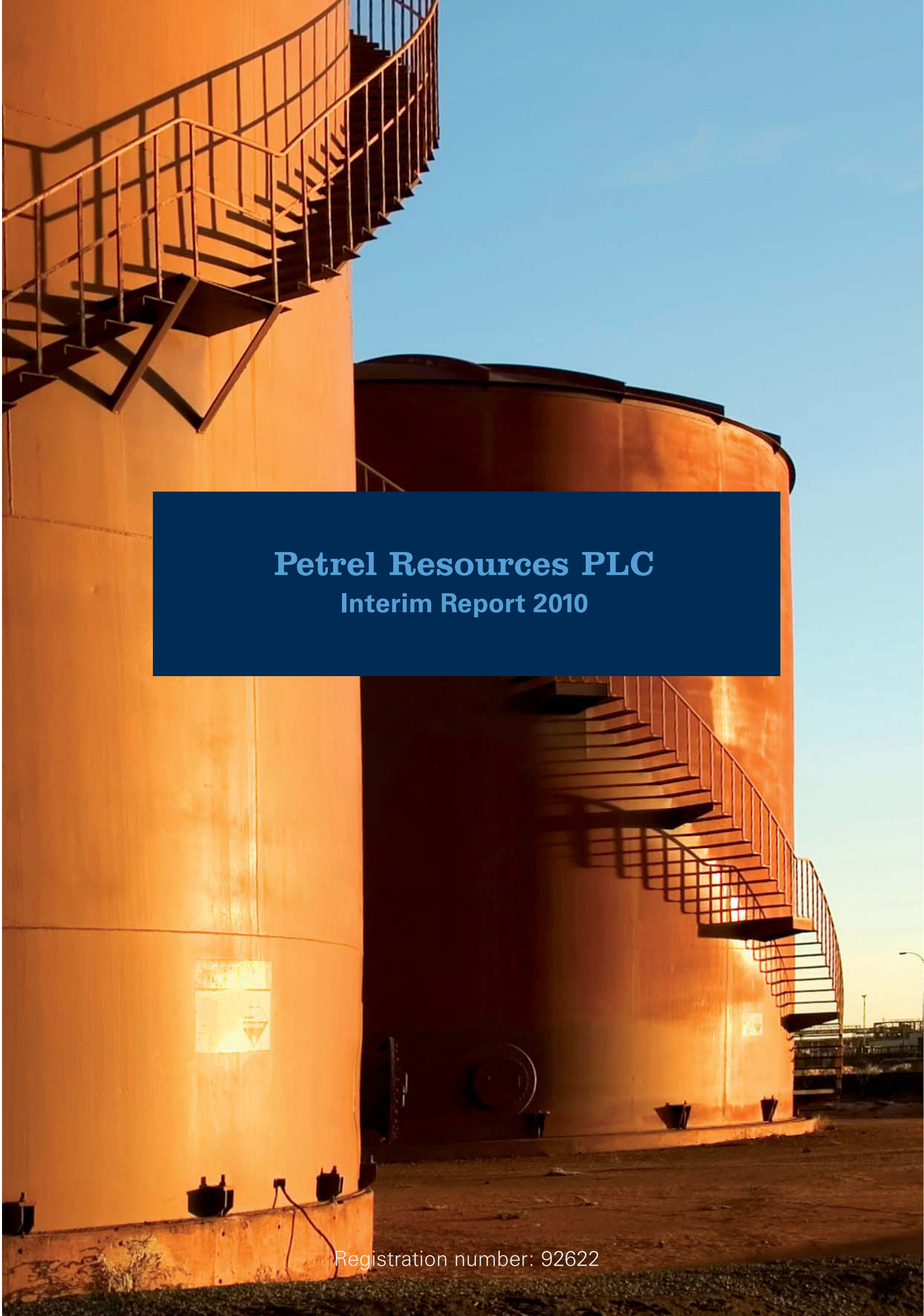

Petrel Resources PLC

Interim Report 2010

Registration number: 92622

Petrel Resources plc

Interim Results for the Six Month Period to 30th June 2010

- Subba & Luhais project successfully remobilised and proceeding on schedule
- Cash owed to Petrel has been received
- Continued commitment to Iraq with return to African roots as diversification

