

Surestream Petroleum Limited

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

for the year ended
31 December 2007



Company Registration No 5238607

Surestream Petroleum Limited

DIRECTORS AND OFFICERS

DIRECTORS

P Achach
S Rigny
C Pitman
M Niasse
JA Nielsen

SECRETARY

Collyer Bristow Secretaries Limited

REGISTERED OFFICE

4 Bedford Row
London
WC1R 4DF

INDEPENDENT AUDITORS

Baker Tilly UK Audit LLP
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

Surestream Petroleum Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of Surestream Petroleum Limited for the year ended 31 December 2007

PRINCIPAL ACTIVITIES

The principal activity of the group during the year was oil exploration

REVIEW OF THE BUSINESS

The Company commenced the year by opening negotiations with Glencore Exploration Limited ("Glencore") on a possible farm-out of part of its participating interest on the Yema and Matamba-Makanzi ("YMM") Production Sharing Agreement ("PSA") of the Democratic Republic of Congo. Negotiations concluded in May and the Company signed the Farm-out Agreement ("FOA") with Glencore to transfer 42% of its participating interest to Glencore effective 1 April 2007 in exchange of Glencore's full-carry commitment capped at US\$30 million for the following 4 years in exploration costs.

Shortly after this event, the Company awarded a 2D Seismic Acquisition Contract to China National Coal Geology Prospecting Institute ("CCGPI") to commence the project in May 2008. The contract valued at US\$9 million to acquire a total of 1020 line kms of 2D seismic data. With this major milestone, our exploration operation in the YMM blocks of DRC ramped up significantly for the preparations of the Seismic Survey.

The major components of the exploration work undertaken during the year 2007 included

- detail planning of the upcoming seismic campaign and preparation of the operations base in the field
- a geophysical interpretation study for post-salt prospects in YMM blocks
- aerogravity data acquisition both in YMM and Ndunda blocks
- a demining survey in YMM blocks
- an environmental impact study
- a survey of the YMM and Ndunda PSA boundaries
- the acquisition of an Orthophoto survey of Ndunda Block

In June 2007, the Company moved its Dubai branch to its new premises at the Jumeirah Lakes Towers development under the Dubai Multi Commodities Center Authority. The Dubai branch continued its operations and accounting support to the DRC exploration operations. Majority of the kit and equipment required for the operations in the DRC were procured and exported from Dubai to the field.

The Company funded its exploration operations with proceeds of a round of equity financing closed in July 2007. The private placement was organized in the Oslo market and SP Capital AS, a Norwegian private investment firm became a shareholder to Surestream. The total cash proceeds from this round of financing was US\$10 million, subscribed by SP Capital AS in majority and followed by small increases in the shares held by the current shareholders.

Towards the end of 2007, the Company assigned New York based Nannes-Delorme financial consultants with the marketing of the Ndunda PSA for a possible farm-out deal similar to the YMM one entered into by Glencore. At the time this report was prepared a closure had not been reached on the farm-out of the Ndunda PSA.

As a last significant activity of 2007, the Company entered into discussion with Tullow Oil, Heritage and with the DRC administration to be included in the association of companies that will explore the Blocks 1 and 2 in the Graben Albertine area.

Surestream Petroleum Limited

DIRECTORS' REPORT

FUTURE DEVELOPMENTS

The Company will continue its exploration operations in its blocks in the Lower Congo Basin, and intends to finalize the seismic campaign in 2008 and start the planning of the exploratory wells to be drilled in 2009

The Company will continue to seek technically low-risk, high-return assets in proven petroleum provinces, and has identified some acreage in the Lake Tanganyika Area, in respect of which it has started to approach the authorities of DRC, Tanzania and Burundi

EVENTS SINCE THE END OF THE YEAR

The following significant events have occurred since the balance sheet date

- 1) Signature of a protocol with the DRC authorities to commence PSA negotiations in the Lake Tanganyika area of the Eastern DRC
- 2) A formal application to the Burundi authorities for the award of a concession on the Lake Tanganyika area
- 3) A new round of equity financing for \$12.5 million was successfully closed on 16 June 2008 with a group of Norwegian investors

DIVIDENDS

The directors are precluded from the payment of a dividend

DIRECTORS

The following directors have held office during the year

P Achach
S Rigny
C Pitman
M Niasse
J A Nielsen (since July 28, 2007 representing SP Capital AS)

