>5,925</u>	<u>3,316</u>	<u>(3,213)</u>	<u>7</u>	<u>-</u>	<u>6,035</u>
Balance at 1 January 2006	5,925	3,316	(3,213)	7	-	6,035
Shares issued	1,409	3,221	-	-	-	4,630
Total recognised income and expense	<u>-</u>	<u>-</u>	<u>(5,944)</u>	<u>105</u>	<u>-</u>	<u>(5,839)</u>
Share options exercised by employees	28	28	-	-	-	56
Share based payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139</u>	<u>139</u>
Balance at 31 December 2006	<u>7,362</u>	<u>6,565</u>	<u>(9,157)</u>	<u>112</u>	<u>139</u>	<u>5,021</u>

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**Notes to the consolidated accounts**  
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**17. Notes to the cash flow statement**

	<i>2006</i>	<i>2005</i>
	<i>US \$000</i>	<i>US \$000</i>
Loss from operations	(5,965)	(1,680)
Adjustments for:		
Depreciation and impairment of property, plant and equipment	4,065	454
Amortisation of intangible assets	-	-
Share based payment	139	-
Foreign exchange difference	<u>(13)</u>	<u>(142)</u>
Operating cash flows before movements in working capital	(1,774)	(1,368)
(Increase)/decrease in receivables	(80)	454
(Decrease)/increase in payables	<u>(101)</u>	<u>(123)</u>
Net cash consumed by operating activities	<u><u>(1,955)</u></u>	<u><u>(1,037)</u></u>

Cash and cash equivalents (which are presented as a single class of asset on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

**18. Contingent liabilities**

There were no contingent liabilities at 31 December 2006 (2005: Nil).

**19. Operating Leases**

There were no commitments in respect of the lease of premises as at the Balance Sheet date (2005: \$4,725 due within one year).

After the balance sheet date the Company entered into a lease in respect of its London premises.

Minimum lease payments are as follows:

	<i>2006</i>
	<i>US \$000</i>
Due within one year	20
After one year but within two years	54
After two years but within five years	179

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## 20. Financial instruments

To date, the Group has financed its operations from equity issues. The Group uses financial instruments (other than derivatives) comprising cash, liquid resources and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has not entered into any derivative transactions. Funds in excess of immediate requirements are placed in sterling deposits. In the normal course of its operations the Group is exposed to foreign currency, commodity price and interest rate risks, which are currently insignificant. The financial statements are produced in US Dollars as much of its business is conducted in US Dollars. Surplus cash is retained in UK Sterling which is the currency in which new equity has been raised. This cash is likely to be principally invested in US assets. The Group does not hedge this exposure.

The net monetary assets held in sterling at the year end amounted to US \$2,321,000 (2005: US \$373,000).

### Fair value estimation

The fair values of cash and cash equivalents, receivables, payables and borrowings with a maturity of less than one year are assumed to approximate their book values.

## 21. Share based payments

### Equity-settled share option plan

Share options are granted to certain directors. The exercise price of the grant options is equal to the market price at the date of the grant.

This reconciliation excludes options and warrants vesting prior to 1 January 2005, which fall outside the scope of IFRS2.

	2006			2005		
	<i>Weighted average</i>			<i>Weighted average</i>		
	<i>exercise price</i>			<i>exercise price</i>		
	<i>Options</i>	<i>Pence (p)</i>	<i>Cents (US¢)</i>	<i>Options</i>	<i>Pence (p)</i>	<i>Cents (US¢)</i>
Outstanding at beginning						
of period	1,030,000	10.00	19.57	1,030,000	10.00	19.57
Exercised during the year	(300,000)	(10.00)	(19.57)	-	-	-
Granted during the period	2,990,000	20.75	40.61	-	-	-
Outstanding at the end of						
the period	<u>3,720,000</u>	<u>18.64</u>	<u>36.48</u>	<u>1,030,000</u>	<u>10.00</u>	<u>19.57</u>

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21. Share based payments (continued)

Equity-settled share option plan (continued)

Out of the 3,720,000 (2005 1,030,000) outstanding options, 1,726,667 (2005 1,030,000) are exercisable.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black Scholes model. The contractual life of the option (3 or 10 years) is used as an input into this model.