The focus of Petrel remains firmly on Iraq, but the parameters of operating in the country are changing. The steady disengagement of foreign military personnel reduces undue overseas influence and boosts the legitimacy and self-confidence of the Iraqi authorities. Democratic elections were successfully run in March 2010, though the lack of an emphatic winner complicated Government-formation. Six months later there is still no government. This has serious implications for the development of the oil industry. Much will depend on the new Minister. We expect that policies will be improved and streamlined to arrest the decline in oil production and to encourage exploration and development. The terms must be reasonable. Iraq is capable of producing at least 9 million barrels a day, but current production is under 3 million.

The agreement on Subba and Luhais means that Petrel has refocused on exploration activities. The upside in exploration will be higher than that available through developing oil and gas fields under service contracts.

Under the current policy of awarding service contracts to international companies we have resolved all the outstanding issues with the Iraqi Ministry of Oil. These were complicating and delaying completion of the Subba & Luhais EPC contract in southern Iraq. The project has now been successfully remobilised and is proceeding smoothly within an agreed 14 month revised completion schedule. Both the Project Joint Venture company and Petrel have received the cash owed.

This is a satisfactory outcome for Petrel as it removes all obstacles to moving ahead with formalising our existing interests in Iraq in particular Western Desert Block 6 as well as possible future projects.

Jordan Exit:
As noted at the July 2010 AGM, we opted not to proceed with the East Safawi Block in Jordan. We entered Jordan as a result of our analysis of the Iraqi western desert. We were hoping that seismic and well log reinterpretation would reveal large oil targets or Risha-type gas targets. Instead, the detailed analysis showed that sands at the targeted depth were thin and tight. Our technical team instead developed a shallower Triassic type play similar to Libyan reefs. This revealed a billion barrel potential target, but with high exploration risk. In normal circumstances this would suit a large farm-in partner. Following the Lehman Brothers failure and subsequent financial crisis, the risk appetite of potential partners evaporated. Several companies who were interested could not get management approval to drill. The Jordanian authorities have been very patient giving a 15 month extension. Jordan is a good business location with excellent terms – but Petrel

decided not to drill at its own risk. This decision has no financial consequences as the expenditure and bond were written off in the 2009 accounts.

Ghana Entry

Though Petrel's focus is Iraqi oil, we have been offered an exceptional opportunity to diversify at low cost. Ghana's Tano Basin has recently emerged as an exploration hot-spot, with four discoveries by Kosmos/Tullow, including the giant Jubilee oilfield. Petrel seized the opportunity to take a 30% interest, with sister companies holding 60%, in a Petroleum Agreement on Tano Block 2A. A local partner holds the remaining 10%. This block covers 1,532km2 of highly prospective acreage. The Ghanaian National Petroleum Company (GNPC) has provided available data, including 44 geological reports and extensive, good quality 2D seismic. Analysis and processing of data is underway.

This agreement is subject to ratification by Cabinet and Parliament, which we expect in the coming months.

Summary

The Iraqi odyssey continues. Since we entered Iraq in 1999 we have dealt with 5 governments, survived a war, faced down many threats and risks, all in pursuit of oil. Iraq will in future years provide oil for a significant percentage of the world's energy needs. We will be part of it. The lengthy wait for a new Iraqi Government has strained patience. Iraqi oil production is down but the principle of international company involvement is gaining acceptance. This is an important step toward creating economic terms. Financial markets are nervous but it is a time of opportunity.

But 11 years is a long time to wait and uncertainty continues. By diversifying into Africa we return to our roots. Ghana will be a major force in world oil. We are taking the opportunity to participate at an early stage.