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

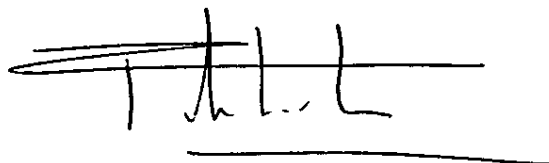
AUDITORS

Baker Tilly UK Audit LLP has indicated its willingness to continue in office

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities

By order of the board,
P Achach
Director

15 July 2008



Surestream Petroleum Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 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 those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURESTREAM PETROLEUM LIMITED

We have audited the financial statements on pages 6 to 21

This report is made solely to the company's members, 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 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

The directors' responsibilities for preparing the Annual Report and the 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 are 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.

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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgements 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 financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2007 and of the group's loss for the year then ended and 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.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP

Registered Auditor

Chartered Accountants

2 Bloomsbury Street

London WC1B 3ST

24 July 2008

Surestream Petroleum Limited
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2007

	Notes	2007 US\$	2006 US\$
Administrative expenses		(3,263,812)	(1,257,544)
OPERATING LOSS		(3,263,812)	(1,257,544)
Interest receivable		108,578	32,181
Interest payable		(111,654)	(42,503)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	1	(3,266,888)	(1,267,866)
Taxation	3	-	-
LOSS FOR THE FINANCIAL YEAR	12	(3,266,888)	(1,267,866)

The loss for the period arises from the group's continuing operations

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account

Surestream Petroleum Limited

CONSOLIDATED BALANCE SHEET

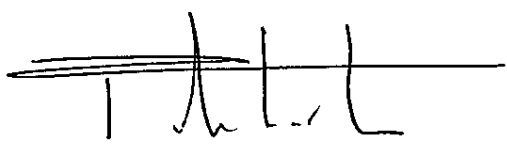
31 December 2007

	Notes	2007 US\$	2006 US\$
FIXED ASSETS			
Intangible assets	6	8,113,288	6,729,714
Tangible assets	7	233,409	218,531
		<u>8,346,697</u>	<u>6,948,245</u>
CURRENT ASSETS			
Debtors	8	258,255	183,367
Cash at bank		4,522,490	2,128,906
		<u>4,780,745</u>	<u>2,312,273</u>
CREDITORS Amounts falling due within one year	9	(433,016)	(3,417,218)
NET CURRENT ASSETS/(LIABILITIES)		<u>4,347,729</u>	<u>(1,104,945)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,694,426</u>	<u>5,843,300</u>
CAPITAL AND RESERVES			
Called up share capital	10	13,646	10,662
Share premium	11	18,625,198	8,510,168
Profit and loss account	12	(5,944,418)	(2,677,530)
SHAREHOLDERS' FUNDS	13	<u>12,694,426</u>	<u>5,843,300</u>

These accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities

The accounts were approved and authorised for issue by the Board on 15 July 2008

Director


Pierre ACHACH

Surestream Petroleum Limited

COMPANY BALANCE SHEET

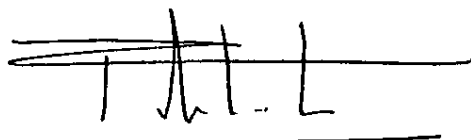
31 December 2007

	Notes	2007 US\$	Restated 2006 US\$
FIXED ASSETS			
Investments	5	9,806,228	6,810,328
Tangible assets	7	233,409	218,531
		<u>10,039,637</u>	<u>7,028,859</u>
CURRENT ASSETS			
Debtors	8	107,050	160,667
Cash at bank		3,065,768	2,123,249
		<u>3,172,818</u>	<u>2,283,916</u>
CREDITORS Amounts falling due within one year	9	(186,987)	(3,255,628)
NET CURRENT ASSETS/(LIABILITIES)		<u>2,985,831</u>	<u>(971,712)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>13,025,468</u>	<u>6,057,147</u>
CAPITAL AND RESERVES			
Called up share capital	10	13,646	10,662
Share premium	11	18,625,198	8,510,168
Profit and loss account	12	(5,613,376)	(2,463,683)
SHAREHOLDERS' FUNDS	13	<u>13,025,468</u>	<u>6,057,147</u>

These accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities

The accounts were approved and authorised for issue by the board on 15 July 2008

Director



Pierre Achach.