	2006		2005	
	£000	\$000	£000	\$000
Fair value of granted options at measurement date	<u>160</u>	<u>313</u>	-	-
Share price	20.75	40.61	-	-
Exercise price	20.75	40.61	-	-
Expected volatility (expressed as weighted average volatility used in the modelling under Black Scholes model)	30%	30%	-	-
Risk free rate (based on national government bonds)	4.25%	4.25%	-	-

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Exercise Price	At 31	At 31
		December	December
		2006	2005
Options expiring 20 July 2007	£0.10	730,000	1,030,000
Options expiring 20 July 2016	£0.2075	<u>2,990,000</u>	-
		<u>3,720,000</u>	<u>1,030,000</u>

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### **22. Post Balance Sheet Events**

The Group raised an additional \$ 3.4 million by way of a share placement on 8 June 2007.

### **23. Transactions with Directors and Other Related Parties**

Donald Caldwell has an interest in each of the Company's US assets by virtue of his interests in Longwood Exploration Company and Lodestar Energy, LLC. Donald Caldwell and his wife own the entire issued share capital of Lodestar Energy, LLC and they are also the sole directors of the company. Donald Caldwell owns 40% of the issued share capital of Longwood Exploration Company and is also a director and president of the company. Longwood Exploration Company owns a 20% working interest (WI) and a 15.2% net revenue interest (NRI) in the Emery Hudson field. Lodestar Energy LLC owns a 3.5% WI and a 2.66% NRI in the Emery Hudson field. In addition, Donald Caldwell personally owns an overriding royalty interest in the lease of around 1.5%. Longwood Exploration Company owns a 10% WI and a 7.5% NRI in the Brighton 36 prospect. Longwood Exploration Company owns a 3.33% WI and a 2.5% NRI in the Calvin prospect. Donald Caldwell also owns a small personal interest in the prospect. Lodestar Energy, LLC and Longwood Exploration Company also held interests in the West Levees Creek and Middleton Creek prospects.

The Company has a consulting agreement with Lodestar Energy, LLC and during the year US \$120,000 (2005: US \$116,477) was paid by the Company under this agreement.

A wholly owned subsidiary (Meridian Resources (USA) Inc.) has a consulting agreement with LCL Merchant Partners Inc. which was paid US \$98,794 (2005 nil). Angelo Baskaran is a shareholder and president of LCL Merchant Partners Inc.

The Company has a consulting agreement with Global Energy Consultants Limited which was paid US \$79,407 (2005:US \$70,966) during the year. Peter Clutterbuck is a shareholder and director of Global Energy Consultants.

The Company has a consulting agreement with David Wake-Walker Limited which was paid US \$14,283 (2005 nil) during the year. David Wake-Walker is a shareholder and director of David Wake-Walker Limited.

**24. Explanation of transition to IFRS**

For all periods up to and including the year ended 31 December 2005, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2006, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board.

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies adopted are shown above in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2005, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP Balance Sheet as at 1 January 2005 and its previously published UK GAAP financial statements for the year ended 31 December 2005.

**Exemptions applied**

IFRS 1 allows exemptions from the application of certain IFRS to assist companies with the transition process. Accordingly the Group has made the following first time accounting policy choices:

- IFRS 2 – Share Based Payments is applied to all share Based rewards made after 7 November 2002 that did not vest before 1 January 2005
- IFRS 3 – Business Combinations prior to 1 January 2005 have not been restated.

The adoption of IFRS has not resulted in significant adjustments to the previously reported UK GAAP financial statements. The key change has been as follows:

**IAS 21 – The Effects of Changes in Foreign Exchange Rates**

In terms of IAS 21, the group has selected its presentation currency to be US Dollars. This decision was made as the majority of the group's operations are in the United States and oil and gas are primarily traded in US dollars.

The impact of other IFRS requirements has been immaterial.

# MERIDIAN PETROLEUM PLC

*Notes to the consolidated accounts  
Year ended 31 December 2006*

## 24. Explanation of transition to IFRS (continued)

### Reconciliation of Group IFRS Income Statement for the year to 31 December 2005

	<i>UK GAAP</i>	<i>IFRS</i>
	<i>2005</i>	<i>2005</i>
	<i>£000</i>	<i>US \$000</i>
Revenue	88	160
Cost of sales	<u>(115)</u>	<u>(439)</u>
Gross loss	(27)	(279)
Operating expenses	<u>(858)</u>	<u>(1,401)</u>
Operating loss	(885)	(1,680)
Finance income – interest receivable	<u>13</u>	<u>32</u>
Loss attributable to equity shareholders	<u><u>(872)</u></u>	<u><u>(1,648)</u></u>