John J Teeling

John Teeling
Chairman

15th September 2010

Financial Information (unaudited)

Condensed Consolidated Statement of Comprehensive Income	Six Months Ended 30 June 10 unaudited €'000	Six Months Ended 30 June 09 unaudited €'000	Year Ended 31Dec09 audited €'000
REVENUE	0	0	0
Cost of Sales	0	0	0
Gross Profit	0	0	0
Operating costs	(216)	(280)	(551)
Impairment of exploration and evaluation expenditure	0	0	(3,924)
Impairment of construction costs	0	0	(2,085)
Foreign exchange profit	44	48	5
OPERATING LOSS	(172)	(232)	(6,555)
Investment revenue	1	4	29
LOSS BEFORE TAXATION	(171)	(228)	(6,526)
Income tax expense	0	0	0
LOSS FOR THE PERIOD	(171)	(228)	(6,526)
Exchange difference on translation of foreign operations	286	(72)	(3)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	115	(300)	(6,529)
LOSS PER SHARE - basic and diluted	(.22c)	(.31c)	(8.73c)

Condensed Consolidated Balance Sheet	30 June 10 unaudited €'000	30 June 09 unaudited €'000	31 Dec 09 audited €'000
NON-CURRENT ASSETS			
Intangible assets	1,992	4,937	1,644
CURRENT ASSETS			
Construction contracts	0	7,097	5,362
Trade and other receivables	4,168	38,153	37,408
Cash and cash equivalents	2,280	1,337	923
	6,448	46,587	43,693
TOTAL ASSETS	8,440	51,524	45,337
CURRENT LIABILITIES			
Customer deposits	0	(13,721)	(13,461)
Bank loan	0	(22,940)	(23,502)
Trade and other payables	(665)	(974)	(714)
	(665)	(37,635)	(37,677)
NET CURRENT ASSETS	5,783	8,952	6,016
TOTAL ASSETS LESS CURRENT LIABILITIES	7,775	13,889	7,660
EQUITY			
Share capital	18,742	18,742	8,742
Reserves	(10,967)	(4,853)	(11,082)
TOTAL EQUITY	7,775	13,889	7,660

Financial Information (unaudited)

Condensed Consolidated Statement of Changes in Equity

	Six Months Ended 30 June 10					
	Share Capital €'000	Share Premium €'000	Capital Conversion Reserves €'000	Shared Based Payment Reserves €'000	Retained Losses €'000	Total Equity €'000
As at 1 January 2009	903	15,693	8	206	(4,767)	12,043
Shares issued	55	2,137				2,192
Share issue expenses		(46)				(46)
Loss for the period				0	(300)	(300)
As at 30 June 2009	958	17,784	8	206	(5,067)	13,889
Loss for the period				0	(6,229)	(6,229)
As at 31 December 2009	958	17,784	8	206	(11,296)	7,660
Profit for the period				0	115	115
As at 30 June 2010	958	17,784	8	206	(11,181)	7,775

Condensed Consolidated Cash Flow

	Six Months Ended 30 June 10 unaudited €'000	Six Months Ended 30 June 09 unaudited €'000	Year Ended 31Dec09 audited €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	(171)	(228)	(6,526)
Investment revenue recognised in loss	(1)	(4)	(29)
Impairment of exploration and evaluation expenditure	0	0	3,924
Impairment of construction costs	0	0	2,085
Shares issued in lieu of fees	0	107	107
Exchange movements	(44)	(357)	(5)
	(216)	(482)	(444)
Movements in Working Capital	1,478	(913)	252
CASH USED IN OPERATIONS	1,262	(1,395)	(192)
Investment revenue	1	4	29
NET CASH USED IN OPERATING ACTIVITIES	1,263	(1,391)	(163)
INVESTING ACTIVITIES			
Payments for intangible assets	(62)	(227)	(789)
NET CASH USED IN INVESTING ACTIVITIES	(62)	(227)	(789)
FINANCING ACTIVITIES			
Proceeds from issue of equity shares	0	2,085	2,085
Share issue costs	0	(46)	(46)
NET CASH GENERATED BY FINANCING ACTIVITIES	0	2,039	2,039
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,201	421	1,087
Cash and cash equivalents at beginning of the period	923	559	559
Effect of exchange rate changes on cash held	156	357	(723)
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	2,280	1,337	923

Financial Information (unaudited)

1. Information

The financial information for the six months ended June 30th, 2010 and the comparative amounts for the six months ended June 30th, 2009 are unaudited. The financial information above does not constitute full statutory accounts within the meaning of section 148 of the Companies Act 1963.