Surestream Petroleum Limited
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007

	<i>Notes</i>	2007 US\$	2006 US\$
Cash flow from operating activities	14a	(3,036,627)	(700,349)
Returns on investments and servicing of finance	14b	(45,582)	32,181
Capital expenditure and financial investment	14b	(1,492,222)	(5,422,896)
CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(4,574,431)	(6,091,064)
Financing	14b	6,968,015	7,536,501
INCREASE IN CASH IN THE PERIOD		2,393,584	1,445,437

	<i>Notes</i>	2007 US\$	2006 US\$
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase in cash in the period	14c	2,393,584	1,445,437
Cash inflow/(outflow) from increase/(decrease) in debt	14c	2,542,503	(2,542,503)
Change in net debt resulting from cash flows	14c	4,936,087	(1,097,066)
MOVEMENT IN NET DEBT IN THE PERIOD		4,936,087	(1,097,066)
NET (DEBT)/FUNDS AT 1 JANUARY 2007		(413,597)	683,469
NET FUNDS/(DEBT) AT 31 DECEMBER 2007		4,522,490	(413,597)

Surestream Petroleum Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice '*Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities*' issued by the Oil Industry Accounting Committee in January 2000 ("the SORP")

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of Surestream Petroleum Limited and its subsidiary undertakings for the year using the acquisition method. The results of subsidiaries formed or acquired during the year are incorporated from the date that Surestream Petroleum Limited obtain control.

No profit and loss account is presented for Surestream Petroleum Limited as provided by Section 230 (3) of the Companies Act 1985.

CAPITALISATION OF OIL AND GAS EXPENDITURE

The company applies the full cost method of accounting under which all expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests, including an appropriate share of overheads is capitalised. This includes all costs for acquiring the licences including signing bonus and exploration licences. Capitalised costs are amortised on a unit of production basis. The Board regularly reviews the carrying values of intangible assets and writes down capitalised expenditure to the extent considered impaired in accordance with the requirements of the SORP. If no discoveries are made, the accumulated capitalised costs will be written off through the profit and loss account.

FARM-OUT ARRANGEMENTS

The group does not recognise any intangible asset arising or expenditure paid, relating to oil and gas exploration costs incurred by the farmee subsequent to the effective date of the farm-out agreement. Any contribution to costs previously incurred in generating an intangible asset are deducted from the intangible oil and gas asset so as to recognise no profit or loss on the disposal of the group's interest.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows -

Furniture, fixtures & fittings	33⅓%
Computer equipment	33⅓%
Computer software	33⅓%
Motor vehicles	33⅓%

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account. The principal operating currency for both Surestream Petroleum Limited and its subsidiary undertaking is United States dollars.

FINANCE COSTS

Finance costs of debt instruments are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

INVESTMENTS

Long term investments including long term loans to subsidiaries are described as participating interests and are classified as fixed assets in the company balance sheet and are stated at cost.

Amounts formerly presented in the company's balance sheet as amounts due from Surestream RDC Sarl, a subsidiary undertaking, have been re-stated as an investment in subsidiary undertaking.

Surestream Petroleum Limited

ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

Bank deposits are stated at historical cost including any interest received or accrued

Loan balances are initially recognised at the net proceeds received and are subsequently stated at amortised cost with interest recognised as an expense using a constant rate of interest over the period of the loan, with any resulting provision or discount included within the loan balance

SHARE BASED PAYMENTS

Where the group issues equity instruments in consideration for services provided by third parties (other than employees) that are required to be settled in an equity-settled share based payment transaction, those services are recognised as an expense (unless they qualify for recognition as an asset) at the fair value of the services received, unless that fair value cannot be estimated reliably in which case the expense (or asset) is recognised by reference to the fair value of the equity instruments granted

Where the equity instruments granted vest immediately (e.g. the issue of shares as consideration for services received), it is presumed that the services have been received and therefore the group recognises the expense in full with a corresponding increase in equity at the date of transfer of the equity instrument. Where the equity instruments do not vest until the counterparty completes a specified period of service, that service and the corresponding increase in equity is accounted for over the vesting period

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised only to the extent that there is a reasonable probability that future taxable profits will arise in the foreseeable future

GOING CONCERN

The directors are confident that the group has adequate financial resources to continue trading for the foreseeable future based on projections which the directors have reviewed for the period through July 2009