MERIDIAN PETROLEUM PLC

Notes to the  
consolidated  
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Year ended 31  
December 2006

24. Explanation of transition to IFRS (continued)

Reconciliation of Group IFRS Balance Sheet as at 31 December 2005

	UK GAAP	IFRS
	2005	2005
	£000	US \$000
<b>Non-current assets</b>		
Intangible assets	247	424
Property, plant and equipment	<u>2,940</u>	<u>5,398</u>
	<u>3,187</u>	<u>5,822</u>
<b>Current assets</b>		
Trade and other receivables	80	141
Cash and cash equivalents	<u>218</u>	<u>370</u>
	<u>298</u>	<u>511</u>
<b>Total assets</b>	<u><u>3,485</u></u>	<u><u>6,333</u></u>
<b>Current liabilities</b>		
Trade and other payables	<u>216</u>	<u>298</u>
<b>Total liabilities</b>	<u><u>216</u></u>	<u><u>298</u></u>
<b>Net assets</b>	<u><u>3,269</u></u>	<u><u>6,035</u></u>
<b>Equity</b>		
Called up share capital	3,205	5,925
Share premium	1,797	3,316
Retained earnings	(1,733)	(3,213)
Reserves	<u>-</u>	<u>7</u>
<b>Total equity attributable to the equity holders</b>	<u><u>3,269</u></u>	<u><u>6,035</u></u>

MERIDIAN PETROLEUM PLC

Notes to the  
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24. Explanation of transition to IFRS (continued)

Reconciliation of Group IFRS Balance Sheet as at 31 December 2004

(date of transition to IFRS as at 1st January 2005)

	UK GAAP	IFRS
	2005	2005
	£000	US \$000
<b>Non-current assets</b>		
Intangible assets	577	1,265
Property, plant and equipment	<u>2,027</u>	<u>3,822</u>
	<u>2,604</u>	<u>5,087</u>
<b>Current assets</b>		
Trade and other receivables	259	623
Cash and cash equivalents	<u>742</u>	<u>1,430</u>
	<u>1,001</u>	<u>2,053</u>
<b>Total assets</b>	<u>3,605</u>	<u>7,140</u>
<b>Current liabilities</b>		
Trade and other payables	<u>226</u>	<u>527</u>
<b>Total liabilities</b>	<u>226</u>	<u>527</u>
<b>Net assets</b>	<u>3,379</u>	<u>6,613</u>
<b>Equity</b>		
Called up share capital	2,830	5,245
Share premium	1,517	2,808
Retained earnings	(968)	(1,565)
Reserves	<u>-</u>	<u>125</u>
<b>Total equity attributable to the equity holders</b>	<u>3,379</u>	<u>6,613</u>

MERIDIAN PETROLEUM PLC

**Company Balance  
Sheet  
Year ended 31  
December 2006**

	Note	2006 £000	2005 £000
<b>Fixed assets</b>			
Investment in subsidiaries	3	<u>2,250</u>	<u>2,250</u>
<b>Current assets</b>			
Debtors – falling due within one year	4	38	16
Debtors – falling due after one year	4	3,902	2,284
Cash and cash equivalents		<u>1,158</u>	<u>237</u>
		<u>5,098</u>	<u>2,537</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	<u>(36)</u>	<u>(48)</u>
<b>Net Current assets</b>		<u>5,062</u>	<u>2,489</u>
<b>Net assets</b>		<u>7,312</u>	<u>4,739</u>
<b>Equity</b>			
Called up share capital	6	3,982	3,205
Share premium	7	3,544	1,797
Retained earnings and other reserves		<u>(214)</u>	<u>(263)</u>
<b>Total equity attributable to the equity holders</b>		<u>7,312</u>	<u>4,739</u>

The financial statements were approved by the board of directors and authorised for issue on 25 June 2007. They were signed on its behalf by:

**A Mason**

Director

25 June 2007

**Significant accounting policies**

**Basis of accounting**

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

**Investments**

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

**Foreign exchange**

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rate subsequent to the date of the transactions is included as an exchange gain or loss in the profit and loss account.

**Cash flow statement**

No cash flow statement is prepared for the Company under FRS 1 as the cash flows of the company have been included in the consolidated cash flow statement of Meridian Petroleum plc.