The Interim Financial Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. The accounting policies and methods of computation used in the preparation of the Interim Financial Report are consistent with those used in the Group 2009 Annual Report, which is available at www.petrelresources.com

The interim financial statements have not been audited or reviewed by the auditors of the Group pursuant to the Auditing Practices board guidance on Review of Interim Financial Information.

2. No dividend is proposed in respect of the period.

3. Loss per share

	30 June 10	**30 June 09**	**31 Dec 09**
	€	**€**	**€**
Loss per share – Basic and Diluted	(0.22c)	(0.31c)	(8.73c)

<u>Basic and diluted loss per share</u>

The earnings and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

Loss for the year attributable to equity holders of the Parent	(170,750)	(227,981)	(6,526,075)
Weighted average number of ordinary shares for the purpose of basic earnings per share	76,664,624	73,558,973	74,727,222

Basic and diluted loss per share is the same as the effect of the outstanding share options is anti-dilutive and is therefore excluded

4. Intangible Assets

	30 June 10	**30 June 09**	**31 Dec 09**
Exploration and evaluation assets:	**€'000**	**€'000**	**€'000**
Opening balance	1,644	4,782	4,782
Additions	62	227	789
Impairment	0	0	(3,924)
Exchange translation adjustment	286	(72)	(3)
Closing balance	1,992	4,937	1,644

Exploration and evaluation assets at 30 June 2010 represent exploration and related expenditure in respect of projects in Iraq. The directors are aware that by its nature there is an inherent uncertainty in relation to the recoverability of amounts capitalised on the exploration projects. In addition, the current economic and political situation in Iraq is uncertain. Having reviewed the exploration and evaluation expenditure and as a result of the settlement of all outstanding operational issues on the Subba and Luhais Oilfield development in Southern Iraq, the directors had decided to write off €2,372,116 of the exploration and evaluation costs capitalised in relation to the projects in Iraq in the prior year. See Note 9 for further details.

In addition, in 2009 the directors had impaired all exploration and evaluation costs amounting to €1,551,769 relating to the project in Jordan due to an anticipated loss of the license on the block as a result of the group being unable to identify a partner to progress and fund development of the project.

No amortisation is charged prior to the commencement of production. When production commences within an area of interest previously capitalised in respect of exploration, evaluation and development, these costs are amortised over the commercial reserves of the mining property on a unit of production basis.

The group's activities are subject to a number of significant potential risks including:

- Foreign exchange risks;
- Uncertainties over development and operational costs;
- Political and legal risks, including arrangements for licenses, profit sharing and taxation;
- Foreign investment risks including increases in taxes, royalties and renegotiation of contracts;
- Liquidity risks;
- Operations and environmental risks.
- Going Concern

The realisation of these intangible assets is dependent on the successful development of economic reserves, including the ability to raise finance to develop the projects. Should this prove unsuccessful the value included in the balance sheet would be written off to the statement of comprehensive income.

Regional Analysis – Group	**Iraq**	**Jordan**	**Total**
	€000	**€000**	**€000**
At 1 January 2009	3,814	968	4,782
Additions	96	131	227
Exchange translation adjustment	(58)	(14)	(72)
Balance at 30 June 2009	3,852	1,085	4,937
Additions	114	448	562
Impairment	(2,372)	(1,552)	(3,924)
Exchange translation adjustment	50	19	69
Balance at 31 December 2009	1,644	0	1,644
Additions	62	0	62
Exchange translation adjustment	286	0	286
Balance at 30 June 2010	1,992	0	1,992

5. Construction Contracts

Work in progress:	**30 June 10**	**30 June 09**	**31 Dec 09**
	€000	**€000**	**€000**
Opening Balance	5,362	5,316	5,316
Additions	0	1,781	2,131
Impairment	0	0	(2,085)
Transfer to Trade and other receivables	(5,362)	0	0
Closing Balance	0	7,097	5,362

The above expenditure relates to costs incurred and not billed in respect of the Subba and Luhais development services contract.

The Subba and Luhais development services contract represents a contract with the Iraqi Ministry of Oil, and SCOP (State Company of Oil Projects) to assist design, supply materials and services for the development of an oil field.