The directors have therefore prepared the accounts on the going concern basis

EXCHANGE RATES

The exchange rate \$ £ at 31 December 2007 was 0.5024 (2006: 0.5109)

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

1	LOSS ON ORDINARY ACTIVITIES	2007 US\$	2006 US\$
	Loss on ordinary activities before taxation is stated after charging		
	Depreciation and amounts written off tangible fixed assets		
	Charge for the period		
	owned assets	93,770	24,206
	Auditors' remuneration - audit services	44,786	36,000
		<u> </u>	<u> </u>
2	EMPLOYEES AND DIRECTORS' REMUNERATION	2007 No	2006 No
	The average monthly number of persons (including directors) employed by the group during the year was		
	Office and management	1	1
	Technical	5	4
		<u> </u>	<u> </u>
		6	5
		<u> </u>	<u> </u>
	Staff costs for the above persons	2007 US\$	2006 US\$
	Wages and salaries	1,645,597	542,082
	Social security costs	193,409	37,074
	Other pension costs	-	-
		<u> </u>	<u> </u>
		1,839,006	579,156
		<u> </u>	<u> </u>
	DIRECTORS' REMUNERATION		
	In respect of the directors of Surestream Petroleum Limited		
	Emoluments and other benefits	890,843	1,016,233
		<u> </u>	<u> </u>
	Included in the above are fees payable in respect of directors' services provided in the period to companies controlled or related to directors, as set out in note 17		

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3	TAXATION	2007 US\$	2006 US\$
	Current tax		
	UK corporation tax on profits of the period		-
	Factors affecting tax charge for period	2007 US\$	2006 US\$
	The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below		
	Loss on ordinary activities before tax	(3,266,888)	(1,267,866)
	Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30%	(980,068)	(380,360)
	Effects of		
	Expenses not deductible for tax purposes	290,310	2,700
	Capital allowances in excess of depreciation	28,131	3,943
	Unrelieved tax losses and other declarations arising in the period	661,626	385,802
	Higher tax rates on overseas earnings	-	(12,085)
	Tax charge for period	-	-

The group has approximately US\$4,501,689 of tax losses carried forward. A deferred tax asset of \$1,263,477 (at 28%) in respect of these losses has not been recognised due to the uncertainty as to the recoverability of these losses.

4 LOSS OF THE PARENT COMPANY

The parent company's loss for the year to 31 December 2007 amounted to US\$ 3,149,693 (2006 US\$1,054,019)

5 FIXED ASSET INVESTMENTS COMPANY

US\$

Cost	
At 31 December 2006	22,727
Reclassification from intercompany debtors	6,787,601
At 1 January 2007 (restated)	6,810,328
Additions	2,995,901
31 December 2007	9,806,229

The investment is in a wholly owned subsidiary, Surestream RDC Sarl, a company incorporated in the Democratic Republic of Congo, whose principal activity is oil exploration. The cost of investment shown above includes \$22,727 relating to shares in Surestream RDC Sarl.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

6	INTANGIBLE FIXED ASSETS	Oil and gas exploration asset US\$
	GROUP	
	At 1 January 2007	6,729,714
	Additions	2,383,574
	Farm-out disposal	(1,000,000)
	At 31 December 2007	8,113,288

The company signed a farm-out agreement with Glencore Exploration Limited ("Glencore") on 1 April 2007 for the YMM block. Surestream Petroleum Limited ("Surestream") retain a 58% interest in YMM and Glencore take the remaining 42%. Glencore have committed to \$30m of funding over 3 years. Glencore paid \$1m for access to this agreement which is treated as a disposal of Surestream's interest in the oil and gas exploration asset.

7	TANGIBLE FIXED ASSETS	Furniture, fixtures and equipment US\$	Motor vehicles US\$	Computer software US\$	Total US\$
	GROUP AND COMPANY				
	Cost				
	31 December 2006	26,413	130,893	87,708	245,014
	Additions	56,077	49,962	2,608	108,647
	31 December 2007	82,490	180,855	90,316	353,661
	Depreciation				
	31 December 2006	9,178	11,191	6,114	26,483
	Charged in the year	16,537	47,796	29,436	93,769
	31 December 2007	25,715	58,987	35,550	120,252
	Net book value				
	31 December 2007	56,775	121,868	54,766	233,409
	31 December 2006	17,235	119,702	81,594	218,531

