

Conversion to International Financial Reporting Standards and Revised Accounting Policies

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(1) Introduction

The European Commission announced in June 2002 that listed companies in Europe would be required to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. In line with this requirement, the Dana Petroleum Group will adopt IFRS as its accounting basis from the beginning of 2005. The adoption of IFRS will be first reflected in the Group's financial statements for the six months ended 30 June 2005.

This document sets out how the adoption of IFRS affects the 2004 results and the financial position of the Group previously reported under UK GAAP. This document has been prepared on the basis of IFRS accounting policies which have been agreed with Dana's auditors and includes:

- A summary and explanation of the adjustments arising from IFRS
- Details of the basis of preparation of the financial statements
- Accounting Policies under IFRS
- A reconciliation from UK GAAP to IFRS of the Profit for the year ended 31 December 2004 and for the six months ended 30 June 2004
- Reconciliations from UK GAAP to IFRS of Shareholders' Equity at 31 December 2004, 30 June 2004 and 1 January 2004 respectively
- An explanation of the principal differences between the cash flow statements presented under UK GAAP and the cash flow statements to be presented under IFRS

- A reconciliation of Shareholders' Equity at 1 January 2005 for the impact of IAS 32 and IAS 39 which have been adopted from this date
- Details of certain IFRS presentation only adjustments and their impact on the Balance sheets at 30 June 2004, and 31 December 2004 respectively

The IFRS consolidated balance sheet as at 1 January 2004 and the financial information for the year ended 31 December 2004 have been audited by Ernst & Young LLP and the financial information for the six months ended 30 June 2004 has been reviewed by Ernst & Young LLP. The Auditors report and Independent Review report, addressed to the Directors of Dana Petroleum plc are published in Appendix 3.

(2) Summary Impact of IFRS on Group Results

The principal adjustments from adopting IFRS arise from the following standards:

- IFRS 2 - share based payments
- IAS 12 – income taxes
- IAS 32 & 39 – financial instruments

The overall impact on reported results is as follows:

	UK GAAP £'000	IFRS £'000
PROFIT FOR THE FINANCIAL YEAR - 2004	22,367	22,946
Earnings per share:		
Basic	30.15p	30.93p
Diluted	28.78p	29.65p
SHAREHOLDER'S FUNDS* - 31 DECEMBER 2004	189,449	190,268
SHAREHOLDER'S FUNDS* - 1 JANUARY 2005	189,449	197,038

* includes minority interest

(3) Basis of Preparation

The consolidated financial information for the six months ended 30 June 2004 and the year ended 31 December 2004 and the opening balance sheet at 1 January 2004 have been prepared on the basis of International Financial Reporting Standards (IFRS) currently expected to be effective at 31 December 2005. The rules for first-time adoption of IFRS are set out in IFRS 1 – First-time adoption of International Financial Reporting Standards. IFRS 1 states that a company should use the same accounting policies in its opening balance sheet and throughout all periods presented in its first IFRS financial statements. The Standard requires these policies to comply with IFRS effective at the reporting date of the first published financial statements under IFRS (31 December 2005).

The International Standards adopted by the Group are subject to ongoing review and endorsement by the EU and possible future amendment by interpretive guidance from the International Financial Reporting Interpretations Committee (IFRIC) and the accounting profession. In particular, the International Accounting Standards Board (IASB) has yet to issue the equivalent of the UK GAAP, Statement of Recommended Practice for Oil Industry Accounting, though this is scheduled to be addressed by the IASB issuing a future standard for Extractive activities. The IFRS information presented in this document has been prepared on the basis of current interpretations of the existing standards and pronouncements, which are expected to be endorsed by 31 December 2005.

Where the Group's UK GAAP financial information was based on estimates, the same estimates have been applied in preparing the IFRS financial information. Where IFRS requires estimates that were not previously required under UK GAAP, they have been based only on those factors existing on the relevant balance sheet date. This is consistent with treating information received after the balance sheet date as non-adjusting events under IAS 10 – Events after the Balance Sheet Date. Estimates not previously required under UK GAAP primarily relate to financial instruments, embedded derivatives and share based payments.