On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq. See Note 9 for further details. Under the terms of the agreement Petrel will receive a minimum consideration of $7 million. The directors had assessed the carrying value of the amounts recoverable under construction contracts at the end of 2009. As a result an impairment of €2,085,100 was recognised to bring the values recoverable under the contract to the actual amount receivable under the terms of the settlement.

6. TRADE AND OTHER RECEIVABLES

	30 June 10	**30 June 09**	**31 Dec 09**
	€000	**€000**	**€000**
Trade receivables	0	38,019	37,302
Debtor Makman	4,074	0	0
Other debtors	94	134	106
	4,168	38,153	37,408

Trade receivables relate to amounts billed in respect of the Subba and Luhais development services contract up to 31 December 2009 with a carrying amount of €37,301,563. As disclosed in Note 9, the risks and the substantial rewards relating to the Subba and Luhais Development Contract were transferred to Makman. In respect to the amounts due from Makman an amount of $2 million had been received in April 2010 and, as outlined in Note 9, guarantees have been received for further payments of $5 million due within 12 months from the 26 April 2010.
Accordingly, in the opinion of the directors the amounts above are considered to be fully recoverable.

7. TRADE AND OTHER PAYABLES

	30 June 10 €000	30 June 09 €000	31 Dec 09 €000
Bank loan	0	22,940	23,502
Customer deposits	0	13,721	13,461
Other payables	665	974	714
	665	37,635	37,677

The bank loan represents the amounts drawn down on a letter of credit which was in place at the end of 2009 in respect of the Subba & Luhais development contract. The letter of credit has been guaranteed by Makman. The customer deposits relate to payments on account received in respect of the Subba & Luhais development services contract – further details are set out in Notes 5 and 6. The Petrel/Makman Joint Venture Agreement which includes both the bank loan and the customer deposits was transferred to Makman on 26 April 2010. For further details see Note 9

8. SHARE CAPITAL

	30 June 10 €000	30 June 09 €000	31 Dec 09 €000
Authorised:			
200,000,000 ordinary shares of €0.0125	2,500	2,500	2,500
Allotted, Called Up and Fully Paid:			
Opening 76,664,624 (2009: 72,229,796 shares of €0.0125)	958	903	903
Issued Nil (2009: 4,434,828 shares of €0.0125)	0	55	55
Closing 76,664,624 (2009: 76,664,624 shares of €0.0125)	958	958	958

9. SUBBA AND LUHAIS OILFIELD DEVELOPMENT SETTLEMENT

On 26 April 2010, the company announced the settlement of all outstanding operational issues on the Subba and Luhais oilfield development in Southern Iraq.
Under the terms of the agreement reached between Petrel, Makman FZC (Makman), its local Iraqi partner, and SCOP (State Company for Oil Projects):

- Petrel will receive a total of $7 million, of which $2 million has already been received. Two further payments of $2.5 million, for which bank guarantees have been received are due on 1 November 2010 and 1 May 2011, respectively.
- Petrel no longer has any significant liability or exposure to possible project losses but maintains a profit share.
- Petrel will receive a 10% profit interest based on accounts for the project.
- The Petrel/Makman Joint Venture will complete the development, with Makman assuming primary responsibility for the final phases of the work. A new Letter of Credit for the balance of the contract is being put in place by the Iraqi Authorities.
- Petrel transfers its controlling interest of its shares in Petrel/Makman Joint Venture Agreement to Makman.
- Accordingly the directors are satisfied that it is appropriate to continue to prepare the financial statements of the group and company on the going concern basis, as the agreement outlined above removes the group's ongoing responsibility in respect of the contract and the additional cash resources of $7 million realised can be used on other projects. The financial statements do not include any adjustment to the carrying amount, or classification of assets and liabilities, if the group or company was unable to continue as a going concern.

10. The Interim Report for the six months to June 30th, 2010 was approved by the Directors on 15th September 2010.

11. Copies of this announcement will be sent to shareholders and will be available for inspection at the Companies Registered Office at 162 Clontarf Road, Dublin 3, Ireland. The Interim Report may also be viewed at Petrel Resources plc's website at www.petrelresources.com