8	DEBTORS	Group	Company
		2007 US\$	2006 US\$
	Due within one year	2007 US\$	2006 US\$
	Amounts owed by subsidiary undertaking	-	6,787,601
	Reclassify intercompany debtor to investments	-	(6,787,601)
	Other debtors	92,914	59,287
	Prepayments	165,341	101,380
		258,255	160,667

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

9	CREDITORS Amounts falling due within one year	Group		Company	
		2007 US\$	2006 US\$	2007 US\$	2006 US\$
	Trade creditors	293,450	418,992	58,673	418,992
	Other tax and social security	64,614	34,070	64,614	34,070
	Other creditors	8,702	161,983	8,700	87,063
	Accruals and deferred income	66,250	259,670	55,000	173,000
	Short term borrowings	-	2,542,503	-	2,542,503
		<u>433,016</u>	<u>3,417,218</u>	<u>186,987</u>	<u>3,255,628</u>

Interest on short term borrowings was incurred at the rate of 2.5% per annum above the base rate of LIBOR as at the last business day of each month. The loan amount together with the accrued interest was repaid during the year.

10	SHARE CAPITAL	Group and Company	
		2007 US\$	2006 US\$
	Authorised		
	104,000,000 ordinary shares of 0.01p each (2006 74,000,000)	19,589	12,993
	13,000,000 preference shares of 0.01p each (2006 13,000,000)	2,449	2,376
		<u>22,038</u>	<u>15,369</u>
	Allotted, issued and fully paid		
	66,639,947 ordinary shares of 0.01p each (2006 51,854,347)	12,552	9,568
	6,000,000 preference shares of 0.01p each (2006 6,000,000)	1,094	1,094
		<u>13,646</u>	<u>10,662</u>

On 16 July 2007 the authorised share capital was increased by £3,000 by the creation of 30,000,000 ordinary shares of 0.01p each.

On 22 July 2007 the company issued 142,856 subscription units for a total consideration of \$9,999,920. Each subscription unit issued comprises:

100 ordinary shares
8 class C warrants

The nominal value of the ordinary share issued as part of the subscription units was £1,429. The total premium arising of \$9,998,491 less issue costs of \$531,905 has been credited to the share premium account.

The terms of the existing Class C warrants were amended with the consent of the warrant holders to those described below.

Surestream Petroleum Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

10 SHARE CAPITAL (continued)

On 27 August 2007 the company issued a further 500,000 ordinary shares as consideration for work undertaken by a third party in connection with the arrangement of a farm-out agreement. The fair value of the services received amounting to \$650,000 was determined by reference to the contractual agreements with the third party which was negotiated on an arm's length basis and which the directors consider reflects the market price for such services. Pursuant to the agreement the company issued 500,000 ordinary shares. The aggregate nominal value of these shares was \$102 and the aggregate premium arising of \$649,898 has been credited to the share premium account. The fair value of the third party services received amounting to \$650,000 has been charged to administrative expenses.

The rights accruing to the preference shares are as follows:

- i) in the event of any liquidation, dissolution or winding-up of the company the proceeds are first paid to the holder of the preference shares in the sum of the subscription price paid plus any accrued dividends,
- ii) voting rights are as for ordinary shareholders on an on-converted basis,
- iii) the prior written consent of 75% of the preference shareholders is required for the company to
 - a) liquidate, dissolve or wind-up the affairs of the company,
 - b) amend the company's Memorandum or Articles of Association in a manner adverse to the preference shares, or
 - c) create or authorise the issue of any security convertible into or exercisable for any equity security having rights, preferences or privileges senior to or on a parity with the preference shares or increase the authorised number of preference shares,
- iv) the option to convert any shares held, at any time, into ordinary shares on the terms set out in the Articles.

The preference shares automatically convert to ordinary shares on:

- i) a firm commitment underwriter public offering in which the net proceeds are at least US\$10m,
- ii) a vote of the majority of preference shareholders, or
- iii) a sale of substantially all of the assets of the company with shareholder approval.

The rights accruing to the warrants were as follows:

Class B warrant

The investor can purchase 1 preference share at a price of \$1.30 in respect of each Class B warrant. The right to be exercised at any time during the two year period from the date of issue (26 October 2006) of the Class B warrants to the investor. No class B warrants have been exercised.

At 31 December 2007, 2,000,000 Class B warrants were outstanding.