IFRS 1 permits certain mandatory exemptions and also allows optional exemptions from the application of certain IFRS in order to assist companies with the transition process. Dana Petroleum has applied all the mandatory exceptions and in addition made the following significant decisions in implementing IFRS:

- IFRS 2 – Share Based Payments is applied to all share based awards granted after 7 November 2002 that did not vest before 1 January 2005
- IFRS 3 – Business combinations prior to 1 January 2004 have not been restated
- IAS 21 – Cumulative translation differences have been set to zero at 1 January 2004
- IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement will be applied prospectively from 1 January 2005 and as such the associated 2004 comparatives are presented under UK GAAP

In addition, as a first time adopter, the Group has adopted early IFRS 6 – Exploration for and Evaluation of Mineral Resources which is not mandatory as at 31 December 2005, the reporting date of the Group's first IFRS financial statements. This Standard has been adopted with effect from 1 January 2004.

(4) Accounting Policies

The accounting policies set out below have been adopted to prepare the restated 2004 financial information under IFRS. These will be the principal accounting policies used for Dana's interim financial results for 2005 and for future financial statements prepared under IFRS.

(a) Basis of Accounting

The financial information has been prepared using accounting policies consistent with IFRS and under the historical cost convention, except for certain fair value adjustments required by those accounting policies.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and each of its subsidiary undertakings having eliminated all inter-company transactions and balances.

Acquisitions

Business combinations are dealt with on the basis of the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets acquired (or assets given up in the case of swap transactions), equity instruments issued and liabilities incurred or assumed at the date of completion of the acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The results of subsidiaries acquired or disposed of are included/excluded in the consolidated profit and loss account from the date on which control passes. In the Company's own balance sheet, investments in subsidiaries are stated at cost less provisions for any permanent diminution in value.

Joint Ventures

The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The Group accounts for its share of the results and net assets of these joint ventures as jointly controlled assets. In addition, where Dana acts as operator to the joint venture, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint venture are included in the Group consolidated Balance Sheet.

(c) Revenue

Turnover reflects actual sales value, net of VAT and overriding royalties, in respect of liftings sold. Due to the fact that the group follows the entitlement basis, adjustments in respect of overlift (liftings greater than production entitlement) and underlift (production entitlement greater than liftings) are recorded against cost of sales at market value.

(d) Foreign Currencies

Company

Transactions in foreign currencies during the year are recorded in pounds sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at the rates ruling at the balance sheet date.

Group

Exchange differences resulting from the translation of assets and liabilities of foreign currency denominated subsidiaries into pounds sterling at year-end rates of exchange, together with those differences resulting from the restatement of profits and losses from average to year-end rates, are taken directly to the Cumulative Translation Reserve. All other exchange differences are taken to the profit and loss account.

Transactions denominated in local currencies are re-measured into the functional currency at the rate ruling on the date that they arose.

(e) Oil and Gas expenditure

The Group accounts for oil and gas expenditure under the full cost method of accounting.

Exploration and Evaluation Assets

Capitalisation

Certain costs (other than payments to acquire the legal right to explore) incurred prior to acquiring the rights to explore are charged directly to the income statement. All costs incurred after the rights to explore have been obtained, such as geological and geophysical costs and other direct costs of exploration (drilling, trenching, sampling and technical feasibility and commercial viability activities) and appraisal are accumulated and capitalised as intangible Exploration and Evaluation (E&E) assets by reference to appropriate cash generating units or pools. Such pools are based on geographic areas and are not larger than a segment. The Group currently has two pools: Europe and International.

E&E costs are not amortised prior to the conclusion of appraisal activities. If commercial reserves are not discovered, the related E&E assets are assessed for impairment on a pool basis as set out below. If commercial reserves are discovered, then the carrying value of the relevant E&E asset will be reclassified as a Development and Production asset, following development sanction; but only after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted.

Impairment

A review is performed each year for any indication that the value of the Group's oil and gas properties may be impaired.

For E&E assets when there are such indications, an impairment test is carried out on a pool basis. E&E assets are allocated to either the Europe E&E pool or the International E&E pool depending on the location of each asset. If the capitalised costs of each E&E pool exceed the estimated recoverable amount of the pool, an impairment cost is charged to the relevant Development and Production (D&P) asset pool. The D&P pool would then be further assessed for impairment as set out in the policy below. The recoverable amount of the E&E pool is determined as the higher of its fair value less costs to sell and its value in use.

Development and Production assets

Capitalisation

Development and production (D&P) assets are also accumulated on a pool basis and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from intangible E&E assets as outlined in the policy above.

