

Company Financial Statements 2009

Company Financial Statements

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Company Report of the Auditors

Independent auditor's report to the members of Dana Petroleum plc

We have audited the parent Company financial statements of Dana Petroleum plc for the year ended 31 December 2009 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 46, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of Dana Petroleum plc for the year ended 31 December 2009.

**Douglas Nisbet (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor**

Aberdeen

26 March 2010

Company Balance Sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed Assets			
Property, Plant and Equipment	36	38	137
Investments in Subsidiaries	37	111,998	111,998
Investment in Associates	38	34,816	34,816
Deferred Tax Asset	39	152	–
		147,004	146,951
Current Assets			
Debtors	40	123,465	59,840
Cash at Bank and in Hand		427	13,358
		123,892	73,198
Creditors: Amounts Falling Due Within One Year	41	(5,755)	(6,312)
Net Current Assets		118,137	66,886
Total Net Assets		265,141	213,837
Capital and Reserves			
Called-up Share Capital	43	13,801	13,034
Share Premium Account	45	136,519	81,066
Other Reserves	45	28,205	28,205
Profit and Loss Account	45	86,616	91,532
Shareholders' Funds		265,141	213,837

The financial statements were approved by the Board of Directors on 26 March 2010 and signed on its behalf by:



Thomas P Cross
Director



David A MacFarlane
Director

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34 Accounting policies

These financial statements have been prepared in pounds sterling under the historical cost convention, as modified by the revaluation of certain Investments and Financial Instruments in accordance with the Companies Act 2006 and applicable accounting standards.

The principal accounting policies adopted by the Company are set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The following accounting policies are applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Dividends

Dividends received are included in the accounts in the period the related dividends are actually received.

Property, plant & equipment (PP&E)

PP&E assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is provided on PP&E assets to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight-line basis at the following annual rates:

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

Investments in associates and subsidiaries

Fixed asset investments in subsidiaries and associates are included in the financial statements at cost less provisions for impairment.

Deferred taxation

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 that 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 tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for 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;
- 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 future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at 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.

Issue expenses and share premium account

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

Foreign currencies

The functional currency for the Company is pounds sterling.

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

Pensions

The Company contributes to the personal pension arrangements of Executive Directors and employees up to a specified percentage of salary in lieu of a formal corporate scheme. Contributions in lieu of pensions are charged to the profit and loss account as incurred.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

34 Accounting policies continued

Share based payments

The Company 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 Company's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Monte Carlo 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 behavioral considerations.

35 Employment costs

	2009 £'000	2008 £'000
Wages and salaries	8,981	7,379
Pension costs	443	438
Social security costs	1,157	2,124
	10,581	9,941

Included in wages and salaries is a total net expense of share based payments of £3,940,000 (2008: £1,952,000) of which £3,322,000 (2008: £2,605,000) arises from transactions accounted for as equity-settled share based payment transactions. The carrying amount of the liability at the end of the year for cash-settled share based payment transactions is £1,802,000 (2008: £1,425,000).

The weighted average number of employees (including Executive Directors) during the year was:

	2009	2008
Management	10	10
Technical and administration	22	19
	32	29

Details for each Director, of remuneration, pension entitlements and interests in share schemes are set out on pages 55 to 57.

36 Property, plant and equipment

The movements during the year were as follows:

	Total £'000
Cost:	
At 1 January 2009	1,645
Transfer to subsidiary	(2)
At 31 December 2009	1,643
Depletion and depreciation:	
At 1 January 2009	1,508
Provided in year	97
At 31 December 2009	1,605
Net book value	
At 31 December 2009	38
At 31 December 2008	137

37 Investments in subsidiaries

Subsidiary Undertakings

	£'000
At 1 January and 31 December	111,998

At 31 December 2009, the principal subsidiary undertakings of the Company were:

Name of Company	Country of Incorporation/ Operation	Main Activity
Dana Petroleum (E&P) Limited	UK	Oil & gas exploration & production
Dana Petroleum (North Sea) Limited*	UK	Oil & gas exploration & production
Dana Petroleum (BVUK) Limited*	UK	Oil & gas exploration & production
Dana Petroleum Norway AS	Norway	Oil & gas exploration & production
Dana Petroleum East Zeit Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum East Beni Suef Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum Qarun Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum WAG Limited*	Cayman Islands/ Egypt	Oil & gas exploration & production
Dana Petroleum (Jersey) Limited	Jersey	Financing

* Held by subsidiary undertaking.

The Cayman and Jersey subsidiaries are managed and controlled from the UK and have UK tax residency.

All of the above companies are wholly owned. Further details of subsidiary undertakings are available at the headquarters of Dana Petroleum plc.

38 Investment in associate

	£'000
At 1 January and 31 December 2009	34,816

The Company as at 31 December 2009 owns 27.53% of the ordinary share capital of Faroe Petroleum plc, whose nature of business is oil & gas exploration & production.

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Deferred tax asset

	2009 £'000	2008 £'000
At 1 January	-	-
Change in estimate	152	-
At 31 December	152	-

Deferred tax included in the balance sheet is as follows:

	2009 £'000	2008 £'000
Deferred tax asset		
Accelerated capital allowances	75	-
Other temporary differences	77	-
	152	-

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Debtors

	2009 £'000	2008 £'000
Other debtors and prepayments	2,452	564
Due from subsidiary undertakings	121,013	59,276
	123,465	59,840

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Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Amounts owed to subsidiary undertakings	158	2,263
Accruals and other payables	5,597	4,049
	5,755	6,312

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Financial instruments

An outline of the objectives, policies and strategies pursued by the Group and Company in relation to financial instruments is set out in the Financial Review on page 34 to 35 of this report, and in note 2 on page 70.

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Called-up share capital

See note 24, page 92 to 93 for details of the share capital of the Company.

The Company has provided an unconditional and irrevocable guarantee for the Convertible Bonds ('Bonds') issued in 2007 by Dana Petroleum (Jersey) Limited, a wholly owned subsidiary, the details of which are contained in note 21 on page 86. In accordance with the terms and conditions of the Bonds, the Bonds will be convertible into preference shares of the issuer, which will then be immediately exchanged for ordinary shares in the Company as guarantor.

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Share-based payments

See note 25, pages 93 to 95 for details of the share based payments for the Company.

45 Reserves

	Share Premium Account £'000	Profit and Loss Account £'000	Other Reserves £'000
At 1 January 2009	81,066	91,532	28,205
Retained loss for the year	–	(8,554)	–
Employee share scheme credits	–	3,638	–
New shares issued	55,453	–	–
At 31 December 2009	136,519	86,616	28,205

46 Pensions

The Company contributes to the personal pension arrangements of Executive Directors and employees up to a specified percentage of salary in lieu of a formal corporate scheme. Total pension contributions in lieu amounted to £443,000 (2008: £438,000) for the year ended 31 December 2009.

47 Company profit and loss account

In accordance with the provisions of the Companies Act 2006, the Company has not presented a profit and loss account. A loss for the year of £8,554,000 (2008: £19,897,000) has been dealt with in the profit and loss account of the Company.

48 Obligations under operating leases

Annual commitments under operating leases are as follows:

	Land and Buildings 2009 £'000	Land and Buildings 2008 £'000
Payable on leases which expire:		
within one year	207	186
in two to five years	583	630
After five years	112	215

Rentals due under operating leases are charged against income on a straight line basis over the term of the lease.