Class C warrant

In respect of each Class C warrant the investor can purchase 1 ordinary share at a price of \$0.01 per share. Such right to be exercised at any time during the period 1 November 2009 to 31 October 2011 provided the company has not by such date conducted an initial public offering of its shares, or a sale of substantially all its assets for consideration in cash or listed shares or some other event resulting in the holders of all or substantially all of the ordinary shares of the company receiving cash or listed shares in place of those ordinary shares. No Class C warrants have been exercised.

At 31 December 2007, 6,142,848 Class C warrants were outstanding.

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10 SHARE CAPITAL (continued)

Class D warrant

The investor can purchase one preference share in the company at a price of \$1.50 per share in respect of each Class D warrant. The rights may be exercised at any time until 20 December 2009. No Class D warrants have been exercised.

At 31 December 2007, 1,000,000 Class D warrants were outstanding.

Class E warrant

The investor can purchase one preference share in the company at a price of \$0.90 per share in respect of each Class E warrant. The rights may be exercised at any time until 20 December 2008. No Class E warrants have been exercised.

At 31 December 2007, 1,000,000 Class E warrants were outstanding.

Class F warrant

On 27 July 2007 the Company issued 18,512,602 Class F warrants to subscribe for an Ordinary Share at \$1.

The F warrants have been granted on the basis that each share issued prior to 30th June 2007 at USD 1.30 or more has received 0.6 F warrant and each share issued prior to 30th June 2007 at less than USD 1.30 has received 0.3 F warrant.

The F warrants are exercisable conditional on the Company obtaining the grant of new blocks in the Great Lakes area in the Eastern DRC in the period to 31st October 2009. If the Company is granted one block, 1/3 of the F warrants issued will be exercisable, if the Company is granted two blocks, 2/3 of the F warrants issued will be exercisable, if the Company is granted all the three blocks, all the F warrants issued will be exercisable.

11	SHARE PREMIUM ACCOUNT	Group and Company	
		2007 US\$	2006 US\$
	31 December 2006	8,510,168	3,474,385
	Premium on issue of new shares	10,646,935	5,109,848
	Share issue costs	(531,905)	(74,065)
	31 December 2007	<u>18,625,198</u>	<u>8,510,168</u>

Surestream Petroleum Limited
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12	PROFIT AND LOSS ACCOUNT	Group		Company	
		2007 US\$	2006 US\$	2007 US\$	2006 US\$
	31 December 2006	(2,677,530)	(1,409,664)	(2,463,683)	(1,409,664)
	Loss for the year	(3,266,888)	(1,267,866)	(3,149,693)	(1,054,019)
	31 December 2007	<u>(5,944,418)</u>	<u>(2,677,530)</u>	<u>5,613,376</u>	<u>(2,463,683)</u>
13	RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	Share capital US\$	Share premium US\$	Profit and loss account US\$	Total US\$
	GROUP				
	At 1 December 2006	10,662	8,510,168	(2,677,530)	5,843,300
	Loss for the year	-	-	(3,266,888)	(3,266,888)
	Issue of shares (net of issue costs)	2,984	10,115,030	-	10,118,014
	At 31 December 2007	<u>13,646</u>	<u>18,625,198</u>	<u>(5,944,418)</u>	<u>12,694,426</u>
	COMPANY				
	At 1 December 2006	10,662	8,510,168	(2,463,683)	6,057,147
	Loss for the year	-	-	(3,149,693)	(3,149,693)
	Issue of shares (net of issue costs)	2,984	10,115,030	-	10,118,014
	At 31 December 2007	<u>13,646</u>	<u>18,625,198</u>	<u>(5,613,376)</u>	<u>13,025,468</u>
14	CASH FLOWS			2007	2006
				US\$	US\$
a)	Reconciliation of operating profit to net cash inflow from operating activities				
	Operating loss			(3,263,812)	(1,257,544)
	Depreciation			93,769	24,206
	Increase in debtors			(74,888)	(183,367)
	Increase/(decrease) in creditors			(441,696)	716,356
	Share based payments			650,000	-
	Net cash flow outflow from operating activities			<u>(3,036,627)</u>	<u>(700,349)</u>