Depreciation

Costs relating to evaluated properties within each pool are depleted on a unit of production method based on the commercial proven and probable reserves for that pool. Development assets are not depreciated until production commences. There are no significant items of property, plant and equipment within each pool deemed to have different useful lives. The amortisation calculation takes account of the estimated future costs of development of recognised proven and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

Impairment

A review is performed each year for any indication that the value of the Group's oil and gas properties may be impaired.

For development and producing assets, where there are such indications, an impairment test is carried out on a pool basis and if necessary additional depletion is charged if the capitalised costs of those assets exceed the estimated future value of the related commercial reserves of oil and gas within the pool. The value in use is determined from estimated future net cash flows (discounted) attributable to such reserves.

Asset purchases and disposals

When a commercial transaction involves the purchase of a D&P asset in exchange for an E&E asset, the transaction is accounted for at fair value with the difference between fair value and cost being credited to the relevant E&E pool.

When a commercial transaction involves the exchange of E&E assets with similar fair values, no fair value calculation is performed. The capitalised costs of the asset being sold are transferred to the asset being acquired. However, where the fair values of the E&E

assets significantly differ, the transaction is accounted for at fair value within the relevant E&E pools.

Proceeds from the disposal of a D&P asset accounted for within a D&P pool, are deducted from the capitalised costs of that pool, with no gain or loss being recognised. In the event of the proceeds from a disposal exceeding the value of the pool, the surplus is taken as a gain to the profit and loss account.

Proceeds from the disposal of an E&E asset accounted for within an E&E pool are deducted from the capitalised costs of that pool with no gain or loss being recognised. In the event of the proceeds from a disposal exceeding the value of the pool, the surplus is deducted from the capitalised costs in the related D&P pool or if there is no related pool, then it is taken as a gain to the profit and loss account.

(f) Decommissioning

The Group recognises the full discounted cost of decommissioning when the obligation to rectify environmental damage arises, principally development sanction. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset. The unwinding of the discount on the decommissioning provision is included as an interest expense.

(g) Property, Plant and Equipment other than Oil and Gas assets

Property, plant and equipment other than Oil and Gas assets are stated in the Balance Sheet at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis at the following annual rates:

- Equipment 10% - 25%
- Computer equipment 33%

(h) Finance Costs and Debt

Finance costs which are directly attributable to the construction of tangible D&P assets are capitalised as part of the cost of those assets.

The commencement of capitalisation begins when both finance costs and expenditures in respect of the asset are incurred and activities that are necessary to develop an asset are in progress. Capitalisation ceases when the development is substantially complete.

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are amortised and charged to the Profit and Loss Account as finance costs over the term of the debt.

(i) Inventories

Inventories comprise materials and equipment, which are stated at the lower of cost and net realisable value.

(j) Share Issue Expenses and Share Premium Account

Costs of share issues are written off against the premium arising on the issue of share capital.

(k) Taxation

Current tax

Current tax is recognised as a liability to the extent unpaid or if amount paid exceeds the amount due it is recognised as an asset. Current tax assets and liabilities are measured at the amount expected to be paid / recovered from the taxation authorities, using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements.

The deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction (other than a business combination), that at the time of the transaction affects neither accounting or taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and or which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future income tax profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Petroleum Revenue Tax

Petroleum Revenue Tax (PRT) is treated as an income tax and deferred PRT is calculated and provided for. Current UK PRT is charged as a tax expense on chargeable field profits included in the Income Statement and is deductible for UK corporation tax.

(l) Pensions

Contributions in lieu of pensions are charged to the profit and loss account as incurred.

(m) Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and movements in oil and gas prices.

Group policy up to 31 December 2004 (UK GAAP)

When derivative instruments are used, then the following definitions and accounting treatments apply.

Forward foreign currency contracts

The criteria for forward foreign currency contracts are:

- the instrument must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the Group's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed or probable future transaction, are deferred until the transaction occurs.

Interest rate swaps

The Group's criteria for interest rate swaps are:

- the instrument must be related to an asset or a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, without settling the underlying liability, the gain/loss is spread over the remaining maturity of the original instrument.

Commodity Contracts

Gains and losses arising on commodity contracts are recognised in revenues from oil production when hedged volumes are sold.

Group policy applied prospectively from 1 January 2005 (IFRS)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at each subsequent reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedges); or hedges of net investments in foreign operations (net investment hedge).