**Related party transactions**

The Company has taken advantage of the exemption available under FRS 8 with regard to the non-disclosure of transactions between group companies.

**Share Based payments**

The Company has applied the requirements of FRS 20 Share Based Payments. In accordance with the transitional provisions of that standard, only those awards that were granted after 7 November 2002, and had not vested at 1 January 2005, are included. All share based awards of the Company are equity settled as defined by FRS 20. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period. The fair values were calculated using a Black Scholes option pricing model. The inputs to the models include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the participants.

# MERIDIAN PETROLEUM PLC

Notes to the  
company accounts  
Year ended 31  
December 2006

## 1 Significant accounting policies (continued)

### Deferred tax

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

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

## 2 Loss for the year

As permitted by Section 230 of the Companies Act 1985, the company has elected not to present its own profit and loss account for the year. Meridian Petroleum plc reported a loss for the financial year ended 31 December 2006 of £27,000 (2005: £125,000).

The auditors' remuneration for audit services to the company was £10,000 (2005: £10,000).

## 3 Investment in subsidiaries

<i>Name</i>	<i>Place of Incorporation</i>	<i>Class of Share Capital</i>	<i>Percentage Held</i>	<i>Business</i>
<b>Held Directly</b>				
Meridian Resources Ltd	UK	Ordinary	100%	Non trading
<b>Held Indirectly</b>				
Meridian Resources (USA) Inc	USA	Ordinary	100%	Oil and Gas
Meridian Petroleum Pty Ltd	Australia	Ordinary	100%	Oil and Gas

## MERIDIAN PETROLEUM PLC

*Notes to the  
company accounts  
Year ended 31  
December 2006*

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### Debtors

#### Debtors – falling due within one year

	2006	2005
	£000	£000
Prepayments and accrued income	<u>38</u>	<u>16</u>

#### Debtors – falling due after one year

Amounts owed by group undertakings	<u>3,902</u>	<u>2,284</u>
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The amounts owed by group undertakings are repayable on demand however the Directors consider that they will not be repaid within one year and have presented these accordingly in the Company Balance Sheet.

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### Creditors

Social Security and other taxes	14	3
Other creditors	<u>22</u>	<u>45</u>
	<u>36</u>	<u>48</u>

# MERIDIAN PETROLEUM PLC

Notes to the  
company accounts  
Year ended 31  
December 2006

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## Share capital

### Authorised:

150,000,000 (2005: 150,000,000) ordinary shares of par value of 5p each with an aggregate nominal value of £7,500,000 (2005: £7,500,000).

2006	2005
£000	£000

### Equity share capital

Allotted, called up and fully paid:

Ordinary shares of par value of 5p each

79,649,063 (2005: 64,093,193)	3,982	3,205
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The Company has one class of ordinary shares, which carry no right to fixed income.

### The Company has granted warrants to subscribe for shares as follows:

	<i>Exercise</i>	<i>At 31</i>	<i>At 31</i>
	<i>Price</i>	<i>December</i>	<i>December</i>
		<i>2006</i>	<i>2005</i>
Warrants expiring 20 July 2007	£0.30	3,940,154	3,940,154

No warrants were granted or exercised or lapsed during the year.

Details of share based payments and outstanding share options are included in note 21 to the Group accounts.

MERIDIAN PETROLEUM PLC

Notes to the  
company accounts  
Year ended 31  
December 2006

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Share Premium account and reserves

	Share capital £000	Share premium £000	Retained earnings £000	Other reserves £000	Total £000
Balance at 1 January 2005	2,830	1,517	(138)	-	4,209
Shares issued	375	280	-	-	655
Loss for the year	-	-	(125)	-	(125)
Balance at 31 December 2005	3,205	1,797	(263)	-	4,739
Balance at 1 January 2006	3,205	1,797	(263)	-	4,739
Shares issued	777	1,747	-	-	2,524
Total recognised income and expense	-	-	(27)	-	(27)
Share based payments				76	76
Balance at 31 December 2006	3,982	3,544	(290)	76	7,312

## MERIDIAN PETROLEUM PLC

### **Notice of Annual General Meeting**

Notice is hereby given that the Annual General Meeting of Meridian Petroleum plc will be held on 2 August 2007 at Pegasus House, 37-42 Sackville Street, London W1S 3EH at 11:00 a.m. for the following purposes, namely:

#### **Ordinary Business**

As Ordinary Business, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Directors' Report and the Financial Statements for the year ended 31 December 2006, together with the report of the auditors thereon.
2. To re-appoint RSM Robson Rhodes LLP or (subject to their merger having been completed which is anticipated to take place with effect from 1 July 2007) its successor firm, Grant Thornton UK LLP, as auditors of the Company until the conclusion of the next Annual General Meeting at which accounts for the Company are presented and to authorise the Directors to fix their remuneration.
3. To re-elect Peter Clutterbuck as a Director of the Company, who retires in accordance with the Company's Articles of Association and offers himself for re-appointment.
4. To elect Angelo Baskaran as a Director of the Company who has been appointed since the last Annual General Meeting and who offers himself for election.
5. To elect Stephen Gutteridge as a Director of the Company who has been appointed since the last Annual General Meeting and who offers himself for election.
6. To elect David Wake-Walker as a Director of the Company who has been appointed since the last Annual General Meeting and who offers himself for election.
7. To transact any other ordinary business.

#### **Special Business**

As Special Business to consider and if thought fit to pass the following resolutions of which the resolution numbered 8 will be proposed as an ordinary resolution and the resolution numbered 9 will be proposed as a special resolution:

8. That the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (as defined in that section) up to a maximum aggregate nominal amount of £2,678,450 and that this authority will take effect on the date of passing of this resolution and will (unless renewed) expire at the conclusion of the next Annual General Meeting of the Company but the Company may, before this authority expires, make an offer or agreement which would or might require relevant securities to be allotted after the authority expires and the Directors may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired, such authority to be in substitution for any existing authorities conferred on the Directors pursuant to Section 80 of the Act.

## MERIDIAN PETROLEUM PLC

### **Notice of Annual General Meeting**

9. That the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 9 above as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be in substitution for any existing powers conferred on the Directors pursuant to section 95 of the Act and shall be limited to:
- (a) the allotment of equity securities in connection with an issue in favour of the holders of ordinary shares of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares, subject only to exclusions or other arrangements which the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange in any territory; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £482,150

and the power hereby granted shall take effect on the date of this resolution and shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry but otherwise in accordance with the foregoing provisions of this power in which case the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

BY ORDER OF THE BOARD

**David Wake-Walker**

Company Secretary

25 June 2007

Registered Office:

13 Regent Street

London

SW1Y 4LR

#### **Notes:**

1. Copies or particulars of contracts of service between directors and the Company or any of its subsidiary undertakings will be available for inspection by members at the registered office of the Company during normal business hours from the date of this notice until 1 August 2007 and at the place of the Annual General Meeting for fifteen minutes prior to and until the conclusion of that meeting.
2. A Member entitled to attend and vote at the Meeting convened by this Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her stead. A proxy need not be a member of the Company. A form of proxy is enclosed. The appointment of a proxy will not preclude a member from being present at the Meeting and voting in person if he or she should subsequently decide to do so.
3. To be valid, forms of proxy must be lodged at the office of the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL, not less than 48 hours before the meeting or any adjournment.
4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.

MERIDIAN PETROLEUM PLC

PLEASE COMPLETE IF YOU DO NOT INTEND TO ATTEND IN PERSON

(Company No: 05104249)

*Form of Proxy  
For Annual  
General Meeting*

I ..... (Name(s) in full in block capitals)  
of (address) .....  
.....  
being a member of the above named Company hereby appoint .....  
of ..... or, failing him/her the Chairman of the Meeting, as my proxy to vote for me on  
my behalf in accordance with the instructions set out below at the Annual General Meeting of the Company to be held  
on 2 August 2007 and at any adjournment thereof.

Please delete "Either" or "Or" below and mark "For" or "Against" as appropriate and return this form to the Company  
Secretary/Company's registrars, The Causeway, Worthing, West Sussex BN99 6ZL. To be valid this form must be  
lodged with the Company's registrars not less than 48 hours before the Meeting.

Either	To vote as my Proxy or failing him/her as the Chairman thinks fit.		
Or		For	Against
	Resolution 1		
	Resolution 2		
	Resolution 3		
	Resolution 4		
	Resolution 5		
	Resolution 6		
	Resolution 7		
	Resolution 8		
	Resolution 9		

Signed .....

Name .....

Date .....



SECOND FOLD

BUSINESS REPLY SERVICE  
Licence No. SEA10846

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**Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6ZL**

FIRST FOLD

THIRD FOLD & TUCK IN