Surestream Petroleum Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

14 CASH FLOWS (continued)

		2007 US\$	2006 US\$
b)	Analysis of cash flows for headings netted in the cash flow statement		
	Returns on investments and servicing of finance		
	Interest received	108,579	32,181
	Interest paid	(154,161)	-
		<u> </u>	<u> </u>
	Net cash (outflow)/inflow from returns on investment and servicing of finance	(45,582)	32,181
		<u> </u>	<u> </u>
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(108,648)	(238,182)
	Purchase of intangible fixed assets	(2,383,574)	(5,184,714)
	Proceeds from farm-out disposal	1,000,000	-
		<u> </u>	<u> </u>
	Net cash outflow for capital expenditure and financial investment	(1,492,222)	(5,422,896)
		<u> </u>	<u> </u>
		2007 US\$	2006 US\$
	Financing		
	Issue of ordinary share capital	-	2,410,651
	Issue of preference shares	-	1,300,000
	Issue of subscription units	9,999,920	1,400,000
	Costs of issue	(531,905)	(74,150)
	(Repayment)/proceeds of new loans	(2,500,000)	2,500,000
		<u> </u>	<u> </u>
	Net cash inflow from financing	6,968,015	7,536,501
		<u> </u>	<u> </u>
		At 1 January 2007 US\$	At 31 December 2007 US\$
c)	Analysis of net debt		
	Cash in hand, at bank	2,128,906	2,393,584
	Debt due within 1 year	(2,542,503)	2,542,503
		<u> </u>	<u> </u>
		(413,597)	4,936,087
		<u> </u>	<u> </u>

Surestream Petroleum Limited

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15 FINANCIAL COMMITMENTS

In relation to the two PSAs the Group have entered into with the Government of the Democratic Republic of Congo in 2006, a summary of outstanding commitments during the first exploration period of 5 years (ending 31 Jan 2011) is provided below

	US\$
<u>DRC - Yema & Matamba-Makanzi PSA</u>	
Estimated Exploration costs under minimum work programme	19,310,172
Statutory Payments to be made to the Government of DRC	1,662,646
	<u>20,972,818</u>
	<u>US\$</u>
<u>DRC - Ndunda PSA</u>	
Estimated Exploration costs under minimum work programme	21,443,075
Statutory Payments to be made to the Government of DRC	1,443,161
	<u>22,886,236</u>
	<u>US\$</u>
Total outstanding commitment until end of 31 Jan 2011	<u>43,859,054</u>

16 POST BALANCE SHEET EVENTS

Since 31 December 2007, the following significant events have taken place

- The DRC authorities have issued a letter to the Group stating that they are expecting the Group to pay the Statutory Payments mentioned in the YMM and NDN PSAs on a "per block per annum" basis, which the directors consider to be contrary to the wording of the PSA. The Directors are in the process of discussing the Group's response to the DRC. Were the DRC authorities interpretation to be followed, the Group's financial commitment relating to the DRC exploration operations would increase by approximately US\$2.4 million in aggregate over the next 3 years.

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17 RELATED PARTY DISCLOSURES AND TRANSACTIONS WITH DIRECTORS

During the year ended 31 December 2007 the Company paid US\$197,335 (2006 US\$140,000) to Compaigne Forestiere D'Abanga ("CFA"), a company in which Pierre Achach, a director of the Company, has interest US\$48,084 (2006 US\$44,900) of expenses were also charged by CFA At the year end, US\$Nil (2006 US\$Nil) is owed to CFA in fees charged and expenses claimed

During the year ended 31 December 2007 the Company was charged US\$Nil (2006 US\$120,000) by Moustaphe Niasse, a director of the Company, for advisory services At the year end, US\$4,868 (2006 Company owed US\$25,209) was owed to the Company by Moustaphe Niasse due to an advance paid to a third party at his request

During the year ended 31 December 2007 the Company paid US\$17,817 (2006 US\$235,000) to 05 Energy Advisors, a company in which Christopher Pitman, a director of the Company, has an interest US\$409,648 (2006 US\$329,979) of expenses were also charged to the Company by Christopher Pitman

During the year ended 31 December 2007 the Company paid US\$216,645 (2006 US\$200,000) to Jacaranda Investment and Consulting Inc, a company in which Stephane Rigny, a director of the Company, has an interest At the year end, US\$Nil (2006 US\$49,995) of fees is owed to Jacaranda Investment and Consulting Inc

During the year ended 31 December 2007 the Company paid US\$528,000 to Ferugem Investments SARL, a company in which Jan Aarso Nielsen, a director of the Company, has an interest At the year end, US\$Nil of fees is owed to Ferugem Investments SARL