Fair value hedge : changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge : the effective portion of changes in the fair value of derivatives that are designated and qualify as hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item will affect profit and loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, project costs or a major business investment) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge : hedges for net investments in foreign operations are delivered through derivatives and / or foreign currency borrowings. Any gain or loss on a derivative hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement. Any gains or losses on foreign currency borrowings used as a hedge are recognised in equity.

Gains and losses accumulated in equity are included in the income statement on disposal of the foreign operation.

Derivatives that do not qualify for hedge accounting

Certain other derivative instruments, while providing effective economic hedges under the Group's policies, may not be designated as hedges at the Group's discretion or if the required documentation standards have not been achieved. Changes in the fair value of

such derivative instruments are recognised immediately in the income statement. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Fair value estimation of financial instruments traded in active markets (such as available for sale securities) is based on quoted market prices at the reporting date. The fair value of foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Other financial instruments are valued using standard pricing models or discounted cash flow techniques.

(n) Operating Leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

(o) Maintenance Expenditure

Expenditure on major maintenance, refits or repairs is capitalised where it enhances the life or performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and which is then written off, or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to income as incurred.

(p) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(q) Share Based Payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group issues both equity-settled and cash-settled share-based payments as an incentive to certain key management and staff. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest.

Fair value is measured by use of an actuarial binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

For cash-settled share-based payments, a liability is recognised based on the current fair value determined at each reporting date and that portion of the employees' services to which the payment relates that has been received by the reporting date.

(5) Reconciliations of UK GAAP to IFRS

5a) Reconciliation from UK GAAP to IFRS of the Profit for the year ended 31 December 2004 and for the six months ended 30 June 2004

	31/12/2004 £'000	30/06/2004 £'000
UK GAAP PROFIT FOR THE FINANCIAL YEAR	22,367	9,101
IFRS adjustments:		
1) IFRS 2 - Share based payments	(115)	(54)
2) IAS 12 – Income taxes	694	347
IFRS PROFIT FOR THE FINANCIAL YEAR	22,946	9,394

1) IFRS 2 – Share based payments

The Dana Petroleum 1999 Share Option Scheme is an equity settled share incentive scheme and under UK GAAP no adjustment was made to the financial statements when options were granted under this arrangement. Two awards have been made under this scheme since 7 November 2002.

IFRS 2 requires such awards to be fair valued at the grant date using an option pricing model and amortised through the income statement over the 3 year vesting period of the relevant awards.

This has reduced Pre-tax profit in the full year 2004, and half-year 2004 by £115,000 and £54,000 respectively, net of the corresponding deferred corporation tax adjustment.

2) IAS 12 – Income taxes

Petroleum Revenue Tax

Under UK GAAP there is no definitive guidance on the accounting treatment for PRT. Historically the Group has charged PRT due on chargeable field profits as a tax expense in the income statement. Dana's charge to PRT arises from its interest in the Victor and Claymore fields. No deferred PRT was previously provided for under UK GAAP.

IAS 12 supports the treatment of recognising PRT as an income tax and hence deferred PRT should be accounted and provided for. The effect of this revision is to align the charge to PRT with the anticipated life of field profitability. This has no impact on the economics of the assets or the life of field PRT charge.

This has increased Pre-tax profit in the full year 2004, and half-year 2004 by £694,000 and £347,000 respectively, net of the corresponding deferred corporation tax adjustment.

5b) Reconciliations from UK GAAP to IFRS of Shareholders' Equity at 31 December 2004, 30 June 2004 and 1 January 2004

	31/12/2004	30/06/2004	01/01/2004
	£'000	£'000	£'000
UK GAAP SHAREHOLDERS' FUNDS	187,753	165,501	156,421
Minority Interest	1,696	1,493	1,407
UK GAAP TOTAL EQUITY	189,449	166,994	157,828
IFRS adjustments:			
1) IFRS 2 - Share based payments	1,051	504	275
2) IAS 12 - Income taxes	(232)	(579)	(926)
IFRS SHAREHOLDERS' FUNDS	190,268	166,919	157,177

1) IFRS 2 – Share based payments

The Dana Petroleum 1999 Share Option Scheme is an equity settled share incentive scheme and under UK GAAP no adjustment was made to the financial statements when options were granted under this arrangement. Two awards have been made under this scheme since 7 November 2002.

IFRS 2 requires for such awards, that provision be made for any future share based pay out and for this to be presented within equity. Under IFRS this is based on the fair value of all share-based awards at the grant date calculated using an option pricing model.

In addition, IFRS 2 requires that provision also be made for the deferred corporation tax adjustment arising on the intrinsic value of the option awards at the reporting date, and for this also to be represented in equity until the current tax adjustment arises.

The net increase to equity of these adjustments at 31 December 2004, 30 June 2004 and 1 January 2004 is £1,051,000, £504,000 and £275,000 respectively.

2) IAS 12 – Income taxes

Petroleum Revenue Tax

Under UK GAAP there is no definitive guidance on the accounting treatment for PRT. Historically the Group has charged PRT due on chargeable field profits as a tax expense in the income statement. Dana's charge to PRT arises from its interest in the Victor and Claymore fields. No deferred PRT was previously provided for under UK GAAP.

IAS 12 supports the treatment of recognising PRT as an income tax and hence deferred PRT should be accounted and provided for. The effect of this revision is to align the charge to PRT with the anticipated life of field profitability. This has no impact on the economics of the assets or the life of field PRT charge.

The cumulative impact on Shareholder's funds at 1 January 2004, 30 June 2004 and 31 December 2004 is (£926,000), (£579,000) and (£232,000) respectively.

5c) Explanation of principal differences between the Cash Flow statements presented under UK GAAP and the Cash Flow statements to be presented under IFRS

No cash flow reconciliations have been presented as IAS 7 'Cash Flow Statements' has had no impact on the net movement in cash and cash equivalents. The definition of 'Cash and Cash equivalents' is described in accounting policy (p) above.

The principal presentational differences between the cash flow statements presented in accordance with UK GAAP and cash flow statements to be presented in accordance with IFRS will be as follows:

1. Under UK GAAP, net cash flow from operating activities was determined before considering cash outflows from (a) returns on investments and servicing of finance, (b) dividends received from associates, and (c) taxes paid. Under IFRS, net cash flow from operating activities is determined **after** these items.
2. Under UK GAAP exchange gains/(losses) on cash and cash equivalents were included in the Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt) while under IFRS, they are included on the face of the Cash Flow statement.
3. Under UK GAAP, capital expenditure, financial investments and acquisitions were classified as capital expenditure and financial investment, while under IFRS, they are classified as **investing activities**.
4. Under UK GAAP, movements in short-term investments were not included in cash but classified as management of liquid resources. Under IFRS, short-term investments with maturity of three months or less at the date of acquisition are included in cash and cash equivalents.

5d) Other adjustments with a presentation only impact to the Balance Sheets at 30 June 2004 and 31 December 2004

Balance Sheet at 30 June 2004

	UK GAAP 30/06/2004 £'000	Adjustment £'000	IFRS 30/06/2004 £'000
Intangible Assets	90,467	(2,334)	88,133
Tangible Assets	105,652	2,334	107,986

Balance Sheet at 31 December 2004

	UK GAAP 31/12/2004 £'000	Adjustment £'000	IFRS 31/12/2004 £'000
Intangible Assets	99,254	(2,686)	96,568
Tangible Assets	107,574	2,686	110,260

The adjustments above reflect the new capitalisation policy detailed in accounting policy (e) whereby the carrying value of E&E assets are reclassified as Development and Production assets following development sanction. The above adjustment reflects the status of the F16-E asset at the above dates.

5e) Reconciliation of Shareholders' Equity at 1 January 2005 for impact of IAS 32 and IAS 39

	£'000
IFRS SHAREHOLDERS' FUNDS at 31/12/04	190,268
1) Available-for-Sale financial assets	3,754
2) Embedded derivative	3,016
IFRS SHAREHOLDERS' FUNDS at 1/1/05	197,038

The Group adopted IAS 32 and IAS 39 'Financial Instruments: Recognition and Measurement' at the effective date of 1 January 2005. IAS 39 covers the recognition, measurement and derecognition of financial instruments for which there is no UK equivalent standard. The Group decided to take the exemption afforded by IFRS 1 which removed the requirement to produce 2004 comparatives. The background to the above adjustments is as follows:

1) Available-for-Sale financial assets

Under UK GAAP, Group investments were included in the financial statements at cost less provision for diminution. At 1 January 2005, Group investments comprise Dana Petroleum's holding in Faroe Petroleum plc and the Groups interest in Evikhon, a Russian Joint Stock Company.

The Group has reviewed its financial assets and liabilities and in compliance with IAS 32 & 39 has reclassified these investments as Available-for-Sale financial assets and restated these in the financial statements at fair value. At 1 January 2005 fair value for the investment in Faroe Petroleum plc was based on that company's share price on the London Aim market at that date. For Evikhon, fair value was taken as the value for which the investment was subsequently sold in March 2005.

These fair values are then adjusted for the associated deferred corporation tax adjustment. At 1 January 2005, the aggregate effect of these adjustments was to increase equity by £3,754,000.

2) Embedded derivative

Under UK GAAP there was no requirement to provide for the fair value of embedded derivatives. The Group has reviewed its contracts and has identified an embedded derivative within the Victor Gas contract. In compliance with IAS 39 the embedded derivative has been recognised at its fair value in the financial statements. Fair value represents the discounted value of the anticipated future cash flows generated by the embedded derivative components, net of the corresponding deferred corporation tax adjustment.

The impact on equity from the introduction of this accounting policy is an increase of £3,016,000 net of the associated deferred corporation tax adjustment.

Appendix 1 – IFRS Income Statement and Statement of Changes in Equity for the year ended 31 December 2004 and the IFRS Balance Sheet at 31 December 2004

1. IFRS Income statement for the year ended 31 December 2004

	£'000
Turnover	109,476
Cost of Sales – continuing operations	<u>(56,870)</u>
Gross Profit	52,606
Administrative Expenses	<u>(3,930)</u>
Operating Profit	48,676
Group Share of Loss of Associated Company	(9)
Provision for Impairment of Associated Company	<u>(2,851)</u>
Profit on Ordinary Activities before Interest	45,816
Interest Receivable	778
Interest Payable and Similar Charges	<u>(3,200)</u>
Profit on Ordinary Activities before Taxation	43,394
Taxation	<u>(20,000)</u>
Profit for the Year	<u>23,394</u>
Attributable to:	
Equity Holders of the Company	22,946
Minority Interests	<u>448</u>
	<u>23,394</u>
Earnings per Share - basic	<u>30.93p</u>
Earnings per Share - diluted	<u>29.65p</u>

2. IFRS Statement of Changes in Equity for the year ended 31 December 2004

	£'000
Opening Balance	157,177
Profit for the year	23,394
Currency Translation Adjustments	(616)
Employee Share Scheme Credits	891
New Shares Issued	<u>9,422</u>
Closing Balance	<u>190,268</u>

3. IFRS Balance Sheet as at 31 December 2004

	£'000
ASSETS	
Non-current Assets	
Intangible Assets	96,568
Tangible Assets	110,260
Investments	13,367
	<hr/>
	220,195
Current Assets	
Inventories	372
Debtors	22,688
Cash and Cash Equivalents	41,330
	<hr/>
	64,390
	<hr/>
Total Assets	284,585
	<hr/>
Current Liabilities	
Trade and Other Payables	25,491
Current Tax	10,987
	<hr/>
	36,478
	<hr/>
Non-current Liabilities	
Creditors: amounts falling due after one year	20,833
Provision for Liabilities and Charges	33,499
Accruals and Deferred Income	3,507
	<hr/>
	57,839
	<hr/>
Total Liabilities	94,317
	<hr/>
Net Assets	190,268
	<hr/>
EQUITY	
Equity attributable to equity holders	
Called-up Share Capital	11,729
Share Premium	39,531
Other Reserves	97,679
Retained Earnings	39,633
	<hr/>
	188,572
Minority Interest	1,696
	<hr/>
Total Equity	190,268
	<hr/>

Appendix 2 –IFRS Income Statement and Statement of Changes in Equity for the six months ended 30 June 2004 and the IFRS Balance Sheet as at 30 June 2004

1. Group Income Statement for the six months to 30 June 2004

	£'000
Turnover	48,687
Cost of Sales – continuing operations	<u>(27,361)</u>
Gross Profit	21,326
Administrative Expenses	<u>(1,198)</u>
Operating Profit	20,128
Group Share of Loss of Associated Company	<u>-</u>
Profit on Ordinary Activities before Interest	20,128
Interest Receivable	321
Interest Payable and Similar Charges	<u>(1,656)</u>
Profit on Ordinary Activities before Taxation	18,793
Taxation	<u>(9,248)</u>
Profit for the Financial Period	<u>9,545</u>
Attributable to:	
Equity Holders of the Company	9,394
Minority Interests	<u>151</u>
	<u>9,545</u>
Earnings per Share - basic	<u>12.71p</u>
Earnings per Share - diluted	<u>12.60p</u>

2. Group Statement of Changes in Equity for the six months to 30 June 2004

	£'000
Opening Balance	157,177
Profit for the financial period	9,545
Currency Translation Adjustments	(119)
Employee Share Scheme Credits	283
New Shares Issued	<u>33</u>
Closing Balance	<u>166,919</u>

3. IFRS Balance Sheet as at 30 June 2004

	£'000
ASSETS	
Non-current Assets	
Intangible Assets	88,133
Tangible Assets	107,986
Investments	16,427
	<hr/>
	212,546
Current Assets	
Inventories	419
Debtors	12,231
Cash and Cash Equivalents	36,079
	<hr/>
	48,729
	<hr/>
Total Assets	261,275
	<hr/>
Current Liabilities	
Trade and Other Payables	25,706
Current Tax	4,096
Total Current Liabilities	29,802
	<hr/>
Non-current Liabilities	
Creditors: amounts falling due after one year	16,364
Provision for Liabilities and Charges	34,985
Accruals and Deferred Income	3,776
Convertible Loan Notes	9,429
Total Non-current Liabilities	64,554
	<hr/>
Total Liabilities	94,356
	<hr/>
Net Assets	166,919
	<hr/>
EQUITY	
Equity attributable to equity holders	
Called-up Share Capital	11,101
Share Premium	30,770
Other Reserves	97,679
Retained Earnings	25,876
	<hr/>
	165,426
Minority Interest	1,493
Total Equity	166,919
	<hr/>

Appendix 3 – Independent Auditors’ Report and Independent Review Report

INDEPENDENT AUDITORS’ REPORT TO DANA PETROLEUM PLC ON THE PRELIMINARY IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

We have audited the accompanying preliminary International Financial Reporting Standards (“IFRS”) financial statements of the Group for the year ended 31 December 2004 which comprise the Group Income Statement and the Group Statement of Changes in Equity for the year ended 31 December 2004, and the Group Balance Sheet as at 31 December 2004.

This report is made solely to the Company in accordance with our engagement letter dated 10 June 2005. Our audit work has been undertaken so that we might state to the Company 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 or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

These preliminary IFRS financial statements are the responsibility of the Company’s directors and have been prepared as part of the Company’s conversion to IFRS. They have been prepared in accordance with the basis set out in section 3, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Our responsibility is to express an independent opinion on the preliminary IFRS financial statements based on our audit. We read the other information accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. This other information comprises the accounting policies on pages 3 to 12 and the reconciliations from UK GAAP to IFRS set out on pages 12 to 16. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary IFRS financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS

financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that section 3 explains why there is a possibility that the preliminary IFRS financial statements may require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRSs.

Opinion

In our opinion, the preliminary IFRS financial statements for the year ended 31 December 2004 have been prepared, in all material respects, in accordance with the basis set out in section 3, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Ernst & Young LLP
London
28 September 2005

INDEPENDENT REVIEW REPORT TO DANA PETROLEUM PLC ON THE PRELIMINARY IFRS FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2004

Introduction

We have reviewed the preliminary International Financial Reporting Standards (“IFRS”) consolidated financial information of Dana Petroleum plc for the six months ended 30 June 2004 which comprises the Group Income Statement and the Group Statement of Changes in Equity for the six months ended 30 June 2004 and the Group Balance Sheet as at 30 June 2004.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 ‘Review of interim financial information’ issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company for our work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The preliminary IFRS financial information is the responsibility of the company’s directors and has been prepared as part of the company’s conversion to IFRS. It has been prepared in accordance with the basis of preparations set out in Section 3 which describes how IFRS has been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 ‘Review of interim financial information’ issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an opinion on the preliminary IFRS financial information.

Emphasis of matter

Without modifying our review conclusion, we draw attention to the fact that the accounting policies note explains why there is a possibility that the preliminary IFRS financial information may require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRS only a complete set

of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the company's financial position, results of operations and cash flows in accordance with IFRS.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the preliminary IFRS financial information as presented for the six months ended 30 June 2004.

Ernst & Young LLP
28 September 2005
London